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Overseas Employment and Remittance: Exploring the Nexus in the Context of Bangladesh

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Overseas Employment and Remittance: Exploring the Nexus in the Context of Bangladesh

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Abstract- Since 1960s, Bangladesh met with regular and enormous labor migration to overseas countries and it is now one of the salient remittance gaining countries in Asia. With a few exceptions, manpower export has been showing increasing trend year by year. Most of the expatriates, who are largely unskilled, are working in the Middle East countries and in the UK and the USA. Like overseas employment, remittances flow has been increasing every year with its increased share in GDP and becomes vital elements for accelerating economic growth in Bangladesh. In this study, In addition to exploring current trend of migration & remittance inflows, we investigate whether there is any significant relationship between inflows of foreign remittances and overseas employment. We also made an effort to identify some barriers that impedes overseas employment and remittance earnings and considering these aspects, we suggest some recommendations that can gear our remittance earnings. Our analysis reveals that the relationship between remittance earning and overseas employment is statistically significant. We found that unskilled manpower, insufficient government initiatives for exploring new overseas market for labor, employees' reluctance to use legal channel for sending money are some of the reasons that inhibits the remittance inflows in Bangladesh. In this regard, we think that proper training, raising awareness and government active role will be suffice in gearing inflows of foreign remittances.

Keywords: migration, employment, overseas, remittance, obstacles, development.

I. Introduction

Human migration is the movement of people from one place to another for purposes of permanent or temporary residence and/or employment. In general, human migration has occurred throughout history and began with the movements of the first human groups out of their origins in East Africa (Tigno, 2006).Bangladesh is a hugely labour surplus country and consequently participates in the supply side of the global labour market (Refugee and Migratory Movement Research Unit, 2008). The country has long history of migration. Increasing oil price in 1970s opened up vast scope for Bangladeshi migrants in the Middle East which was later on expanded to the newly industrialized countries of South East Asia (Siddiqui, 2003). The government of Bangladesh has promoted international labour migration as part of an overall development plan since 1976 which geared labour migration from the country (Refugee and Migratory Movement Research Unit, 2007). Remarkable migration from Bengal may be noticed by the visit of Buddhist religious scholar and saint Atish Dipankar to Tibet in 1042. During the 18th and early 19th century, sailors originating from the southeastern part of Bangladesh were employed in the British merchant navy. Some of them settled in UK and USA. During early sixties the Middle Eastern countries enriched their economy on the basis of oil exploration and started to recruit various kinds of manpower. After independence of Bangladesh in 1971, formal migration started for employment in 1976. The labour migration scenario of Bangladesh is highly country specific. Recent political unrest in these Middle Eastern countries might causes an adverse effect on migration and remittance-balance for Bangladesh. In FY 2010-11, the amount of remittance from Middle Eastern country totals USD 7,215.53 million which is0.10 per cent less than that of FY 2009-10. However, remittance from non-Middle Eastern countries in FY 2010-11 totals USD 4,434.79 million, which is 17.80 per cent more than that of the previous fiscal year.

The paper is organized as follows: Following the introduction in section 1, Objective in section 2, Methodology express in section 3, Literature review is given in section 4, Section 5 analyzes the scenario of migration and remittance inflow in Bangladesh, Section 6 describes the performance of remittance and section 7 shows barriers to migration in Bangladesh, Section 8 expresses some recommendations and 9 discusses the conclusion.

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II. Objectives of the Study

The present research study has been undertaken with the following objectives:

i. To investigate and find out the statistical relationship between overseas employment and remittance income of Bangladesh.
ii. To know the significance of remittance income for the economic development of Bangladesh;
iii. To find out the problems of remittance income of Bangladesh; and
iv. To recommend some suggestions based on findings to overcome the barriers of remittance income in Bangladesh.

III. Research Methodology

This research study has been conducted and analyzed on the basis of secondary data and information. The sample period of these secondary data and information is 1976-2011. These data and information were collected from different A-ranked journals, articles, published books, conference proceedings, newspapers, and magazines. A large part of this research report's data and information was collected from the website of Bangladesh Economic Review (BER), websites of Ministry of Expatriate's Welfare and Overseas Employment, Bangladesh Bank, Bureau of Manpower Employment and Training (BMET) and Refugee and Migratory Movements Research Unit (RMMRU).

In order to explore the nature of relationship employment and remittance flow we used several econometric tests namely: correlogram test, unit-root test, ADF test, Vector Error Correction Model (VECM) which confirms us that the relationship between these two variables is significant.

IV. Review of Literature

Various studies on the effect of remittances to economic growth have shown diverse results. For instance, Faini (2002) and Ang (2007) found that the impact of remittances on growth is positive. Faini(2002) argues that remittances overcome capital market imperfections and allow migrant households to accumulate positive assets. Ang (2007) shows the relationship between workers' remittances and economic growth at the national and at the regional levels in the case of Philippines. He found that at the national level remittances do influence economic growth positively and significantly. Giuliano and Ruiz-Arranz (2005) also show that in the economies where the financial system is underdeveloped, remittances alleviate credit constraints and work as a substitute for financial development, improving the allocation of capital and therefore accelerating economic growth. On the contrast, Chami et al. (2003), covering 113 countries found that remittances had a negative effect on growth. The authors of the study attribute this negative effect on the moral hazard problem that remittances create. Essentially, the study concluded that income from remittances allows receiving families to decrease their own work and productivity, which then translates into a reduction in the labor supply for the developing country. In a study conducted by IMF (2005) about the impact of remittances on growth over an extended period (1970-2003) for 101 developing countries found no statistical link between remittances and per capita output growth or between remittances and other variables such as education or investment rates. However, remittances, like aid, may be more effective in a good policy environment. This study wants to examine the effectiveness of remittance on economy of Bangladesh.

V. Trends of Migration and Remittance Inflow

After independence of Bangladesh in 1971, formal migration started for employment in 1976. Then after 2000, emigration became as important as exports and results a great wave of emigration. Emigration from Bangladesh started in 1976 with a modest number of six thousands only. Presently Bangladeshis are engaged in overseas employment in more than 100 countries. In 1980 it reached 30 thousands; though 103 in 1990 and 222 thousands in 2000. After that migration got its wave and reached 254 thousands in 2005 and 381 thousands in 2006 respectively. The flow of labor migration has been following an increasing trend over the years until FY 2007-08. Later, it continued to decline over the next three successive fiscal years. The reason is that the global economic recession and collapse of the construction sector in the Middle East due to which the demand for external labor declined. Again, the flow of labor migration increased in FY 2011- 12 in comparison with the preceding years. In the fiscal year of 2011-13, again labor migration falls very high due to the political instability in Bangladesh and many middle-east countries and some economic recession in western countries. However, the data from the Bureau of Manpower Employment and Training (BMET) reveals that the number of labor migration and remittent is increasing over the year at a diminishing rate.

It is observed from table 1 that both overseas employment and remittance inflow increase steadily. The number of emigrants becomes 4 times more in FY 2011 than FY 1981 and in the same time duration amount of earning remittance becomes 30 times more. Up to 1986 both employment remittances earning increase more consistently. But due to political instability in Middle-East, during last half of 1980s and first half 1990s both are increases at a decreasing rate even, sometimes at a negative rate. After this time period remittances earning becomes consistent again, but due

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to economic recession and political instability in Middle-East after 2008 remittances increase at a lower rate.

a) Empirical Results

The data range we are working with exhibits non-stationary problem. To be certain we use correlogram test (Ljume-Box test). We see both series are non-stationary. For more confirmation, we use unit-root test (we have considered that we have a deterministic trend and an intercept in our data series). In this case, Remittance series show unit root problem and employment series does not show unit root problem. As there are many tools for testing unit root problem, we specifically choose to use Augmented Dicky Fuller Test to identify unit root problem. We found that there is non-stationary problem for remittance. In the same way, we accomplish ADF test for employment data. So, there is no unit root problem at 5% and 10% significance level. Then we try to find out long run association between the variables and for that we use Johansen cointegration test. In Johansen test, trace test indicates that there are a one cointegrating equation at the 5% significant level and no cointegration exists at the 1% level. On the other hand, Max-Eigen statistics confirms that there is one cointegrating equation at both 5% and 1% levels. As we find our data series have long run association, then we use System Equation System (SES) to solve our model. For that reason we can use Vector Error Correction Model (VECM) or Vector Autoreggresive Model (VRM). Since we included restriction (Deterministic trend and intercept), therefore we choose to use vector error correction model.

Then we create following system equation:

$$D(R) = C(1)*(R(-1) - 0.007588442109*E(-1) - 798.6859445) + C(2)*D(R(-1)) + C(3)*D(R(-2)) + C(4)*D(E(-1)) + C(5)*D(E(-2)) + C(6)$$

$$D(E) = C(7)*(R(-1) - 0.007588442109*E(-1) - 798.6859445) + C(8)*D(R(-1)) + C(9)*D(R(-2)) + C(10)*D(E(-1)) + C(11)*D(E(-2)) + C(12)$$

Now we apply the OLS to estimate the above regression model:

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	0.050935	0.093302	0.545916	0.5879
C(2)	0.679608	0.282702	2.403976	0.0205
C(3)	0.014285	0.265604	0.053782	0.9574
C(4)	0.002079	0.000686	3.029245	0.0041
C(5)	0.000953	0.000930	1.025071	0.3109
C(6)	94.05221	112.3836	0.836885	0.4072
C(7)	70.71046	28.42482	2.487630	0.0167
C(8)	20.00590	86.12641	0.232285	0.8174
C(9)	-255.3070	80.91742	-3.155155	0.0029
C(10)	0.437423	0.209095	2.091986	0.0422
C(11)	-0.342875	0.283307	-1.210260	0.2326
C(12)	95507.38	34238.22	2.789496	0.0078
Determinant residual covariance		2.07E+14		

Equation: D(R) = C(1)*(R(-1) - 0.007588442109*E(-1) - 798.6859445) + C(2)*D(R(-1)) + C(3)*D(R(-2)) + C(4)*D(E(-1)) + C(5)*D(E(-2)) + C(6)
Observations: 28

R-squared	0.837943	Mean dependent var	393.9582
Adjusted R-squared	0.801112	S.D. dependent var	553.2914
S.E. of regression	246.7504	Sum squared resid	1339487.
Durbin-Watson stat	1.976992		

Equation: D(E) = C(7)*(R(-1) - 0.007588442109*E(-1) - 798.6859445) + C(8)*D(R(-1)) + C(9)*D(R(-2)) + C(10)*D(E(-1)) + C(11)*D(E(-2)) + C(12)
Observations: 28

R-squared	0.556088	Mean dependent var	18172.93
Adjusted R-squared	0.455199	S.D. dependent var	101846.7
S.E. of regression	75173.73	Sum squared resid	1.24E+11
Durbin-Watson stat	2.454692		

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After the causalty test, our revised system equations are given below:

Equation 1: D(R) = C(1)*(R(-1) - 0.007588442109*E(-1) - 798.6859445) + C(2)*D(R(-1)) + C(5)*D(E(-2)) + C(6)

Equation 2: D(E) = - 0.007588442109*E(-1) - 798.6859445) + C(8)*D(R(-1)) + C(10)*D(E(-1))

System equations with coefficients:

Equation 1: D(R) = 0.050935(R(-1) - 0.007588442109*E(-1) - 798.6859445) + 0.679608*D(R(-1)) + 0.000953*D(E(-2)) + 94.05221

Equation 2: D(E) = -0.007588442109*E(-1) - 798.6859445) + 20.00590*D(R(-1)) + 0.437423*D(E(-1))

From the analysis, we get the both employment and remittance influenced by one another, and the tests are highly statistically significant because tests have satisfied all statistical prerequisites. From the test, we get that in equation 1, the value of R square is 84% which implies that dependent variable R (Remittance) influenced by independent variable E (Employment) and their lags values. Likewise, in the equation 2, the value of R square is 56% which implies that dependent variable E (Employment) influenced by independent variable R(Remittance) and their lags values.

b) Migration and Remittance growth rate

From the beginning of 1980s both the overseas employment and remittance earnings was decreasing. But after some successive years it returns to positive growth. Then both factors increase at a consequent growth. Though migration has some experience of negative growth but earnings of remittance increase at a positive rate after FY 1984.

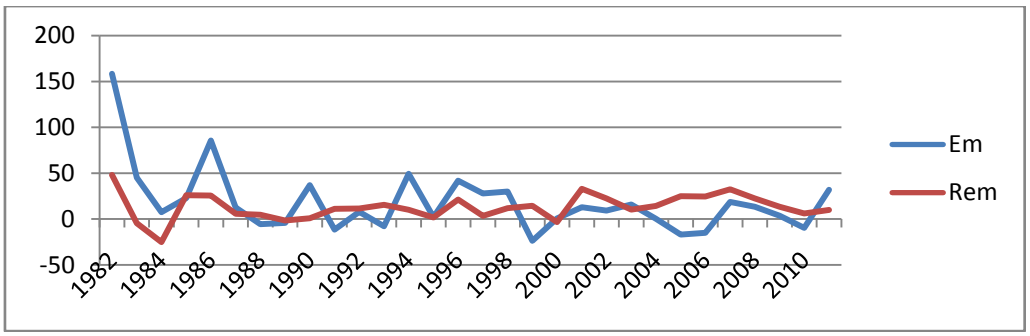

Figure 1: Growth rate of Migration and Remittance of Bangladesh (1981-2011)

Source: Author's own calculations by using data from Foreign Exchange Policy Department, Bangladesh Bank.

Current political unrest in these Middle Eastern countries might cause an adverse effect on migration and remittance balance for Bangladesh. But fluctuation of migration represents the unsecured future of remittance earning.

c) Composition of Skill of Migrated workers

Mahmood, R. A. (1992) concludes that the vast majority of outward migrants were semi skilled and unskilled. Overtime, Bangladeshi workers migrating to the region experienced significant changes in terms of their number, country of destination, and skill composition. In terms of composition of the labour force migrating to the Middle-East, there has been a significant reduction in the relative's share of skilled migrants, who have given way to more low and unskilled migrants. More than 50% of the emigrants up to 2011 of Bangladesh are un-skilled, only 1/3 are skilled and rest of total overseas emigrants are semi-skilled. In 1990, 34 percent of the migrant workers were skilled category, 6 percent were professional and the rest of the 40 percent were unskilled and 20 percent were semi-skilled category. However, after 1990, the manpower export increased gradually and the number of skill workers also increased. In 2011, the shares of skilled, semi-skilled and unskilled workers were 40, 5 and 55 percent respectively. So, it is imperative to increase the skill of unskilled migrants which can contribute to boost the remittances inflow in Bangladesh.

d) Country Wise Migration and Remittance

Total labour migration from Bangladesh is increasing but it is also highly dependent on the Middle East countries. The ten highest labour migration destination countries - Saudi Arabia, UAE, Qatar, Oman, Bahrain, Kuwait, Libya, Iraq, Singapore and Malaysia - hold 96.83 per cent of total labour supplied from Bangladesh for last 31years. Up to 2011 only Saudi Arabia employed 35.39% and UAE employed 23.12% of total Bangladeshi emigrant.

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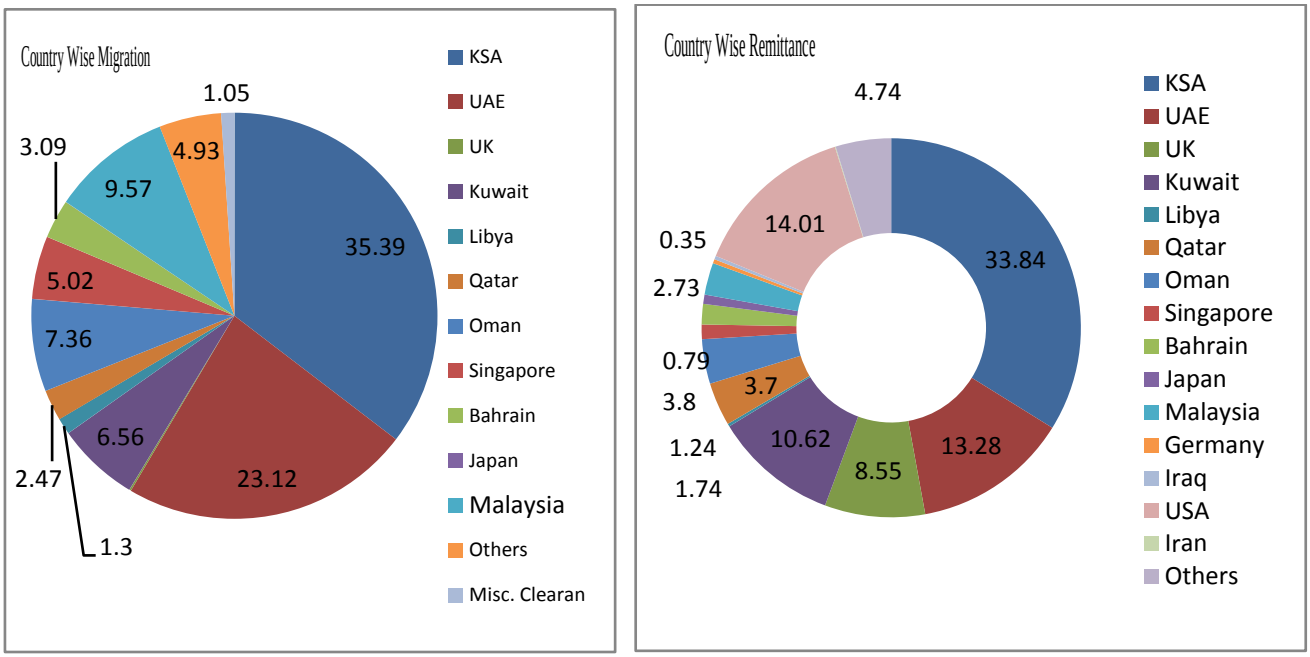

Figure 1: Country Wise Migration and Remittance

Source: Author's own calculations by using data from Bureau of Manpower, Employment and Training (BMET) and Foreign Exchange Policy Department, Bangladesh Bank.

Remittance earning is also highly dependent on the Middle East countries. Up to FY2011 Bangladesh earns 84373.99 million US$ and Saudi Arabia alone provides 28552.22 million US$ which is one-third of total remittance. Other Middle-East countries also supply mentionable amount of remittance. UAE has supplied 13.28% and Kuwait has supplied 10.62% of total remittance. On the other hand, among non-middle-east countries only USA and UK provide a mentionable amount of remittance. Up to 2011 USA has supplied 14.01% and UK 8.55% of total remittance. This highly country specific skewed labour migration suggests largely a risky scenario for the labour migration and remittance. For example, Current political unrest in these Middle Eastern countries might cause an adverse effect on migration and remittance balance for Bangladesh. In calendar year 2010, labour migration in Saudi Arabia has dropped down by 51.80 per cent than that of 2009 and 95.11 per cent than that of 2000. In the FY 2012-13, both the amount of remittance as well as its growth falls nearly to 10% due to political instability in Banglades has well as in middle-east Asian countries. Even in FY 2012-13, total number of migrants also lower than that of FY 2011-12. But, now, comparing to Middle Eastern countries, labour migration in non-Middle Eastern countries is on the rise. . In FY 2010-11, the amount of remittance from Middle Eastern country totals USD 7,215.53 million which is 0.10 per cent less than that of FY 2009-10. However, remittance from non-Middle Eastern countries in FY 2010-11 totals USD 4,434.79 million, which is 17.80 per cent more than that of the previous fiscal year of USD 4,434.79 million. The contribution of remittance from Middle Eastern and Non-Middle Eastern countries has increased by 93.2 and 97.66 respectively in FY 2010-11 than that of FY 2006-07.

VI. Effects of Remittance in Bangladesh Economy

Remittance income is more important for any developing country like Bangladesh. It affects our economy positively as follows:

Remittance is the greatest source of the reserve of our foreign currencies. We need huge amount of foreign currencies for meeting for the imports food and food products, various commodities, machineries, raw materials of the industries and technology every year. It would be simply impossible to maintain the optimum reserve of foreign currencies if we would not get the remittance.

Bangladesh has a shortage of domestic capital. So we cannot increase the speed of our economy. Remittances increase the flow of capital and ensure more investment which is playing a vital role in our economic development.

Most of the un-skilled and semi-skilled overseas Bangladeshi workers have gone from rural areas. The go abroad for changing their fates. Their remittance develops the economic conditions of their family and accelerates the rural economy.

International migration decrease unemployment in two ways. First, it employed Bangladeshi workers in

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overseas countries. Second, it develops rural-economy and creates new jobs in rural areas.

A huge number of people in Bangladesh are living under poverty line. The remittances are reducing poverty. It also reduces the economical imbalance of the society.

Finally, remittance is playing a vital role to ensure future development of our economy. Remittance is considered as an important factor for future economic development of the country. According to a study conducted by Centre for Policy Dialogue (CPD) in Bangladesh, it is estimated that the required level of remittances in FY2020 for consistent 4%, 6%and 8% GDP growth as table provided in the Annex (Table 2).

VII. Barriers for Flourishing of Remittance Earnings

The migrant workers of Bangladesh have been contributing immensely to the economy with strong positive impact on growth, employment, foreign reserve and balance of payments. But the path of earning remittance is not smooth. We have identified some factors behind this scenario:

Although the number of skilled and professional personnel is increasing, but it is still only 33 percent of total manpower exported. The government has established some new science and technological universities, polytechnic and vocational institutes for increasing the number of skilled and professional personnel. But still the number is very small than the actual demand. Moreover, the qualities of education of these institutes are not up to the mark in comparison with the institutes of other top manpower exporting countries.

The Government foreign policy and diplomatic relationship and promotional activities are important to increase manpower export. Although, the government has undertaken various policies to boost manpower export, but still Bangladesh is far behind in establishing diplomatic relationship and promotional activities than the other countries.

Most of the Bangladeshi migrants are un-skilled. They do not have sufficient training and educational qualification. They don't get any training from the private and government recruiting agencies before pre-departure.

Migrant workers of Bangladesh are regularly encountering various problems in sending remittances, especially to the remote areas of the country, through formal channels because the process of sending remittance through banks is slow and complicated.

The foreign missions of Bangladesh are not efficient. They cannot maintain a strong diplomatic relation with other countries that can accelerate remittance earnings. Moreover, due to the lack of proper guidance and inspiration, Bangladesh cannot ensure the welfare of its migrant workers.

VIII. Recommendations

For avoiding the barriers and flourishing the remittance inflow, we can follow the following recommendations-

Skilled migrants can earn more remittance. But most of the Bangladeshi migrants are un-skilled. So, we should take necessary steps to skilled migrant workers. Government should take initiatives for proper certification of skills that a good section of migrant workers possess, such as electrician, mason, bricklayer, plumber, fitter, turner etc. In this respect, special incentives may be provided to private recruiting agencies who export skilled manpower.

For increasing remittance government should ensure educational qualification and training of migrant workers. Education and training increase the productivity and efficiency of workers that may ensure more remittance earnings.

Sending remittance is a great problem for migrant workers. So, The Bangladesh Bank's policy of not allowing private banks opening branches in foreign cities where nationalized commercial banks have their branches needs to be reconsidered. If banks gear themselves adequately for harnessing migrants' remittance then opening of branches by private banks would lead to a healthy competition and thus is likely to contribute increased flow of remittance.

International organizations can jointly establish migrant workers resource centers (MWRCs) in receiving countries. These MWRCs can provide all kinds of services including remittance information to the migrants of different labour-sending countries.

There is much room for improvement in the functioning of Bangladeshi missions abroad with respect to remittance. When queries are made on opening new branches and corresponding relationships, the missions need to act on them promptly. Procedural delays have to be minimized by fixing specific time frames.

Finally, we should incorporate vocational training in mainstream primary and secondary level curricula. We should also incorporated chapters on migration in textbooks. To increase the communication skills, government can introduce English as a second language from the first grade. Micro Finance Institutions and Civil Society Bodies Tested microfinance institutions should come forward to play a role in managing migration.

IX. Conclusion

Remittance is a vital element for gearing economic growth in Bangladesh and it becomes the safest, shortest and lasting route to economic

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emancipation for Bangladesh. But this route is not smooth. For eliminating the obstacles in this route, we can address the total migration process with an integrated approach towards creating a congenial environment for safe migration for all. These include the human resource development and also strengthening the migration process and welfare services. Only then we can increase the remittance flow in Bangladesh and ensure our economic development.

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Annex

Table 1: Trends of migration and remittance inflow

Year	Employment	Remittance(m. $)
1981	55787	381.17
1982	62762	418.48
1983	59220	619.49
1984	56714	590.60
1985	77694	441.60
1986	68658	555.81
1987	74017	697.45
1988	68121	737.43
1989	101724	770.82
1990	103814	758.20
1991	147131	764.04
1992	188124	847.97
1993	244508	944.00
1994	186326	1088.79
1995	187543	1197.63
1996	211714	1217.06
1997	231077	1475.40
1998	267667	1525.42
1999	268182	1705.74

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2000	222686	1949.32
2001	188965	1882.10
2002	224206	2501.13
2003	254190	3061.97
2004	263292	3371.97
2005	237736	3848.29
2006	313290	4801.88
2007	736421	5978.47
2008	682092	7914.78
2009	475278	9689.26
2010	390702	10987.40
2011	568062	11650.32

Source: Author's own calculation by using data from Bureau of Manpower, Employment and Training (BMET) and Foreign Exchange Policy Department, Bangladesh Bank.

Table 2: Required Level of Remittances

	Remittances Required (million US$) to Achieve			Remittances Required (as % of GDP) to Achieve		
Year	4%GDP	6%GDP	8% GDP	4%GDP	6%GDP	8% GDP
2006	3195.34	3667.57	4190.31	5.55	5.91	6.26
2007	3435.94	3435.94	4082.01	5.74	6.20	6.67
2008	3694.67	4543.27	5548.44	5.94	6.51	7.11
2009	3972.88	5056.66	6384.59	6.14	6.84	7.57
2010	4272.04	5628.07	7346.74	6.35	7.18	8.07
2011	4593.72	6264.04	8453.90	6.56	7.54	8.60
2012	4939.63	6971.87	9727.90	6.78	7.91	9.16
2013	5311.58	7759.70	11193.89	7.01	8.31	9.76
2014	5711.55	8636.54	12880.81	7.25	8.73	10.40
2015	6141.63	9612.47	14821.95	7.50	9.16	11.08
2016	6604.0	10698.68	17055.62	7.75	9.62	11.81
2017	7101.38	11907.63	19625.90	8.02	10.10	12.58
2018	7636.11	13253.19	22583.52	7.75	9.62	11.81
2019	8211.11	16417.64	29903.08	8.57	11.14	14.28
2020	8829.41	16417.64	29903.08	8.86	11.69	15.21

Source: Estimation of Bhattacharya. Debapriya, 2006

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