

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

After independence in 1971, new opportunities for international migration emerged. With rising oil prices, the Middle Eastern countries went through a phase of major infrastructure development for which they needed large numbers of expatriate workers. Various categories of Bangladeshi workers joined the Middle Eastern labour market. Gradually, such migration also expanded to the newly industrialized countries of Southeast Asia (Siddiqui, 2003). Due to shortage of labor in the developed countries there are huge demand of qualified labour .On the other hand in the developing countries, there are excess labour supply due to high or under employment in the countries. So they are ready to move to the counties of higher demand of labours.

According to report of World Bank Group in Migration and Remittances Factbook 2016, in the Third Edition (Advance) the number of migrants has risen rapidly in the past few years. More than 247 million people, or 3.4 percent of the world population, live outside their countries of birth for various reasons like job opportunities, labor shortages resulting from falling birth rates especially in developed countries, internal conflict and war, natural disasters, climate change, and improved access to information through phone and the Internet. Rank of Bangladesh in manpower export in the world in 2010 was sixth after Mexico, India, Russian Federation, China, and Ukraine (Fig. 4.3).

When migration occurs between two countries then both the countries earn social gains. In developing countries like Bangladesh, remittances are main source of external finance. In the international labour market Bangladesh is an important source of manpower.

Impact of remittances on macro level can be decomposed in to their effects on savings, investment, consumption, investment and growth. When households receive remittances, we can consider remittances as a disposable income for the households. These incomes may be spent on either consumption or savings. This consumption may

be on to buy daily use food items or durable household goods or may finance in children education and health, purchase of land or to start up a small business etc.

Again when large amount remittances are entered to the home country, then money supply of the country may increase because remittances are converted to foreign currency to domestic currencies. So there are certain possibilities of inflation in the home country if these excess money supplies are absorbed towards productive sectors or in invest in capital markets.

Again according to Fuentes and Herrera (2008) large and sustained remittance inflows can cause an appreciation of the real exchange rate and make the production of tradable goods less profitable, a Dutch-Disease-like phenomenon. Appreciation of real exchange rate (RER) is usually associated with a loss in external competitiveness.

Huge amount of international remittances flows to Bangladesh from all over the world. This large amount of remittances may have impact on the overall economy. It may be positive or it may be negative impact on the economy. In our study we are interested to focus on the impact of remittances on major macroeconomic variables like GDP, consumption, investment, imports etc. in the economy of Bangladesh.

1.2 Statement of the Problem

Due to excess overseas employment from a home country indicate poor economic conditions of the country. But these overseas workers send remittances from the host country to home country generally in hard currencies which are very essential for the developing countries. Now what are impacts of these workers; remittances on the economy of home countries specially on important macroeconomic variables of the country like Gross Domestic Products (GDP), Imports, Consumption, Investment, Real Exchange Rate, as well as Inflation.

Remittances are used mainly either for consumption or savings or investment purposes. Hence remittances are related to the consumption as well as production system of the country. So our study approach should be demand side approach because remittances go directly to the households or consumers of the home country. Then, they would make more demand for products encouraging the suppliers to produce more products.

1.3 Research Questions

- 1. What are the impacts of wage earners' remittances on Gross Domestic Product (GDP) to the economy Bangladesh?
- 2. What are the impacts of wage earners' remittances on consumptions to the economy Bangladesh?
- 3. What are the impacts of wage earners' remittances on investment to the economy Bangladesh?
- 4. What are the impacts of wage earners' remittances on imports to the economy Bangladesh? Or how far these remittances are helpful for imports of Bangladesh?
- 5. What are the impacts of wage earners' remittances on inflation to the economy Bangladesh? Or is these remittances are inflationary or deflationary in the economy of Bangladesh?
- 6. Is there are any influences of these remittances on the exchange rate of Bangladesh?
- 7. What are the macroeconomic determinants of inflow of wage earners' remittances in the context of Bangladesh economy?
- 8. Is these remittances are inflationary of deflationary in the economy of Bangladesh?
- 9. What are the natures, volume, country source, transfer mechanism, etc. of remittances in Bangladesh?
- 10. What are the policies implications of these findings in Bangladesh?

1.4 Objectives of the Study

Our main objectives are as follows:

- 1. Find out the impact of wage earners' remittances on Gross Domestic Product (GDP) in Bangladesh.
- 2. To find out the impact of wage earners' remittances on consumptions in Bangladesh

- 3. To find out the impact of wage earners' remittances on investments in Bangladesh.
- 4. To find out the impact of wage earners' remittances on imports in Bangladesh.
- 5. To find out the impact of wage earners' remittances on inflation in Bangladesh.
- 6. To find out the impact of wage earners' remittances on exchange rate in Bangladesh.
- 7. To identify the macroeconomic determinants of wage earners' remittances in Bangladesh.
- 8. Exploration wage earners' remittances in Bangladesh from different aspects like volume of remittances, country source, transfer mechanism, nature of remittances etc.

The questions are what are the macroeconomic determinants of remittances in Bangladesh? What are the relationship between remittances and its determinants? How and how much the determinants affect remittances? And what are the appropriate policies should be taken on the inflow of remittances in Bangladesh? Hence it is very necessary to find out the determinants of remittances inflow for formulating appropriate economic policies. In this study an effort has been taken to examine the determinants of remittances in Bangladesh using econometric techniques.

1.5 Statement of the Research Hypotheses

- **Research Hypotheses One:**

Null Hypothesis (H_0): Wage earners' remittances affect GDP growth.

Alternative Hypothesis (H_1): Wage earners' remittances do not affect GDP growth.

- **Research Hypotheses Two:**

Null Hypothesis (H_0): Wage earners' remittances influence inflation.

Alternative Hypothesis (H_1): Wage earners' remittances do not influence inflation.

➤ **Research Hypotheses Three:**

Null Hypothesis (H_0): Wage earners' remittances influence real exchange rate.

Alternative Hypothesis (H_1): Wage earners' remittances do not influence real exchange rate.

➤ **Research Hypotheses Four:**

Null Hypothesis (H_0): Wage earners' remittances affect consumption.

Alternative Hypothesis (H_1): Wage earners' remittances do not affect consumption.

➤ **Research Hypotheses Five:**

Null Hypothesis (H_0): Wage earners' remittances affect investment.

Alternative Hypothesis (H_1): Wage earners' remittances do not affect investment.

➤ **Research Hypotheses Five:**

Null Hypothesis (H_0): Wage earners' remittances affect import.

Alternative Hypothesis (H_1): Wage earners' remittances do not affect import.

1.6 Scope of the Study

Our study covers the period of 38 years from 1977 to 2014. Although data on remittances are available from the year of 1976, we have taken data from the year 1977 because the amount of remittances was little in this year. Also taking data of 1976 in the series of remittances in the study of stationary test of remittances we face some problems. It becomes stationary even in the level of the data by ADF unit root test. On the other hand all other unit root tests show non stationary in the level of series. Hence we take the remittances from the year 1977. Our study is limited to only a specific country, Bangladesh. The nature, trend, impact etc. of remittances are different from country to country. Literature review shows that there are no general rules the flow of remittances obey all over the world. The country specific study is more important than bunch of countries to know the nature of remittances. We select the country Bangladesh for our study because Bangladesh received huge amount of remittances from all over the world. To show the macroeconomic impact of remittances Bangladesh is an ideal country.

Our study is restricted to the macroeconomic impact of remittances on the economy of Bangladesh and we are not interested in this study of microeconomic impact of remittances on the Bangladesh. Our study focuses on the national level. Our study mainly focuses on the wage earners' remittances mainly officially recorded data to Bangladesh from all the countries where Bangladeshi workers are employed. We are mainly concerned with the problems of home country from where migrant workers left home for overseas employment and send remittances to their home country. International migration is a subject matter of International Economics. Again workers' remittances are the transfer of money by migrant workers to an individual in his or her home country. If we consider labour as an export, then remittances are the part of the payment for exporting labour services that returns to the home country which are very significant part of international capital flows.

1.7 Significance of the Research

In Bangladesh, remittance plays a significant role to maintain balance of payment and foreign currency reserve. In any developing countries the common problem is shortages of foreign exchange reserve which is very essential to pay the import bills. Bangladesh is not an exceptional country but Bangladesh depends more on remittances to meet the problem of payment of the import bills. Giuliano and Ruiz-Arranz (2009) suggest in their paper that remittances may act as an alternative way to promote investment in those countries in which there is poor financial sector. Bangladesh is huge labour surplus country. More than 25% of its foreign exchange earnings are derived from the remittances of the migrant workers. Between 1976 and 2014 a total of 91.43 lakhs people emigrated temporarily from Bangladesh (BMET, 2015).

The flows of remittance are more stable than other types of private capital inflows like official development aids (ODA) and foreign direct investment (FDI) and are counter cyclical (World Bank, 2006) as the flows increase during downturns as emigrant workers went to provide financial support to the family members in the country of their origin (Sayan, 2006). That is remittance act as a significant macroeconomic stabilizer in the developing countries.

Remittances inflows to Bangladesh are increasing at an average annual rate of 19 percent in the last 30 years from 1979 to 2008 (Hussain, Naeem, 2009). Income from remittances has recently exceeded the 10 billion dollar mark, which has been 11.8

percent of the country's Gross Domestic Product (GDP) in 2009(BBS, 2010). Bangladesh's position in 2008 was ninth in that of 'top 10' list after India, China, Mexico, Philippines, Poland, Nigeria, Egypt and Romania (Ratha et al., 2008)

1.8 Data and Methodology

Bangladesh Bank (BB) publishes the data on remittances. They publish the same data on remittances under the two different heads, "Wage Earners Remittance Inflow" and "Total Workers' Remittances" according to the "Financial Year". On the other hand, Bureau of Manpower, Employment and Training (BMET) also publish data on remittances under the head "Remittances" according to the "Calendar Year" taking data from the original source Bangladesh Bank (BB). So, "Wage Earners Remittance Inflow", "Total Workers' Remittances" and "Remittances" are same and identical throughout the thesis. We have taken data on remittances from the source of BMET because all others data on our related variables of our study are not available according to the Calendar Year. All the data series are published by World Bank according to Calendar Year. So, all other data on our study related variables are collected mainly from World Development Indicator (WDI), World Bank.

Our data are secondary time series in nature covering the period of 1977 to 2014. Nature of our study is dynamic because we are interested to show the relationship between today's remittances and its growth affects on tomorrow's macroeconomic variables and how this process can generate a time path of macroeconomic variables.

Impact of remittances on macroeconomic variables is a positive research problem statement, that is, objective statement. It does not contain value judgments and its accuracy can be tested by empirically. In our study we depend mainly on empirical observations (secondary data) and statistical as well as econometrical analysis of observed data. So our study approach is Positive Approach.

For our study we use regression analysis that concerned with fitting relationship between a dependent variable y and one or more independent variables, x_1, x_2, \dots, x_n usually by the method of least square. In our case dependent variables are GDP, Exchange Rate, Inflation, Consumption, Investment and main independent variable is Wage Earners' Remittances.

To find out the relationship between the variables by using econometric tools, it is very important to know the nature of the series, whether series are stationary or non-stationary in nature. If the series are non-stationary in nature then the regression analysis may produce spurious or nonsense regression among the variables. Again if the variables are non-stationary then we can convert the series by typical methods such as detrending or differencing the data. But these methods can cause a loss of significant long-run information and omitted variables bias.

There are few methods available in literature to examine the long-run relationship among variables. One is the Engle and Granger (EG) cointegration and the other is Johansen and Juselius (JJ) cointegration tests and Auto Regressive Distributed Lag (ARDL) cointegration technique of Pesaran et al. (2001). We apply Johansen and Juselius (JJ) cointegration approach to find out the cointegration relationship among the variables. Again, when the macroeconomic series are cointegrated, there will be causality in at least one direction among the variables. According to literature, VECM based granger causality is best suitable for multivariate data set.

The data were entered, coded and cleaned in *Microsoft Office Excel 2007* computer programme. The data were then transferred to *EViews* software packages (version 6) in which empirical analysis were carried out.

1.9 Overview of the Research

The thesis is presented in ten chapters. *The Chapter One* presents the introduction, background to the study, research problems, objective of the study, scopes of the study, significance of the study, data and methodology of the study.

Chapter Two reviews the existing literatures on the study of remittances. It focuses on the theoretical and empirical studies on the study of remittances in the economy of Bangladesh as well as others countries.

Chapter Three gives brief idea about some important macroeconomic variables related to the study like exports, imports, consumptions, investment, savings, government expenditures, money supply and inflation of the economy of Bangladesh.

Chapter Four draws a picture of an overview of overseas employment from and inflow of remittances to Bangladesh. The chapter gives few concepts on migration and

remittance. The chapter gives the process of overseas recruitment and then the methods transfer from the host country to home country. The chapter discusses the country-wise and category-wise employment from and country-wise workers' remittances to Bangladesh. The chapter also shows country-wise overseas employment of women, significance of migration and remittances and uses of remittances in Bangladesh.

Chapter Five engages to find out the macroeconomic determinants of remittances in Bangladesh.

Chapter Six shows the impact of important capital flows to Bangladesh like foreign direct investment (FDI), official development assistance (ODA) and remittances to Gross Domestic Product (GDP) of the country.

Chapter Seven presents a simple Keynesian open dynamic econometric model to show the impact of remittances on the income, consumption, investment and imports of the economy of Bangladesh by using Two-Stage Least Squares Method (TSLS). The chapter estimates the remittance multipliers.

Chapter Eight measures the impact of remittances on the inflation of the country along with others explanatory variables and it also explains the impact of remittances on the real exchange rate of Bangladesh. The chapter tries to explain the *Dutch Disease phenomena*, *Spending Effect*, *Resource movement effect* *Rybczynski* principle, *Ricardo-Balassa* effect.

Chapter Nine summarizes the findings of the study with conclusion, suggests policy recommendations, limitation of the study, and identifies the scope for future research on this area of study.