



# Global Recession and Its Impact on Exports and Remittances in Bangladesh

## KEYWORDS

Global Recession, Export, Remittance and Migrant

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**ABSTRACT** World economic recession started from 2007 with the sub-prime mortgage crisis in the USA and it subsequently and quickly spread to other nations since the beginning of 2008.

Bangladesh, being an integral part of the global economy could potentially be facing some adverse impacts of the crisis. Definitely this crisis has created some major set backs not only for the developed nations but also for the developing countries like Bangladesh. This paper attempts to identify the impact of global recession in key sectors, especially in exports and remittances on the Bangladesh economy and how the country could mitigate its possible adverse impacts. Finally this paper provides some recommendations for overcoming the problems of the recession.

## 1. INTRODUCTION

The global recession, already being dubbed by some as the Great Recession, since the Great Depression of the 1930s began since the end of 2007 with the sub-prime mortgage crisis in the US. It subsequently and quickly started to spread to the rest of financial system, major world economies have taken a massive hit resulting in negative growth rates in key countries or regions, including the US, EU, and Japan. Many developed countries have also been infected by the contagion from China, Brazil and South Africa to the countries of South East Asia and Latin America. Asian countries were more affected by a strong recession in the USA. Some Chinese and Japanese Banks have suffered significant losses in the Mortgage Backed Securities (MBS) trade. According to the International Monetary Fund (IMF) estimates the global economy was contracted by 0.6 percent in 2009 and the implications of this have been severe for many. Economic growth in developing countries was less than 2 percent in 2011 compared with 8.1 percent in 2007. The World Bank has estimated that an additional 64 million people would be living in extreme poverty on less than US \$ 1.25 a day by the end of 2010 as a result of the global recession.

Bangladesh has already emerged as a leading south Asian player in the export of manpower to a wide range of countries, especially in the Middle East. Those who are keen to distinguish between net and gross earnings of foreign exchange might be exhilarated by the fact that remittance of our migrant workers continue to exceed net foreign exchange earnings from RMG, which have to rely on substantial imports. But while RMG exports create 4 million jobs and support as many as 25 million people directly or indirectly, remittance has helped reduce consumption poverty according to World Bank research on the poverty reduction implications of remittance.

The demand for a country's exports depends on the import propensities of the people of other countries. Such propensities are known to be influenced by their economic growth. The recession that ravaged much of the world, especially the Western World, during 2008 and 2009 had profound implications for export efforts, and hence economic growth of the world. As the Western economy moved in the negative growth zone, their imports deteriorated, consequently the exports of the rest of the world also deteriorated.

## 2. Objectives of the study:

- \* To identify the impact of global economic recession, especially in exports and remittances.

- \* To assess the measures taken by Bangladesh authority to mitigate the recession.
- \* To suggest some recommendations to overcome the recession.

## 3. Methodology of the study:

The study is an exploratory in nature. Data used in the study are collected basically from the secondary sources. The major sources of data include publications of various articles, research reports, journals, Bangladesh economic review (various issues), Bangladesh Bureau of statistics (BBS), Bangladesh Bank (BB), Bangladesh Manpower Employment and Training (BMET) and Export promotion Bureau (EPB).

## 4. Impact of Recession on Exports:

Bangladesh undertook significant changes in trade economic policies in the 1980s and 1990s. Which included structural adjustment reforms and trade liberalization through considerable reduction of tariff and non-tariff barriers and incentives to exports.

Bangladesh's export earnings have risen rapidly since the early 1990s. Exports have grown from around 7% of GDP in 1991 to around 18% in 2006. Two main sources of economic growth have been manufacturing and services, both critically dependent on the RMG sector, RMG exports have grown at around 42 percent in FY- 2010-11 in the midst of global recession, which clearly indicates the country's emergence as one of the biggest players in the international market. Almost two and a half million people, ninety person of them women, are employed in the RMG sector; while a large but undetermined number of people are involved in various ancillary and support services e.g. banking, insurance, transport etc. to this sector.

According to EPB data (Table-1) export earnings of Bangladesh stood at US \$ 16,597 million in FY 2009-10, which was 6.63 percent higher than the export earnings in FY 2008-09. But the export earnings in FY 2007-08 was 15.87 percent higher than the export earning in FY 2006-07. The value of export commodities like raw jute (10.23 percent), tea (20.0%), frozen food (14.89%), Jute goods (15.42%), Leather (37.65%), fell in FY 2008-09, compared to FY 2007-08.

**Table 1: Value of Export of Bangladesh by Major Commodities during 2004-2011**

Commodity	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11*	
a) Primary Goods	Raw Jute	80	148	149	165	148	196	268
	Tea	16	12	7	15	12	6	2
	Frozen Food	390	459	515	534	455	445	471
	Agricultural Product	41	105	88	120	122	189	186
	Other Primary Goods	26	49	75	153	133	53	53
Total Primary Goods	553	773	832	988	870	884	980	
b) Manufacturing Goods	Jute goods	246	361	321	318	264	540	569
	Leather	211	257	266	284	177	226	210
	Naphtha, furnace oil	37	88	84	185	142	301	196
	Readymade garments	3538	4084	4658	5167	5919	6013	5962
	Knitwear	2148	3817	4554	5533	6429	6483	6605
	Chemical Product	121	206	215	216	280	103	68
	Shoe	68	95	136	170	187	204	222
	Handicraft	4	4	8	5	6	4	3
	Engineering products	42	111	237	220	189	311	222
Other mfg. products	663	730	867	1025	1096	1527	1170	
Total mfg. goods	7050	9753	11346	13123	14695	15713	15227	
Grand total	7603	10526	12178	14111	15565	16597	16207	
Annual Change	16.10	21.63	15.69	15.87	10.31	6.63	40.30	

Source: Export Promotion Bureau. \*Up to March 2011 and % change compared to same time of previous fiscal year.

Frozen foods lost international market due to global recession and mandatory test of Bangladeshi frozen fish by EU. The export of Tea fell due to global recession and using order mode of production process. The country was gradually losing the market of jute and jute goods because the life cycle

of most of the capital machineries expired and the demand fell in the international market due to global recession.

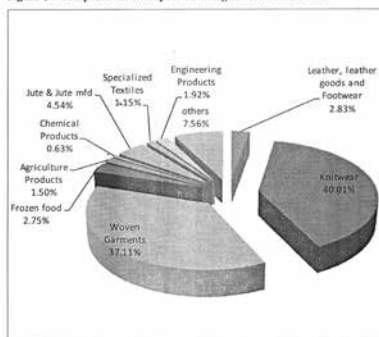
Export earning increased due mainly to increase of the export of knitwear, and RMG in FY 2009-10 compare to FY2008-09. The total export value increased but the rates of change decreased drastically.

**Table 2: Country Wise Export of Bangladesh during 2004-2011**

Country	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11*
USA	2418.67	3039.77	3441.02	3590.56	4052.00	3950.47	3776.30
UK	944.18	1053.74	1173.95	1374.03	1501.20	1508.58	1444.28
Germany	1351.06	1763.38	1955.38	2174.74	2269.70	2187.35	2329.63
France	625.51	678.4	731.76	953.13	1031.05	1025.88	1015.51
Belgium	327.80	359.33	435.82	488.39	409.80	390.54	437.95
Italy	369.78	427.89	515.66	579.23	615.51	623.92	606.20
Netherlands	290.92	327.20	459.01	653.88	970.80	1016.88	931.83
Canada	335.25	406.97	457.21	564.43	663.20	666.83	694.74
Japan	122.53	138.45	147.47	172.56	202.60	330.56	301.15
Others	1868.82	2330.49	2860.58	3559.85	3849.33	4503.68	4669.48
Total	8654.52	1052.16	12177.86	14110.80	15565.19	16204.65	16207.07

Source: Export Promotion Bureau. \*Up to March 2011.

EPB data (Table 2) on country wise export shows that in FY 2009-10 exports to the USA and EU have fallen compared to FY 2008-09.

**Figure 1: Composition of Export of Bangladesh FY 2009-10**

Source: Export Promotion Bureau (EPB)

## 5. Impact of Recession on Remittances and Migrants:

Bangladesh has a long history of workers migrating to different destinations in search of job for their livelihood. A huge number of Bangladeshi labour forces are deployed in different parts of the world, including Middle East. According to the Bureau of manpower, Employment and training a total of about 7.34 million Bangladeshi workers went overseas during 1976-2011. Bangladeshi has achieved a huge success in manpower export in 2007 and 2008. It is seen from Table-3 that a total of 0.83 million Bangladeshi went abroad for employment in 2007, which is 141.62% greater than the previous year. But after 2008 the manpower export has declined. In 2009 and 2010 the total manpower export were 0.47 and 0.39 million which were US 45.68% and 55.35% lower than the year 2008. The export of man power declined due to global recession.

Figure No. 2: Overseas Employment by Country in 2009 --10

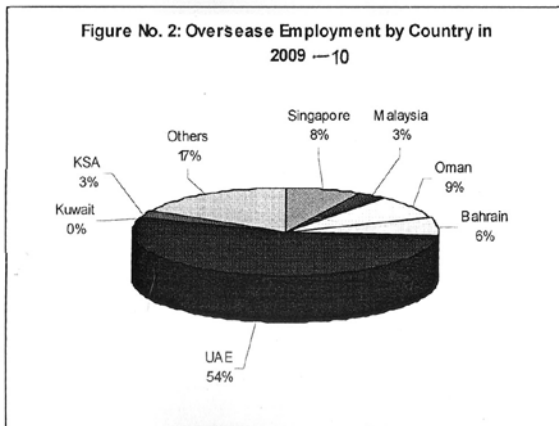


Table 3: Number of Expatriate Bangladeshi by Country during 2004-2010

Country	2004	2005	2006	2007	2008	2009	2010
Saudi Arabia	139031	80425	109513	204112	132124	14666	7069
Kuwait	41108	47029	35775	4212	319	10	48
UAE	47012	61978	130204	226392	419355	258348	203308
Bahrain	9194	10716	16355	16433	13182	28426	21824
Oman	4435	4827	8082	17478	52896	41704	42641
Malaysia	224	2911	20469	273201	131762	12402	919
Singapore	6948	9651	20139	38324	56581	39581	39053
Others	25006	37903	44032	52457	68836	80141	75840
<b>Total</b>	<b>272958</b>	<b>255440</b>	<b>381516</b>	<b>832609</b>	<b>875055</b>	<b>475278</b>	<b>390702</b>

Source: BMET & Bangladesh Bank

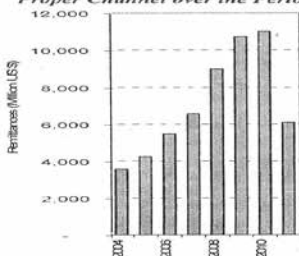
Migration flows to different countries over the last 7 years show that labour export to some countries declined, and to some countries increased or remained stable.

Table 4: Country wise Remittance of Bangladesh during 2004-2011 (In million US \$)

Country	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11*
KSA	1510.45	1696.96	1734.70	2324.23	2859.09	3429.05	2393.89
UAE	442.24	561.44	804.84	1135.14	1754.92	1890.31	1467.15
Qatar	136.41	175.64	233.17	289.79	343.36	1019.18	240.09
Oman	131.32	165.25	196.47	220.64	290.06	170.14	257.62
Bahrain	67.18	67.33	79.96	138.28	157.45	193.46	131.92
Kuwait	406.80	494.39	680.70	863.73	970.75	587.09	779.47
USA	557.31	760.69	930.33	1380.08	1575.22	349.08	1398.62
UK	375.77	555.71	886.90	896.13	789.65	360.91	683.49
Malaysia	25.51	20.82	11.84	92.44	282.20	827.51	524.44
Singapore	47.65	684.84	80.24	130.11	165.13	145.89	143.22
Others	147.60	238.81	339.32	444.38	501.33	453.86	591.11
<b>Total</b>	<b>3848.29</b>	<b>4801.88</b>	<b>5978.47</b>	<b>7914.78</b>	<b>9689.16</b>	<b>10987.40</b>	<b>8611.02</b>

Source: Bangladesh Bank. \* Up to March 2011

Figure 3: Remittance Inflow into Bangladesh through Proper Channel over the Period from 2004 to 2011



\* Data of 2011 is available for Jan-June 2011  
Source: BMET and Bangladesh Bank

Figures-3 presented in the table-4 shows that in FY 2007-08 the total remittance inflows were US \$ 7914.78 million which was 32.39% greater than the previous year. But in 2009-10 the total remittance inflow was US \$ 10987.40 million which was only 13.39% greater than the FY 2008-09. In the first quarter up to March 2011 in FY 2010-11, the total remittance inflow was US \$ 8611.02 million on the basis of the first quarter remittance it can be said that the increases of remittance inflow will not more than 5% compared to the same period in previous year.

**6. Measures Taken to Overcome the Global Recession**

Bangladesh took some significant measures to save the economy from the global recession.

- i. A high- powered technical committee was formed in ear-

ly November, 2008 to closely monitor the impact on the country's economy from the global recession.

- ii. Government under took a seven point strategy to ensure the well being of the Bangladeshi workers abroad and to explore new manpower export markets in the Scandinavian, European countries like Romania, Norway and Sweden.
- iii. The high profile committee of the Bangladesh Bank monitors the Situation on a daily basis, and, accordingly manages the currency Composition of foreign reserve.
- iv. Commercial banks had about US \$ 500 million worth of foreign exchange assets with various commercial institutions abroad.
- v. Bangladesh Bank has relaxed the conditions for opening fresh letters of credit (L/Cs) from the existing 90 days' time to 150 days.
- vi. Bangladesh Bank has instructed banks to take measures to reduce the time and cost of transferring remittances.
- vii. The SME Refinancing Scheme of Bangladesh Bank was allocated TK. 500 crore (US \$ 72.9 million) in FY 2008 -09 Compared to TK. 300 crore (US \$ 43.7 million) in FY 2007-08.
- viii. In April 2009, Finance Minister Abul Maal Abdul Muhith declared a stimulus package of TK. 34.24 billion, which was effective as blanket coverage of power, agriculture and export sectors to help the national economy from the impact of the global recession.

**7. Recommendations:**

**Some recommendations are given below:**

Government should take necessary steps to open permanent display centre of major Bangladeshi exportable products in the foreign missions so the buyers can easily choose the

items and makes business deals easily. Specific sectors have already been hit by the recession, including leather, frozen food and jute. So government should take immediate steps to find the new destination of export of jute, leather and frozen food.

Bangladesh needs to move away from the traditional industrial park concept to a mixed type zoning regime were different types of economic Zone (e.g. privately owned, public-private partnership basis, specialized).

The government should invest more on infrastructure development, energy, building quality human resources, tourism and development of business in which we have competitive advantage can only safe guard the economy from any future disaster.

The government needs to identify sectors that would cater to local demand first but also have big export potential as well. Cement, pharmaceutical, tourism and agro- based should be an obvious target.

Because of global recession in Middle East countries, huge Bangladeshi migrants are sent back to their home country. Policy makers should take care of the migrants, look after their problems and support them for improving their condition.

Most manpower-importing countries are interested in employing skilled workers. The government should take steps to create skilled manpower for those lines of work in which there is high demand in the destination countries.

## 8. Conclusions

The global recession that initially affected the US and EU countries, also affected Bangladesh to some extent. The major affected sectors of Bangladesh economy are exports, remittances and scale of migration. The exports of tea, leather, jute, frozen food etc. have fallen due to recession. In the meantime, export earnings increased due mainly to increase of the exports of RMG. The total export value increased but rates of change decreased drastically. On the other hand, some expatriates from abroad are returning back but foreign remittance still did not decline. However, Bangladesh came out very well from the global recession due to nature and extent of its integration with the world economy and its basic economic structure. Bangladesh benefited from increased market share for its RMG export and has been able to position itself very well in the world market for RMG. The volume of remittance to Bangladesh performed reasonably well despite the global recession.

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