Protifolon

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Global Financial Crisis:

Impact on the economy of Bangladesh

Welcome to D.Net's Protifolon, a new policy briefing series that highlights cutting edge thinking on the emerging issues affecting Bangladesh. This first edition examines the Global Financial Crisis (GFC) in the context of trade, exports migration and remittances and summarises recommendations for policy makers.

Source : IRIN News

Overview

Since the collapse of the United States sub prime mortgage market and the subsequent international global crisis, many developed and developing countries have been plunged into deep recession. Bangladesh though has found itself in a slightly different position. Its economy is not so dependent on international capital and foreign investment, which has helped to lower the immediate impact of the crisis.

Despite this the Bangladesh government has formed a high-level technical committee and taskforce to monitor and advise on the crisis, and ministries and financial institutions have taken several precautionary measures. Importantly in October 2008 Bangladesh Bank withdrew 90 % of its total investment from foreign banks which has helped to further shield the economy, so that it is only now that the affects of the crisis are being felt.

Additionally the Bank has taken measures to stabilise the exchange rate, provide extra liquidity to the financial sector and raised the limit on private foreign borrowing. It has also relaxed the conditions for opening fresh letters of credit (L/Cs).

In February 2009, the Finance Minister AMA Muhith admitted that the global financial crisis was having an impact on trade in Bangladesh. In April the Government announced their stimulus package with 65 million dollars directed to assist exports. This though falls short of the 877 million dollars needed according to industry experts (Yahoo news, 2009).

During 2008, 57% of Bangladesh's economy was involved in the global economy and this is increasing. This indicates that the country might be progressively more affected should the crisis continue for an extended period. Trade, migration and remittance are the most likely sectors to be impacted as 43.3% of Bangladesh's openness is related to trade and 10 % to remittance. Overseas Development Assistance (ODA) and Foreign Direct Investment (FDI) may also be vulnerable in the longer term but to a lesser extent due to only 3.2% integration with the global economy (CPD and ILO, 2009).

Whilst the longer term nature of FDI commitments has kept the net inflow of investment relatively stable, the sluggish growth of rich countries may eventually slow it down. Aid receipts (excluding dollars) are providing less in local currency due to unfavourable exchange rates and future aid commitments from donors may be in jeopardy if the downturn continues.

Impact on trade

The health of Bangladesh's economy depends significantly on foreign trade. Almost 90% of exports are targeted to United States, European Union and other developed countries. Rising unemployment, the subsequent decline in disposable income and declining consumer confidence in these markets could have serious impacts on export potential. Although exports showed robust growth (19.4%) during July-December 2008, they registered negative growth (-1.4%) during October-December 2008, (Bangladesh Bank, 2009) – the worst figures in recent history. All other sectors also registered negative growth during this period. The World Bank forecasted that due to slower activity in the export sector services growth will fall to the range of 5.8% to 6.7% in FY2008.

In Bangladesh Ready Made Garments (RMG) makes up about three quarters of total exports. Other major exports include frozen foods and leather goods. Within the RMG sector predictions suggest that whilst overall RMG orders may decline it may not all be bad news. Consumer cost cutting in the developed countries may actually increase demand for lower priced products (the so-called Wal-Mart effect) – a section of the market well suited to Bangladesh producers.

Demand for workers has remained steady in the RMG sector because of the positive growth in the second half of last year. However stimulus packages in competing countries are beginning to impact the demand for labour in the textile sector. For example 12 spinning mills reportedly closed as manufacturers began procuring yarn from India at lower prices. (CPD, 2009)

Policy makers and other institutions are being urged to consider the following measures to limit damage to the trade sector [BIDS, 2009 and CPD, 2009]:

The phase of being indifferent and complacent is over. From the indications that we are receiving from the exporters, from the migrant workers, and also from the production sectors, we think that there are signs of some slowdown. It would be smart for us to take some steps in order to address the emerging concerns.

Dr. Mustafizur Rahman
Executive Director, CPD

For complete interview visit:
http://www.bdresearch.org.bd/gfc/interview.htm

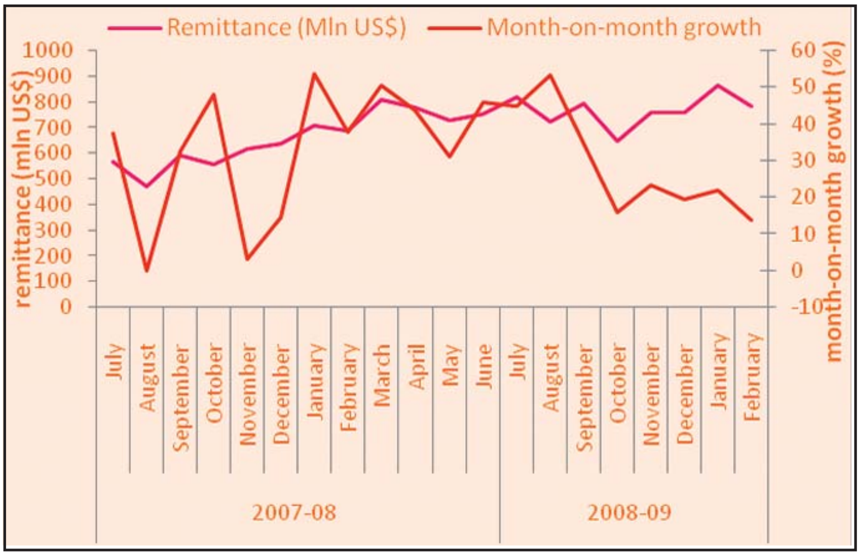
- closely monitor the RMG sectors particularly order volume, export trends, export prices and composition of exported products
- provide cash subsidy and incentives to support affected industries and workers
- consider a low-interest credit facility to affected frozen food firms
- provide cash incentives for a limited period to finished leather producers in order to be competitive with China, Morocco and India
- withdraw duties and VAT (Value Added Tax) on inputs and machineries
- increase the efficiency of customs, ports, and infrastructure

Source : Freefoto.com

Impact on migration and remittance

Bangladesh is the fifth highest remittance-earning country in the world and is the second largest sector in the country which is integrated with the world economy. About 1.7 million workers left Bangladesh in search of jobs during 2007 and 2008 and about five million Bangladeshis are currently working abroad, mainly in Saudi Arabia, Kuwait and Malaysia.

In 2009, it is predicted that the number of workers going abroad will be significantly lower with UAE, Saudi Arabia, Malaysia and Singapore already struggling with slow economic growth and declining demand for construction and other services [CPD and ILO, 2009]. Overall remittances during 2008 were 37.3% higher than the previous year but since August 2008 they showed a decreasing trend as did the number of workers travelling overseas [Bangladesh Bank, 2009]. Bangladesh Bank suggests that because the oil rich countries of the Middle East have accumulated large reserves of oil, migrant workers will still be in demand, but a World Bank report suggests Bangladesh needs to create an additional one million jobs for the people likely to lose jobs at home and abroad (Asian Tribune, 2009). Any downward trend is likely to create issues for the receiving families.



Source : Centre for Policy Dialouge (CPD)

A 2005 International Organization for Migration (IOM) report examines the utilisation of remittance in Bangladesh and, drawing on varied research, shows the impact that remittance can have in reducing vulnerability, providing financial safety nets and improving areas such as access to education and household debt.

The IOM report suggests that the dependency on this income can create serious issues when the political or economic circumstances in the destination countries change and that "the importance of remittances for the receiving family cannot be underestimated."

For the migrants working abroad as well, economic crises can exacerbate already difficult conditions as their host countries become more constrained. Concerns include inadequate access to decent living and working conditions, cuts in social service provision, fear of xenophobic attacks and restricted access to worker rights (IOM, 2009). Whilst evidence for this in relation to Bangladeshi workers is difficult to find, it is important in the growing turmoil to safeguard against human right violations.

So what measures can be introduced to protect migrant

Source : IRIN News

workers and their families? Whilst Bangladesh Bank have sought to improve the efficiency of transferring remittance, the Bangladesh Government has devised a seven point strategy which includes extending existing manpower markets and exploring new host countries in Europe. However in April's emergency stimulus package remittances were absent (New Age, 2009). To protect migrants abroad and to try and retain remittance levels the Government need to prioritise this issue.

Recommendations include:

- agree steps with Saudi Arabia and Kuwait to protect Bangladeshi's working there
- ensure good relations are maintained with existing migrant destinations such as UAE, Malaysia, Oman, and Qatar through diplomatic intervention
- examine further alternative migrant destinations including Iraq, Bahrain, Mauritius, Sudan, Libya, and South Africa
- seek technical and financial support from the ILO and initiate memorandums of understanding (MOUs) between Bangladesh and the destination countries of the migrants. These MOUs could contain basic rights such as full wages every month and safe working conditions

For returning migrants provisions should be put in place to assist in their repatriation, reception and reintegration and Official Development Assistance (ODA) could be increased to create employment opportunities.

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Recommended readings

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