

Role of Remittance as a Dynamic Source of Capital Inflow of Bangladesh During Current COVID-19 Outbreak.

Naimur Rahman, Mahbubur Rahman

¹*(Lecturer, Department of Economics, Bangladesh University of Professionals (BUP), Bangladesh)*

²*(B.Sc.(Hons.) in Environment and Development Economics, Bangladesh University of Business and Technology (BUBT), Bangladesh)*

Abstract: *International migration has considered one of the influential parts of the capital inflow for any country. Capital inflow facilitates more investment opportunity for business firm following a employment generation for local workforce. It also improves the socio-economic conditions of the migrant's family member. Remittance is also considered as one of the key components of economic growth of a country and has been an important part of capital inflow for many less developed countries. It promotes employment opportunity abroad for those who find it difficult to get a job in local workforce. According to World Bank, Remittances favor in balance of payment for the less developed countries and assist to create new sources of capital inflow and creating new sources of employment abroad. The share of global remittance was 3.5 percent among developing countries which helps Bangladesh to maintain as a top ranked remittance recipient country (Akter, 2016).*

Key words: *Migration, Remittance, Capital inflow, GDP growth, Balance of payment, COVID-19.*

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I. Introduction:

Remittance has become one of the critical parts of a country's economy like Bangladesh. A huge number of labor surpluses in Bangladesh creates a way to send its workers abroad and generates a channel of capital inflow to stabilize the balance of payment. Migration in generally occur when a potential labor force cannot be employed giving rise to the situation of overseas migration in the hope of finding a suitable employment and upgrading the standard of living. Now a day, Government also takes the initiative to export workers abroad because of the unavailability of creating enough employment for this huge workforce. Most of the overseas workers are less skilled engaged in activities like agricultural or manufacturing workers, cleaners, housemaids and so on. Only 1% of the overseas employment are the professional migrants active in profession like Teacher, Doctor, Nurse (BMET, 2019)

An over expanding economic growth has been a prominent issue for most of the developing countries to ensure sustainable economic development. Growth being a dominant factor of economic development has many factors which ensure a growth rate over a longer period. Ensuring a higher gross domestic product (GDP) will pave the way to accelerate an enormous economic growth which will be capable to fixing a solid foundation of economic development. Tax revenue-GDP ratio has been improved for last several years and is one of the prominent sources of the government income and contributes to national economy. Revenue-GDP ratio of Bangladesh was about 12.1 percent in 2011 compared to 11.4 percent (2010), 10.1 percent (2010), and 13.8 percent (2010) in India, Afghanistan, and Pakistan respectively (NBR, 2012). Yousuf and Huq (2013) conducted a study and found that Total tax revenue including the Income tax and VAT are elastic to their respective tax bases and any forms of Tax reform has played a vital role for the expansion of tax revenue. Foreign direct investment (FDI), capital formation and GDP growth are very much related phenomenon. According to the Neoclassical growth theory- Foreign direct investment encourages economic growth through expanding the volume and efficiency of physical investment for a capital scarce country (Romer 1986, Lucas 1988, Grosman & Helpman 1991, Baro & Salai-I-Martin 1995). Agglomeration economies can also be promoted by foreign direct investment when it facilitates the cluster of different industries through advancement of networking among various industries and lowering their production cost as well as their cost of transporting their products to the market area (Krugman 1991). Economic growth and development can be ensured by the volume of trade openness which in turn influences the flow of the International capital formation. In 1980s, Bangladesh facilitated the trade openness policy to absorb the benefits of foreign direct investment to enhance economic growth (ADHIKARY, 2011). Export growth is often considered to be one of the principal determinants of production and employment growth in an economy. It is also argued that foreign currency made available through export earnings facilitates import of capital goods, which in turn increases production potential of an

economy (Ahmed and Uddin, 2009). Export-Import relationship with GDP a reduction in export and import does not affect growth positively. A downward trend of export and import may have been proven to be sufficient to maintain at 6% level of GDP growth rate for Bangladesh (Hossain, 2012).

Remittance flourishes economic growth for less developed countries those have poor financial assistance through abating credit constraints and establishing smooth capital allocation (Giuliano and Ruiz Arranz, 2005). Remittance also has an indirect effect on growth by increasing the ratio of broad money (M2) to GDP (Rao and Hassan, 2012). Capital inflow is a strong indicator of a country's financial status and remittance has become an important part of the global economy, especially for developing countries. Remittance is a source of financial inflow through the migration of a country's citizen both internal and international migration where international migration has an extensive form in the global economy (Miah *et. al.*, 2014). According to World Bank (2016), 247.2 million people lived and worked outside their home country which is 3.4 percent of the world population in 2014. Remittance as a source of financial assistance for many developing countries is strongly peering with the increased economic wellbeing of the poor people (Pradhan & Khan, 2015).

Bangladesh is considered as one of the largest remittance recipient countries with 2.6 percent of global remittance flow through the export of labor to Middle East and Southeast Asian countries since 1970s. A surplus manpower of less skilled, Semi-skilled and Skilled manpower made it easy for the country to export labor abroad. Almost two million young people are added to the labor force every year (BBS, 2013). According to World Bank, Bangladesh is the 5th top emigration country with 7.76 million in 2013. Bangladesh has sent more than 9.34 million workers to 142 countries up to May 2015 (BMET, 2015). A study conducted by Miah, Khan & Rahman (2014) showed that, the highest numbers of Bangladeshi workers are migrated to the ten countries such as Saudi Arabia, UAE, Qatar, Oman, Bahrain, Kuwait, Libya, Iraq, Singapore, and Malaysia. In case of labor migration Bangladesh is highly dependent on the Middle Eastern countries. Analyzing the data from 2001 to 2012 it reveals that 70% of total export was in different countries of Middle East. Most of the overseas earnings have been spent on consumption purposes, purchasing of new asset, investment in business and many other private purposes in Bangladesh. So, there are significant impacts of remittance on socio-economic status of remittance recipient families (Ahmed & Uddin, 2009). But sometimes exporting skilled manpower abroad can create a long-term deficit of skilled labor force which can hamper the normal functioning of the economy (Mahmood, 1985). Remittance enhances economic growth as international capital inflow has been used as an investment by the remittance recipient families. There is a positive long run relationship between remittance and GDP in top 11 remittance recipient developing countries including Bangladesh by using panel co-integration and pooled mean group (PMG) approach (Das and Chowdhury, 2011). A study conducted by International Organization for Migration (IOM) found that- there is a significant long run relationship between remittance and economic growth in Bangladesh, India, Sri Lanka and Nepal, a significant negative relationship in Pakistan (Jawaid and Raza, 2014).

Recently, Economic growth of Bangladesh has largely been affected due to the pandemic situation of COVID-19. The mass spread of this COVID-19 virus throughout China and the world has been a great shock in 2019-2020 and had an adverse impact on the world's economy. At first Pneumonia appeared in south China seafood market in Wuhan, Hubei Province, China in December 2019 (Huang *et.al.*, 2020). According to the State Council of the People's Republic of China, Soon a medical expert was sent there for an intensive investigation about the concerned matter and a novel corona virus was detected in the laboratory of Virology used as a center for Disease Control and Prevention on 7th January 2020. Unfortunately, this virus spread throughout China before Chinese government could react and exported internationally. To prevent this virus from massive spread, Government closed all the channels of Wuhan temporarily (Yue *et.at.*, 2020). After a ponderous destruction in Europe, first three patients of Novel corona virus including two members in one family was infected on 8th March 2020 confirmed by the director of IEDCR Dr. Meerjady Sabrina Flora.

Several studies have been conducted showing the trend of remittance flow, trends, relationship between remittance and economic growth. However, Taking full note of the previous literature, this study has attempt to find out the effect of COVID-19 virus on the flow of various macroeconomic variables including remittance and to analyze the potential of remittance inflow as a dynamic source of economic growth even during this pandemic situation.

This paper is based on secondary data source. The period from 2001 to 2020 has been used in this research. Secondary data has been collected from various secondary source like- Bureau of Manpower, Employment and Training (BMET), World Bank, Bangladesh Bureau of Statistics (BBS), Bangladesh Economic review.

II. Macroeconomic Scenario of Bangladesh:

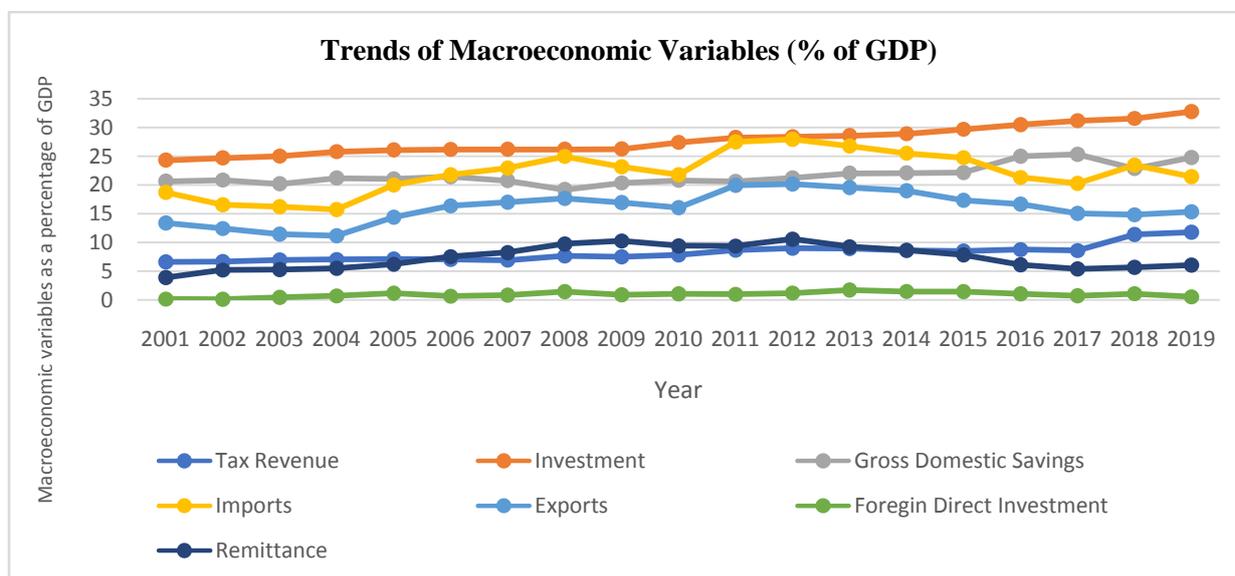
GDP growth rate depends on various macroeconomic variables which in turn intrinsically connected to each other. Various macroeconomic variables as a percentage of GDP exhibit the role of different factors to fix a

strong base of economic growth. Investment is considered as one of the key components of economic growth and as one of the important push factor of employment generation.

Table 01: Contribution of Some Macroeconomic Variables (% of GDP)

Year	Tax Revenue (% of GDP)	Investment (% of GDP)	Gross Domestic Savings (% of GDP)	Imports (% of GDP)	Exports (% of GDP)	Foreign Direct Investment (% of GDP)	Remittance (% of GDP)
2001	6.61	24.30	20.63	18.71	13.39	0.15	3.90
2002	6.69	24.70	20.84	16.56	12.41	0.10	5.22
2003	6.97	25.00	20.19	16.23	11.43	0.45	5.31
2004	7.05	25.80	21.19	15.71	11.15	0.69	5.50
2005	7.14	26.10	21.06	20.00	14.39	1.17	6.21
2006	7.04	26.18	21.44	21.76	16.35	0.64	7.56
2007	6.92	26.20	20.75	22.95	17.00	0.82	8.24
2008	7.66	26.21	19.19	24.96	17.66	1.45	9.76
2009	7.50	26.25	20.33	23.15	16.94	0.88	10.27
2010	7.83	27.42	20.81	21.78	16.02	1.07	9.41
2011	8.69	28.26	20.62	27.50	19.92	0.98	9.38
2012	9.02	28.39	21.22	27.95	20.16	1.19	10.59
2013	8.96	28.60	22.04	26.76	19.54	1.74	9.25
2014	8.64	28.90	22.09	25.52	18.99	1.47	8.67
2015	8.50	29.70	22.16	24.75	17.34	1.45	7.84
2016	8.77	30.50	24.98	21.30	16.65	1.05	6.13
2017	8.60	31.20	25.33	20.27	15.04	0.72	5.41
2018	11.40	31.60	22.83	23.44	14.80	1.07	5.68
2019	11.80	32.80	24.75	21.44	15.32	0.53	6.07

Source: Author’s compilation based on World Bank and Bangladesh Bank data (2019).



Source: Author’s compilation based on World Bank and Bangladesh Bank data (2019).

Bangladesh is successfully able to generate greater investment opportunity over the period as both public and private investment works parallel to maintain a positive investment growth rate. Gross domestic savings seem to have increased over time because of increased income by the household following an increase in investment. Recently, Bangladesh has started to focus on manufacturing sectors, especially on importing electronic parts from outside and assemble it to promote local electronic brands more giving rise to the import as a percentage of GDP. Recent trend also suggests that export as a percentage of GDP has shown an upward rise as many local companies have been transformed to an export-oriented production. Despite increased employment opportunity, exporting labor outside remains an influential source of country’s capital inflow in the form of remittance. Remittance trend as a percentage of GDP clearly confirms the significant role for expanding

economic growth as several workers migrate for a better employment opportunity. Foreign direct investment has shown a steady growth rate as a percentage of GDP as ready-made garments of Bangladesh has become a hub to fulfill the European market demand. Ensuring a sustainable flow of these macroeconomic indicators is the precondition for a stable GDP.

III. Remittance Inflow of Bangladesh:

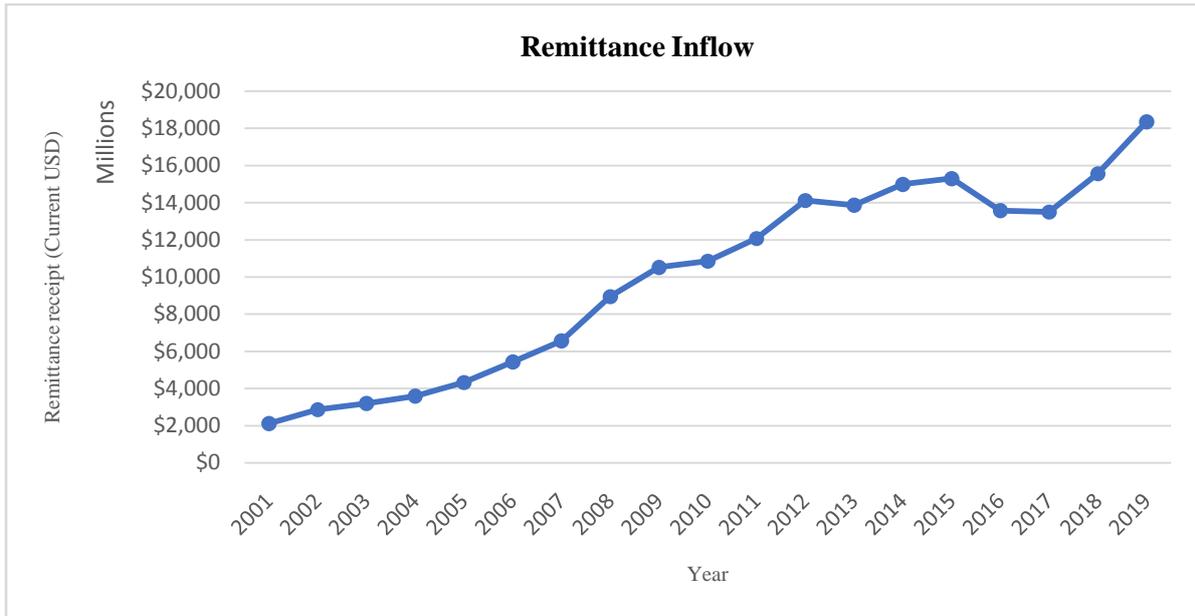
Bangladesh is considered as one of the major manpower exporting country as many migrants make their way to Middle East and European countries. Migration can be categorized into Domestic migration and International migration. International migration of citizens provides a platform for capital inflow into the country which enhances country capital flow and balance of payment.

Table 02: Trend of Migration and Remittance inflow of Bangladesh

Year	Remittance Inflow (Million USD)	Overseas Employment
2001	21,045,514,69	189060
2002	28,580,577,70	225256
2003	31,916,647,32	254190
2004	35,838,172,28	272958
2005	43,145,028,46	252702
2006	54,275,154,29	381516
2007	65,623,163,22	832609
2008	89,406,116,06	875055
2009	10,520,653,006	475278
2010	10,850,211,617	390702
2011	12,071,073,184	568062
2012	14,119,627,034	607798
2013	13,866,954,019	409253
2014	14,987,531,479	425684
2015	15,295,536,095	555881
2016	13,574,285,886	757731
2017	13,501,933,033	1008525
2018	15,562,375,119	734181
2019	18,361,502,319	700159

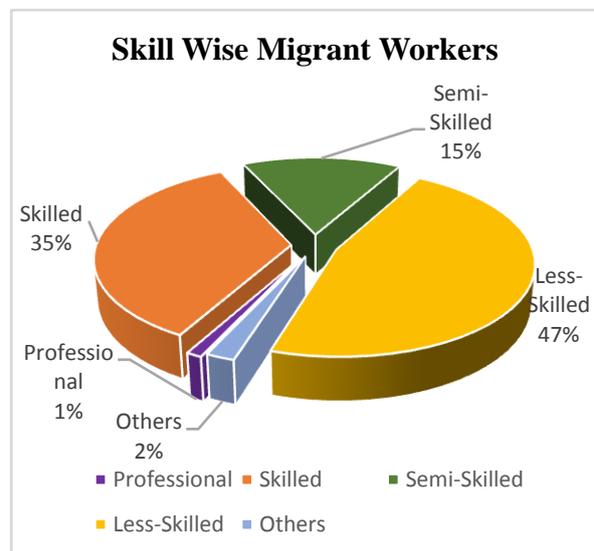
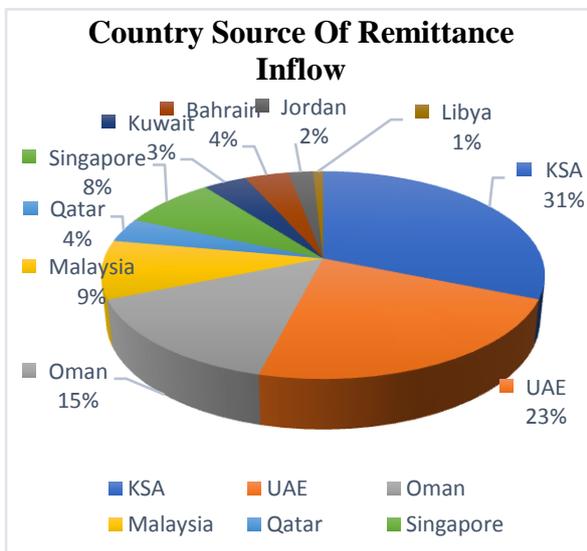
Source: World Bank, BMET (2019).

Table 02 provides an overview of the overseas employment and remittance inflow for last 20 years having a noticeable fact that-over the period, number of overseas employment increases given rise to the remittance inflow. There had been a sharp decline in overseas employment during 2013 following by 2018 & 2019. But remittance inflow has been increasing even with the decline in overseas employment. This indicates the fact that- the dynamics of migration has changed with an up gradation of migrant's skill also makes it possible to generate more remittance inflow instead of exporting fewer labor than before.



Source: Author’s compilation based on World Bank data (2019).

Remittance earnings receipt has been a consistent source of capital inflow for Bangladesh for a longer period. A growing number of people chooses to migrate overseas has become a dominant factor for maintaining country’s capital balance. Table following by the trend line showing the number of migrants and remittance receipt by Bangladesh postulates an upward trend of remittance inflow from 2001 to 2019. The trend line of remittance receipt generates a stable trend line because of the significant number of overseas migration decision. Local job markets unable to create enough employment opportunity for many workforces are the key reasons behind overseas migration. There has been an increasing demand of cheap labor of Bangladesh from Middle east countries and European countries also creates a new door for us to employ this excess supply of labor overseas.



Source: BMET (2019)

Most of the migrants prefer to move Middle East country for a job like housemaids, labors, cleaners are considered as less skilled workers. Semi-skilled workers include the profession like tailor and manufacturing workers, drivers are recognized as skilled workforce. A few numbers of migrants are engaged in profession like doctors, teachers, bankers are counted as professional workers (Classified by BMET). Due to the nature of the workforce, most of the migrant worker’s preferred destination is mainly Middle east as depicted in the chart. As it can be summarized that, during 2001 to 2019 the maximum number of migrant workers move to UAE, KSA

and Oman. This can be considered as one of the drawbacks of international migration that, Bangladesh fails to export skilled manpower due to lack of training facilities.

Remittances are sent both through formal and informal channels. Formal channel includes use of the demand draft by a bank, traveler's check, postal order. Informal channel includes use of the Hundi which is the illegal way of transferring international currency (Siddiqui, 2004).

Table 03: Channels of Remittance Receipt by Household

In Million USD

Banks	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
1. Islami Bank Bangladesh Ltd.	3660.86	3909.03	3641.7	2729.32	2956.38	3033.98	3568.7
2. Dutch Bangla Bank Ltd.	283.68	427.05	582.49	642.56	798	1302.24	1917.9
3. Agrani Bank Ltd.	1602.94	1758.58	1636.85	1369.62	1429.29	1588.28	1602.5
4. Sonali Bank Ltd.	1474.17	1498.62	1391.29	1104.16	1120.04	1146.29	1162.5
5. Janata Bank Ltd.	1314.43	1377.05	1259.18	967.71	917.94	874	794.8
6. Bank Asia Ltd.	405.56	472.78	438.1	404.01	425.63	558.85	636.3
7. Pubali Bank Ltd.	449.73	511.29	548.51	429.68	503.24	555.15	503.2
8. South East Bank Ltd.	260.51	270.46	305.06	355.77	567.39	607.35	484.9
9. NCC Bank Ltd.	232.47	231.39	209.89	248.1	370.42	465.27	430
10. Mutual Trust Bank Ltd.	77.74	107.89	132.06	209.62	483.52	615.01	422.8

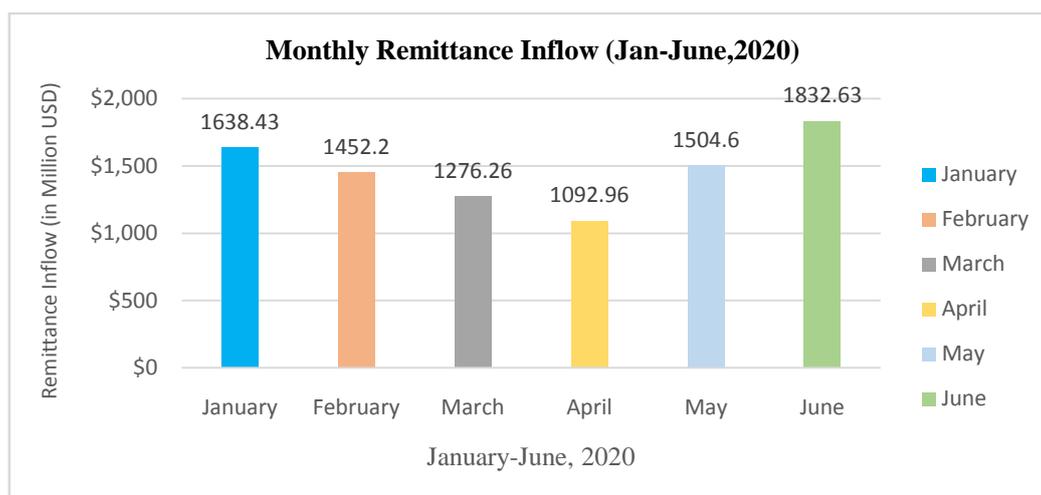
Source: Bangladesh Bank (2020)

At recent time, transferring money through formal and direct channels has become familiar as government imposes a strict restriction in Hundi transactions. Banks now a days are the trusted source of transferring international currencies as it facilitates a direct transaction from the migrant's bank account to his or her family's bank account. The international currency transfer through bank channels can be well understood if we can analyze the amount of currencies being transferred through bank channels from 2013 to 2020.

IV. Remittance as a Dynamic Source of Capital Inflow During COVID-19 Outbreak:

Covid-19 outbreak has shattered the general functions of different macroeconomic components which lead to a massive strike in the economic structure of country like Bangladesh. Total export earnings fell by a sharp margin due to the lockdown of different countries which led to a lower demand of various export-oriented goods of Bangladesh. According to Export promotion bureau (2020), total merchandise commodity export fell USD 4.44 billion in July-April 2019-20 compared to USD 33.94 billion in July-April 2018-19. Export was also lower in April 2020 by USD 2.21 billion. Custom based Import also showed a downward trend during recent time which accounted for a fall of USD 43.58 billion in 2019-20 compared to USD 45.79 billion in 2018-19 (National Board of Revenue, 2020). During this pandemic time, Authority has successfully able to collect tax and non-tax revenue from different sources accounted for an increase in tax and non-tax revenue of TK. 1257717 crore in 2019-20 which is 8.20 percent higher than the tax and non-tax collection in 2018-19 (National Board of Revenue, 2020). Remittance earnings seemed to keep a steady flow during this rush time and surprisingly carried out the economy as a dynamic source of capital inflow during the time when many professionals lose their earning source due to the sudden breakdown of the economic activities.

Remittance is considered as one of the dynamic and most potential factors of economic growth. International currencies sent by the migrant workers forester the income of their family which in turn pushes the saving as well as investment locally creating some stability in the economy. Many factors of GDP have been affected as it can be seen a downward trend in some key macroeconomic factors for covic-19 situations. During this pandemic period, Bangladesh has managed to maintain a healthy rate of capital inflow which can be beneficial for a stable balance of payment.



Source: Bangladesh Bank (2020)

During COVID-19 outbreak many migrant workers make their way back to home for an unstable situation and loss of their job abroad. Still if we analyze the amount of remittance that we receive starting from January 2020 to June 2020, there has been a sharp decline during March and April. But after that it has shown a rise in the amount of capital inflow during May and June. At the start of the COVID-19 outbreak, many overseas workers lost their job. Some of them managed to get government fund and as situations get easier than before, many of them has successfully managed to find a new job abroad. One of the reasons for an upward trend in remittance is predicted to be the savings transferred by overseas workers to their families.

V. Conclusion:

Remittance has been proven as a gigantic source of capital inflow especially for a country like Bangladesh. Since 1976 remittance inflow has seen a sharp increase till now. Unemployment is one of the biggest problems in today's time as our economy fails to create enough employment opportunity for a huge workforce. Lack of skill manpower is considered as one of the reasons for this mismatch between employer's expectations and candidate's skills. Even overseas migrant slack skills as they move abroad for a better working opportunity. But they often find themselves engaged in less skilled activities. Government needs to take some initiatives to provide enough training facilities for both who are willing to work within the country or outside of the country. Vocational training should also be promoted by the government to create more human capital. By taking advantage of this surplus workforce, more international currencies can be transferred by overseas workers if government can successfully export more skilled and professionals. Keeping a view of this current pandemic, migrant's health is a also a key concern which needs to be taken care by the government.

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