Dual Citizens, USD market volatility and External Borrowing

Introduction

The emigration of population from the South to the North in recent decades has not only increased, but its characteristics also contrast with the emigration of earlier decades. The increases of emigration results from globalization and immigration policies pursued at home and abroad. During the decades of 70s, 80s and 1990s, those who emigrated, settled (almost) permanently in the North, had infrequent contact with one's country of birth, and perhaps, visiting the origin occasionally. Poor communication network did not allow day-to-day or frequent calls to family members still residing in the home country. The digital revolution changed all that. Daily phone and video calls allow constant contact and to track well-being of family members, and assets owned or inherited. The "brain drain" of knowledge and skills associated with earlier emigration continued, but the recent emigrants, along with post retirement job-seeking and the fortune-seeking early emigrants, have been able to negotiate jobs in the country of origin – in both public and private sectors. There are others in the South who are resident in their native land, but also hold foreign citizenship. They are major business operators, professionals, politicians, and civil servants, interconnected and integrated with the North as well as owning properties there. Such people are now in abundance in erstwhile colonies in Asia and Africa, holding dominant positions in social, economic, and political life of the South.

Without attaching legal connotation, I use the term 'Dual Citizens' (DC) to capture all shades of the above-mentioned group, noting further that DC, in case of Bangladesh, is a subset of a larger group of foreign citizens of Bangladesh origin (FCBO). It does not however include the earlier brand of Non-Resident Bangladeshis (NRB) who are citizens of Bangladesh and reside in foreign land to work on a temporary basis. The latter's identity of NRB, along with the brand value, was hijacked by the DC. Inclusion of DC in the analysis allows a better comprehension of the new forms (and instruments) of control and domination over the South, the western power exerts. Bangladesh appears to be a major testing ground for this new form of governance, and therefore, may face events that were previously unanticipated. Political leadership and advisors need to understand the characteristics of DC to design policy and regulations for better governance of assets (financial and property) and foreign exchange markets. This paper suggests that the short-term volatility in the value of Taka (BDT) per US Dollar (USD), in spite of an increasing trend in reserve and a declining trend in effective value of taka (exchange rate), is largely rooted in DC's (and the aspirant DCs') responses to shocks in several interlinked markets. The paper also argues that increased influence of the DC community is likely to bias Bangladesh's policy in favour of external borrowing (disregarding how those loans may impact the society and economy) and endorse the conditionalities that are attached to loans. In the concluding part, it is suggested that regulation in the foreign currency (FC) market requires more appropriate categorization of DC (and FCBOs at large). [Efforts to engage in meaningful categorization may commence only after the primary category gets a threshold level acceptance.] Since many of the well-meaning DCs have the potential to contribute towards enhancement of their countries of origin, the paper recommends the political leadership in the home country to renegotiate new forms of 'social contracts' for the betterment of the land and the people who reside on it.

Dual Citizens and DCs-in-making

Amendments to Citizenship Law, dual tax treaties to avoid double taxation, immigration policies and the rise of DC as a force to reckon with, appear to have evolved symbiotically. Ridwanul Hoque's 2016 'Report on Citizenship Law: Bangladesh' provides insights into the historical evolution of the laws, which suggest that the changes in the laws applied almost equally to Bangladesh, India, and Pakistan; the South Asian countries that were under the British Colonial Rule. Generally stating, citizens of these countries were not to be citizens of another country. Over decades of changes in Acts, often under pressure from the diaspora community (especially of Indian origin), allegedly backed up by the governments in the western countries, the idea of 'dual citizenship' made in-road into all the three countries. Interestingly, it applied to emigrants to only a handful of western countries in North America and Europe, and to Australia. India had made the first move in 2005 by introducing a new category called the 'Overseas Citizens of India' (OCI), which many commentators consider as DC, though dual citizenship is not legally recognized in India. Bangladesh (in May 2008) had introduced dual citizenship, failing to make it transparent. The beneficiary groups were similar; and all three countries subsequently expanded the coverage. The Indian Law excluded other countries in South Asia from the OCI provision. Since not many years back, these entities in each country expanded their influence sufficiently to put claims on remittance sent by temporary overseas workers, the original non-residents (NRB in Bangladesh)! Given the similarity in the evolutionary path, on hindsight, such changes appear to be rooted in the same western initiatives, possibly once the roadmap for geographic reconfiguration was conceived around the turn of the century!

Treaties to avoid double taxation, though expected to allow local authority to tax people of all origins when they worked in that country, National Board of Revenue (NBR) has been lax about all these. Huge loopholes exist not just for individual income tax but also for legal entities. With lapses, both in cases of work permit and entity level monitoring work reporting on employees and advance income tax, NBR often leans on residency status to figure out who to tax and who to let go. Thus, temporary returnees (say, FCBOs) feel assured that they have to pay tax in one country only where she/he was a 'resident' during the income year, and the holes in the tax system of the South permitted tax avoidance for part of the earnings. [One wonders if Bangladesh's failure to automate income tax returns submission can be explained by such incentives!] USA had signed its treaty with India in 1989 and almost a similar one with Bangladesh in 2006 (effective from 2007).

Facilitated by newly emerging structure of governance in the South that depends on DCs and aspirant DCs, and riding on various multilateral treaties; governments and agencies in technologically advanced countries (TAC) secured increased access to country-level information which enabled them to design policies to promote their interests. The latter was further assisted by putting in programs to strengthen the AML/CFT (anti-money laundering and countering financing terrorism). In contrast, policymakers in Bangladesh, knowingly or unknowingly, failed to generate information and process those independently for the betterment of the land. The tax authorities as well as central bank in Bangladesh appear to be happy to let go with a foreign passport, 'no visa required' stamp and a NID. The Indian government is said to have a better grip with enlistment of OCIs and PIOs (Persons of Indian Origin), which later got merged. Moreover, the tax authority is said to be making efforts to strictly define 'residency' and find ways to raise tax revenue, where applicable, from OCIs. Although the laws in all three countries in South Asia allow the government to exercise its power to decide on an individual's citizenship, initiatives to recognize the phenomenon and address related problems however are less visible in Bangladesh.

DCs in making refers to a sizeable segment of youth who are going abroad to study with the primary objective of emigration, that is, to be an FCBO. Once an FCBO, depending on the relative social and economic (in)stability in the country of origin (not discussed here), some of them may aspire to be a DC. The discussion on the subject will lead one to discuss regulatory failures in markets for education services. Leaving that for another occasion, let me only note that there is an urgent need to make those markets function in a 'socially responsible' manner. Educational institutions in the west are increasingly getting commercialized, particularly since the respective governments withdrew financial supports to them. DC regime in the South helps in recruitments for admissions. The commercial interests of those educational institutions will benefit if the desire for out-migration is hyped up among the youth and education is the primary legal channel to realize such aspirations. All these help in reproducing a pool of human resources who will sustain the (suggested) new global governance structure.

Foreign exchange market and policy biases under DC regime

Irrespective of the good or bad fallouts of a DC regime, it generally brings more woes during a crisis. While DCs are privileged to be conduits between the South and the TACs, their actions during prosperity and crises, though rational, may adversely affect institution building and encourage resource outflow. Movement between countries inherently is no different from movement between regions (rural to urban) within a country. Migrants to urban centres sell off their inherited properties in rural areas (or in small towns) and bring the money to cities to raise their children. Similarly, the better-off families in rural areas send their children for education in urban areas, many of whom never return. There are however many who return to the roots for lucrative investments (say, infrastructure contracts, fishery, dairy, and resorts), spend on social ceremonies, and finance philanthropic activities. When the same happen across borders, there are added implications – particularly, for the financial market under discussion. Movements of financial resources and human across borders face different regulatory regimes in countries of origin and destinations, and the relatively more powerful one is likely to shape the rules that guide the direction and size of flows.

Consider the recent volatility in the market for US dollar in Bangladesh. Surely, the trend value of Taka needed adjustments, the banks may have made gains due to shortfalls and widened difference between official and kerb market rates, and the War increased the cost of imports. Though rise in import payments is often cited as the immediate cause of decline in FE reserves, it is unclear if this was motivated by urge to transfer foreign currency through over-invoicing, or, the importers bought ahead anticipating inflation and taka devaluation. [Clearly, the policy implications, including the charges against inventory build-up would be different.]

In a narrow canvas, ignoring demands by registered businesses, private demand for foreign currencies may arise on accounts of tourism, treatments abroad, education in foreign institutions – all of which are generally predictable. There is however the demand from the previously discussed DC, which is less predictable and more susceptible to speculative behaviour. During normal times, when bank deposit rates and exchange rates are stable, and when property values are expected to increase from Covid-time depression, one would expect the demand for FC to remain stable along a trend path. The series of shocks -- increased uncertainty in post-Russia/Ukraine war, depleted reserve, and partial realization of long-awaited devaluation -- disrupted the expectations. Not long ago, DCs were benefiting from high deposit rates in Sanchay Patra. With reduced bank deposit rates in Bangladesh (along with increases in US bank rates) and the expectation of further devaluation, many are likely to have converted their financial assets as well as their properties into US dollars and transfer those back to where they abode. It is suspected that due to sticky property (sell and buy) market, further spikes in USD demand could not be realized. In addition, July-August seasons experience increased FC demand for education abroad. With delayed decisions on granting visas, and the uncertainty in obtaining USD from BB's education fund, many parents had to rely on kerb market for ensuring financial supports for their children's education.

DC and External Borrowing: Dominant role of DCs in policymaking may be hypothetically argued to have close relation with increasing demand for external borrowing, defaults in bank loans, capital flight, erosion of institutions and all these make the economy (and the society) more vulnerable during periods of crises. I confine to the first only. An agency (DC) that has legal obligations to a powerful technologically developed country (or to an ally of a powerful country), has only moral obligations to the country of origin, has the legal protection to work and cash-in properties, are able to position themselves above their counterpart 'locals' in most spheres, and sees the future of progenies in countries of new citizenship, are likely to find increasing external debt attractive for several reasons.

First, the liability of repaying the debt does not lie on them, nor on their progenies.
Second, external debt increases the pool of foreign exchange resources, which will enable them to transfer resources.
Third, the projects that come with such debts provide opportunities to transfer resources without being on record, as well as, to make frequent trips to families residing in the developed country using the foreign currencies received by incurring external debt.

Concluding thoughts

The narrative put forward in this paper draws from many minds and prints. It is essentially a confrontation with the self. Reconstructing that self appears to be the first step towards management of the economy and the society. Thus, I return to the strategist (political leader and advisors) with a doable set of recommendations. First, unless there is a need for external fund to complete the projects where huge investments have already been incurred, it is desirable to avoid borrowing. Instead, the focus needs to be on cutting expenditure, particularly, in the public sector and in private consumption of energy and food dependent services. Second, upon further assessments of the various categories of dual citizens, update the Citizenship Law in manners that uphold the interests of the Land and people 'residing' on it. Third, follow-up the second with appropriate tax policies that ought to clearly define residency and apply it in defining various groups of citizenship. Fourth, since FCBOs are not expected to enjoy the annual quota of foreign currency that native citizens enjoy, carrying cash foreign currency by out-bound FCBOs, beyond the declared amount they brought in, should be strictly prohibited. Fifth, avoid dependence on fortune-seekers where institution-building is important. Finally, if we can argue on protecting manufacturing, protecting (and developing) local education services and culture deserve lot more attention. Given the long neglect, a cautious first step may be to empower an agency with whom all outside institutions (including diplomatic missions promoting enrolment in their countries) ought to register informing all promotional activities.

It is important that the exercises on identifying groups and on negotiating new social contracts between all groups (including the 'natives'), keen on promoting sovereignty and wellbeing of the people, should be undertaken simultaneously. The alternative has all the likelihood to degenerate into a state where no role remains for a strategist!

[Analysis and views presented in this paper are of the author alone. It is always a painful journey when one puts oneself in the post-mortem. Yet, it is an essential first step to rejuvenate the collective. - Sajjad Zohir]