

Economic Growth or Downfall? Reviewing the Economic Resonance of Remittances in Pakistan

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Abstract

Background: *The remittance sent by migrant workers to their home countries has a significant impact on the country's economic development. Remittance positively influences the economy and GDP of developing countries. migrant workers yearly send billions to their home countries. Remittance is incessantly outpacing a country's official development aid and has become the second most significant source of economic development other than the FDI (Foreign Direct Aid).*

Aim: *The study aims to review, analyse and summarise the existing literature regarding the impact of remittance on Pakistan's economy.*

Methodology: *The study comprises a qualitative research design. Data was collected through numerous articles related to remittances and their impact on the economy, particularly, Pakistan's economy and GDP growth.*

Results: *The results of the study determined the positive impact of remittance inflow on Pakistan's economy. The results discussed the increasing inflow of remittances from the fiscal year 2013 to the fiscal*

year 2022 along with the determinants of expected decline in remittance.

Conclusion: The outcomes revealed the uprise in remittances inflow to Pakistan from FY13 to FY22. The study showed the yearly percentage of increasing remittances, along with highlighting the factors of the expected decline in the remittance inflow in the upcoming years.

Keywords: *Migrant Workers, Remittances, Economy, Currency, Pakistan.*

Introduction

Migrant workers are one of the prime sources of income for a country. Many countries rely upon their migrant workers. Migrant workers tend to migrate to other countries in search of employment opportunities (Gu et al., 2020; Oliinyk et al., 2021). It can be difficult to differentiate fact from fiction regarding the economic impact of foreign workers, making immigration a contentious issue in domestic politics (Steiner, 2023).

Migrant workers send billions of dollars to their home countries every year (Radcliffe, 2022; Yang, 2011). Between 1989-2000, the inflow of remittances sent by migrant workers to their home countries doubled with an estimated \$75 billion each year (King-Dejardin, 2019; Ratha, 2023). Remittance has been outpacing a country's official developmental aid. Remittance has become one of the largest sources of income and hard currency for many developing countries (Abbas et al., 2021; Adeniyi et al., 2019; Blue, 2004).

The money-transferring methods for remittance include sending the remittance money to the sending agent via checks, credit or debit cards, cash, money order or by sending debit instructions through e-mails or the Internet. Money orders and checks are the commonly used methods for remittance. Banking remittance is typically in the form of wire transfers and ACH payments. (Blaney, 2023; Ratha, 2021). However, the banking method is a slow process which involves

numerous steps in order to complete the transfer with additional fees and currency exchange rates for completing the transaction (Yang, 2011; Yoshino et al., 2019).

Remittance has a significant impact on a country's economy. The poverty rate of a country goes down by 16% with just a 1% increase in remittances, particularly international remittances. Remittance has been found to be one of the most vital sources of income for developing countries (Yoshino et al., 2019). Asian countries have been directed a mainstream of the remittance in between 2020-2021. Countries including China were directed with an approximate \$60.0 billion US dollar in 2021, India was directed with an approximate \$7.0 billion US dollar in 2021, and Bangladesh had an estimated \$21.5 billion US dollar remittance in 2020. In contrast, the Philippines had approximately \$33.5 billion US dollars in 2020. Tajikistan, Nepal and a few other Asian countries rely upon remittance. 35% of Tajikistan's

GDP and 25% of Nepal's GDP are accounted for through remittance (The World Bank, 2023). The remittance transaction in these countries occurs via conventional agents such as ACE Money Transfer, MoneyGram, Western Union, Sigue Money, Ria Money, UAE Exchange and numerous other agents similar to these (C. L. Freund & Spatafora, 2005). However, due to the increasing reach and relevance of the Internet, transactions for remittance via online platforms have grown significantly (C. L. Freund & Spatafora, 2005; C. Freund & Spatafora, 2008). The present study reviews the existing literature on remittance and its impact on Pakistan's economy.

Research Aim

The prime purpose of the conducted comprehensive qualitative review is to evaluate and analyse the existing literature and summarise the literature regarding how remittance impacts the economy of Pakistan.

Methodology

Research Design

The study encompasses a qualitative research design employing a comprehensive review of existing literature for analysing the impact of remittance on the economy of Pakistan.

Search Strategy

The data was collected from online databases primarily Google Scholar and some other Web pages from 2019 to 2020 by using appropriate keywords such as, “Remittance”, “Pakistan’s Economy”, “Impact of remittance”, “Immigrants”, “Migrant workers”, and “Foreign remittance” from recent studies in Pakistan’s context. This study primarily aims to explore the impact of remittance on Pakistan’s economy.

Inclusion and Exclusion Criteria

Inclusion

Studies investigating the impact of remittance on the economy
 Studies on developing countries
 Studies with recent data

Studies on remittance in the context of Pakistan

Studies including recent statistics on remittance in Pakistan

Studies in English

Exclusion

Studies discussing remittance in countries other than Pakistan

Studies with outdated data

Study Selection

The data was selected on the basis of the title and abstract of the studies. The data was reviewed by three reviewers: A, B & and reviewer C [real identities are not included due to confidentiality purposes]. As per the inclusion and exclusion criteria, maximum studies were extracted for eligibility. Inconsistencies were resolved by consulting with a reviewer.

Data Extraction

Qualitative research was conducted to analyse and extract data from the included studies. The

data includes characteristics [author(s) names, publication year, study design], recent Pakistan remittance statistics, GDP rate and relevant findings.

Results and Discussion

Remittance in Pakistan

Pakistan is among the largest nations to send migrant workers for employment purposes. Remittances have a positive impact on the economic development and GDP growth in Pakistan (Nadeem et al., 2019). Remittance from migrant workers has significantly affected Pakistan's economy over the last decades. While the magnitude of remittance has amplified in recent years, it is still predicted to increase further in the future (Ghauri et al., 2019; Nadeem et al., 2019; Nur Alam & Khan, 2021). The remittance transaction cost is expected to reduce by 3% eliminating the remittance corridors with 5% higher cost according to the 10c.target of the sustainable development goal (SDG) (Krannich & Reiser, 2021). In

Pakistan, the remittance is expected to decrease in 2023 (State Bank of Pakistan, 2023). The highest remittance in the history of Pakistan was recorded during COVID-19 in 2022, reaching up to \$8260.00 million US dollars in the second quarter of 2022. The lowest remittance in Pakistan's history was recorded in the third quarter of 2003 with the remittance of \$906.00 million US dollars (State Bank of Pakistan, 2023).

Impact of Remittance on Pakistan's Economy Over the Course of the Past Ten Years

Pakistan ranked among the top five nations receiving remittance around the globe (Nadeem et al., 2019). Remittance serves as a major source of income for developing nations and their economies (Orozco & Ellis, 2014). The economic growth of Pakistan relies upon the remittance inflow of migrant workers (Z. Iqbal & Sattar, 2010). Pakistan primarily benefits from the remittance inflow for investment purposes to facilitate the economic development of the

country (Khan et al., 2019).

During 1960, the remittance of Pakistan was less than 1%. In the 1970s, remittance became the key factor of the foreign capital inflow, which fundamentally promoted GDP growth by reducing poverty and increasing investment and income while indorsing HDI by decreasing the debit limitations (Bibi & Ali, 2021; Sahoo et al., 2020). In 1973, Pakistan received an estimated amount of \$136 million US dollars which increased to approximately \$14,900 million US dollars in 2013 (Ali, 2020). Throughout the FY14, the remittance in Pakistan reached around \$15.83 billion US dollars (Cavaliere et al., 2021).

Pakistan received about \$19.9 billion US dollars from 2015 to 2016, which compared to the remittance received in 2014 went up by 6.4% (Karim et al., 2021). While in FY17-18 Pakistan showed a 1.4% growth in economy by receiving an estimate of \$19.623 billion US dollar (Shah et al., 2020). The remittance amount increased to \$21.84 billion US dollars in the

fiscal year 2019. The inflows exceed the annual target by \$640 million (Munawar et al., 2019).

Pakistan was directed at approximately \$26.0 billion US dollars in 2020 (Sutradhar, 2020; Tahir et al., 2020). The economic value of Pakistan during 1976-2022 was reported to be 5.38% with a maximum value of 10.25% in 1983 and a minimum value of 1.31% in 2000 (Munawar et al., 2019), while in 2022, the economic value of Pakistan was reported to be 7.93% (Gillani et al., 2023; Mohamed, 2022). The percentage of remittance inflow to GDP percentage was reported by the World Bank's collection of developmental indicators. The World Bank reported that the remittance inflow in Pakistan in 2020, was at 8.6875% (World Bank, 2023).

The GDP rate of Pakistan increased by 0.3% in 2022 (World Bank, 2023). Up until 2023, the remittance in Pakistan remained at about \$3692.46 million US dollars from 2002-2022, However, during the second half quarter of 2022,

the remittance increased to \$8260.00 million US dollars (State Bank of Pakistan, 2023; Trading Economics, 2023). By the year 2023, the estimated remittance sent to Pakistan by migrant workers is anticipated to go down as compared to the remittance inflow in 2022 (Riaz & Zaidi, 2023). In the upcoming few years, the remittance is expected to decrease compared to the past years. However, the State Bank of Pakistan released a statement affirming that the remittance inflow is predicted to increase by 2030 (State Bank of Pakistan, 2023).

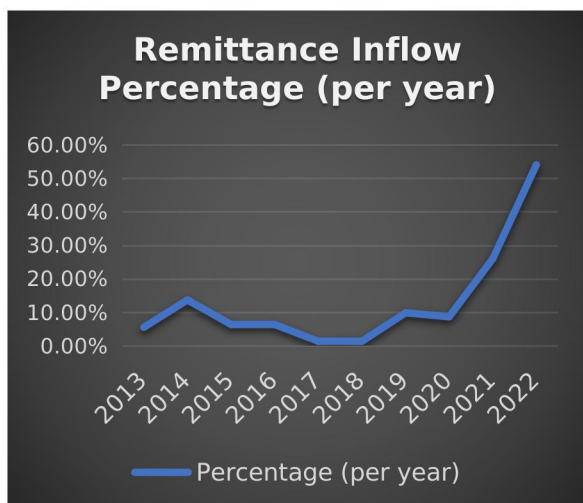


Figure 1. Remittance Inflow Percentage Over the Past Ten Years

Determinants of Expected Declining Remittance

Floating Exchange Rates

In a floating exchange rate system, the foreign exchange market of a country determines the country's currency price based on its demand for other currencies and supply. Unlike a fixed exchange rate, a floating exchange rate is not controlled by government or trade limits (Zehra et al., 2021). Pakistan also follows the floating exchange rate system. In both the private and public sectors of Pakistan, the inter-bank rate is applied to all foreign exchange payments and receipts. The demand and supply conditions of the domestic interbank foreign exchange market determine the exchange rate (Rafiq et al., 2023). The currency price of Pakistani rupee has declined in the past few years and is still continuously declining. The Pakistani government is reluctant to address the issue concerning the floating exchange rate as demanded by the

International Monetary Fund (IMF) (T. Iqbal & Hussain, 2020). Due to this reason the dollar price is going up increasing fuel inflation. The decline in remittances compared to last year is due to the large disparity between the exchange rates of the black-market, interbank and open market (Zehra et al., 2021). This continuous decline in the floating exchange rate and currency price of Pakistan, in the upcoming years is expected to be the prime cause of remittance decline in Pakistan (Akhtar et al., 2022).

Saudization of the Labour Market

The Saudization reform has been going around since 1985. Saudization or the Saudi Nationalism Scheme is employed by the Ministry of Labour. According to this reform, Saudi companies should essentially hire employees on a quota basis (Adham & Hammer, 2021). Pakistan and Saudi Arabia are economically interrelated. Pakistani migrants in Saudi Arabia are one of

the largest sources of foreign income in Pakistan (Nadeem et al., 2019). The labour market of Saudi Arabia comprises a major share of Pakistani migrant workers. Pakistan relies upon Saudi Arabia and other Gulf regions for over 60% of its remittance income (Cavaliere et al., 2021). In 2022, the remittance inflow received from Saudi Arabia to Pakistan was \$7.75 billion US dollars (Asseri, 2022). According to the reformed policy, all private-sector companies with more than three employees involved in any procurement profession must include an approximate ratio of 50% Saudi workers by December of 2023 (Fragomen, 2023). The recent changes made in the Saudi labour market might affect foreign workers, disturbing the foreign exchange volume sent back to their home countries (Durand-Lasserve, 2022).

Conclusion

The study discussed the impact of remittance inflow on Pakistan's economy over the

course of ten years. The outcomes revealed that remittance sent by migrant workers has a positive impact on the economy. The yearly remittance percentage showed an uprise in remittance from FY13 to FY22. However, the currency price of Pakistan has been falling down against the US dollar for the past few years and is still continuously declining showing a decrease in the remittance inflow in Pakistan. This currency price declining issue along with the recent changes made in the Saudization reform has been one of the major causes of remittance decline in the FY23. However, according to the statement released by the State Bank of Pakistan, the remittance inflow is expected to increase by the year 2030.

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