

## **Domestic Vs International Remittance flow: Economic Analysis of the Value of Remittance Transfer from Bangladeshi Migrants**

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**Abstract :** *International migration from Bangladesh has become a defining characteristic of the country and is considered to be an important livelihood earning strategy for the people. Especially since 1980s, large scale labour migration has become a common phenomenon of Bangladesh. This paper has examined the financial benefit receipt between the domestic and the international migration. Financial benefit is measured in terms of the value of remittance transfer from the migrants. An ordinary least square (OLS) model is used to estimate the objectives of the study. For this purpose secondary dataset has been used from the Household Income Expenditure Survey (HIES 2010) from Bangladesh Bureau of Statistics (BBS). Two types of migration have been considered in the paper – domestic and International migration. The affiliated cost of holding a passport, completion of visa procedure, transportation, and accommodation distinguishes international migration from domestic migration. There has been significant transfer of domestic remittance from urban to rural/sub-urban areas of Bangladesh but nevertheless the term remittance popularly known as value (both in cash and kind) transferred from abroad. The paper suggests households receive significantly high remittance from international migrants than domestic migrants. Hence the rational instinct of a human being is to migrate himself internationally. Besides, migrants with higher level of education send more remittance to households regardless of domestic or international migration.*

**Key Words:** *Domestic, International, Migration, Remittance, Value Transfer*

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### **I. Introduction**

Bangladesh is currently enjoying the demographic dividend and United Nations data suggests the increasing trend will continue at least up to year 2030. It allows Bangladesh to supply significant share of manpower in global market. It is one of the major labour-exporting countries in the world (Farid et al., 2009). About eight million international migrants have sent remittance to Bangladesh in June 2015 (Bangladesh Bank, 2015). Albeit, international migration of workers in last decade increased on average over 4 percent, Bangladesh has experienced high domestic and international human migration since late 1980's (Bangladesh Bank). Human migration by definition is the movement of people from one place to another for purposes of permanent or temporary residence and/or employment (Miah et al., 2014). Each year a large number of people voluntarily migrate from rural to urban areas as well as overseas for both long- and short-term employment. The world economic recession in 1970s' due to the increase in oil price opened up a 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). Labour migration from Bangladesh has augmented further as the government of Bangladesh is promoting international labour migration as part of an overall development plan since 1976 (Refugee and Migratory Movement Research Unit, 2007). Moreover, the country became a major source country of migrant workers during the 1980s (Mannan, 2001). Nowadays, as time passes, the international migration has become an essential part of the economic, social and political substance of the country. Meanwhile the trend of inter migration from rural to urban areas has also been increased mentionable due to multidimensional reasons like land erosion, natural calamities, desire for future prosperous life etc.

However, migration has long been an important livelihood strategy especially for the migrant people of developing and least developed countries (Siddiqui, 2003). Remittances flow is one of the most visible attributes of migration. Remittance is the transfer share of earning by the migrants. Overseas migration not only produces large inflows of valuable remittances but also offers an outlet for frustrated unemployed workers. It is also important in order to reduce unemployment at home and accumulate valuable foreign exchange to stimulate economic growth (Hadi, 1999). Remittance is a steadily growing external financial source for developing countries. It also plays a crucial role in alleviating the foreign exchange constraints and supporting the balance of payments, enabling imports of capital goods and materials for industrial development. It is a more stable and less volatile source of external finance when compared to the other forms of flows like official development assistance and foreign direct investment (Ratha, 2007). In between 1979 to 2008, remittance inflows to Bangladesh have increased at an average annual rate of 19 percent (Hussain

and Naeem, 2009). Bangladesh become one of the top 10 remittance-recipient countries in the world, after India, China, Mexico, Philippines, Poland, Nigeria, Egypt and Romania (Ratha et al., 2008).

People usually migrate from their native place to other areas within or outside the country for extracting the surplus economic opportunities. People will only migrate if and only if the economic return from migration is higher than the cost of migration including the opportunity cost of migration. Thus, a migrant should be indifferent to move within or outside the boundary of a country if he/she manages to transfer substantial amount of remittance to the relatives at the native place. In this context, the macroeconomic consequence of remittance flow to Bangladesh from domestic and international has significant difference but holds subtle difference in individual level. Thus, a comparison between domestic and international remittance flow is important to understand individual's tendency to migrate overseas.

## **II. Rational And Objective Of The Study**

In last decade, Bangladesh receives foreign remittance at 33.36 percent growth rate per annum (Bangladesh Bank). The rate of registered international migration has increased by 4.66 percent per year. On the other hand, urban population has increased to 30% in 2015, which was 26% and 24% in year 2005 and 2000 respectively (Worldmeter). Albeit, the determinants of domestic and international migration does not mimic but driven by the rationale expectation of higher economic return from respective status quo. This two dissipate set of statistics reveal both domestic and international migration has increased over time. There has been significant transfer of domestic remittance from urban to rural/sub-urban areas of Bangladesh but nevertheless the term remittance popularly known as value (both in cash and kind) transferred from abroad. Prevalence of such prevaricate conceptualization of remittance therefore suggests significant distinction of value transfer in between domestic and foreign remittance. The affiliated cost of holding a passport, completion of visa procedure, transportation, and accommodation distinguishes international migration from domestic migration. People who willingly migrate within domestic market (versus migration due to land erosion) anticipate infinitesimal cost compare to international migrants. Thus, each year the marginal value of remittance transfer must be significantly high to attain positive economic return till the period they finally decide to return home or plan to stay permanently. In this context, the paper has attempted to examine-

1. Whether the marginal value on remittance transfer from international migration compared to domestic migration yields statistically significant difference.
2. Furthermore, the effect of the marginal contribution of education with each additional years of schooling on the total value of remittance transfers regardless the nature<sup>1</sup> of migration.

## **III. Literature Review**

Many valuable studies have been taken on remittance inflows in Bangladesh. Substantive numbers of studies have attempted to study the impact of remittance on poverty and income level in Bangladesh. There prevails relatively large debate regarding the impact of remittances in the home country of migrant workers, though most of the studies have captured the correlation between remittances and growth, but have not established significant causation. There are various studies that claim that remittances promote growth through smoothing the investment constraint as it act as a substitute for in-efficient or non-existent credit markets (Giuliano et al., 2005).

Barua et al (2007) found the macroeconomic determinants of remittance in Bangladesh by using a balanced panel dataset of bilateral remittance flows from 10 major countries (of Bangladeshi migrants') to Bangladesh during 1993-2005. The results of the study show that income differential between host and home country is positively correlated while inflation differential is negatively correlated. The devaluation of domestic currency appears to be positively correlated with the inflow of remittances respectively in Bangladesh. Hasan (2008) has examined the macroeconomic determinants of remittances in Bangladesh and found that if the domestic interest rate goes up by 1 percent, on average, remittance will increase by 1.94 percent and if GDP of the five host countries increases by 1 percent, remittance will increase by 3.06 percent. Miah et al (2014) has investigated the natures and trends of migration and remittance flows of Bangladesh in the last 10 years considering fiscal year 2001-2002 to fiscal year 2012-2013.

Mahmud (2003) as well as Siddique (2004) claims that remittances has foster growth in Bangladesh. Paul and Das (2011) find a long-run positive relationship between remittances and GDP, but that there is no evidence on remittance-led growth in the short run. On the other hand, Rahman et al. (2006) and Rahman (2009) concludes that remittance seems to have insignificant and ambiguous effects on Bangladesh's GDP. Ahmed (2010) argued that flow of remittances to Bangladesh have been statistically significant but

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<sup>1</sup>Domestic or international migration

have a negative impact on growth. Siddique, Selvanathan and Selvanathan (2010) also postulated that growth in remittances does not lead to economic growth in Bangladesh.

#### IV. Methodology

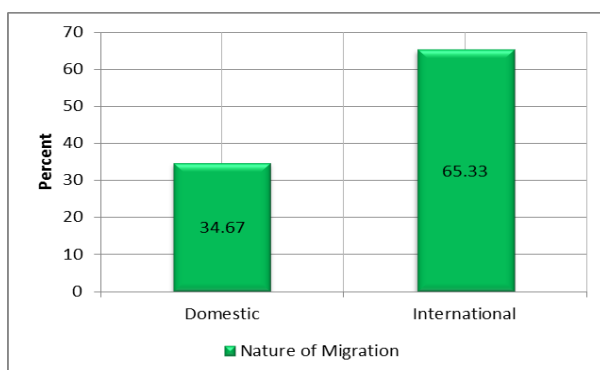
In order to examine the objectives of this study, an econometric model has been built where value of remittance transfer (VRT) is considered as the dependent variable. A secondary dataset has been used that encloses required variables to estimate the model. The source of data is Household Income Expenditure Survey (HIES 2010) from Bangladesh Bureau of Statistics (BBS). In order to estimate the regression analysis of the study Ordinary Least Square (OLS) method has been followed. The model on value of remittance transfer is as below:

$$VRT = A + \alpha_1 R_{D1} + \alpha_2 R_{D2} + \alpha_3 MM + \alpha_4 MM^2 + \alpha_5 PM + \alpha_6 Age + \alpha_7 Age^2 + \alpha_8 Gender + \alpha_9 Education + \alpha_{10} O_{D1} + \alpha_{11} O_{D2} + \varepsilon \dots\dots\dots (1)$$

Where; VRT = value of remittance transfer,  $R_{D0}$  = own family members (base),  $R_{D1}$  = members of in-laws house,  $R_{D2}$  = other relatives,  $O_{D0}$  = unskilled (base),  $O_{D1}$  = semi-skilled,  $O_{D2}$  = skilled, MM = month of migration (dummy), PM = place of migration (dummy),  $\alpha_1$  to  $\alpha_{11}$  = coefficients of associated variables,  $\varepsilon$  = disturbance term, A = intercept.

#### V. Discussion and Findings

Undoubtedly international migration is more costly and hazardous than domestic migration. There is no issue of passport or visa in case of domestic migration. The costs for voluntary domestic migration are transportation cost from one city/town to another one and the cost of new accommodation in the new city/town. On the other hand, international migration consists of various types of costs like passport and visa processing cost, transportation cost (flight fare), accommodation cost in abroad etc. In spite of high migration cost the rate of international migration is higher by a substantive amount than that of domestic migration. Fig.1 shows that the HIES2010 survey data captured double the number of international migrants (65 percent) than domestic migrants (35 percent).



**Figure 1:** Percentage distribution of migrant populace<sup>2</sup>

Table 1 shows the average value of remittance transfer by both domestic and international migrants. Cash and kind both source of remittance have been considered in the transfer value. On an average, BDT 128 thousand worth value of remittance transfer inflow in Bangladesh economy per annum that consists of average 124 thousand worth of cash and 8 thousand worth of kind remittance. Besides, average domestic remittance flow is 37.5 thousand where cash transfer is 34 thousand and kind transfer is 3.3 thousand. It implies, on average international migrants transfer 244 percent higher remittance to their households compare to the domestic migrants.

**Table 1| Average value of remittance in cash and kind by migration nature**

Nature of Migration	Nature of remittance	Number of migrants	Mean	Std. Dev
Domestic	Cash	728	34,096	1,78,092
	Kind	728	3,370	15,751
International	Cash	1372	1,24,088	2,01,347
	Kind	1372	8,186	17,883

Source: HIES, 2010

<sup>2</sup>HIES, 2010

Table 2 describes the amount of remittance transferred by the migrants according to their skill level. In case of domestic migration, the skilled migrants transfer the highest amount of remittance (BDT 61,899 per year) and the unskilled migrants contribute the second highest amount (BDT 33,472 per year) in this purpose. The semi-skilled migrants transfer the lowest amount (BDT 28,128 per year) of remittance among the three types of migrants. The feature regarding the amount of remittance transfer from international migration is showing subtle difference than domestic migrants. On average, semi-skilled migrants are transferring the highest share (BDT 1, 70,655 per year) of remittance while skill and unskilled overseas migrants are sending BDT 1, 24,424 and BDT 1.23,707 per year respectively.

**Table 1| Value of remittance transfer based on the skill level of migrants**

Type of migrants	Domestic Migration			International Migration			Ratio	Percent
	Migrant	Value of remittance	per capita remittance inflow (a)	Migrant	Value of remittance	per capita remittance inflow (b)	(b/a)	(b-a)/a
Skilled	139	61898.56	445.31	161	124423.9	772.82	1.73545	74%
Semi-skilled	190	28128.16	325.78	248	170654.8	688.12	2.112224	111%
Unskilled	398	33472.25	84.10	962	123707.1	128.59	1.529036	53%

Source: Estimated by the authors from HIES Dataset, 2010

In addition, Table 2 shows that the per capita remittance transfer from international migrants is higher from domestic migrants at each homogenous skill group. The skilled international migrants transfer 74 percent higher amount or remittance than their domestic counterpart. Similarly semi-skilled and unskilled international migrants transfer 111 percent and 53 percent more remittance respectively over the domestic semi-skilled and unskilled migrants respectively. It perhaps is revealing that the scope of work for semi-skilled overseas Bangladeshi migrant allows them to transfer double the value of remittance than the unskilled migrants. Per capita international remittance inflow by skilled migrants to the domestic economy is six times higher than the unskilled migrants and the semi-skilled transfer five times higher than the unskilled migrants. In contrast, per capita domestic remittance transfer by skilled and semi-skilled migrants is more than fivefold and fourfold higher respectively relative to the unskilled domestic migrants.

Table 3 shows the regression analysis of the generated model. Based on that analysis the estimated model is:

$$VRT = - 39265.08 - 29845.93 (\text{members of in-laws house}) - 39880.24 (\text{other relatives}) + 103.91 (\text{month of migration}) - 1.76 (\text{MM square}) + 89210 (\text{place of migration}) + 1618.72 (\text{age}) + 4.91 (\text{age square}) + 838.95 (\text{gender}) + 2692.11 (\text{education}) + 9678.78 (\text{semi-skilled migrants}) + 5294.59 (\text{skilled migrants}) \dots\dots\dots (2)$$

**Table 2| Regression Analysis of Estimated Model**

Dependent Variable: Value of remittance transfer				
	Coefficient	Robust Standard Error	T-statistics	Probability
<b>R<sub>D1</sub>(Base: R<sub>D0</sub>)</b> <b>(relation with HH head dummy)</b>	-29845.93	9847.64	3.03	0.002**
<b>R<sub>D2</sub>(Base: R<sub>D0</sub>)</b>	-39880.24	21126.99	-1.89	0.059
<b>MM (month of migration)</b>	103.91	199.47	0.52	0.602
MM^2 (MM square)	-1.76	1.6579	-1.06	0.290
PM (place of migration dummy)	89210	5640.74	15.82	0.000**
Age	1618.72	1668.36	0.97	0.332
Age^2	4.91	24.80	0.20	0.843
Gender (dummy)	838.95	14652.62	0.06	0.954
Education	2692.11	940.32	2.86	0.004**
<b>O<sub>D1</sub>(Base: O<sub>D0</sub>)</b> <b>(Occupational 'skill' dummy)</b>	9678.78	8506.58	1.14	0.255
<b>O<sub>D2</sub>(Base: O<sub>D0</sub>)</b>	5294.59	9024.42	0.59	0.557
Constant	-39265.08	29287.09	-1.34	0.180
Number of observation	2094	R-square		0.116
Mean VIF	7.61	Probability (F-statistics)		0.000**
White's test (HSK)	0.97	Ramsey Reset Test		0.092
Mean (Dependent Variable)	99407.64	Standard Deviation (Dep. Variable)		180385

P-value: 1% (\*\*) & 5% (\*) Significant level

A rationale migrant send remittance to his own family members or members from in-laws house or to any relative in the native place. The intensity of relationship between the migrant and recipient determines the value of transfer. Results from the estimated model in

Table 3 shows the regression analysis of the generated model. Based on that analysis the estimated model is:

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Table 2 suggests that migrants transfer of remittance to the members of in-laws an amount of BDT 29,845 less compared to the members of their own family and this result has been statistically significant at one percent level of significance. Remittance flow to other relatives is almost BDT 40,000 less compared to the members of own family by the migrants but it is not statistically significant. Although, the result is not statistically significant, the model reveals the transfer of remittance diminishes by migrants with the longer period of migration. The model further illustrates, international migrants' transfer more than BDT 89, 200 worth of remittance per annum compared to domestic migrants and this result is statistically significant at 1 percent level of significance. It reveals the substantive marginal value of remittance transfer that shapes the natural inclination by an individual for international migration. Migrants with each additional years of schooling increase the value of remittance transferred by BDT 2690 to the native place and the analysis also proves this result as statistically significant at 1 percent level of significance. In addition, there is no statistically significance about the relationship between the transfer of remittance and migrants' age, gender and occupation respectively.

## VI. Conclusion

Migration plays a vital role in the national economy mainly in two major ways; firstly it reduces unemployment and secondly migration results in remittance flows for the country. The migration has shown steady growth over the year that is favourable to the development of Bangladesh; as inflow of remittance has increased every year. According to Bangladesh bank data, the remittance inflow in May 2015 is about BDT 102.83 billion. The study is successful to establish its stated objectives that value of remittance transfer by international migrants are statistically significant then domestic migrants, and with each year of extra schooling the rate of remittance transfer increased regardless of the place of migration by migrants. Although, the cost of international migration is substantially high compared to the domestic migration, the information of greater income opportunities that enables them to transfer significantly greater amount of remittance are revealed to the international migrants. Hence the rational instinct of a human being is to migrate himself internationally. According to Bureau of Manpower, Employment and Training (BMET), presently about 7.5million Bangladeshi migrants are working all over the world. Yearly migration from Bangladesh is about 0.3-0.4million. In the years of 2010, the migration from Bangladesh was 3, 90,702. Bangladeshi workers are mainly engaged in 143 countries of the world but about 90% of the migration takes place in the Middle East and Malaysia. Libya, Qatar, Saudi Arabia, UAE, Kuwait, Oman, Malaysia and Singapore are some of the major countries of destination.

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