
A Brief Discourse of Migrant Remittances to Pakistan

Yousaf Zaman

Department of Public Administration, Gomal University

Khair-Uz-Zaman

Director, COMSATS Institute of Information and Technology

Abstract

Migration from Pakistan is extended over decades. There is a variety of forces behind the cross border movement, economic objectives can be singled out the dominant. One of the important aspects of outmigration is inward remittances. Investigating the trend pattern of migration and remittances the study finds that stock of overseas workers, their skill composition, and regulatory measures taken after 9/11 have played pivotal role in generation of remittances. After a brief discussion on some characteristics of remittances the study shows how important inward remittances to countries like Pakistan are in shaping decisions at national and household level. At the end some policy alternatives of remittance maximization are presented.

Keywords: Migration, Remittances, Pakistan

Saying goodbye to home country in pursuit of stay at hosting destinations is termed as international migration. Across the border human mobility happens as a response to social, political and economic factors among others. Although the concept of migration is as old as human history, the recent surge in cross border movement at the end of 20th century can surely be the product of globalization phenomenon. The economic interdependence and technologically advanced means of transport and communication at the world level facilitated the exchange of human resources in international market. It is argued that migration plays a decisive role in containing poverty. Domestically unemployed and underemployed not only avail high salary job themselves in foreign markets, their funds transfer back home promotes the living standard of the destitute families back home (International Organization for Migration, 2008). In response to the rapid population growth and prevailing poverty in developing world and population ageing in the developed part of the globe migration kept growing on. Within less than fifty years of time number of emigrants reached to about 190 million in 2005, from a mere 70 million figure in early sixties(Ahmad, Sugiyarto, & Jha, 2010). According World Bank (2011) global stock of migrants further increased and stood at 215.8 million in 2010, representing 3.2 percent of the world population.

Keeping in view the rising trends cross border human movement succeeded in getting the attention of academicians, policy makers, researchers and other stakeholders in developing as well as developed countries. Migration remained debatable as its impact on labor-exporting countries can be positive as well as negative. It is argued that labor

exporting countries benefit from migration via disposition of surplus labor force, access to educational and health facilities, accumulation of foreign exchange, correction of balance of payments, poverty alleviation, initiating investment projects etc. On the negative side brain drain (the migration of skilled and highly qualified personnel) is termed the main factor that could adversely affect the home economies. In addition, social costs in the form of changed family structures and absence of associated services are also termed as by-products of migration from less-developed and developing countries to prosperous part of world (Ahmad et al., 2010; HDR, 2009; Lianos, 1997).

One of the important aspects of migration is remittances. According to Adams (2009) remittances constitute that part of foreign workers' savings which is remitted in cash and/or in kind back home. At micro level demographic characteristics and occupational status of the migrants dictate the quantum of remittances, while at national level fiscal policy, monetary policy and foreign trade policy influence migrants' decision of funds transmission to countries of origin (El- Sakka, M.I.T., 1996). Remittance industry is one of the multi-billion industries in the world. Inward remittances more than quadrupled from US\$101 billion in 1995 to US\$443 billion in 2009 (World Bank, 2011). Factors that facilitate the astonishing growth in remittances include: rising stock of migrants, falling cost of funds transmission due to competition and technological advancement in remittance transfer market and crackdown on informal transfer systems after 9/11 among others.

Being substantial in quantum, national and international bodies are forced to pay due attention to understanding various aspects of remittances so that benefits at household as well as macro level could be maximized. In respect of developing countries remittances to GDP ratio increased from 1.2 percent in 1990 to 1.8 percent in 2007 (Ahmad et. al., 2010). However, in absolute terms official remittances accumulated by the developing states jumped from US\$81 billion in 2000 to US\$307 billion in 2009 (World Bank, 2011). If managed properly these inflows could play pivotal role in the prosperity of less developed and developing communities. Besides stimulation of internal multiplier and correction of external account efforts are made all over the world so that the development impact of remittances at the receiving end could be enhanced further.

Having a brief acquaintance with migration and remittances the present study focuses on the chief characteristics of overseas workers remittances and their national level impact in Pakistan's perspective. Objectives of the study include:

- Highlighting the trend pattern of remittances to Pakistan
- Identifying factors responsible for variation in inward remittances
- Examining the impact of remittances at household and macro level

- Identifying policy measures that could promote remittances utilization for developmental purposes.

The reported data on the respective variables extend from 1973 to 2010. Major sources of data includes Bureau of Emigration and Overseas Employment (BE&OE), Hand Book of Statistics on Pakistan Economy 2010, and Economic Survey of Pakistan (various issues).

The paper is composed of five sections. Following brief introduction in part first, a retrospective account of migration and remittances is presented in second part. The Section three deals in characteristics of remittances. Impact of remittances is discussed in fourth section, while, concluding remarks and policy recommendations are presented in last section of the study.

Stylized Account of Migration and Remittances in Retrospect

Migration of Pakistanis to other countries of the world started as soon as the country came into being. Arif and Irfan (1997) divide migration history of Pakistan into four phases. At earlier stage Pakistani workers, mostly unskilled and semi-skilled, left their home country for serving their former masters. Being the former colony of the British Empire workers from Pakistan were welcomed and were accommodated in labor deficient industries as a result of Second World War. In sixties and seventies qualified and skilled workers availed themselves of the well paid jobs mostly in western part of the world. This migratory stream of educated manpower and professional to high income countries is named as second phase. However, it was during third phase when Pakistani workers, from unskilled to highly qualified, were accommodated on large scale in oil producing Arab countries. The exceptional demand for foreign laborers was stimulated by high oil prices during early seventies. The fourth phase is constituted by migration of educated and qualified Pakistanis to Middle East, North America and Europe.

Although Pakistani diaspora communities are spread all over the world, the regional distribution projects Middle East the main destination of Pakistani workers. The region hosts about 48 percent of overseas Pakistanis¹ (see annex table A.1), of which the share of Saudi Arabia is more than half of the regional share. In absolute terms the estimated figure of about four million in absolute terms could inflate to seven million if the illegal and students of Pakistani origin are also accounted for (Suleri & Savage, 2006; Year Book, 2004-2005). While the number of Pakistanis who left for foreign countries on purely working visas stood at 5.35 million during 1971-2010 period (BE&OE).

Region-wise migration of Pakistanis differs in characteristics. In Middle East a large number of unskilled and semi-skilled labor-force is

¹ Overseas Pakistani refers to a Pakistani migrant or a person born to parents of Pakistani origin residing abroad.

hosted on temporary basis. Workers have to return home after an average stay of about half a decade. While those who proceed to western part of the world try their best to qualify for citizenship and permanent stay at destination. Mostly highly educated and professionals depart for Canada, Europe and United States.

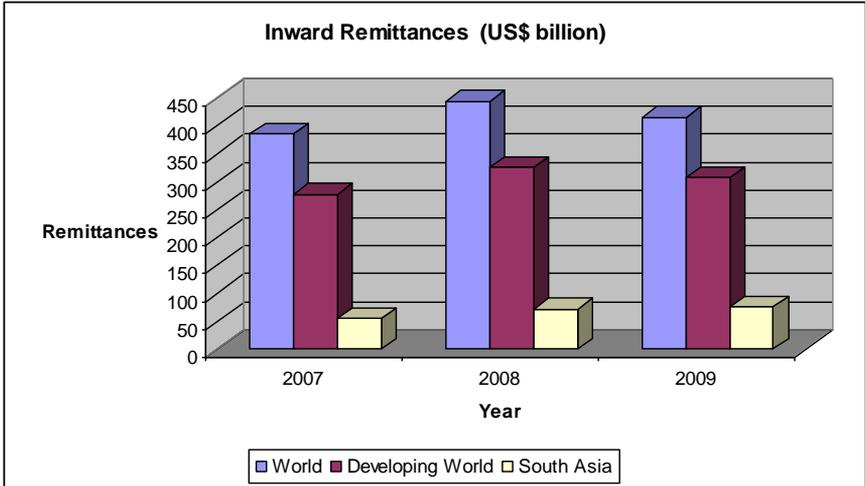
A number of factors, such as, proximity of market, intensity of labor demand, migration cost, earning prospects, nature of job and migration policies of home and host countries play a decisive role in targeting a host country. As mentioned earlier, Arab economies always accommodated large share of foreign workers of Pakistani origin, leaving other regions to lag well behind throughout workers' migration history from the country (see annex table A.2). During seventies over five hundred thousand Pakistani workers were absorbed by Middle Eastern economies. Following a growing trend over the years the number of workers to the region approached 2.4 million figures during the first decade of 21st century. Keeping Middle Eastern Countries aside Britain and United States are other potential countries that accommodate a sizable chunk of Pakistani Migrants. Although United Kingdom is traditional destination of migration from the country, migration to United States on large scale is a recent phenomenon. In early sixties migration to the States was restricted by quota system. However, Nationality Act amendments of 1965 substantially increased the per annum number of immigrants to the States. Availing the opportunity, skilled and professional Pakistanis chose the States as their destination.

Another immigration encouraging act on the part of United States was the introduction of awarding visas by lottery during late eighties to early nineties. Responding to green card system over twenty thousand Pakistanis migrated to the States during 1991. Based on the survey of Pakistan Embassy Pakistani diaspora in United States, in 2005, was more than half a million (Oda, 2009)

Remittances are the financial inflows of migrants to labor-exporting countries. Following either altruistic principle or self-interest motive, persons abroad transfer part of their earned income back home. With the advent of globalization era outward migration and resultantly inward remittances to developing countries increased on unprecedented scale. In 2008, developing countries grabbed 73 percent of remittance inflows² at the world level (figure 1).

² Remittances through formal are depicted, the figures would inflate substantially if unofficial inflows are included.

Figure 1



Source: Source: Migration and Remittances Fact Book 2011, 2nd ed. The World Bank

Up to early seventies funds remitted to Pakistan were limited. Basic reasons of small annual inflows from abroad were the size and nature of Pakistani diaspora. In the beginning Pakistani migrants were not only small in quantity their qualitative aspect was also poor by the world standard. In addition, majority of expatriates in United Kingdom, and United States were accompanied by their family members. However, increase in oil prices boosted demand for foreign labor in oil producing Middle East countries for initiating and accomplishing construction and infrastructure ventures. Pakistan being close to Arab world in all respects became one of the leading suppliers of manpower to Middle East. With the rise in labor export to the region, particularly of temporary nature, inflow of remittances to Pakistan increased.

In just ten years remittances surged from US\$ 136 million in FY-73 to US\$ 2886 million in FY-83, overtaking contribution of merchandise exports to foreign resources. This high remitting year was then followed by falling trend which the other way around by FY-2002. It is argued that fall demand for foreign labor due to completion of big construction projects and use of unofficial means of transfers were among the main determinants of declining trend (Hyder, 2003; Oda, 2009).

Rise in recorded remittances after FY-02 is said to be rooted in crackdown on informal systems of funds transfer. The stringent measures taken against the informal network forced migrants all over the world, where Pakistanis are no exception, to channel their earnings back home through authorized routes. With respect to previous year remittances to Pakistan in 2001-02 reregistered 120 percent growth. Since FY-02 remittances to Pakistan are on the rise except FY-04, and a number as

high as US\$ 9.8 billion is realized by the 2009-10. And on the basis of various measures taken at national and international level it is presumed that the rising trend will continue in foreseeable future.

Among the source countries share of Britain was the highest until mid-seventies. However, from mid-seventies until the beginning of 21st century Saudi Arabia contributed the most to remittances to Pakistan. During eighties the share of the Kingdom in total inflows ranged from 37percent to 53 percent, followed by UAE with US\$ 256 million in absolute terms. In nineties, although the same positions were held by Middle Eastern competitors a notable decrease in the share of the Kingdom was registered with a range of 36-42 percent. However, after the happening of 9/11 United States emerged the leading source country of remittances to Pakistan. In the year 2002 the share of USA in remittances to Pakistan was recorded 33 percent, well above the 16 percent and 20 percent share of Saudi Arabia and UAE, respectively. However, at the end of the decade the two leading competitors from Middle East region again added up to their shares and challenged the position of top source country of 2000s (see annex table A.3).

The reasons of rise in magnitude of remittances to Pakistan over the years include:

- Rise in migrant stock in oil-producing states in the Middle East during seventies;
- Favorable variation in skill composition;
- Robust behavior of economic indicators during 2000s;
- Existence of better exchange rate in inter-bank market;
- Successful campaign of Pakistani banks abroad to divert remittances from informal to formal channel;
- Crackdown on unofficial network and strict surveillance of international financial transfers after 9/11.

Major aspects of funds remitted from abroad

Determinants of remittances

Theoretically, remittances are the product of pure altruism, pure self-interest and tempered altruism/enlightened self-interest (Locas and Stark, 1985). Following altruism remitters maximize utility by sending funds to dependents back home along side her/his consumption at destination. In such an arrangement remittances and economic status of family at origin are inversely related. Self-interest theories assume that member of family abroad remits part of her/his savings pursuing economic and financial benefits, such as accumulation of fixed capital for future, securing part of family assets etc. Therefore, remittances sent not only contain cost of purchasing and maintenance of these assets the service charges of the agents are also included. It is argued that remittances increase with the rise in family income back home. Under the tempered altruism/enlightened self-interest hypothesis remittances

are viewed as product of mutually beneficial contract specifying roles of remitter and household/family members in country of origin. The agreed upon arrangements might include co-insurance, loan repayment, and exchange of services.

In a micro level study Nishat and Bilgrami (1993) identified determinants of remittances to Pakistan from Middle East. Among the socio-economic factors they tested income of the migrant was found strongly and positively associated with remittances to the country. Other variables that influenced remittances significantly positive were migrant's stay at destination, family members at origin, and investment plan on return. Education and skill status of the migrant and accumulated property at home remained significant with negative signs. While dependents accompanying migrants and age factor behaved insignificantly positive. Studying the remitting behavior of Bangladeshis, Indians and Pakistanis living in Manchester Arun and Ulku (2008) found income level, employment status, and education of remitters as positive determinants of inflows from migrants. Factors that demonstrated insignificant impact on remittances included age, marital status, rural/urban traits of migrant and return intention. Length of stay and company of spouse in host country were identified as remittance limiting variables. While children and parents/siblings at destination, and stock of assets at source country were found remittance enhancing. In another study Adams (2008) authenticated remittance decay impact of skill aspect (education) of emigrants. Increase in share of high-skill emigrants in total stock generates fewer per capita remittances in comparison to countries where dominant portion of migrants possessed low-skill.

At macro level aggregate variables including stock of migrants abroad, wage rates, economic performance of labor-exporting and labor-importing economies, disparity between exchange rates and interest rates, political stability in origin and destination countries. In majority of cases health of host economies along migrants' stock and earnings produces remittance enhancing impact, while prosperity, economic stability, return on assets and exchange rate variation back home can affect remittance inflows either way³. In Pakistan's perspective Zaman and Ramzan (1996) argued that remittances responded positively to increase in number of migrant workers and exchange rate depreciation over the study period. In another study Ahmad (2008) found growth rate, GDP, and Unemployment at home had a supportive role as far as inflow of remittances in real form to the country were concerned. While increase in spread rate, literacy rate, and real wage at home contained inflow of remittances to Pakistan. On the contrary, Shahbaz and Aamir (2009) substantiated a negative impact of domestic economic performance on remittances per capita. Other factors that were found helpful in accumulation of remittances included rise in domestic

³ For determinants of remittances see Hagen-Zanker, J., and Siegel, M. (2007).

inflation, exchange rate depreciation, and global prosperity. However, world real interest rate and education/ skill level were found to reduce inward remittances.

Senders and recipients of remittances

Carling (2005) introduces four categories of remittance senders and recipients. In contrast to common practice where remittance senders stand for individual migrants the author name collective bodies, government institutions, and private businesses along individual migrants as the main remitting sources. Similarly, recipients of remittances are classified into four types, namely: migrants themselves, non-migrants, collective bodies, and government institutions.

Recipient of money remitted by overseas migrants in individual capacity can be i) the migrant himself if inflows are channeled to personal deposits or for investment; ii) household members, relatives, and friends (transfers may be regular or occasional); iii) collective and/or communal bodies receiving donations from migrants during some sort of emergency at origin or for financing development projects at community level; and iv) government of the labor-exporting country in the form of specified contribution by migrants out of their voluntary remittance inflows or the amount seized by the state as tax levies.

In addition to transfers by migrants independently, remittances are sent by migrants' organizations structured at destination for provision of financial support to community development project at origin, e.g., hometown associations. Among the senders governments of labor-importing countries and private businesses at destinations also contribute to remittances to source countries. Governments and private employers at destination transfer social security contributions and pension funds to entitled employees after their retirement. These transfers are received by migrants who have left country of employment after retirement.

Channels of remittances' transfer

Various transfer mechanisms have been identified in literature that deal in economics of remittances. However, the available means of funds transfer to overseas migrants are grouped under two broad categories, namely: official/formal channel and unofficial/informal channel. Formal channel consists of banks, post offices, exchange houses and foreign exchange bureaus, and money transfer organizations (e.g. Money Gram and Western Union). To remit funds from abroad these institutions exploit bank accounts, money orders, and wire transfers, subject to the nature of particular institution. Inflows of remittances through official means are recorded by central banks or other public entities in countries of origin. Under the informal system remittances are transferred by Hawala/Hundi network, hand-carriage, shop owners, travel agents, and unregistered money transfer organizations (Sander, 2003).

Based on Household Survey of Overseas Migrants and Remittances (HSOMR), conducted during 2009, covering a sample of 548 households who had experienced migration of at least one household member to Saudi Arabia, with a specific tenure, between 1994 and July 2006, Arif (2009) found that Banks were the principal official institutions often accessed by Pakistani overseas workers and diaspora for remitting their savings back home. Over all, share of banks in total transfers by overseas Pakistanis since migration stood at 40 percent. While Hawala/Hundi was found close competitor of banking system with 29 percent share in inward transfers⁴. However, the combined remitting services of informal channels, such as Hundi and Hand-carriage were found as high as 60 percent⁵. Similarly, on the basis of anecdotal history Hyder (2003) argue that the average annual inflow of US\$ 1.5 billion through formal networks until the end of 20th century is far less than a total estimated inflow of US\$ 8.0 billion that have taken place through formal and informal channel during the same period.

Underestimation of official remittances is paid due respect in literature. A number of factors are identified that play decisive role in migrants' persuasion to remit their savings through informal value transfer systems (IVTS) instead of official channels. Economy and cost effectiveness, speed and ease, proximity and outreach, limiting documentation and requirements, familiarity and awareness, and exchange rate premium and tax evasion are frequently cited in literature (Carling, 2005; Hyder, 2003; Raza, 2008; Suleri & Savage, 2006).

Selection of remittance sending method is governed by the opportunities available to migrants at destination as well as country of origin. As far as choice among existing modes of informal channel is concerned, country to country corridor is found to play pivotal role in shaping decision of senders. Generally, high currency conversion rate in official market relative to rate offered in black market, trade restrictions, exchange control, and inefficient financial market are the key determinants of inflows through IVTS (Hyder, 2003; Sander, 2003).

Monetary cost of remittance transfers

Impact of remittances at the receiving end depends to a large extent on whether inflows take place through official or unofficial means. Remittances accumulated through formal channel boost foreign exchange reserves, thereby enabling origin countries to better manage balance of payments problems, improve their credit rating in international financial market, chalk out investment plans, and combat poverty at national level. On the contrary, funds remitted from abroad through informal networks can improve living standard of the recipient

⁴ For understanding Hawala see Wilson (2002).

⁵ For knowledge of size of informal remittance market in the country see Annex table A.4.

households, their planned utilization for target achievement at macro level is highly impossible. Furthermore, mishandling of remittance funds for financing illegal activities, such as terrorism, smuggling, money laundering, import under-invoicing etc. are always on the card. Factors diverting inflow of remittances from formal channels to informal channels include transfer cost, speed of transaction, less or no documentation, and black market premium among others.

Whether licensed or underground method of remitting is chosen, remitters have to bear cost. Cost of overseas migrants' transfers is dictated by transfer mechanisms, the sending country and receiving country corridor, as well as magnitude of transaction. A dominant segment of literature finds informal networks less expensive than the formal counter parts, although with high degree of risk. According to Freund and Spatafora (2005) funds remitting using authorized channels consume 13 percent of the total transaction in international market. Cost of transfer ranges from 5-15 percent of principal when money inflows to developing countries via official means. However, cost of remitting may fall below two percent or exceed thirty percent subject to specific corridor and medium of transfer (Carling, 2005). Establishing the inexpensiveness of informal channel it is argued that the well organized informal system, known as Hundi/ Hawala, in Pakistan costs less than 2 percent of a particular transaction (Suleri and Savage, 2006).

Although the cost of sending money home has been reduced over time, it is still marked a potential barrier to growth of inflows from abroad. According to World Bank (2012) remittances to South Asia cost on average 6.5 percent of the total amount transacted. However, country specific cost varies subject to remittance corridor, choice of network, and transfer time. Table 1 below lists average cost of remitting US\$ 200 from countries accommodating sizable number of Pakistanis.

From table 1 one can deduce that United Arab Emirate (UAE) and Kingdom of Saudi Arabia (KSA) are the least cost bilateral remittance corridors for Pakistan. Cost of US\$ 200 transfer from KSA on average stands at US\$ 5.71 in absolute terms, equivalent to 2.85 percent of the amount remitted. Remitting the same amount from UAE involves even lower cost i.e., US\$ 4.47 and 2.23 in absolute and percentage terms, respectively⁶. In case of United States of America (USA) the remitting cost remains on high side due to negligible involvement of banks in money transmission (Orozco, 2003).

⁶ Total cost is computed by adding transaction fee and exchange rate margin.

Table 1. *Cost of remitting US\$ 200 in 2014, from leading destination countries of Pakistani migrants*

Country	Bank average		MTO Average		Total Average		Total Average in Q3 2014	
	TC(%))	TC(US \$)	TC(%))	TC(US \$)	TC(%))	TC(US \$)	TC(%))	TC(US \$)
Saudi Arabia	1.70	3.40	3.32	6.63	2.85	5.71	1.94	3.94
UAE			2.23	4.47	2.23	4.47	1.74	3.47
UK	.80	1.63	3.39	6.77	3.17	6.34	3.71	7.42
USA			5.13	10.26	5.13	10.26	4.66	9.32

Source: World Bank (2015)

Contribution of remittances in economic uplift at micro level and macro level

Remittance inflows are known one of the stable sources of development finance. Its contribution in uplifting the living standards of the recipients at micro level and as a dependable source of external finance at macro level is recognized by almost all development activists. Earlier research in the field of migration and remittances propagated skepticism about the developmental impact of remittances as sizable portion of remitted funds was found financing consumption. However, empirical work in recent times established the contribution of remittances in development and welfare at the receiving end. Researchers argue that larger portion of remittances finances purchase of consumer goods, housing, health and education, all of which initiate positive changes in the socio-economic status of the receiving households (Adams, 1998; Nishat and Bilgrami, 1993; Rapoport and Docquier, 2005). At national level inflows from workers abroad not only build foreign reserves its contribution in up-scaling creditworthiness of labor-exporting countries is also worth mentioning (Ratha, 2005; Yang, 2004).

A number of studies have proven the positive role of containing poverty and promoting welfare at micro level in context of Pakistan. The findings of survey by Oda (2007) in the barani area of Punjab confirms fall in poverty incidence in remittances receiving households relative to families with no migrants abroad. Investigating poverty containing impact of household member abroad, along other explanatory variables, Ahmad et al. (2010) argue that funds remitted by family member at destination contributes to reduction in poverty at the receiving end. In another study probing relationship of poverty with a set of regressors Kaleem and Shahbaz (2009) confirm inverse association between poverty and remittances in short run as well as long run.

Studying the impact of remittances on poverty in respect of a set of developing countries the findings of Adams and Page (2003) authenticate a fall of 1.6 percent in headcount ratio in response to a 10 percent increase in a country's remittances to GDP ratio. There is

disagreement among researchers as far the impact of remittances on inequality is concerned. Adams (1991, 1998) finds that remittances add to inequality in rural Egypt and Pakistan. The author argues that the inability of poor stratum, relative to middle and upper classes, to produce large number of migrants due to exorbitant migratory costs further the gap between the haves and haves-not.

Most of the labor-exporting countries, including Pakistan, face mass unemployment⁷ due to high growth of population relative to job availability in domestic labor markets. Therefore, out migration⁸ not only check excess labor supply and the resultant unemployment, precious foreign finances are made available that can be exploited for promoting further employment opportunities in home and host economies.

Contribution of remittances to saving and investment is also worth mentioning. Overseas Pakistanis remit between 65-75 percent of their earnings. However, much being earmarked for consumption just 14 to 15 percent is invested in residential properties, retail and whole sale businesses, construction, and transport and communication (Amjad, 1986). In contrast, remittances constitute twenty percent of the capital invested in micro-enterprises scattered in urban Mexico (Woodruff and Zenteno, 2001).

Measuring the impact of remittances on willingness to work many studies confirm development of moral hazard in labor market at home. it is claimed that remittances could induce family members back home to opt for leisure instead of work.

Another crucial contribution of remittances is financing of investment in human and physical capital. As opposed to earlier views, modern scholars consider expenditure on health and education an important form of investment in human resources. A number of studies support the notion that remittances improve education and health status of the recipient households. Investigating the impact of exchange rate depreciation on investment in children during Asian crisis of 1997, Yang (2004) validates human capital building role of remittances when Philippines' currency depreciates with respect to currency of host country. Studying utilization of remittances by rural Egyptians Adams (1991) argues that families with migration history have greater tendency to allocate larger funds for investment in property, construction of houses, agriculture tools and machines, vehicles, and small enterprises. Using a panel data set over the 1987-1991 periods Adams (1998) asserts that high marginal propensity to invest among migrant households increase stock of assets at their disposal relative to non-recipient families. Analysis of a sample of 469 households from four rural districts

⁷ Unemployment rate in Pakistan during FY-11 was 5.9 (Pakistan Economic Survey 2012-13).

⁸ About 5.35 million Pakistani workers migrated during 1971-2010 period (BE&OE).

reveals that remittances often finance purchase of irrigated and rain-fed land in rural Pakistan.

Importance of remittances is also recognized at macro level. Large inflows of remittances in absolute terms as well as sizable share of GDP in many small economies compelled policy makers and researchers to pay due attention to impact of remittances at national level. World Bank (2011) reports that in 2009 India and China accumulated remittances just under US\$ 50 billion, while countries receiving remittances more than 10 percent of their GDP were fifteen in number.

Remittances are regarded as the more stable source of external finance in comparison to FDI and ODA. Being countercyclical in nature remittances are found to rise in contraction phase of the recipient economies because migrants enhance financial support of dependents back home during crisis (World Bank, 2006). In case of Pakistan diaspora responded aggressively and remitted sizable funds to support family members back home in aftermath of 2005 earthquake and floods of 2010 and 2011 proving countercyclical nature and stabilizing impact of inward remittances.

Growth impact of remittances is debated in literature. Scholars who sense contribution of remittances to savings, investment, and output through multiplier effect argue that remittances do play a helping hand in economic growth and development of the receiving countries (Burney, 1987). However, others claim an adverse impact of remittances on growth of recipient economy through moral hazard and Dutch disease effect. Another positive aspect of inward remittances is the up-scaling of creditworthiness thereby making receiving country potential client in global capital market. In addition, other way of raising foreign resources is securitization. In such an arrangement capital-raising in international market is facilitated by using future remittances as guarantee. Moreover, Amjad and Kemal (1997) and Iqbal and Sattar (2005) claim that remittances are helpful in Balance of Payments correction, management of external debt, and minimization of dependence on expensive foreign capital markets for resources generation.

Besides effects of remittances on economic activities at micro and macro level socio-political aspects of household as well as national life are also influenced by the inflows from overseas nationals. Due to their financial strength overseas migrants enjoy respectable status among the decision makers in most of the source countries. They remit large funds for campaigning and supporting their favorite candidates during elections. Formation of diaspora associations and financing social infrastructure projects in origin countries, such as provision of health services, education facilities, drinking water schemes etc., are commonplace in migrant communities. In addition, migrants, as de facto ambassadors, play an active role in promoting cause of homeland at destination.

However, some grey areas have been identified where role of remittances is labeled as negative. It is believed that remittances promote moral hazard when states men at the receiving end forego economic reforms, crucial from the long run perspective, in anticipation of transfers from migrants abroad (Kapur, 2005). Remittances can destabilize economies when remitted funds are exploited for realization of vested interests and promotion of bloody conflicts (Ghosh, 2006; Kapur, 2005).

Another negative aspect of remittances identified in literature is Dutch disease effect. Dutch disease theory elaborates that remittances appreciate real exchange of home economies which, in turn, makes exportable items relatively expensive in international market. In accordance with the theory Amiedo-Dorantes and Pozo (2004) find that doubling inward remittances to LAC countries appreciate real exchange rate by 22 percent.

Given the production capacity of labor-exporting countries remittances could fuel rise in general price level. It is found that lion share of overseas' transfers either finance purchase of consumer items or are invested in non-productive projects. It is argued that exorbitant rise in land prices and cost of construction in Pakistan and other migrants' source countries is partly generated by funds remitted from abroad (Gosh, 2006).

Brain drain, i.e. out-migration of highly educated and professionals that could retard pace of domestic progress, is also included among the repercussion of migration and remittances. However, the degree of severity of brain drain depends on the country specific situation. Countries where large segment of labor force is unemployed are less harmed by out-migration relative to states facing severe shortage of highly qualified personnel.

Conclusion and Recommendations

Like most of labor-exporting countries inward remittances in Pakistan occupy prominent status among the sources of external finance. These inflows finance household consumption, fuel growth, and correct external imbalances. The anecdotal record demonstrates variation in inflow of remittances over the decades, however, their role in shaping decisions at micro and macro level is always recognized. This study presented a brief sketch of the trend pattern of migration and remittances along the characteristics and impact of remittances with particular reference to Pakistan.

Inspection of data over the 1973-2010 periods reveals that being the main destination of Pakistani migrants UK occupied the top position among source countries of remittances to Pakistan until mid-seventies. However, oil price shocks in seventies and the resultant construction boom in the Middle East provided KSA and UAE the opportunity to lead the group of remittance sending countries from mid-

seventies until 2001. From 2002 to 2009 USA remained the largest remittance transferring economy to Pakistan.

Overall, the rise in inward transfers is realized due to migration friendly policies concentrating on stock as well as skill composition of migrants, prevalence of realistic exchange rate in interbank market, and stringent measures taken against illegal transfer networks. As for factors responsible for variation in remittances are concerned, micro level studies identified income of the migrant, level of education (skill), stock of assets at home, employment status of sender and receiver, number of dependents back home, and family members at destination. At national level stock of migrants abroad, wage rates, economic health of home and host economies, relative exchange and interest rates, political stability at both ends are found remittance determinant factors.

In literature two types of channels, formal and informal, are identified through which funds are transacted between four categories of remitters (individual migrants, collective bodies, government institutions, and private businesses) and receivers (migrants themselves, collective bodies, government institutions, and non-migrants). A HSOMR survey in 2009 revealed that share of formal and informal channels in total transfers stood at 40 percent and 60 percent, respectively. A one of the factors that play key role in choice of remitting channel is cost of transfer. Although cost of inflows through official mechanisms has been fallen it is still above what is usually charged by underground networks.

Economic contribution of remittances is recognized at micro as well as macro level. In Pakistan poverty containing impact of remittances is supported by micro level studies conducted at various time. In addition, allocation of remittances for building human capital along investment in real estates, businesses, and transport and communication is also established. From national perspective inflows from abroad are found crucial to overcome crisis situation, ease growth constraints, and correct external account discrepancy.

Being a capital starved country, policy makers in Pakistan have to identify and devise means and ways of directing remittances to productive channels instead of financing consumption and trade deficit. For this purpose authorities need to launch awareness campaign about direct investment by migrants' families as well as through financial institutions in localities of high migration density.

Although the proportion of skilled and qualified migrants has been increased over the years, unskilled workers still constitute a sizable share of the pie. To make inward remittances bulky not only needs to increase stock of migrants but the balance has to be tilted more and more in favor of skilled and educated category. However, devising national migration strategy authorities should pay due attention to migration from rural areas because role of migrants from backward regions in poverty alleviation is well determined.

To maximize development impact of remittances, inflows through unregulated channels must be diverted to formal means of transfer. Therefore, state level measures that strengthen financial system, reduce transfer costs, and elimination of black market premium are needed. These objectives can be achieved by promoting competition and adoption of latest information and communication technology in remittance sending industry. In addition, support to financial institutions, particularly banks, for attracting remitters via provision of credit facilities, extension of outreach, and simplification of transfer procedures could augment inflows through legal channels.

Last but not the least, although introduction of various schemes have successfully added to the flow of formal remittances there effectiveness can be enhanced if stability at macro level is ensured. Therefore, addressing the problem of poor policies at national level will not only attract remitters but local as well as foreign investors will also be motivated to mobilize funds for development purposes.

References

- Adams, R.H. (1991). "The Effects of International Remittances on Poverty, Inequality and Development in Rural Egypt." International Food Policy Research Institute, Washington, D.C.
- Adams, R. H. Jr. (2008). The demographic, economic and financial determinants of international remittances in developing countries. Policy research working paper 4583, the World Bank, Washington D.C.
- Adams, R. H. Jr. (2009). The determinants of international remittances in developing countries. *World Development*. 37(1), 93-103.
- Adams, R. H., and Page, J. (2003). International migration, remittances and poverty in developing countries. *World Bank Policy Research Working Paper 3179*, Washington, D.C.
- Ahmad, N. (2008). *Economic determinants of international remittances in Pakistan*. Unpublished doctoral dissertation, department of economics, University of Sargodha, Pakistan.
- Ahmad, V., Sugiyarto, G., and Jha, S. (2010). Remittances and household welfare: A case study of Pakistan. *ADB Economics Working Paper Series 194*, Asian Development Bank.
- Amjad, R., and Kemal, A. R. (1997). Macroeconomic policies and their impact on poverty alleviation in Pakistan. *The Pakistan Development Review*, 36(1): 39-68.
- Amuado-Dorantes, C., and Pozo, S. (2004) "Workers' remittances and the real exchange rate: A paradox of gifts," *World Development* (32:8), pp 1407-1417.
- Arif, G. M. (2009). *Economic and social impacts of remittances on households: The case of Pakistani migrants working in Saudi Arabia*. Geneva, Switzerland: International Organization of Migration.
- Arif, G. M. (2009) *Economic and Social Impact of Remittances on Households: The Case of Pakistani Migrants Working in Saudi Arabia*. Islamabad: International Organisation for Migration (IOM)/ Pakistan Institute of Development Economics.

- Arun, T., and Ulku, H. (2008). Determinants of remittances: The case of the South Asian community in Manchester. *Development Economics and Public Policy Working Paper Series; working paper No.25*, Institute for Development Policy and Management (IDPM), Manchester.
- Baloch, Q. B. (2007). Managing Tourism in Pakistan: A Case Study of Chitral Valley. *Journal of Managerial Sciences*, 2, 169-190.
- Baloch, Q. B. (2009). Pakistan's Trade Imbalance & Melting down of Economy. *Dialogue*, 3(2), 148-167.
- Burney, N. (1987). Workers' remittances from the Middle East and their effect on Pakistan's economy. *The Pakistan Development Review*, 26(4), 745-763.
- El-Sakka, M. I. T. (1996). Migration remittances: Policy options for host and countries of origin. *Final Report of Research Project No. 023*, Department of Economics, College of Administrative Sciences, Kuwait University.
- Ghosh, B. (2006). Migrants, Remittances and Development: Myths, Rhetoric and Realities. The Hague process on Refugees and Migration, International Organization for Migration (IOM), Geneva.
- Government of Pakistan. *Economic survey of Pakistan (various issues)*. Finance Division, Islamabad. Government of Pakistan. *Year book 2004-2005*. Ministry of Labor, Manpower and Overseas Pakistanis, Overseas Pakistanis division, Islamabad.
- Government of Pakistan (2010). *Handbook of statistics on Pakistan economy*. State Bank of Pakistan, Karachi.
- Government of Pakistan (2008). *National migration policy: Promoting migration and protecting migrants*. Policy Planning Cell, Labor and Manpower Division, Ministry of Labor, Manpower and Overseas Pakistanis, Islamabad.
- Government of Pakistan. Bureau of Emigration and Overseas Employment, Islamabad.
- Hagen-Zanker, J., and Siegel, M. (2007). The determinants of remittances: A review of the literature. *Working Paper MGSOG/2007/WP003*, Maastricht Graduate School of Governance, Maastricht University.
- HDR (2009). Human Development Report. Overcoming barriers: Human Mobility and Development. NY, USA. Accessed on 07/02/2015 http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2294688
- Hyder, Z. (2003). Workers' remittances, resident FCAs and kerb premium: A cointegration analysis. *SBP Working Paper Series No.03*, State Bank of Pakistan.
- International Organization for Migration (IOM) (2008). *World migration report 2008: Managing labour mobility in the evolving global economy*, IOM, Geneva.
- Iqbal, Z., and Sattar, A. (2005). The contribution of workers' remittances to economic growth in Pakistan. *Research Report No. 187*, Pakistan Institute of Development Economics, 1-25.

- Kalim and Shahbaz (2009). Remittances and poverty nexus: Evidence from Pakistan. *International Research Journal of Finance and Economics*, Issue 29, Eurojournals Publishing, Inc.
- Kapur (2005). Remittances: The new development mantra?: In S. Maimbo and D. Ratha, (Eds), *Remittances: development impact and future Prospects*. The World Bank, Washington D.C.
- Lianos, T.P. (2007). Factors determining migrant remittances: The case of Greece. *International Migration Review*, 31(1), 72-87.
- Nishat and Bilgrami (1993). The determinants of workers' remittances to Pakistan. *The Pakistan Development Review*, 32(4), Part-II, Winter 1993, 1235-1245.
- Oda, H., (2007). Dynamics of internal and international migration in rural Pakistan: Evidence of development and underdevelopment. *Asian Population Studies*, 3(2), 169-179.
- Oda, H., (2009). Pakistani Migration to the United States: An Economic Perspective. IDE Discussion Paper No. 196, Japan.
- Orozco M. (2003). Worker Remittances in an International Scope. Inter American Dialogue, Working Paper commissioned by the Multilateral Investment Fund of the Inter-American Development Fund, Washington, D.C.
- Rapoport, H., and Docquier, F. (2005). "The Economics of Migrants' Remittances," IZA discussion paper, No. 1531, Institute for the Study of Labor (IZA), Germany.
- Ratha, D. (2005). Remittances: A lifeline for development. *Finance and Development*, 42(4), 42-43.
- Raza, A. (2008). *The effect of remittances on employment in Pakistan*. Bachelor Thesis, Faculty of Economics and Business, Universiteit van Amsterdam.
- Sander, C. (2003). "Migrant Remittances to Developing Countries - A Scoping Study: Overview and Introduction to Issues for Pro-Poor Financial Services." Prepared for DFID.
- Shahbaz, M., and Aamir, N. (2009). Determinants of workers' remittances: Implications for poor people of Pakistan. *European Journal of Scientific Research*, ISSN 1450-216X, 25(1), 130-144, Eurojournals Publishing, Inc.
- Suleri and Savage, K. (2006). Remittances in crises: A case study from Pakistan. *An HPG Background Paper*, Overseas Development Institute (ODI).
- Wilson, J.F. (2002). Hawala and other informal payments systems: An economic perspective. Presentation in seminar on monetary and financial law, 16 May, 2002.
- Woodruff, C., and Zenteno, R. (2001). "Remittances and Micro-enterprises in Mexico" Working paper, UCSD,
- World Bank, (2011). *Migration and remittances factbook*. 2nd edition, Migration and Remittances Unit, World Bank, Washington DC. Accessed on 30/06/2011
<http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1199807908806/World.pdf>
- World Bank. (2012). *Migration and development brief 19*. Washington, DC: Migration and Remittances Unit, Development Prospects Group.

World Bank. (2015). Remittance prices worldwide: Making markets more transparent. Accessed on 18/02/2015

<http://remittanceprices.worldbank.org/en/Countrycorridors>

Yang (2004). Human capital, and entrepreneurship: Evidence from Philippine migrants. Exchange rate shocks, international migration, *working paper*, University of Michigan.

Yang, D. (2004). "International Migration, Human Capital, and Entrepreneurship:

Evidence from Philippine Migrants' Exchange Rate Shocks," *Ford School for*

Public Policy Working Paper.

Year Book (2004-2005). Ministry of Labour, Manpower and Overseas Pakistanis. Government of Pakistan.

Zaman, K., and Mohammad Ramzan, M. (1996). Determinants of overseas workers remittances: Empirical evidence from Pakistan. *Gomal University Journal of Research*, 16, 27-32, [Printed in Dec 1999].

Annex

Table a.1: statement showing distribution of number of overseas Pakistanis living/working/studying in different regions/countries of the world as on 30-6-2004.

(Nos) No.	S. Region	No. of Pakistanis	overseas	Percentage Share
1.	Africa	37,964		1.0%
2.	America	851,385		21.4%
3.	Asia and Far East	72,793		1.8%
4.	Australia and New Zealand	23,000		0.6%
5.	Europe	1,095,034		27.6%
6.	Middle East	1,893,373		47.6%
Total		3,973,549		100.0%

Source: Adopted from Year Book 204-2005 GOP.

Estimated figures provided by Pak. Missions abroad

Table A.2: Region-wise and Decade-wise Migration of Pakistani Workers proceeded abroad

Region/Decade	1971-80	1981-90	1991-2000	2001-10
Middle East	535886	991079	1259843	2382985
Rest of Asia	12375	188	6350	36871
Europe	329	260	1588	30482
Africa	56909	10102	2628	12745
Americas	3	17	786	2717
Others	2231	251	832	6519

Source: BE&OE, Islamabad.

Table A.3: Leading Source Countries of Remittances to Pakistan (US\$ million)

Year	Cash flows	USA	UK	KSA	UAE	Others
------	------------	-----	----	-----	-----	--------

1973	136	9.98	72.13	7.87	0	46.02
1974	139	14.41	55.38	10.52	0	58.69
1975	215.97	19.18	74.11	17.26	22.34	83.08
1976	339	25.77	54.38	46.36	62.42	150.07
1977	577.74	29.32	49.29	158.82	117.77	222.54
1978	1156.332	51.53	76.69	464.1	208.27	355.742
1979	1397.92	53.64	119.12	594.38	205.75	425.03
1980	1747.052	61.47	149.72	795.46	216.8	523.602
1981	2115.93	70.97	184.92	984.27	265.43	610.34
1982	2224.89	72.11	121.31	1129.45	224.88	677.14
1983	2885.45	133.5	161.72	1441.96	344.68	803.59
1984	2737.43	105.82	141.79	1441.08	308.98	739.76
1985	2445.92	105.35	135.98	1245.23	301.93	657.43
1986	2595.31	194.46	223.27	1162.87	311.47	703.24
1987	2278.56	191.94	204.93	945.52	278.16	658.01
1988	2012.6	177.51	215.88	821.75	216.58	580.88
1989	1683.56	174.78	171.06	691.64	161.18	484.9
1990	1667.36	209.24	178.16	626.39	143.04	510.53
1991	1626.92	190.23	180.05	681.97	172.03	402.64
1992	1252.45	150.34	137.02	516.16	105.07	343.86
1993	1238.51	157.8	114.02	525.94	97.76	342.99
1994	1093.36	122.49	101.19	493.65	97.17	278.86
1995	1317.73	141.09	109.96	554.08	178.26	334.34
1996	1227.28	141.92	109.74	503.22	161.93	310.47
1997	1078.052	146.25	97.94	418.44	164.392	251.03
1998	1237.68	166.29	98.83	474.86	207.7	290
1999	875.55	81.95	73.59	318.49	125.09	276.43
2000	913.49	79.96	73.27	309.85	147.79	302.62
2001	1021.59	134.81	81.39	304.43	190.04	310.92
2002	2340.79	778.98	151.93	376.34	469.49	564.05
2003	4190.73	1237.52	273.83	580.76	837.87	1260.75
2004	3826.16	1225.09	333.94	565.29	597.48	1104.36
2005	4152.29	1294.08	371.86	627.19	712.61	1146.55
2006	4588.03	1242.49	438.65	750.44	716.3	1440.15
2007	5490.97	1459.64	430.04	1023.56	866.49	1711.24
2008	6448.84	1762.03	458.87	1251.32	1090.3	1886.32
2009	7810.95	1735.87	605.59	1559.56	1688.59	2221.34
2010	8904.879	1771.191	876.3809	1917.663	2038.522	2301.122

Source: Handbook of Statistics on Pakistan Economy 2010, SBP, GOP.

Table A.4: Size of the Informal Remittance Market in Pakistan*

Estimate of Leakage	Source/Year
Transfer of unrecorded remittances via	Gilani, et al. (1981).
<ul style="list-style-type: none"> • Hundi system used by 48 percent of migrants • Hand-carried cash used by 27 	

percent and

- Remittances in-kind used by 9percent

43 percent of total remittances are sent via unofficial channels

Remittances in-kind

- 10 percent of cash transfers for urban migrants
- 11 percent for rural migrants

Unofficial Remittances (Estimated from Simulation model):

US\$ Million

1988 442 1991 1262

1993 1642 1997 4013

Estimated proportion of unrecorded remittances based on econometric modeling:

1985 40 percent 1995 41 percent

1993 41 percent 2000 50 percent

Simulated Share of Informal Hawala in total Private Transfers (in percent of total):

1881	1982	1985	1990	1998	2000
90	56	40	41	57	50

Officials in Pakistan estimate that more than US\$ 7 billion flow into the nation through Hawala channels each year.

Estimated Private Remittances, 1981-2000 (US\$ in billion)

Total of Unrecorded in Total	Recorded	Unrecorded	share
75	186	62	55%

20 percent of remittances to Pakistan enter through formal channels with the vast majority entering via the Hawala system.

Prior to September 2001, formal channel remittances accounted for approximately 19 percent (US\$ 1.5 billion) as against 81 percent from informal channels (US\$ 6.5 billion). These figures were quoted to be based on market participants.

ILO-ARTEP (1987).

Kazi (1989).

“Migrant Labour Remittances in South Asia” by Samuol Munzolo Maimbo, Richard H. Adams, Jr.,Roona Aggarwal, Nikos Passas WB (2005).

El Qorchi, et al. (2003).

Proportions are modelled on the basis of the size of black market premium on exchange ratios.

“Informal Fund Transfer systems- An Analysis of the Informal Hawala System” A Joint IMF-World Bank Paper (2003).

“Contributions by the Department of the Treasury to the Financial War on Terrorism” Fact Sheet, United States Treasury Department, September 2002.

“Informal Fund Transfer systems- An Analysis of the Informal Hawala System” A Joint IMF-World Bank Paper (2003).

Shaukat Aziz, Finance Minister of Pakistan (Economist, Nov. 22, 2001).

Report to Task Force on Overseas Pakistanis.

Source: SBP Report on Home Remittances (Mimeographed) 2008.

* Adopted from Amjad et al. (2012).