Manpower outflow-remittance inflow puzzle

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Workers' remittance is the second most important source of foreign exchange earnings for Bangladesh, after readymade garments (RMG). Remittance earnings have grown at an average of 12.5% in the last ten years reaching a record high of $15.3 billion in the financial year (FY) 15.

According to Advanced Migration and Remittances Fact Book (2016) of the World Bank, Bangladesh ranked tenth amongst the top remittance recipient countries in 2015 with India and China holding the first and second positions, respectively. The top three countries from where annual remittances to Bangladesh are originating, based on official data, are Saudi Arabia ($2.9 billion), the United Arab Emirates (UAE) ($2.7 billion), and the United States ($2.4 billion). Malaysia is the distant fourth at $1.3 billion. During the period between FY07 and FY13, inflow of remittances continued to grow uninterrupted, although the rate of growth had decelerated steadily from double digit levels in initial years to low single digit levels in most recent years (Figure.1, right side axis).

More recently, remittances steadily declined almost every month in FY16 and the trend is still continuing. Month-on-month decline in remittance inflows reported in the first quarter of FY17 was significantly worse than that recorded in FY16 (Figure.2). In the months of July and September of the current fiscal, some of the sharpest declines were recorded with remittance earning going down by 27.6% and 22.7% respectively over that of the corresponding months of the preceding year.

This phenomenon is particularly disturbing and at the same time puzzling in view of the fact that the number of workers going abroad has increased markedly over the last 18 months. An attempt has been made in this article to explain this puzzling development-i.e., decline in the flow of remittances as against the increase in the number of workers going abroad by more than 45%–and suggest some policy response to change the situation (Figure.3).

Ever since FY08, inflow of remittances has been on a decelerating trend, along with two of the sharpest declines taking place in FY14 and FY16. A number of factors have contributed to this secular slowdown or deceleration of remittance inflows. The first important factor is the decline in global oil prices. Crude oil that sold for over $100 per barrel in 2014 sold for only $26 per barrel in February 2016. The price rose to $50 by June 2016, but it still remains at half of what it was two years ago. OPEC's full-year 2016 oil export revenues will probably fall further by about 15 percent, down for the third straight year and possibly the lowest annual average level in more than a decade. OPEC members Saudi Arabia, the UAE and Kuwait are some of the world's highest oil exporting countries and also the top migrant destination countries. Saudi Arabia has the highest percentage of Bangladeshi migrants, about 27.1 percent. The UAE, ranking second, is currently home to more than 2.3 million Bangladeshi migrants. While Oman ranks as the third largest overseas employment country with 11.9 percent of the total Bangladeshi migrants. The decline in oil prices has cut the income level of these oil exporting countries, and the consequent cut in Government and private investment and programmes has led to a decline in wages of foreign workers in those countries. Oil revenue paid for 73% of the government's budget in 2015. As oil revenue fell, the budget deficit increased from 3.4% of GDP in 2014 to 16.3% of GDP in 2015. Thus the massive cutback in fiscal spending that the Gulf oil exporting countries are undertaking is certainly having an impact on the inflow of workers' remittances.

The decline in remittance growth is in contrast to the number of workers going abroad for employment which has improved in FY16. The reopening of the Saudi Arabia labour market and construction work related to Qatar's preparation for the FIFA World Cup 2022 has seen a flow of migrant workers to these countries.

The number of female migrant workers from Bangladesh has increased in the last decade or so from 13,570 in FY05 to 103,718 in FY16, growing annually at the rate of 23%. Most of the women leave Bangladesh as migrant workers to be employed as gardeners, caregivers and domestic help. According to the BMET statistics, the UAE is home to 27 percent of the total female migrant workers of Bangladesh. Attractive salary packages in the UAE draw more female migrant workers there than other countries. After the UAE, Lebanon hires a large number of female migrant workers. While the country has only 1.3 percent of total Bangladeshi migrants, it nevertheless has the second highest percentage of female migrants.

It is quite puzzling that, while the Gulf countries hit by low petroleum prices are cutting back on expatriate workers, why are such large numbers of Bangladeshi workers going to the same countries? One plausible reason may be that the oil price slump is forcing the Gulf countries to substitute high cost Indian, Filipino and Indonesian workers with cheaper workers from Bangladesh contributing to the surge in workers recruited from Bangladesh. This is certainly true for the surge in unskilled or semi-skilled female workers who are being recruited from Bangladesh as increasing numbers of high cost skilled female workers from the Philippines and Indonesia are returning home. This is probably also true for semi-skilled relatively low cost male workers like drivers, gardeners, and cleaners. Thus, we can explain the ongoing surge in workers going to the GCC countries despite the fact that these countries are sending back home the workers, particularly those working in the construction sector, from other countries.

The question comes why is the flow of remittances declining in nominal terms? We need to understand this phenomenon in terms of demand and supply of foreign exchange/assets in two different market segments which are relevant for Bangladesh. (i) the first one relates to India-Bangladesh unofficial trade and remittance flows and their settlement; and (ii) the second one relates to capital flight or unofficial payments from Bangladesh to the rest of the world which is settled by diverting remittance flows in other market (primarily GCC, Malaysia and Singapore) through the hundi market. We need to understand market regulations and incentives for going to the unofficial hundi market in their respective contexts to explain the declining trend and the underlying real level of remittance income of Bangladeshi workers.

The Advanced Migration and Remittances Fact Book (2016) of the World Bank states that Bangladesh received the highest amount of remittance from India, a statistics that is not at all recorded in official remittance statistics of Bangladesh. According to the World bank Fact Book, after the Mexico-U.S. and Russia-Ukraine corridors, the Bangladesh-India corridor is the third largest migration corridor of the world. The undocumented Bangladeshi workers in India cannot send money through official formal channels available in India. The inflows from India however take place through the unofficial hundi market. As a matter of fact, most of the remittance is believed to be used for settling the large and growing imbalance in the unofficial cross-border trade that happens between India and Bangladesh, which is heavily tilted in favour of India. The large undocumented and unofficial trade deficit with India is largely settled by the unofficial remittances from India through the hundi market net of unofficial remittances sent by Indian professionals working in Bangladesh informally. The remaining balance is settled through smuggling of gold to India from Bangladesh. The actual amount of remittance earning from India by Bangladeshi workers could easily be several billion dollars and the reverse flow to India by Indian professionals is also quite large.

Capital flight from Bangladesh is another issue that is contributing to diversion of remittance inflows away from the formal/official channels in other remittance originating countries (outside South Asia). There is strong demand for capital transfer from Bangladesh, which cannot be met through formal financial channels due to strong capital account restrictions in place in Bangladesh. The hundi channel fulfills this officially unmet demand by diverting supplies of remittances in countries of origin.   As the demand for unofficial capital flight grows, which appears to be the case at the moment, the concerned parties are willing to pay a premium over the interbank exchange rate to attract funds away from the formal remittance channels. This demand pressure has led to the widening of the spread between the interbank and parallel market exchange rates in Bangladesh in recent months. The spread, which used to be Tk. 1-1.5 per US$1.0, has widened to Tk. 4.5 or more per US$1.0 in recent months. As workers receive Tk. 4.5 more in the hundi or parallel market, they are increasingly moving away from the formal channel to this hundi channel for remitting their hard earned income. Thus the demand for officially unmet capital transfer is matched by corresponding increased supply to the hundi market, causing a decline in the officially recorded inflow of remittances into Bangladesh. This system eventually deprives Bangladesh of foreign currencies as receiving families of the workers get transfers in local currency.

The diversion of remittance income through hundi system is not something new in South Asia. Pakistan and India had experienced such diversions over long periods in recent decades. When domestic economic policies are not properly aligned with foreign exchange market reality or demand-supply imbalance, both India and Pakistan experienced prolonged periods of suppressed supply of remittance inflows. In India, until the financial and economic liberalization of early 1990s, the inflow of remittances remained at only about US$3 billion, and close to Bangladesh level. The remittance flows accelerated sharply after early 1990s market liberalization and the level of remittances increased 20 fold to about US$70 billion in 2014. Certainly, the number of workers going abroad from India did not increase by so much over the last two decades to explain the jump in inflow of remittances. The jump is attributable to private sector response to market liberalization and restoration of confidence in India’s long-term economic outlook.

Pakistan is another interesting case, where wrong policies and the resulting macroeconomic instability led to the steady decline in the level of remittance inflows during 1990s. The situation got so worse that at inflows into Pakistan which used to be many fold higher than Bangladesh in 1980s, declined well below Bangladesh during 1996-2000. From a peak of US$2.9 billion in 1984, the level of inflow declined to only US$1 billion in 2000. However, with restored macroeconomic stability and correction of financial policies, remittances regained its lost momentum and increased 19-fold by 2015.

The Government of Bangladesh has a lot to learn from the experience of India and Pakistan. What Bangladesh is recently experiencing may be the early signs of what was experienced by India before 1992 and by Pakistan in the 1990s. Such a secular decline or stagnation in remittance inflows must not be allowed to happen in the case of Bangladesh. The Bangladesh Bank and the Government must work on both demand and supply sides to restore the lost momentum in remittance inflows. Demand side policies should aim at alleviating or addressing the concerns which are contributing to the increased capital flight. On the supply side, efforts must be made to reduce the spread between the interbank and parallel/hundi markets for foreign exchange. Liberalization of Bangladesh’s exchange regime-which is still very restrictive compared with India and Pakistan-should help alleviate demand pressure and also contribute to the reduction of spread between the interbank and parallel markets for foreign exchange. Above all, by making Bangladesh more livable for the future generations through rapid economic and infrastructure development, good governance, and application of rule of law will create better environment for our future generations and improve the climate for the private sector to invest at home. This is what India has done-through economic reforms and strong institutions and political process–and Bangladesh should also strive for. Capital flight is a manifestation of the private sector's lack of confidence in our country/economy and economic policy. The recorded lower than targeted levels of private sector investment in Bangladesh for almost a decade and the corresponding increase in capital flight away from Bangladesh should also be seen in this light. Policy makers must pay attention to this emerging disturbing outcome and undertake necessary corrective actions.