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THE ROLE OF REMITTANCE SPENDING
IN PAKISTAN

by

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TO
MY MOTHER "Apagi"

BROTHERS
MUJAHID, ZAHID, TARIQ, KHALID, ASIM, MOHSAN
AND SISTER
SADIA

WITH ALL MY LOVE

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Chapter I

INTRODUCTION

Pakistan, a developing country in the South West Asian region, emerged as an independent state after the partition of British India in 1947. After thirty seven years of turbulent existence, Pakistan is no longer among the poorest countries of the world. The average Pakistani family enjoys an income of Rs 2,332 per month. By comparison, almost half of the world lives in countries with a lower per capita income than Pakistan [Pakistan Economic Survey, 1982-83:xxv]. However, we may not accept this comparison as being the heart of development, without taking into account some related facts regarding Pakistan's economy which illustrate conditions of underdevelopment which still exist and are dominant in various sectors. We will discuss some basic facts regarding Pakistan, in order to have a more clear picture of the country, before introducing the significance and the scope of the study.

1.1 SOME RELEVANT SOCIAL AND ECONOMIC INDICATORS

In 1982-83, the population of Pakistan stood at 88 million, of which 72 percent were in the rural areas. The urban population at that time comprised of 28 percent of the total population. Regional distribution of urban population showed that 43 percent of the population of Sind was in urban areas, whereas in Punjab it was 28 percent. In Baluchistan and North Western Frontier Province (NWFP), 16 and 15 percent of the population lived in the urban areas respectively. It was estimated that there were some 26 million persons in the labour force; 25 million were employed, giving an unemployment rate of 3 percent. By far, the largest group was employed in agriculture--14 million or 56 percent of the total employed labour force, of which 84 percent were either illiterate or with less than primary education. Of those employed outside agriculture, 59 percent had less than primary education, while only 2 million (18 percent) were matriculate or degree holders.

A lack of knowledge of nutrition, health and hygienic deficiencies in the health environment, i.e., water supply and sewerage facilities and related poverty, are the major problems faced by the majority of the population in the country. According to the 1982-83 figures, potable water is available to 38 percent of the entire population, 77 percent of the urban areas and only 22 percent of the rural areas.

In 1980, according to the housing census, there were 6.7 persons per housing unit in the country with 81 percent of the houses having only one or two rooms. Seventy-two percent of the houses accommodated 5 or more persons. Not many of these houses had access to safe water and electricity. [Pakistan Economic Survey, 1982-83:xxi-xxv]. With this background of existing conditions in Pakistan, we may now highlight the significance of this study.

1.2 OVERSEAS MIGRATION FROM PAKISTAN

The large scale migration of Pakistani workers to oil exporting countries of the Middle East, Persian/Arabian Gulf and North Africa constitutes one of the most significant events in the economic history of Pakistan. Unlike those who migrated in large numbers from Europe to the United States of America in the 19th century on a permanent basis, those who went to settle permanently in Australia, and the pattern of systematic labour imports in evidence for nearly a century (especially in South Africa, Ghana and Ivory Coast), the current international migration from Pakistan is more organized, and predominantly temporary in character [Rahman, 1981:1].

In the early 1950's and up to 1965, Pakistanis used to migrate to the U.K. for employment under a Commonwealth Employment Vouchers Scheme [Pakistan Manpower Institute,

1981:146]. This was the main market for the Pakistani labour force at that time. However, owing to the restricted immigration policies of the British government, this emigration partially stopped.

With the advent of the 1960's, however, a major change was witnessed in the manpower demand in the developing countries of the Middle East, Persian/Arabian Gulf and North Africa. The establishment of the OPEC laid a firm basis for assured annual oil revenues for these countries, with a consistent rise in oil prices, resulting in higher oil export income. Although these countries had the capital, they faced a chronic shortage of trained and untrained manpower. Since their economic development plans aimed at speedy progress in all fields of national activity, a demand for all types of trained, qualified and even unskilled manpower was generated. Faced with a shortage of manpower, these countries had to meet the gaps by bringing in expatriate workers. This created an altogether new field of employment for Pakistani workers in highly qualified, skilled and unskilled categories. Pakistan, with surplus labour, was able to supply the required manpower, initially without experiencing any shortage within the country. The migration of Pakistani workers towards the Middle East* increased rapidly with the passage of time.

* This also refers to Persian/Arabian Gulf and North Africa.

150,000 Pakistani workers have been going abroad annually [Zar, 1981:ii] and approximately 2 million Pakistanis are now working in the above-mentioned countries. [MUSLIM, February 10, 1983]

This wave of migration to the oil exporting countries has been accompanied by a stream of home remittances--the most tangible benefit of overseas migration of Pakistani workers. Hence, the exodus to the oil exporting rich countries has served not only as a source for relieving domestic vent for surplus, but has also furnished the economy with valuable foreign exchange resource.

The nature of remittances is quite different, as they generate income without a corresponding production of output; in all other economic activities, the economic activity generates both output and income. Another distinct feature of home remittances is that they cannot be treated as merely an inflow of resources from abroad as is done in the case of foreign aid. We can use foreign exchange available from remittances according to our own economic interests without any constraints, while in the case of foreign aid there are usually constraints on the use of foreign exchange. Another feature of this inflow of home remittances is that these earnings come from various countries in the form of hard currencies [DAWN, January 9, 1981]. This unique dimension of home remittances makes it a subject worthy of study and analysis.

Family members who receive remittances from migrants, use the money for consumption, for savings and for investment. Remittances, which have grown substantially during the past decade, offer opportunities to the economy to enhance the foreign exchange resources and consequently, to add to aggregate savings and investment.

1.3 EXTENT OF HOME REMITTANCES AND CONTRIBUTION TO THE ECONOMY

Home remittances have recorded a phenomenal growth since 1973-74. The economic boom in the oil producing countries of the Middle East was touched off by the increase in oil prices and resulted in unprecedented job opportunities in these countries. In 1972-73, of the total annual remittances of 136 million U.S. dollars, more than sixty percent came from the U.K. and only twenty percent came from the Middle East. In 1982-83, the Middle Eastern region contributed more than 2.4 billion dollars to the total remittances of around 2.9 billion dollars. The U.K. share has shrunk to about five percent [MUSLIM, March 31, 1983].

It is interesting to observe that, a) these remittances represent the amount sent through regular and legal channels and do not cover the amount sent through illegal means; b) these remittances do not cover the amount brought by emigrants during their personal visits; c) the amount does not include the value of merchandise brought or sent by the emigrants.

At present, to a large extent Pakistan relies on the inflow of home remittances (see Table 1.1).

Table 1.1 Home Remittances and the Domestic Economy
(million dollar)

Financial Year	Remit- tances	Export		Import		GNP	
		Amount	Remit- tances as % of Exports	Amount	Remit- tances as % of Imports	Amount	Remit- tances as % of G.N.P
1972-73	136	817	16.6	797	17.1	6090	2.2
1973-74	139	1026	13.6	1361	10.2	8041	1.7
1974-75	216	1039	20.8	2114	10.2	10465	2.1
1975-76	339	1137	29.8	2067	16.4	12442	2.7
1976-77	578	1141	50.7	2324	24.9	14117	4.1
1977-78	1156	1311	88.2	2810	41.1	16870	6.8
1978-79	1500	1710	87.7	3675	40.8	19158	7.8
1979-80	1725	2365	72.9	4205	41.0	22762	7.6
1980-81	2128	2654	80.2	5408	39.3	27520	7.7
1981-82	2224	2506	88.7	5676	39.2	30293	7.3

Source i) Rahman, 1981 : 96
ii) Pakistan Economic Survey, 1982-83

A comparison of magnitude and an upward trend of inflow of remittances with export earnings during this period indicates the extent to which the flow of remittances helped in removing the constraint of foreign exchange. Remittances are playing a crucial role in bridging the gap between the import payments and export earnings of the traditional exports.

Remittances are also helping to pay the country's import bills. In 1972-73, remittances were 17 percent of the total value of imports, whereas in 1981-82, 39 percent of the imports were financed through home remittances. These remittances have gone a long way in bridging the gap between the growing demand for imports, rising prices in the world market, and the foreign exchange requirements. From 1975-76 to 1980-81, gross imports of oil products increased fourfold from \$359 million to \$1.5 billion. Roughly 30 percent of the increase in the total gross import bill was due to oil price increases. Remittances, therefore, provided substantial relief in the face of these sharp cost increases [Tsakok, 1982:319].

As shown in Table 1.1, the remittances are the growing component of the gross national product. The growth in the inflow of remittances is higher than that of the growth rate of the gross national product. The contribution of remittances, which was 2.2 percent in 1972-73, increased to the significant level of 7 percent in 1981-82.

Avoiding any controversy about the possible harmful impact of home remittances, there is no doubt regarding the fact that the inflow of remittances is the most significant and simple method of achieving foreign exchange for a labour exporting economy. Generally, to increase the foreign exchange earnings, a country has to export more commodities and services. Unless excess capacity in the export sector exists, this requires an increase in investment. Remittances may free a country from a shortage of foreign exchange, which may be hampering an expansion of capacity in the export sector essential to providing the foreign exchange basis for long run development. The lack of foreign exchange is one of the major constraint in the economic development of developing countries. In fact, most of the developing countries which do not possess industries specialized in the production of capital goods, must make use of imports in order to develop their productive capacity. This is only possible if foreign exchange earnings can meet the demand for the import of capital goods. The inflow of remittances may free a country from a shortage of foreign exchange in this regard. We must recognize the fact that all developing countries today, including Pakistan, need to import a number of goods and services from the rest of the world to fulfill future development requirements. The acquisition of these goods and services require foreign exchange. A developing country like Pakistan is particularly in need of foreign ex-

change for various purposes a) to finance its imports of development goods such as machinery, equipment, raw material and spare parts; b) to pay for the various invisibles such as diplomatic services in foreign countries, cost of training and education abroad, shipping and foreign transport services and other international obligations; c) to pay for the imported consumer goods, particularly arising out of domestic demand; and d) to service foreign loans obtained in the past for development needs.

Pakistan has been fulfilling its foreign exchange requirement mainly through export earnings and foreign aid. While the volume of export earnings has failed to meet the import requirement of the country and to finance future development programs, Pakistan has been meeting its foreign exchange needs through grants and loans. It started receiving foreign economic assistance in 1950, and by the end of 1979, it had contracted a foreign debt of \$16.2 billion [Pakistan Manpower Institute, 1981:111]. In spite of this huge debt, Pakistan's economy has failed to generate the conditions for savings, investment and surplus output for export purposes, in order to overcome the growing constraint of foreign exchange. The extent to which foreign exchange shortage and an adverse situation of balance of payment has existed in Pakistan's economic history is illustrated by the fact that at the beginning of first five year plan, about 19 percent of Pakistan's imports and 35 percent of its development ex-

penditures were being financed by foreign aid. At the end of the plan period, these proportions had risen to 31 percent and 38 percent respectively. Halfway through the second plan, these proportions had escalated to 56 percent and 42 percent respectively. In 1967-68, halfway through the third plan, foreign aid was financing 50 percent of imports and 34 percent of development expenditure. At the end of the plan in 1968-70, 30 percent of imports and the same percentage of development expenditures were being financed by foreign aid [Bhatia, 1980:79]. The major reason for the continued presence of a foreign exchange constraint was the foreign trade deficit. Ever since independence, the country has been experiencing the balance of payments deficits, arising mainly from a growing imbalance in its foreign trade. Exports by and large, have not been growing at a rapid rate while imports have been growing at a relatively much faster rate.

Table A.1 (see Appendix) illustrates the export performances of Pakistan since independence. The table shows that, excluding the year of independence 1947, and except for the years 1950-51 and 1972-73, Pakistan's balance of trade have always been in deficit. The favourable balance of trade in these years was owing to the Korean boom of 1950-51 and the devaluation of the Pakistani rupee in 1972-73.

Considering the consistent constraint of foreign exchange and the adverse situation of the balance of trade, the in-

flow of home remittances from abroad is a positive event in the economic history of Pakistan. The remittances from overseas Pakistanis have assumed added significance due to the relatively poor performance of the export sector. This significance is dramatically emphasized by the fact that, while remittances comprised 40 percent of net aid flows in 1973-74 the proportion of remittances rose to 370 percent of such flows by 1982-83. The aid slumped from \$659 million in 1976-77 to \$317 million in 1981-82 [MUSLIM, December 30, 1983]. From the above discussion, we may perceive that the inflow of home remittances in the recent past has helped the country to overcome the constraint of foreign exchange to some extent, and supported the country's adverse balance of payment position. Here we need to mention an important feature of the home remittances: that a bulk of the migrants used the formal official banking channels to send their money home, which has direct favourable implications for the balance of payment position in the country.

1.4 SCOPE AND PURPOSE OF THE STUDY

There is no doubt that remittances do help a country's balance of payment position and serve to remove the constraint of foreign exchange to some extent. There is also no dispute about the individual benefits gained by the migrants and their families through the remittances. However, there is a growing concern among the labour exporting countries

about the developmental nature of the home remittances, i.e., whether remittances can generate conditions for development by stimulating the growth of the country's productive capacity. The present study will focus on the development potential of home remittances and see to what extent this potential has been realized in the case of Pakistan, and, if not, then to probe for the root causes for this non-realization of the development potential of home remittances.

It is possible for home remittances to create conditions for development. If remittances are successfully channelled into productive investment, and if the increased demand for consumer goods is met through existing or new productive capacity, being financed with repatriated earnings having no bottleneck and inflationary consequences, then the overall impact of remittances on economic growth will be positive. The additional investment will increase output and employment if the additional demand for consumer goods by returning emigrants and their families does not spill over into imports. The growth in demand may lead to a better utilization of idle capacity in certain industries and make it possible to achieve economies of scale in production.[Ecevit and Zacharich, 197836-37].

Similarly, the productive use of remittances in the agricultural sector means investment which increases production and efficiency in that sector, and also helps in removing

the rural unemployment and related poverty. This suggests that home remittances have the potential to create new job opportunities, to provide savings and foreign exchange for industry and agriculture, and to generate a higher level of output. This will lead in turn to increased export, and less dependency on imports, with consequent positive externalities for the non-migrant population of the country. All these factors would contribute positively to the country's future development. This implies that home remittances generate the conditions for development, only if: a) inflow of home remittances increase the level of savings and investment in the domestic economy; b) home remittances are channelled into productive uses matching the country's objective of development; c) remittances generate new employment opportunities; and d) remittances lead to growth in output. However, all these factors depend upon the use of home remittances in the domestic economy. The present paper focuses on this leading issue:

ultimate impact on the economies of the labour exporting countries depends on the way these countries utilize the remittances. [Chandarvarkar, 1980:38].

The present study will address the following issues: a) what the migrants and migrants' households are doing with the remittances; b) the reasons for their existing way of spending remittances; c) what migrants and their households could do with the remittances; d) to what extent remittances

used in Pakistan differ from other areas of outmigration of the world.

The use which is made of remittances in the domestic economy and the factors which determine the remittance spending pattern are relatively unexplored. To determine the factors which may influence the remittance spending pattern, the study will also take into account these issues: who the migrants are, the reason they migrate, and their destination.

Home remittances generate the conditions for creating capital out of redundant labour. This may be the real contribution which they can make to the development of a labour exporting country like Pakistan. The present study will address those questions regarding remittances which may influence the remittance spending pattern in the economy: a) the extent of remittances; b) the channels of remittances; and c) the determinants of remittances.

The study will be divided into five sections, including the introductory section. Section two of the study will discuss the migration profile of the migrants. The section will take into account the size, magnitude and trends in the overseas migration, determinants of migration and the characteristics of the migrants. The skillwise and rural-urban classification of the migrants may help us in explaining the remittance spending pattern. The inflow of remittances from

oil exporting rich countries is not be a permanent feature as, essentially, migration to this region is temporary in nature. The estimation of the stock of Pakistani workers abroad and a future projection regarding migration from Pakistan will determine the flow of remittances. The findings of this exercise may provide us with help in formulating policies regarding remittances and their use.

Section three of the study will analyse the extent of home remittances. Both the literature regarding remittances generated from international migration and the literature on remittances generated from rural to urban migration will be reviewed, as in both cases, the characteristics of remittances to a large extent are alike.

The broad category of home remittances includes cash as well as merchandise remittances. However, this section will focus mainly on cash remittances coming through legal channels. During the process of analysis, past, present and future trends in home remittances will be analysed. The channels of remittances can play a significant role in determining the impact of remittances on the domestic economy. The different channels of remittances and their consequences on the domestic economy will be discussed in the same section. The extent of inflow of home remittances largely depends on the determinants of remittances. In the given socio-economic conditions of the country, the determi-

nants of the remittances will be analysed. This discussion of the determinants of remittances is very important, as these determinants may be influencing the spending pattern in the country.

The fourth section of the study will analyse the existing remittance spending pattern in Pakistan, as the use of remittances determines the conditions for development. This section will also review the literature regarding the use of remittances and see to what extent the remittance spending pattern which exists in Pakistan differs from other remittance receiving areas of the world. The analysis regarding the use of remittances will tell us to what extent the development potential of remittances has been realized in Pakistan. The study will analyse the remittance spending pattern with the help of available empirical evidence in this regard, and if remittance has failed to create the conditions of development, then the study will attempt to probe for the root causes of this non-realization of the development potential of remittances. If this is the case, then the study will formulate policies to achieve the development goals following the remittance-led growth path. The last section of the study will be of policy implications and conclusions.

Chapter II

THE NATURE AND DETERMINANTS OF PAKISTAN'S INTERNATIONAL MIGRATION FLOWS

Manpower from Pakistan has been migrating to various foreign countries to take up employment. In the early stages, migration was mostly to the developed countries like the U.S.A. , U.K and Canada. These were the main markets abroad for Pakistan's manpower at that time. The emigrants were comprised mostly of highly educated and trained professionals, along with some skilled industrial workers. However, with the advent of the 1970's the scope, nature and dimension of migration from Pakistan changed significantly.

Owing to the oil boom in the early 1970's, most of the oil producing of the Middle East embarked on ambitious development programs. The sudden upsurge in their development ability led to spontaneous increase in their manpower requirement. Their own labour force was limited, so the gaps had to be filled through importing manpower from rest of the world.

Pakistani labour, which has traditionally been highly mobile, seized this opportunity and a large number of Pakistani professionals, skilled and unskilled workers started emigrating to the Middle East. One reason for the large scale migration of Pakistani workers is the fact that the

Pakistanis are among the most sought-after non-Arab workers in the Middle East, because of their religious affinity and their standard of managerial and technical training. [Wilson, 1979:39].

2.1 CHANNELS OF MIGRATION

Pakistani workers seeking employment have been going to the Middle East through various channels. Two institutions, the Bureau of Emigration and Overseas Employment Corporation, serve as public sector recruiting agencies. The Bureau of Emigration arranges government-to-government contracts, whereas Overseas Employment Corporation deals only with the private sector. Overseas Employment Corporation deals with overseas employment promoters in the private sector. In the earlier years the bulk of emigration was channeled through private promoters registered with the Bureau of Emigration, and through the obtaining of a visa directly from the employer in the Middle East. In this case, a person already working in the Middle East arranges a visa and a job for a friend or relative.

The Bureau of Emigration and Overseas Employment Corporation does not deal with the private sector demand. This demand was handled by the licensed overseas employment promoters under the supervision of the Protector of Emigrants of the Bureau of Emigration and Overseas Employment. The overseas employment promoters advertise, interview, select and recruit persons of various categories in accordance with the

qualifications laid down in the demand. All persons recruited in the private sector have to deposit a fee of Rs. 2,000 person. Out of the fee of Rs. 2,000, which each emigrant has deposited with the authorized bank, the overseas employment promoters is entitled to receive Rs.1,450, after the dispatch of the emigrant. This amount is to cover the expenses they have incurred in the processing of the worker and for overhead. (Zar, 1981:27-30).

Although the government has fixed a sum of Rs. 1,450 per person, which a manpower exporter gets for his services, in practices this amount goes much higher than this. Usually the overseas employment promoters charged Rs. 15,000 to Rs. 20,000 for their services. Similarly,

a sponsorship visa for working in the Gulf States is available with difficulty for a sum equivalent to Rs. 20,000 [DAWN, January 9, 1981].

2.2 SIZE OF MIGRATION

During the late 1960's and early 1970's data on emigration of Pakistani manpower was not collected in an organized and systematic manner. Available statistics suffered from gaps and deficiencies and could at best be taken as indicators [Zar, 1981:1].

However, in recent years an attempt on the part of manpower division of Ministry of Labour and Overseas Pakistan, was made to estimate the number of migrants who migrated through different channels.

The Pakistan Economic Survey, [1982-83:176] reports that a survey conducted by Manpower Division estimates the number of Pakistanis working abroad as approximately 1.6 million. The following table gives the detail of migration which has been taking place through official channels.

Table 2.1

Labour Migration

Year	Private (Overseas Employment Promoters)	Public	Direct	Overseas Employment Corporation	Total
1971	3,340	194	-	-	3,534
1972	3,359	1,117	-	-	4,530
1973	7,654	4,646	-	-	12,300
1974	14,652	1,676	-	-	16,328
1975	21,766	1,311	-	-	23,077
1976	38,516	3,174	-	-	41,690
1977	77,664	2,606	60,175	77	140,522
1978	78,685	3,246	47,602	992	130,525
1979	80,615	3,058	34,586	7,248	125,507
1980	91,482	17,114	24,801	11,450	144,847
1981	119,711	-	33,370	15,322	168,403
1982	99,119	-	38,416	5,410	142,945
				Total	954,208

Source: Pakistan Economic Survey, 1982-83:176.

It is quite surprising that the official estimates of labour migration provided in Table 2.1 show total migration of Pakistani workers from 1971 to 1982 as being 0.95 million. Whereas, according to the same source, this figure is 1.6 million. On the basis of this discrepancy and confusion we cannot use these figures for the purpose of our analysis. Moreover, these figures do not include emigrants who emigrated through channels other than the Bureau of Emigration and also the volume of illegal emigrants.

A reliable method of estimating the number of overseas migrants in the country would require a country-wide household survey to elicit the number of households with migrants and the number of migrants in each household. This method is likely to overcome the problem of not accounting for returnee and illegal migrants.

Pakistan Institute of Public Opinion (PIPO) carried out a survey of households in Pakistan in 1979. This results of this survey were then used by Pakistan Institute of Development Economics (PIDE) to estimate the total number of migrants from Pakistan. [Gilani, et. al., 1981:10]

According to the PIPO survey 9 percent of the rural households in Pakistan have at least one migrant member. The average number of migrants in the two categories of households are 1.6 and 1.5 respectively. given that rural and urban population of Pakistan in 1979-80 was 58 million and

23 million respectively, the number of households in Pakistan can be calculated by taking the average size of rural and urban households to be 7.6 and 8.1, based on the PIPO survey. This gives the total number of rural and urban households to be, respectively, 5.8 million and 2.8 million. These numbers, multiplied by the average number of migrants in the households, then give the estimated number of migrants in the country to be 1.79 million in 1979.

The method followed by PIPO seemed to be the only way to capture both the number of legal and illegal migrants, because it sought information from the household, which was not obliged to make this distinction as it was simply asked, "how many people from this household are working abroad and where ? " The response to this questions likely to be unambiguous in households where migrants have gone abroad. The following table represents the estimates of Pakistani workers, working in the Middle East and other countries.

Table 2.2 Estimated Number of Pakistani Migrants
Working Abroad. (million), 1979

Countries/Area	Number
Sāudi Arabia	0.608
United Arab Emirats	0.358
Other Middle East Countries	0.280
Total Middle East Countries	1.246
All other Countries	0.544
Grand Total	1.790

Source: Gilani Ijaz, et. al, 1981:10

Hence a simple way to estimate the stock of Pakistani workers in the Middle East countries is to sum up the number of migrant workers who migrated to the Middle East after 1979, and then add this figure to the stock of migrant workers estimated by PIPO/PIDE. The following table gives the stock of Pakistani migrants to the Middle East countries up till 1982.

Table 2.3 Estimate of Pakistani Workers in the
Middle East Until 1982

Year	Number
1980	144,847
1981	168,403
1982	142,945
Total	456,195
<u>Stock of Pakistani</u> <u>Workers in 1979</u>	1,246,000
Stock of Pakistani workers up till 1982	= 456,195+1,246,000=1,702,195 = 1.702 million

It is quite interesting to observe that for the projected increase in net manpower demand for the Middle East, the World Bank estimates between 1980 to 1981 are 191,400 for all migrants [World Bank : September 7, 1979]. Whereas the official estimates of migrant workers from Pakistan alone, for 1981 are 168,403 (see Table 2.3). This implies that, based on World Bank estimates, Pakistan's share in net demand was 88 percent. Similarly the World Bank estimates between 1981 to 1982 are 179,764 for all migrants whereas the official estimates of Government of Pakistan for 1982 were 142,945. This again implies that based on World Bank estimates, Pakistan's share in net demand was 79 percent. These figures are quite high and overstate the share of Pakistani workers in the total manpower demand to the Middle East. At the same time, estimates of the World Bank are underestimating the net total demand of overseas workers to the Middle East.

Hence in the absence of reliable estimates of manpower requirement of Pakistani workers to the Middle East, we may need to make our own projections in this regard.

2.3 PROJECTION OF MANPOWER DEMAND FROM PAKISTAN TO THE MIDDLE EAST

Before making any projection regarding future manpower export from Pakistan to the Middle East, we have to take into account all the possible factors which may influence the share of Pakistan in the total manpower demand to the Middle East.

There is tendency to oversimplify the apparent dependency of the Middle Eastern economies on expatriate labour and it is assumed that the host countries will perhaps always depend upon imported labour. This is a very misleading and erroneous assumption, which may have dangerous consequences for labour exporting countries. In the coming years, when most of the construction work and infrastructure in the Middle East will be completed, the bulk of Pakistanis who are engaged in these activities will return to Pakistan. Hence with the end of the construction boom in the Middle Eastern countries, there may be a possible change in the demand composition for different occupations abroad, which may make it difficult for workers in certain occupations to extend their contract of work for a further period of time. Another reason for the earlier than planned of return migrants can be the political developments in the host countries of the Middle East, leading to : a) a complete exodus, or ; b) partial repatriation (such as illegal migrants).

Another factor which may also accelerate the rate of return of migrants is the fact that the majority of the Middle Eastern countries are now emphasizing the training and education of their own people. Viewing the situation of Saudi Arabia where approximately 50 percent of the Pakistani migrants workers are engaged in various activities,

Saudi Arabian third five year plan envisages a decrease from 330,100 labour in the construction industry to 245,000 by the year 1985. The foreign skilled and unskilled labour (and majority of them are Pakistanis) are here only to fill up a gap and to meet some deficiencies, as long as they exist [MUSLIM, February 10, 1983].

At the same time in the labour importing countries the development priorities are shifting from the development of infrastructure to the development of human capital. As in the case of Saudi Arabia, 19 percent of the third five year plan outlay has been allocated to the development of human resources as against 15 percent devoted in the second plan period [MUSLIM, February 10, 1983].

The above discussion takes into account only the structural changes, which have been taking place in one of the labour importing countries. But, it is quite possible that the same may be the case for other labour importing countries in the region.

Taking into account these structural changes which are taking place in the labour importing countries of the Middle East, we make the following assumptions, to project the future demand of Pakistani workers to the Middle East.

2.3.1 ASSUMPTIONS

a) We follow the estimates of increase in the stock of Pakistani workers (under the low growth scenario) made by Serageldin, et. al., [1983:46] till 1985. However, after 1985, we assume that growth of Pakistani workers stock in the Middle East declines at a rate of one percent per year.

b) We assume that out of the total stock of Pakistani workers in the Middle East, the migrant workers will be returning home at a rate of 1 percent till 1985, but this rate of return migrants than is going to increase by 0.5 percent per year in the subsequent years.

c) We assume that there will be no forced expulsion of the Pakistani migrants from the Middle Eastern countries, due to political changes in the region.

d) We also assume that there will be no change in Pakistan's manpower export policy, which may restrict the manpower supply to the Middle East.

Given these assumptions, we can estimate the stock of Pakistani workers in the Middle East, demand for Pakistani workers and the number of returnee migrants from the Middle East, till 1990, which is our period of projection.

2.3.2 METHODOLOGY AND ESTIMATION

let us denote,

DWt = Change in demand for Pakistani workers in year t

SWt = Stock of Pakistani workers in the Middle East in year t

Lt = Return rate of Pakistani migrants from the Middle East in year t

R = Number of Pakistani return migrants in year t

gt = Growth in the stock of Pakistani workers in the Middle East in year t

Whereas,

$$DWt = SWt - SWt-1$$

but

$$SWt = [(SWt-1 \cdot gt) + SWt-1]$$

$$DWt = [(gt \cdot SWt-1 + SWt-1) - SWt-1]$$

$$= [gt \cdot SWt-1 + SWt-1 - SWt-1]$$

$$DWt = gt \cdot SWt-1$$

Whereas,

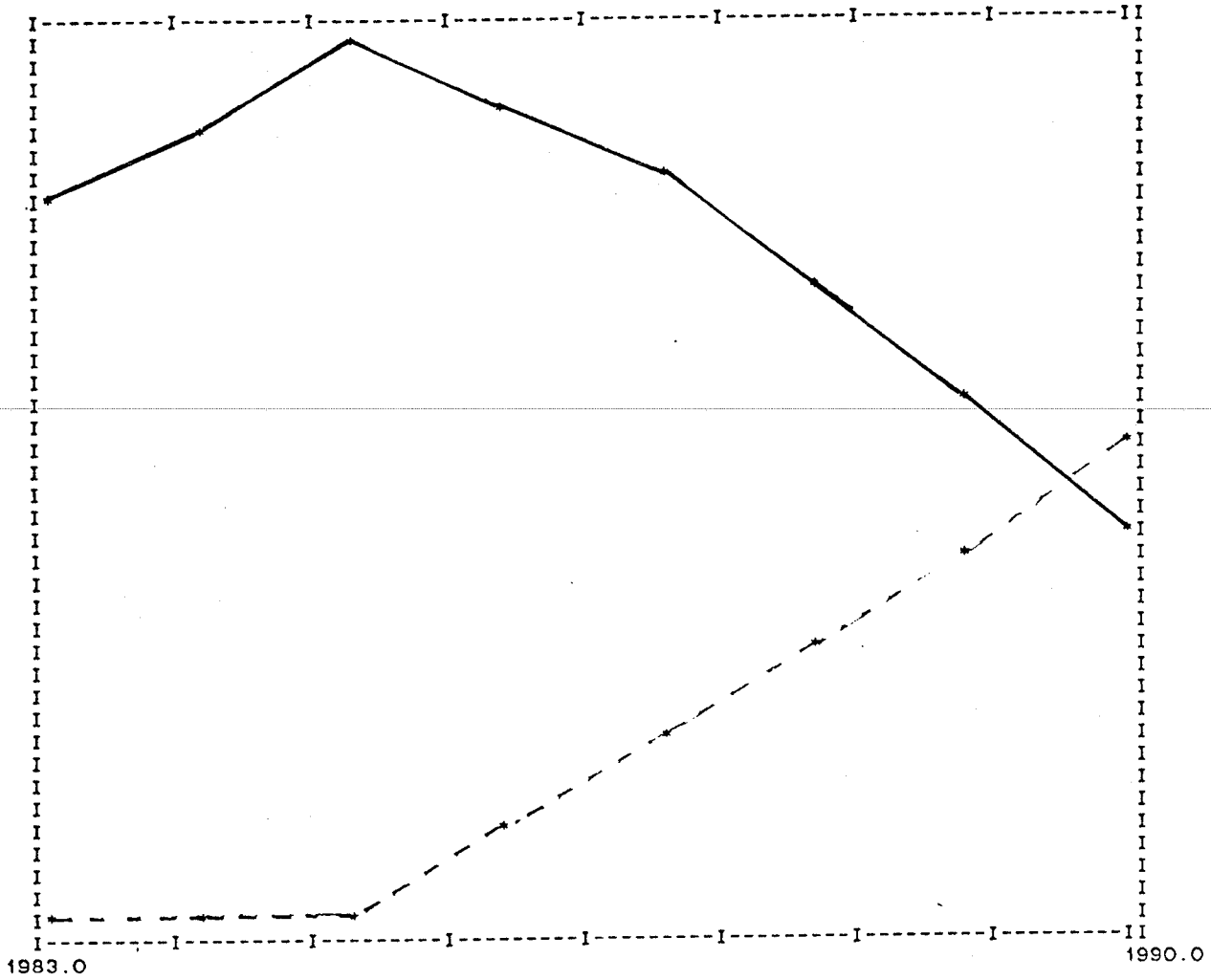
$$Rt = Lt \cdot SW-t-1$$

Table 2.4 Demand for Pakistani Workers (000)

Year	SWt	SWT-1	gt(%)	DWt	lt(%)	Rt
1982	1702*					
1983	1838	1702	8	136	1.0	17
1984	1985	1838	8	147	1.0	18
1985	2144	1985	8	158	1.0	20
1986	2294	2144	7	150	1.5	32
1987	2432	2294	6	138	2.0	46
1988	2554	2432	5	121	2.5	61
1989	2656	2554	4	102	3.0	77
1990	2736	2656	3	80	3.5	93

*We have already estimated the stock of Pakistani workers in the Middle East equal to 1.702 million for the year 1982

Fig. 2.1



————— change in demand for Pakistani workers
----- number of Pakistani return Migrants

Given these assumptions, our results show that a decline in the demand for Pakistani workers to the Middle East is inevitable. As also seen from the Figure. 2.1, the demand for Pakistani workers is going to decline with increasing rates after 1985. The number of returnee migrants are going to increase after 1985 ; this increase seems to be very sharp, as the number of returnee migrants will exceed the number of out migrants in the year 1990. However, the stock of Pakistani workers in the Middle East will remain high implying the contribution of a stream of a home remittances.

2.4 WHO ARE THE MIGRANTS

The recent phenomenon of temporary migration from Pakistan to the Middle East is quite different. Unlike other migratory movements, in the present case, migrants come from the different parts of the country representing different professional, occupational and age groups, as well as different classes. Therefore, in this case it is difficult to establish the characteristics of a typical Pakistani migrant worker. However, a breakdown of migrant workers according to their characteristics may help in establishing a profile of the majority of migrants.

There is no recent information available regarding the characteristics of migrants, however, a survey [Gilani, et. al., 1981], conducted in 1979 regarding overseas migration

from Pakistan reports the following characteristics of the migrants.

2.4.1 AGE AND EMPLOYMENT STATUS

According to the survey findings 75 percent of the migrants were between the age of 18 to 30 years, whereas 30 percent of the migrants were mostly in the age group of 30 to 40 years. These statistics supports the common belief that the majority of the migrants are in the most productive period of their life. As for as employment status of the migrants is concerned, the survey findings showed that only 7 percent of the migrant workers were unempolyed before going abroad, 10 percent were students and 83 percent had some job in Pakistan prior to migration to the Middle East.

2.4.2 MARTIAL STATUS

A large number of migrants (almost 70 percent) were married, but only 4 percent were accompanied abroad by their families. Hence a typical migrant is a male, leaving wife and family behind, creating a very logical rationale for remitting money back home to the family.

2.4.3 OCCUPATIONAL CHARACTERISTICS

On the basis of available data on the occupation of migrant workers, the migrants can be grouped into six major classes. The percentage representation of the migrant workers, grouped according to the major occupational classification is given in the following table.

Table 2.5 Migrants Classification by Major Occupational Groups

<u>Occupational Groups</u>	<u>% of Migrant Workers</u>
1. <u>Production Workers</u>	
a) unskilled workers	42.6
b) skilled workers	40.6
sub total	<u>83.2</u>
2. <u>Professional Workers</u>	4.3
3. <u>Clerical staff</u>	1.5
4. <u>Service Workers</u>	2.2
5. <u>Salesman/Businessman</u>	6.0
6. <u>Miscellaneous</u>	2.9
	<hr/>
Total	100

Source: Gilani Ijaz, et. al., 1981:28

Table 2.5 shows that production workers constitutes 83 percent of the migrants labour force, of which more than half were unskilled. About 12 percent of the unskilled labour who migrated to the Middle East were reported to be agricultural labourers. The other 88 percent of the unskilled labour migrants included general labourers and loaders.

Skilled workers such as drivers, masons, electricians, and engineers constituted the most important group of migrants. Accountants and teachers ranked next to them. Cooks and security guards were the main service workers who migrated to the Middle East in this specific period of time.

2.4.4 PROVINCIAL AND RURAL - URBAN DISTRIBUTION OF THE MIGRANTS

In order to examine more intensively the basic characteristics of the Pakistani migrants, now we may discuss the distribution of the migrants as between rural and urban origins.

The survey findings show that 70 percent of the migrant workers came from the Punjab, whereas 14 percent of the migrants belonged to the Sind, while 12 percent and 4 percent of the migrant workers came from NWFP and Baluchistan respectively. The rural - urban breakdown of the migrant workers show that 67 percent of the migrants originated from rural areas, whereas 33 percent of the migrant workers were from the urban areas.

The rural - urban breakdown of the migrants is quite similar to national figure of rural population, i.e., 72 per cent [Pakistan Economic Survey, 1982-83:170]. Here we may mention that there is possibility that the percentage representation of the urban migrants is over stated. It is quite possible that people who were listed under urban origin may be the migrants from the rural areas. There is possibility that rural - urban migration has acted as step migration, which is common feature in the process of international migration.

This argument is largely true for the migrants from NWFP and rural Sind. It has been observed that people from rural areas of these provinces first move to Karachi and, after getting more socially and culturally oriented to urban life and living, move to the Gulf area [Rahman, 1981:33].

This argument is quite logical, viewing the expansion of the city of Karachi. The population of Karachi has increased from less than a million to over five million in two and a half decades. This increase is largely owing to the rural migration to this city. The major proportion of the migrants representing the urban Sind, belonged to Karachi. Therefore, there is strong reason to believe that migrants from the rural areas are under-stated. However, for the purpose of our study, we make use of available information regarding rural - urban of the migrants who have migrated to the Middle

East. The following table illustrates the percentage share of rural - urban migrants.

Table 2.6 Rural-Urban Distribution of the Migrants (%)

Province	Rural	Urban	Total
Punjab	66	34	100
Sind	40	60	100
NWFP			
Baluchistan	57	43	100

Source: Gilan Ijaz et. al., 1981:10

2.5 DETERMINANTS OF MIGRATION FROM PAKISTAN

In the literature of internal or international migration, generally, "push" and "pull" factors are analysed to determine the nature and causes of migration. Those factors and conditions which compel a person to leave his or her area of origin for temporary or permanent basis are known as push factors. Factors which attract people to migrate from one place to another are termed as pull factors. To answer the question why people from Pakistan have been migrating to the Middle East, we may analyse those push and pull factors which have been determining the outflow of Pakistani manpower to the Middle Eastern countries.

2.5.1 POPULATION AND UNEMPLOYMENT

The population of Pakistan, which according to the 1981 census was 84 million, is growing quite rapidly at a rate of 3 percent per annum. Rural population comprises 72 percent of the total population the country, while 28 percent of the people live in the urban areas. The population estimates for 1983 have gone up to 88 million [Pakistan Economic Survey, 1982-83:169]. Along with increase in the population growth, the population structure of the country is another factor magnifying the problem emerging from population pressure. The following table gives us a broad picture of the population structure in Pakistan.

Table 2.7 Population Structure, 1979-78 Estimates

Years	% of the Population
0-10	32
10-14	12
15-24	16
25-54	31
55-64	5
65 and above	<u>4</u>
Total	<u>100</u>

(Source: Pakistan Manpower Institute, 1981:9)

According to the table, 44 percent of population is under 15 years of age. The working age population, i.e., 15-64 years, comprises 52 percent of the population ; whereas the old age population (65 years and above)

represented only 4 percent of the population. Due to the high percentage of younger age persons and rapid increases in population growth there is high dependency ratio. At present the dependency ratio in Pakistan is 100:344, which is comparatively higher than other countries [Pakistan Manpower Institute, 1981:66].

Like any other third world country, in Pakistan too, a rapid increase in population growth is the primary factor responsible for increase in labour force. This phenomenon has persisted for quite some time. But previously the high fertility growth rate was balanced by a high mortality rate. However, over time, with the improvements in health and education facilities, the gap between fertility and mortality has further sharpened, resulting in a population explosion,

the crude death rate has declined from 30 per thousand in 1947 to a current level of 12 per thousand, while the crude birth rate has only marginally declined from 50 to 42 per thousand [Pakistan Economic Survey, 1982-83:169].

The rapid growth of population in Pakistan has been affecting the of labour supply as increasing numbers of people are joining the labour force, seeking jobs, in an economy which is already facing the severe problem of unemployment, under-employment, and diguised unemployment. Under these it has

been difficult for the new entrants to find jobs in the domestic labour market. The following table illustrates the conditions which have existed in the domestic labour market in the recent past.

Table 2.8 Labour Market Situation of Pakistan (million)

	Unit	1974/75	1977/78	1979/80	1979/80	1980/81	1981/82	1982/83
ur Force	million	20.42	22.22	23.93	23.68	24.65	25.24	26.06
ur Force Growth	percentage		2.9	3.2	3.3	3.2	3.3	3.2
oyment	million	20.07	21.84	22.54	23.13	23.81	24.5	25.25
ployment	million	0.35	0.38	0.39	0.55	0.64	0.74	0.81
ployment rate	percentage	1.7	1.7	1.7	2.4	2.7	3.02	3.2

Source: (i) Gilani Ijaz; et. al., 1981:14

(ii) Pakistan Economic Survey; 1982-83:171

Apart from a rapid increase in the population, another cause of unemployment was the fact that during 1970-75 period, real wages of labour increased substantially, which might have created a tendency to opt for capital intensive technology [Gilani, et. al., 1981:13] Although the unemployment rate has increased from 1.7 percent in 1974/75 to 3.2

in 1982/83, these unemployment figures understate the situation of unemployment in the country. These figures do not take into account the extent of disguised unemployment which to a large extent prevails in the agriculture sector, and which constitutes a major portion of total employment. Thus in this way overstate the magnitude of employment level in the domestic labour market. The extended family system that allow a family member to share farm or family income even if his marginal product is zero fails to show any substantial unemployment. Most of the labour supply that is generated by the rural areas (carrying 72 percent of the country's population) gets absorbed into agriculture sector, given that job opportunities in the nonagriculture sector are not available. The following table illustrates the domination of agriculture sector in the domestic market.

Table 2.9 Employment Opportunities in Agriculture and Non-Agriculture Sector (million)

<u>Sector</u>	<u>Jobs Available</u>			
	1974/75	1978/79	1981/82	1982/83
Agriculture	11.0	12.7	13.6	14.0
Non-Agriculture	9.1	9.8	10.9	11.2
Total	<u>20.1</u>	<u>22.5</u>	<u>24.5</u>	<u>25.2</u>

Source: i) Pakistan Economic Survey; 1982-83:174;
 ii) Gilani Ijaz, et. al., 1981:15

Now under these circumstances, when population growth has been increasing rapidly and conditions of unemployment have been deteriorating, due to existing open unemployment, disguised unemployment, and under-employment, the emergence of manpower demand in the Middle East has served as a both push and a pull factor for the domestic workers. This opportunity has been availed not by the people who were unemployed but also a large number of people, who were apparently employed in the domestic labour market. This argument seems to be more valid in case of rural areas of Pakistan, as majority of the migrants, 67 percent of them, belonged to the rural area. Hence population pressure and unemployment, disguised unemployment, underemployment and lack of opportunities in the non-agriculture sector of the rural economy has served as push factor for large scale migration of Pakistani workers to the well paid labour markets of the Middle East.

2.5.2 WAGE DIFFERENTIALS

The most important factor causing the migration of Pakistani workers to the Middle East has been the wage differential which exists between the two region. This has been the main attraction for the Pakistani migrants. According to one estimate, on the average a Pakistani migrant worker who earns Rs. 20,250 per annum at home can earn Rs. 58,500 per annum in the Middle East [Taskok, 1982:321].

The average earnings of Pakistani emigrants in the Middle East by occupational group are given in Table 2.10

Table 2.10 Average Income of Pakistani Workers
by Occupational Group (1979)

<u>Occupational Group</u>	<u>Average Earnings</u>
Unskilled	45,060
Skilled	53,800
Professional	117,600
Services & Clerical Workers	60,160
Business	77,920
Miscellaneous	82,500

Source: Gilani Ijaz, et. al., 1981:105

According to the Table, on the average, the average annual income of a Pakistani migrant worker in 1979 was Rs. 72,840. Comparing this figure to the per capita income of an average Pakistani, i.e., Rs.3,000, it may be able to be seen that an average Pakistani worker can earn upto twenty four times more than that of an average Pakistani worker staying back in Pakistan. These earning of Pakistani workers, working in the Middle East, still seems to be on the lower side, as these figures do not cover the fringe benefits, accommodation facilities, subsidized meals and other benefits which they get in addition to the nominal wages.

The extent of wage differential between Pakistan and Middle East can be observed from the fact that while a Pakistani unskilled worker was earning an average amount of Rs. 6,200 per annum, the average earnings of a unskilled migrant worker were Rs.45,060 per annum, which is more than seven times than that of domestic earnings. Similarly while the annual average earnings of a skilled worker, working in the domestic labour market, were Rs.15,400 the earnings of migrant skilled worker in the Middle East were Rs. 53,800, which is three and a half times more than that of domestic earnings for the same job.

Table 2.11 throws light on the extent of wage differential between Pakistan and the Middle East.

Table 2.11	<u>Extent of Wage Differential</u>	
Occupational Group	Average Annual Earnings at home *	Average Annual Earnings in the Middle East
Unskilled workers	6,200	45,060
Skilled workers	15,400	53,800

Sources: Zar Zulekha, 1981: 56;

Gilani Ijaz, et. al., 1981:105

* The average domestic earnings of the unskilled and skilled workers are estimated by taking the average daily wage of three big cities of Pakistan (i.e. Karachi, Lahore & Peshwar) and assuming 350 working days in the year 1977-78.

Viewing the extent of wage differential, which exists between Pakistan and oil rich labour importing countries of the Middle East it seems that higher wages and fringe benefits offered by the foreign employer have been acting as the most powerful pull factor, responsible for the migration of even those Pakistani workers which have already been employed in the domestic market.

2.5.3 JOB SECURITY

Movements from rural- to - urban area or from one country to another in search of employment is not without risk. The risk is the failure of a person of finding any job or remaining unemployed for an indefinite period. With the presence of this element of risk the decision making process of migration becomes more complex. In the presence of risk, only those people migrate who are willing to pay its cost. As in the case of rural- to -urban migration, Todaro [1976:29], argues that the fundamental premise is that migrants as decision makers consider the various labour market opportunities available to them in the rural and urban sectors, and choose the one which maximizes their expected gains. Expected gains are measured by, (a) the difference in real income between rural and urban job opportunities and (b) the probability of a new migrant obtaining an urban job. While discussing Todaro's argument Rempel [1981:96-7] argues that,

in the job - search process assumed in the Todaro model, hiring is simply a process of random selection from given stock of urban unemployed. In that case, the longer a person remains in the urban centre the longer his expected income, that is, the probability of earning the prevailing urban wage increases.

Although these arguments are put forward while discussing the case of rural - urban migration, they are equally applicable in the case of international migration.

However, in the case of migration of Pakistani workers to the Middle East, this is not true, as migration of Pakistani labour force to the Middle East is very organized and without any financial risk.

When demand for manpower supply is received by an overseas employment exporter, from his principals abroad, he has to submit the same to the relevant protector of Emigrants at the Bureau of Emigration. The Protector after being satisfied that overseas employment promoter is in possession of an authentic and duly attested power of attorney from the employer, and that the terms and conditions of service are reasonable, grants permission to the overseas employment promoter to process the demand. The Overseas Employment Promotor then advertises, interviews, selects and recruits persons of various categories in accordance with the qualification laid down in the demand. Following this procedure a person migrates to the Middle East only when he becomes sure about his employment abroad. Therefore, contrary to the Toda-

ro's model, in the present case, people get the job in the host labour markets, even before migrating there physically.

This unique feature of the present wave of Pakistani worker's migration to the Middle East, which involve no risk, has made the decision process of migration quite simple, and has been functioning as a pull factor to attract the Pakistani workers to the Middle East.

2.5.4 SOCIOLOGICAL AND PSYCHOLOGICAL FACTORS

No one wants to be away from home; Pakistani workers, working in the Middle East are no exception. The root causes of psychological and sociological reasons for migration are based on the characteristics of Pakistani society, which consists of two opposite extremes. On the one hand there is a bulk of people struggling for a subsistence level of living. They are facing the unavoidable conditions of unhygienic living, low food consumption, lack of job opportunities, lack of education facilities, poor medical facilities, and in the rural areas they are victims of a feudal society. However, the same is not true for everyone, as there exists a section of people in the Pakistani society, who enjoy every necessity and luxury of life, as they have access to and control of the opportunities which promise a better standard of living and a higher social status in the society.

Given the existing setup of the society, the psychological motives for migration arises primarily from the promise of a better life style, leading to higher social status, offered by the employment opportunities in the Middle East. The majority of the people dissatisfied with their conditions find overseas migration as the only solution to change their living standard and achieve a better status in the society.

Another factor which has been influencing the decision of Pakistani workers to migrate is the demonstration effect. The possession of luxury items, improved living conditions, better life style, which give a migrant and his family a better position in the shape of higher social status has been influencing other people to follow the same path. Therefore given the demands of Pakistani workers in the Middle East, such people take the opportunity to migrate to the Middle East. One thing which emerges from this discussion is that, the forces which are provoking or stimulating the psychological and sociological instinct of the people to migrate are all economic ----- an escape from poverty, an ambition to attain a higher living standard for self and dependents.

2.5.5 PROVINCIAL DISPARITY

The migration of people from a country may not be evenly distributed among different parts or regions of the country [Baucic, :1972:10]. The migration of Pakistani workers to the Middle East is no exception in this regard. All the four provinces have different composition of shares in the total stream of migration.

One interesting feature which emerges after observing the provincial share of each province in the total number of migrants who migrated to the Middle East, as reported earlier, is that the more developed is the province the higher is out-migration rate from the province. The large-scale migration from the province of Punjab, which is the most developed, prosperous and fertile province of Pakistan, (excluding Karachi, from province of the Sind), may be explained as due to sluggish development of the province in the late 1960's and then in the 1970's. After the creation of Bangladesh in 1971, the Pakistani rulers realized the consequences of misallocation of resources and unequal development of different provinces. As a result they launched a programme to develop all the provinces of the country at the same time. Admitting this fact, Pakistan's sixth five year plan says,

historically, one of Pakistan's most troublesome problems has been the uneven rate of growth between different parts of the country [The Economist November 19, 1983:48].

The solution for the existing regional disparity was found, by slowing down the development activity in the Punjab and transferring resources from the Punjab to other underdeveloped regions of the country. Special attention was given to the Baluchistan,

the province largest in area, smallest in population and poorest by almost every indicator [The Economist November 19, 1983:48].

The net result of the allocation of resources was not in the favour of Punjab's labour force, who were affected adversely by a slow down of economic activity in the province. Under these circumstances, the out-break of the Middle East oil boom gave them a golden opportunity to utilize their abilities to the maximum.

Chapter III

ESTIMATES OF INTERNATIONAL REMITTANCES FLOWS

Since the late 1950's and early 1960's, when initially Pakistani workers migrated to industrialized countries of Europe, and North America they have been sending a portion of their earnings and savings back home, to their families. In the recent past, with the large scale migration of the Pakistani workers to the Middle East, Persian Gulf and North Africa, the inflow of home remittances has increased dramatically.

The inflow of remittances from the labour importing countries or regions towards the countries and region of the origin has been a historical phenomenon. A number of labour exporting countries of Europe, the Middle East, Asia, South and Western Africa, and Central and South America have been receiving the remittances for the past number of years.

In the case of Europe, the inflow of remittances to some of the European countries has been an old experience. From the level of 14 million lire in 1861-1870, the inflow of remittances to Italy, reached the level of 943 million Lire in 1931-1940. In 1953 the inflow of remittances to Italy was 103 million U.S. dollars, which rose to 638 million U.S.

dollars in 1962. Similarly, the inflow of remittances also increased in some other contemporary European countries like Greece, Portugal, and Spain. In the same period of time remittances to Greece and Portugal increased from 46 and 16 million U.S. dollars respectively to 153 and 51 million U.S. dollars. In the case of Spain the volume of remittances increased from 48 million dollars in 1959 to 160 million in 1962 [Parentij, 1967:221-22].

Yugoslavia is another European labour exporting country, which has been benefiting from the flow of remittances. On the basis of various enquiries and group discussion with Yugoslav emigrant workers it has been possible to estimate that the migrant workers from the Yugoslavia sent home about 20 percent of their total earnings, which amounted to 1,300 million U.S. dollars from 1954-1970. This amount accounted for a large proportion of Yugoslavia's total foreign exchange earnings [Baucic, 1972:21-22]. A World Bank study [Swamy, 1981:10] has shown that in Europe the trend of growth in home remittances, ranged between 9 percent and 11 percent per year during 1960-70, for the traditional labour exporters, i.e., Algeria, Greece and Italy. For the relatively new labour exporters--Yugoslavia, Turkey and Portugal--the growth rate was over 15 percent. Among other European countries, Spain and Turkey are two countries that have been receiving remittances. The inflow of remittances to Spain rose sharply from 55 million U.S. dollars in 1960 to

U.S. \$913 million in 1972. Remittances helped considerably the economy of Turkey. The remittance inflow to Turkey increased from 140 million U.S. dollar in 1969 to 740 million dollar in 1972. These remittances were sufficient to reverse the deficit on goods and services in the current payment balance [O.E.C.D., 1975:25-27]. Paine [1974:131-32], while making the case of the extent of remittance inflow to Turkey, states that a 1971 survey conducted by State Planning Organization (S.P.O.) showed that 79 percent of urban and 90 percent of rural migrants were remitting money home. Repatriated earnings amounted to \$740 million in 1972, which was 82 percent of the record export total of \$888 million, and 47 percent of total imports. In 1972 and 1973 repatriated earnings amounted to 5 percent and 7 percent respectively of GNP. The Turkish economy has been depending on this source to a large extent. The non oil producing countries of the Arab region have benefited by the export of manpower to the oil rich countries of the region. This export of the manpower to these rich Arab countries resulted in remittances to the poor Arab states.

The economic implications for the countries exporting their manpower are complex and varied. The most widely recognized immediate benefit remains the flow of remittances, which not only augmented scarce foreign exchange earnings, and thereby cushion some of the effects of oil price increase, but also provided, especially in the poor Arab labour exporting states, a potential source of additional savings and capital formation [Serageldin and Socknat, 1980:34].

It has been estimated that in 1977, the total flow of remittances to Egypt, Jordan, Morocco, Tunisia, Yeman Arab Republic (YAR) and Peoples Democratic Republic of Yeman (PDRY) met 30 percent of their imports and 80 percent of total value of foreign exchange earned through commodity export. The YAR largely depended on the inflow of remittances, its economy dominated by remittances since 1973; in 1977 the inflow of remittances, as compared to total exports and imports, were 5,450 percent and 140 percent respectively. In the same year, remittances met some 27 percent of total imports in Egypt, 38 percent in Jordan, 18 percent in Morocco, 8 percent in Tunisia and about 50 percent in the PDYR. [Serageldin, et. al., 1983:84-5]. Considering only the remittances sent through official channels, the flow of remittances to Egypt, Jordan, Syria, the YAR and PDRY was about \$3,530 million in 1978 compared with their 1974 remittances receipts of \$560 million [Serageldin, et. al., 1983:84-5]. As reported by Frank [1982:75], at constant prices of 1975, the real value of remittances to Jordan increased from the level of 53 million JD to the level of 115 million JD in 1979. Similarly Egypt has been the main recipient of the remittances, flowing from oil rich Arab countries to non oil producing countries of the region. Choueri [1977:433], estimated the annual flow of remittances, to be approximately \$800 million. Government figures placed remittances at L.E. 42 million in 1973 and L.E. 85 million in 1974.

While discussing the inflow of remittances to the poor Arab states, from the capital rich Arab countries, Birks and Sinclair [1980:103-64], estimated that the private transfer to Yemen increased from the level of U.S. \$59 million in 1971-72 to \$1002 million in 1977. This inflow was the major support to the economy of the Yemen. Tunisia is also one of the recipients of foreign remittances. In the case of Tunisia the inflow of remittances increased from the level of U.S. \$29 million in 1970 to U.S. \$143 million in 1976. Remittance flows to Sudan increased tenfold, over the fiscal year 1975-76 to 1976-77 --from 1 million U.S. dollars to U.S. \$10 million. The inflow of remittances for the year 1977-78 was predicted to be in excess of U.S. \$30 million. Zachariah and Julien [1981:52-53], while discussing the remittance flow to West Africa, reported that, during the five year period 1970-74, the seven West African countries, i.e., Gambia, Ghana, Ivory Coast, Mali, Senegal, Togo, and Upper Volta, sent out U.S. \$705 million in the form of remittances, while they received only \$232 million. Therefore, the net outflow of remittances from the region was U.S. \$473 million. The largest recipient of the remittances was Upper Volta, the country with the highest rate of emigration. Briquets [1983:35-36], lists studies regarding the inflow of remittances towards the Caribbean and Latin American countries. One of the studies [Allman and May, 1979:12], based on data from a survey of Haitian men employed in government

departments in Nassau, Bahamas, reports that each of the 10,000 migrants sent home 300 dollars a year or a total of three million dollars. About five percent of the Haitian GNP comes directly from the migrants' remittances. Barbados received 10.4 million dollars in remittances in 1970. A portion of these remittances were generated in Curacao and Trinidad [Ebanks, 1975:35]. Colombian migrants to Venezuela are reported to be saving enough money to remit to Colombia [Diocesis de Cutta, 1978]. Other studies, cited by Briquets [1983], like the survey of Bolivian immigrants to Argentina, found that the earnings of the migrants are so low that, they manage to save and send very little back home. This finding may apply only to the permanent migrants, and not to the migrants working temporarily in Argentina.

Sawson [1979:13-14], quoted different studies while discussing the extent of remittances to the area of migration origin. Referring to Ta Chen [1940:87], he reports that in South China 85 percent of the revenue of emigrant families was generated from remittances. Manners [1965], indicates similar findings in the case of the West Indies. Schapera [1947:62] and Houghton [1960], show that in the African groups they studied, 40 to 60 percent of migrants' family income was generated from the inflow of remittances.

The inflow and extent of internal or external remittances to the rural area of a country or a region has great impor-

tance and implications for the rural economy. While discussing the impact of remittances on the rural economy, Connell [1980:10-24] and Rempel and Lobdell [1978:325-329], reviewed the literature regarding the extent of remittances to the rural areas. Connell [1980], reviewed the studies in the context of South Pacific region, whereas, Rempel and Lobdell [1978] reviewed the work undertaken in different regions of the world. The following discussion is heavily based on these two studies.

While discussing the extent of remittances in the South Pacific region, quoting Macpherson [1978:11], Connell [1980], mentions that, in 1971, Samoan migrants in New Zealand were sending an average of 12 percent of their income to Samoa. However, this percentage varied from 3 percent to 80 percent. Migrants from Kiribati Atoll of Butaritari, working abroad, were reported to be sending one third of their income back home [Sewell, 1976:84]. Migrant workers from Cook Island in Makatea sent an amount of \$100,000 back home in 1949. By the mid 1960's, remittances from New Zealand were worth \$350,000 per year. This figure increased to over \$5,000,000 by the mid 1970's. Remittances are now the major source of income, contributing 35 to 40 percent of the total Cook Island's income [Curson, 1979:188]. Geddes et. al., [1979:188], estimated from the surveys of five different islands in Kiribati and Tuvalu in the early 1970, that the contribution of the remittances to cash incomes varied from

14 to 48 percent. While remittances to Niue in 1971 represented 10 percent of the islands' income [Walsh and Trlin, 1973:491], in Tonga these remittances were the largest single factor of foreign exchange during 1973-74 [De Bres and Campbell, 1975:450]. In Western Samoa, the remittances increased from their previous level of the 1960's, when inflow of remittances to Western Samoa were greater than the income earned from copra [Pitt, 1970:180]. With the increased remittances owing to increased flow of out-migration, the amount remitted to Western Samoa was equal to national agriculture income [Shankman, 1976:36-38]. A recent survey carried out by the New Zealand Department of Labour [1979:10], regarding Pacific island migrants in Wellington [New Zealand], shows that on the average the cash inflow of remittances over the past year were N.Z. \$406 for Tongans, N.Z. \$276 for Cook Islanders, N.Z. \$406 for Western Samoans and N.Z. \$268 for Tokelan Islanders. Castles and Kosack [1973:417], report that the inflow of remittances towards the small Pacific islands, where international migration is significant, represent a very substantial component of cash incomes, much higher than the contribution made by migrants within Europe or Pacific countries like Papua New Guinea (PNG) and Fiji, countries which represent a lower rate of international migration. In the island of Batiki, from which most people migrated to the main Fijian island of Viti Levu, about half of the migrants' households are reported to be

getting support in the form of remittances [Bayliss-Smith, 1978:164-5]. Plant [1977:181], reports that remittances to Rotuna island from Fiji were estimated to be F.\$66,000 for a population of 2400 people; this inflow of cash contributed some 12 percent of the total income of the island. Similarly on Bellona island in the Solomon island in 1965-66, money remitted by the migrant workers was about \$1500 and contributed 40 percent of the total cash income of the Atoll [Christiansen, 1975:106-10]. In the northern province of PNG, Dakeyne [1967:156-7], reports that remittances from Yega migrants averaged 64 percent of household cash income; however, this figure varied from 17 to 100 percent of the migrants' earnings.

From the studies reviewed by Connell [1980], it seems that remittances, represent a considerable share in the total income of the rural South Pacific region.

Rempel and Lobdell [1978] report various studies of different regions of the world--describing the extent of remittances to the rural areas of these regions. According to their review, on the basis of a 1963 survey, Caldwell [1969:169] estimated that one tenth of all income earned in Accra (Ghana) was reported to be remitted to the rural areas. Johnson and Whitelaw [1974:74], on the basis of a 1971 sample of low and middle income earners group in Nairobi, estimated that 89 percent of the respondents were sending

some amount out of Nairobi. The average amount sent by the sample group represented 21 percent of their earnings. In 1968, a survey of 1,091 immigrants in the Kenyan urban sector, carried out by Rempel, Harris and Todaro [1978], indicates that on the average, an amount of 43 shillings per month was remitted by these migrants, which represented 13 percent of the average income earned by all migrants in the sample. Of the sample, 59 percent of the migrants were remitting 22 percent of average earned income. A survey of more than 5,000 urban immigrants in Tanzania, conducted by Bienefeld and Sabot [1972], shows that the majority of the migrants have sent money back home. Out of these, 90 percent of the migrants remitted regularly. Stark [1976:17] estimates, from the surveys taken in 16 Indian villages in 1957-61, that the majority of the migrants from the villages were remitting 26 percent to 69 percent of their earned income. In the case of New Guinea, Baxter [1972], reports that a substantial amount was remitted to the rural areas. An International Labour Office (ILO) study [1965:73], carried out in Thailand, based on a 1962-63 survey, shows that nearly half of the migrants surveyed expected to transfer their savings back home. Anderson [1972], for the case of Philippines, mentions a large flow of remittances from outmigrants to rural Sisy. During the period of 1958-67, Boeder [1973:43-4], reports the magnitude of remittances from Zambia, Rhodesia and South Africa to Malawi equals 27 pounds a

year per migrant. For the island of Montserrat, Philpott [1970], mentions that the amount remitted in 1960 by migrants in the United Kingdom exceeds the value of cotton exported from the island. In the case of rural Turkey, Alpat [1971], reports that migrants to Europe from the rural areas of Turkey remit significant amounts back to their origin. Reinforcing these findings, Griffin [1976:355], mentions that Turkish migrants on the average remit 15 percent of their income earned in Europe. Caldwell [1969:168], for the case of Ghana, estimates that one third of all rural households were receiving some remittances. The value of remittances was estimated to be approximately 1.5 percent of the national income. A survey of rural Southern Tanzania, conducted by Gulliver [1955:19-36], shows that 50 percent of the male migrants brought back 75 shillings in cash. These remittances accounted for nearly 20 percent of the annual cash needs of the area. Carter [1970:169], found from a sample of migrants' households in rural Zolowo (Liberia), that 53 percent of them were receiving remittances. Similarly, Bates and Bennet [1973:250] report, in the case of Kasumpa (Zambia), that, on average, migrants were receiving 20 Kwacha from their relatives. In the case of India, Desai's [1967:67,173] study on one village indicates that the total remittances received represent more than two percent of the local income. In another study of a village in India, Simon [1966:62,98] reports that the remittances represent a major

source of non-farm income. His results show that 80 percent of non-agriculture income and 13 percent of all income earned in the village was generated from the inflow of remittances. A third study, regarding rural remittances in India, was carried out by Lipton [1976:32]. He found that inflow of remittances to twelve villages in north-west India, represented 7 percent of rural income. Mohammad, Butcher and Gotsch [1970] found, in the case of Pakistan, from a sample of 250 migrants working in the urban centres of Punjab and Sind, that, on average, 38 percent of monthly earned income was remitted to the rural areas.

The migration of the Bangladeshi workers to the Middle East started in the mid 1970's. With the increase of migrants each year, the inflow of remittances has increased many fold since mid 1970's. From U.S. \$15 million in 1975, the inward remittances increased to U.S. \$115 million in 1978--an increase of more than 600 percent, in the period of 4 years [Swamy, 1981:52]. The value of these remittances reached 194 million U.S. dollars in 1979. According to Mahmud and Osmani [1980:9], the increase was caused by the increase in the stock of Bangladeshi migrants in the Middle East.

Among other Asian countries, remittance flows to Korea and the Philippines in 1977 was 172 and 130 million U.S. dollars, whereas during the same year, Sri Lanka received 12

million U.S. dollars [Chandavarkar, 1980:36]. India, one of the major labour exporting countries in Asia, received 1,022 million U.S. dollars in the form of workers' remittances [Swamy, 1981:52]. A survey of migrants workers who migrated from rural areas of the NWFP of Pakistan to Peshawar, estimates that 19 percent of the migrants were sending money home after coming to Peshawar. [Pakistan Institute of Development Economics, 1977:27].

The literature reviewed in this section highlights a very visible economic consequence of outmigration, i.e., the inflow of remittances towards the area of the origin. Looking at the extent of remittances towards various labour exporting countries of Europe, the poor countries of the Middle East, Asia, South and Western Africa, Central and South America and South Pacific, the inflow of remittances can be viewed as a natural outcome, resulting from migration of the human capital. Which may imply that, among all the migrants, irrespective of their social, economic, political, religious, cultural and geographical background, there exists a common need and urge to remit money to their dependents. However, the volume of remittances to different regions of outmigration may fluctuate due to differences in the socio-economic and cultural background of the migrants, their families and the area of migration.

Our review, on the extent of remittances in different parts of the world, reveals that there is no doubt that remittances are not only supporting the migrants' families by enhancing their incomes, but also for a large number of labour exporting countries, they represent a major source of foreign exchange earnings. Remittances have helped considerably the economies of these countries. The labour exporting countries have been meeting a major portion of their import requirements through remittance money. Comparing the amount of remittances received to that of export earnings in some of these countries, the foreign exchange in terms of remittances has surpassed that earned from traditional commodity exports. In some of these countries, remittance figures have now become a very supporting factor in their GNP estimates. At the local level, the remittances, in most of the cases, are a major portion of the migrant's household income.

Given that the inflow of remittances towards the area of outmigration is a natural phenomenon, the large scale migration of Pakistani workers to the Middle East and the resulting inflow of remittances, which now has assumed the role of a major source of foreign exchange earnings, should not appear to be an exception.

3.1 THE CASE OF PAKISTAN

Although Pakistan was receiving home remittances before the 1970's, the highest volume of remittances is attributed to Pakistanis working in the capital rich countries of the Middle East. Since the large scale migration of Pakistani workers to the Middle Eastern countries, in the early 1970's, million of dollars have been flowing into Pakistan in the form of remittances.

The increase in the inflow of remittances was substantial, after the 1973-74 economic boom in the oil producing countries of the Middle East, with the opening up of numerous job opportunities in the region. This increase in the cash flow can be seen from the Table 3.1, where remittances, which stood at \$125 million in 1972-73, had increased to over \$2.8 bilion in 1982-83.

Table 3.1 Extent of Home Remittances to Pakistan
(Million U.S. Dollar)

	1972-73	73-74	74-75	75-76	76-77	77-78	78-79	79-80	80-81	81-82	82-83
Coun-tries											
M.East and N. Africa	34 (27)	43 (31)	83 (39)	214 (64)	437 (76)	938 (81)	1110 (79)	1372 (79)	1678 (80)	N.A -	2400 (83)
		+27	+93	+158	+104	+115	+17	+25	+22	-	-
Other African and Asian Countries	3 (3)	3 (2)	4 (2)	3 (1)	4 (.6)	6 (.5)	6 (.4)	8 (.5)	9 (.4)	-	-
		-.9	+15	-15	+19	+52	+13	+29	+10	-	-
U.K.	68 (54)	60 (43)	77 (36)	54 (16)	49 (9)	77 (7)	119 (9)	150 (9)	185 (9)	-	161 -
		-12	+29	-29	-9	+56	+55	+25	+24	-	-
N.American and European Countries	11 (9)	17 (12)	30 (14)	44 (13)	56 (10)	90 (8)	119 (9)	153 (9)	167 (8)	-	-
		+52	+74	+47	+29	+60	+32	+28	+9	-	-
All Other Countries	9 (7)	16 (12)	19 (9)	19 (6)	31 (5)	46 (4)	52 (4)	65 (4)	58 (3)	-	-
		+11	+54	+57	+72	+100	+21	+25	+20	-	-
Total Remittances	125	139	213	334	577	1157	1397	1740	2097	2224	2560

(Remittances from the rest of the world in 1982-83 is equal to 2885)

The values in parenthesis are the percentage share in total flow of remittances in a given year.

The values with plus (+) and minus (-) are the growth rates in a

given year.

Source : Compiled by the author from the sources provided by the
International Monetary Fund (IMF), Washington D.C., 1983.

Table 3.1, shows a sharp increase in the flow of inward remittances during the past several years. Remittances increased from the level of U.S. \$125 million in 1972-73 to the level of U.S. \$2,885 million in 1982-83. The reason behind this dramatic rise was the significant change in the composition of the inward remittances. As seen from the table, in 1972-73, 54 percent of the remittances were flowing to Pakistan from workers in the U.K., while the share of Middle Eastern and North African countries was 27 percent. Nineteen percent of the remittances were coming from all other countries. However, the composition changed radically by the end of 1982-83, when 83 percent of the remittances were coming to Pakistan from the Middle East, while the share of U.K. in the stream of remittances was reduced to only 6 percent. The remittances from the rest of the world were also reduced to 11 percent. The reason for the increased share of remittances from the Middle East was the outcome of the oil income in the region during the early 1970's, which opened up new avenues of employment opportunities in the Middle East--promising attractive wages and fringe benefits. Exploiting this opportunity, the large scale migration of the Pakistani workers generated an increased flow of remittances. Starting from the level of U.S. \$34 million in 1972-73, the cash remittances to Pakistan from the Middle East touched the level of 2400 million U.S. dollars, in 1982-83.

An observation which can be made, after analysing Table 3.1, is that the growth rate of home remittances has been slowing down after touching the peak level in the late 1970's. In the year 1977/78, the growth rate of overall remittances was 101 percent, while the same year saw a record growth rate of remittances coming from the Middle East. In 1982-83, when the overall growth rate of cash remittances was 30 percent, the growth of remittances from the Middle East dropped to 33 percent. This figure may represent an upward bias due to delinking of the Pakistan rupee with the U.S. dollar in January 1982. The trends in inflow of cash remittances to Pakistan show that the level and extent of inward remittances to Pakistan to a greater extent depends upon the level of remittance flow coming from the Middle Eastern countries. Any future change in the proportion of remittance generated from the Middle Eastern Countries will determine the overall flow of remittance to Pakistan.

3.2 CHANNELS OF REMITTANCES

Home remittances flow into Pakistan through the official channels of commercial banks and post offices and through unauthorized or illegal channels. Therefore, the official figures do not fully capture the extent of inward remittances to the country. Remittances enter into the country in the following three ways: a) Migrants use official banking and post office channels to remit their earnings to Pakistan;

b)While visiting home, migrants bring foreign exchange with them; and c)Migrants use informal or illegal channels to remit their earnings and savings, i.e., remittance through Hundi system (Hundi is an illegal system of remitting money back home, in which the migrant, while abroad, gives hard currency to a Hundi operator and the Hundi operator's co-partner, or agent in Pakistan delivers Rupees to the migrant's family). Survey findings report that 86 percent of the Pakistani migrants used the official banking channels to remit their earnings back home. If we exclude the migrants from NWFP, (where 34 percent of the migrants have been using the Hundi System to remit their earnings) then the percentage of the other migrants, who used official channels rises to 94 percent [Gilani, et. al., 1981:110-12]. A significant portion of the remittances is brought back by the migrant, while visiting home. It has been estimated that 27 percent of the average inflow of workers' remittances is brought by the migrant himself on his visit to Pakistan [Gilani, et. al., 1981:110-12].

3.3 REASONS FOR USING UNOFFICIAL CHANNELS

One reason for not using the official channels for remittance purposes may be the disparity between the official and the free market rate of Pakistani rupee per U.S. dollar. However, delinking the Pakistani rupee from the U.S. dollar might have narrowed the disparity between the official and

the free market rates of the Pakistani rupee. A better exchange rate available in the free market or in the black market can attract migrants to remit their earnings through non-official channels. Some of the earnings are stated to be transformed through unauthorized means, e.g., through Hundi operators. This channel of remittance is practiced by the migrants from NWFP and the nearby tribal areas. The reason may be,

the existence of a developed foreign exchange market in the tribal areas of NWFP. There are well-developed markets of smuggled foreign goods in these areas. Which imply the existence of a demand for foreign exchange by the shopkeepers. Since legal restrictions, which apply to the rest of the country regarding smuggled goods, are fairly relaxed here, it is quite likely that the major part of the scarcity premium on imported goods is captured by the smugglers. As such, they are in a better position to offer a premium the migrant workers for converting the foreign currency into rupees. [Gilani, et. al., 1981:110-12].

Another reason for using Hundi as a medium of remitting money home may be the time factor and the convenience attached to this system. The Hundi operator's agent delivers the domestic currency to the migrant's families by himself, as soon as he receives instructions from the Hundi operator. In a traditional tribal set up,

Hundi is employed because of its strong moral attachments which inspire respect and confidence in the minds of parties. [Perwaiz, 1979:64]

This is due to the credibility of this system that a considerable proportion of the migrants belonging to NWFP use this channel to remit their earnings.

3.4 DETERMINANTS OF HOME REMITTANCES

There exist various socio-economic factors which determine the level and extent of remittances from a labour importing country to labour exporting country or region. These factors may differ from one country to another country, depending upon the socio economic forces working in the labour exporting and as well as in labour importing country. In the case of Pakistan, the following factors determine the extent of inward remittances.

3.4.1 Number of Migrants Abroad

The inflow of home remittances to Pakistan to a large extent depends on the total stock of Pakistani workers in the Middle Eastern region and the net addition to this stock. In a way it also depends on the number of returnee migrants. The number of Pakistani workers, especially in the Middle East, has increased substantially during the past several years. Our estimates show that by the end of this decade, the number of Pakistani workers will touch the figure of 2.7 million. Although this figure gives an impression of a higher level of remittances, at the end of this decade, how-

ever, as the number of returned migrants will exceed the number of out migrants in 1990 (see Table 2.4), the inflow of remittances then may show a downward trend.

3.4.2 Level of Savings Abroad

The level of savings and the propensity to save, in turn, may determine the level and propensity to remit. Unlike Pakistani who migrated to U.K. or other European countries and North America on a permanent basis, the migration to the Middle East is quite distinct in nature. In the present case the majority of the migrants have been working on a contract basis; after the completion of their contracts they are bound to return back. Knowing the temporary nature of their employment and stay abroad,

Pakistani workers labour hard to spend as much time as physically possible in income-earning pursuits. [Perwaiz 1979:65].

These migrant try to save their earnings as much as they can. As,

a typical short term migrant is supposed to be a target saver, that is, the primary motive for his emigration is assumed to be the accumulation of some target amount of saving, as quickly as possible [Swamy, 1981: 211].

However, in case of Pakistan, these "target savers" also, seem to be "target remitters". The cost of living, social expenditures, money spent on recreation and other things do

affect the propensity to save out of income. The majority of the Pakistani workers in the Middle East are living in large group accommodations,--in most cases provided by the employer, enjoying free or subsidized meals and access to medical facilities. In addition, strict regulations and the host government policies to minimize the "undesirable aspects" of importing labour i.e., the close and prolonged contacts between the indigenous population and immigrants, [Birks and Sinclair, 1980:110], further increase the potential of the migrants to save more out of their incomes by avoiding social and recreational expenditures. Akram [Business Recorder February 2, 1978], found that about 40 percent of the total earnings is in excess for living and maintenance expenditure abroad. The finding shows that during the fiscal year 1977-78, Pakistani workers in the Middle East saved 60 percent of the total earnings. Of this they remitted 50 percent of the savings in cash, whereas 17 percent of the savings were remitted in the form of in-kind remittances. The rest of the savings were kept by the migrant himself.

The propensity to save out of total earnings and propensity to remit out of these savings vary from one occupational group to another. Table 3.2, represents the average level of earnings, savings and remittances Pakistani migrant by different occupational groups.

Table 3.2 Average Income, Savings, and Remittances
By Occupational Groups of Emigrants (1979)

(000 Rupees)

Occupational Group	Income	Savings	Saving out of Income (%)	Remittances	Remittances out of Savings (%)
Unskilled Workers	40.06	31.75	70	23.74	75
Skilled Workers	53.80	34.36	64	28.34	82
Professional	117.60	86.08	73	53.68	62
Service and Clerical Workers	60.16	39.36	65	33.84	86
Businessman	77.92	49.21	63	31.94	65
Miscellaneous	82.50	6.25	77	46.1	73

Source : Gilani et. al., 1981 : 105

Table 3.2 shows that professional people are not only earning the highest average income but also their propensity to save out of these earnings is also highest. But the propensity to remit from the savings is the lowest for this group. On the other hand, the behaviour of skilled and unskilled workers, representing 83 percent of all the occupational groups, is quite different to that of professionals. The skilled and unskilled workers respectively, remit 82 and 75 percent of their savings to Pakistan. These figures on remittance do not include remittance in kind. If we include the remittances in kind also, to these remittances, then 80 to 90 percent of the savings of majority of the workers are being sent home. Businessmen seem to retain 30 to 40 percent of their savings in their country of employment. This may imply that an increase in the income levels of skilled and unskilled workers will lead to a higher level of savings and consequently more remittance out of savings. Similarly any decrease in the real wages of these workers can adversely affect the savings potential of these workers and this can lead to a lower level of remittances.

3.4.3 Family and Social Ties

There is very logical reason behind the stream of remittances from Pakistani migrants in the Middle East, as out of these migrants only 4 percent of them are accompanied with their families, while the rest of migrants leave their fami-

lies behind. To support their family back home they remit a substantial portion of their savings. Even in the case of migrant workers having families along with them, the extended family system and social obligations force them to remit a portion of their earnings back home. The one reason to support the family through remittances is the fulfillment of the sociological and psychological wants of the migrant and his family, which worked as a push factor when reaching the decision to migrate.

3.4.4 Period of Stay Abroad

There is a common belief in the case of international and internal migration that with the passage of time, when the migrants settle down in the host country or region, the inflow of remittances slows down. Though this is true for Pakistanis who migrated to the U.K., other European Countries, and North America, in the case of present migration of Pakistani workers to the Middle East, this scenario may not be true. In the present case, although during the initial period of migration the migrants remit relatively small proportion of their incomes or savings, once they cover the initial cost of settling abroad and know the local expenditure level, they remit more.

Table 3.3 Migrants Average Annual Remittances (a)
by Duration of Stay Abroad (1979)

Duration of Stay Abroad (Years)	Average Annual Remittances per Migrant in the Group (000Rs)
Less than 1	12
Greater than 1, up to 2	21
Greater than 2, up to 4	20
Greater than 4, up to 6	21

Source : Gilani et. al., 1981 : 109

(a) Remittance sent by migrant through a
banking or other channels.

Table 3.3, illustrates the migrants' average annual remittances and the duration of stay abroad. It appears that with the exception of first year of migration, migrants remit a higher volume of remittances and the level of these remittances is quite consistent over time. This implies that in the present case, the length of stay abroad does not affect the level of remittance from the Middle East, and migrants commitment to the country remains strong.

3.4.5 Restrictions on Repatriation of Earnings

A factor which may influence the level of home remittances concerns any restrictions imposed by the host country on the repatriation of earnings. So far, most of the Middle Eastern countries, with the exception of Libya and Iraq, have liberal policies with this regard. The Libyan and Iraqi governments however have imposed certain laws, which prohibit the migrants to remit more than a fixed proportion of their income. The inflow of remittances may slow down in the future, if other oil rich Arab countries follow the same kind of restrictions.

3.4.6 Wage level

The wages offered to Pakistani workers in the labour importing countries determine their level of earnings and savings, which in turn determine the level of remittance. In

the early 1970's the majority of the workers were illegal emigrants, incapable of negotiating respectable wages [Perwaiz, 1979:67]. However, after streamlining the manpower export procedure, there was an increase in the real wages of migrant workers in the labour importing countries after the mid 1970's. These higher wages led to a higher propensity to save and in majority of the cases, a higher propensity to remit (see Table 3.2). Any future decline in the real wages of the Pakistani workers in the Middle East can lead to an ultimate decline in the inflow of home remittances; in the case of a decline in real wages, migrant workers may find themselves in a position "that they have smaller cash balance left to sent home". [Birks and Sinclair, 1980:106]

3.4.7 Exchange Rate

A significant economic factor which may encourage the inflow of home remittances through official channels, is the exchange rate for currencies of the labour exporting countries [Chandavarkar, 1980:37]. The presence of a better exchange rate encourages the migrants to route their earning through official channels. On the contrary, when the domestic currency is over-valued, i.e., the official exchange rates are not attractive, as compared with an unofficial exchange rate available to the migrants through illegal methods such as Hundi, then migrants may prefer routing their earnings through the unofficial channels in order to have maximum returns. Before 1982,

the linkage of rupee with the dollar has been operating to the disadvantage of remitters, inducing them to send their savings through Hundies and other illegal channels". [Perwaiz, 1979:68].

However, the delinking of the Pakistani rupee from the U.S. dollar in January 1982 and the introduction of a floating rate may help to reduce the differential between free market and official rates.

The extent to which there exists a disparity between official and free market or between official and Hawala (black market) exchange rate is shown in the following table.

Table 3.4 Trend of Free Market and Hawala Rate of Pakistani Rupee per U.S. Dollar.

Year (March - December)	Official (Karachi)	Spot (Dubai)	Hawala (Dubai)
1974	9.90	9.98	10.50
1975	9.90	10.06	10.66
1976	9.90	10.17	10.87
1977	9.90	9.82	10.46
1978	9.90	9.80	10.23
1979	9.90	10.27	10.86
1980	9.90	9.89	10.40
1981	9.90	10.39	11.27
1982 (January - March)	10.64	10.51	11.77
1983 (August)	13.39	N.A	N.A

Source : Compiled by the author from the sources provided by the IMF, Washington D.C., 1983.

Table 3.4 depicts that the Hawala rate of Pakistani rupee per U.S. dollar is quite attractive, if we compare it with official or spot exchange rate. However, if we compare the two situations i.e., before and after the delinking, it seems that the disparity between the official and Hawala exchange rate has reduced owing to the delinking effect. The official exchange rate of Pakistani rupee per U.S. dollar has witnessed a substantial increase in the year 1983, but due to a lack of information about the spot and Hawala rate, we cannot say to what extent the disparity between these rates has been removed and to what extent this has any positive impact on the level of inflow of remittance, due to the reasons reported earlier.

3.5 FUTURE FLOW OF REMITTANCES

The extent of remittances to Pakistan depends upon the level of earnings abroad and savings generated from these earnings. These two factors, as we have seen earlier, may be affected by the skill composition of the migrant workers in the total stock. Pakistani migrants working in the oil rich labour importing countries have different level of annual earnings, propensities to save and propensities to remit according to their occupation (see Table 3.2). Hence, while making the future estimates of the inflow of remittances, we have to take into account the skill composition of the migrant workers in the total stock of Pakistani workers in the

Middle Eastern region. To project the future flow of remittances to Pakistan from the Middle East, we make the following assumptions.

3.5.1 ASSUMPTIONS: SCENARIO I

- 1) We maintain all assumptions, employed in projecting the future demand for Pakistani workers in the Middle East.
- 2) We assume that there will be no change in the skill composition of the Pakistani migrant workers, working in the Middle East, i.e., we follow a 1979 skillwise breakdown of the migrants in the major occupational groups, estimated by Gilani et. al., [1981:28].
- 3) We assume an increase in the inward remittances of 5 per cent per annum per migrant worker, due to rise in nominal wages in the Middle East.
- 4) We follow the estimates of remittances per migrant worker per annum as reported in Table 3.2.

3.5.2 METHODOLOGY AND ESTIMATION

let us denote,

- 1 = Unskilled Workers
- 2 = Skilled wWorkers.
- 3 = Professional Workers.
- 4 = Clerical and Service Workers.
- 5 = Salesmen/Businessmen
- 6 = Miscellaneous Workers.

W_{it} = Percentage proportion of i th group of workers in the total stock of migrant workers in year t .

R_{it} = Remittances sent by the i th group of workers in year t .

X_{it} = Share of i th group of workers in the total stock of migrant workers.

S_t = Stock of migrant workers in the Middle East in year t .

G_{it} = Per capita remittances sent by the group of workers in year t .

I_t = per annum increase in the per migrant remittances from Pakistani workers working in the Middle East.

g_{it} = Rate of growth in home remittances in year t .

$I_t = 5\%$

$i = 1, 2, 3, \dots, 6$

Moreover,

$X_{it} = W_{it} \cdot S_t$

$R_{it} = X_{it} \cdot G_{it}$

and

$R_{it+1} = X_{it} (G_{it} + G_{it} \cdot I_t)$

Table 3.5 Projection of the Home Remittances (1982 - 1990)
(million Rs)

Scenario I

	1982	1983	1984	1985	1986	1987	1988	1989	1990
Rit ---									
R1	19916	22553	25617	29033	32632	36333	40060	43724	47287
R2	22665	25692	29145	33025	37110	41305	45565	49728	53806
R3	4336	5154	5826	6620	7479	8328	9161	9968	10834
R4	2467	2795	3147	3576	4039	4490	4924	5390	5833
R5	3770	4268	4848	5517	6196	6877	7566	8255	8940
R6	2615	2969	3412	3829	4344	4834	5290	5779	6225
Total	55965	63431	71995	81600	91800	102167	112566	122844	132925
git		13.34	13.50	13.34	12.50	11.29	10.17	9.13	8.2

Our projections indicates that there is no sign of an immediate dramatic drop in the inflow of home remittances, in terms of the Pakistani rupee. However, the flow of remittances from the Middle East shows a downward trend after 1984, as after 1984 the inflow of remittances is increasing at a decreasing rate. The growth in the inflow of remittances, which according to our projection is above 13 percent in 1983, will decline by 5 percent in 1990. Our results confirm the common belief that a slowdown in the growth of inflow of remittances cannot be avoided. However, there may not be a sudden drop in the flow of inward remittances during the projected period.

3.5.3 SCENARIO II

Under this scenario, instead of following the assumption of fixed propotion of different categories of workers in the stock of Pakistani workers throughout the projected period, we assume that the composition of the migrant workers in different occupational categories does not remain the same. Instead it changes with the passage of time. This change in the occupational composition of the migrant workers coincides with the changing demand pattern in the labour importing countries of the Middle East.

Due to rapidly changing development needs of their economies, the manpower requirements in these countries may lead

to a gradual slowdown in the demand for unskilled and even skilled workers, owing to the completion of infrastructure in these countries and an ultimate end to the construction boom. However, at the same time, there may be an upward shift in the demand for professional and service workers. With the expansion in the economy, there may be a tendency towards an increased proportion of the Pakistani migrants in the business profession. Therefore, under this scenario except for the assumption regarding the fixed proportion of different categories of migrant workers, we follow all the assumptions discussed under scenario I. In addition to these assumptions, we also assume that

1) The share of unskilled workers in the total migrants stock will decrease at the rate of 2 percent annually in the subsequent years of the projected period.

2) The proportion of skilled workers will also show a downward trend and their share decrease at a rate of 0.5 annual percent in the subsequent years.

3) The share of the professional workers in the total stock will increase by 1 percent in the subsequent years of the projected period.

The proportion of the clerical staff will also increase by 0.5 percent in the subsequent years.

4) The share of the migrant workers engaged in the business and related occupations will increase by 1 percent in the subsequent years.

5) The composition of the migrant workers working under the category of "Miscellaneous Workers" will remain the same throughout the period.

Table 3.6 Projection of the Home Remittances (1982 - 1990)
(million Rs)

Scenario II

	1982	1983	1984	1985	1986	1987	1988	1989	1990
Rit ---									
R1	19916	21515	23194	24963	26520	27811	28793	29382	29550
R2	22665	25414	28422	31810	35276	38795	42182	45438	48478
R3	4536	6981	9938	13600	17830	22765	28315	34364	40947
R4	2467	3165	3999	5024	6225	7533	8957	10505	12185
R5	3770	4617	5663	6886	8261	9750	11373	13084	14881
R6	2615	2969	3412	3829	4344	4834	5290	5779	6225
Total	55969	64666	74628	86112	98456	111488	124910	138552	152266
git		15.53	15.40	15.38	14.33	13.23	12.03	10.92	9.89

From the above projection it seems that a change in the composition of the migrants in different occupational groups in the total stock of migrants, may not affect the inflow of remittances to a large extent. Under scenario II, the inflow of remittances to Pakistan is comparatively higher than that under scenario I. However, under scenario II, at the end of the projected period the drop in the growth rate of the inflow of remittances will be sharper than in the case of scenario I. The explanation for a higher level of remittances under scenario may be due to the fact that though the propensity to remit of the professionals and businessmen is low as compared to that of skilled and unskilled workers, in absolute terms the amount remitted by professionals and the businessmen is comparatively higher than that of unskilled and skilled workers. That is why, even after the change in the composition of different categories of migrant workers, there is no adverse effect on the absolute value of inward remittances. However, in this case, as our projections show, a possibility of rapid decline in the growth of remittances cannot be ruled out.

On the basis of these two different scenarios, we may conclude that a change in the occupational composition of migrants may not affect the level of inward remittances significantly. This particularly is the case in the 1980's. We have derived this inference mainly from our assumption that any change in the composition of migrants occupation in a

particular year is not going to upset the stock of Pakistani migrants in the Middle East. We note however that any weakening of our assumptions could affect the flow of remittances dramatically. The worst that could happen would be the case where Pakistan fails to meet the challenge of a rapidly changing pattern of manpower requirements in the Middle East, and thus fails to maintain the net stock of Pakistani migrants in that region.

Chapter IV

REMITTANCE SPENDING PATTERN IN PAKISTAN

The ways in which remittances are used determines the extent to which a region has achieved the goal of remittance-led development. To see the extent to which the development potential of remittances has been achieved in the case of Pakistan, we need to examine the remittance spending pattern in Pakistan. In addition to analysing the remittance spending behaviour in Pakistan, it is of interest to examine this pattern in the context of the remittance spending pattern which exists in various parts of the world.

In this context, remittance inflow to Turkey have acquired a special status in the country's economy, both at the micro and at the macro level. While these remittances have provided solid support to the economy in the form of foreign exchange earnings, at the same time a large number of Turkish migrant workers' families are the net beneficiaries due to higher level of income through remittance money. How these immediate beneficiaries utilize their remittance income is analysed by Paine [1974:114-134], and given in the form of the following table.

Table 4.1 Migrants use of Remittance (Turkey)

	% of Migrants
Consumer Durables	56
Real Estate	40
Clothing	39
Repayment of Debt	8
Marriages	5
Agricultural Input	5
Industrial Machinery	7
Co-operative Investment	8
Industrial Partnership	3

Source : Paine; 1974 : 114-134

Paine [1974], further reports that 37 percent of the remittances were spent on work related goods and 50 percent were spent on consumer goods. As Table 4.1 indicates, for a majority of the sample migrants the most popular large items purchased are consumer durables, real estate and clothing. The money spent on the payment of old debts indicates that, it is quite possible, in the Turkish case, that a portion of the migrant workers financed their expenditures on migration by taking loans from relatives or families. The above findings show that the majority of the migrants were not investing remittances in economically productive projects; instead they were using these resources for consumption purposes and for the purchase of real estate.

In order to channel remittances towards productive investment, the Turkish government introduced various schemes and encouraged productive investment through different ways. The investment schemes encouraged by the Turkish government were the joint industrial partnerships and cooperatives. However, these schemes, initiated by the Turkish authorities, did not meet with much success. Paine [1974], concludes that the basic reason behind this poor performance of government schemes was the lack of information of the migrant workers regarding profitable ventures, and their lack of knowhow and managerial skills. Another factor working against government sponsored productive investment schemes was

the absence of a developed system of financial intermediaries suitable for the small saver, combined with the extremely low (or even negative) real rates of interest which have been paid on savings accounts, the relative failure of the special government sponsored schemes to persuade workers to invest in cooperatives, joint ventures, shares or stock indicates a failure to persuade workers to invest at all. Since these productive investment opportunities were often more accessible and financially attractive than those provided through the banking system. [Paine, 1974:134-135]

Briquets [1983:30], while discussing the impact of international migration within Latin America and the Caribbean, concludes that remittances are used to support relatives back home by improving their housing conditions and making investments for them, like the purchase of land. Briquets [1983], ruled out the possibility of any harmful nature of remittances for the rural migrants, as they hardly manage to earn enough to stay above a subsistence level. In the case of flow of the remittances from the U.S.A. to Mexico, Wiest [1979:88] reports that among international migrants in Aeuitzio, the first preference of the migrants is to spend their remittances on housing, while their second priority is to acquire consumer goods like furniture, televisions, cars, pickups, gas stoves, mattresses and expensive clothing which is regarded as a "symbol of success". "Capital investment", mainly in the form of land purchase, is again used as a symbol of social status. Other authors, as quoted by Sawson [1979:13-18], found similar spending patterns among the migrants and their households, as Foerster [1919:455-456] re-

ports how remittance income from Argentina, Brazil and the United States raised the standard of living in Italian villages. Other writers, such as Ta Chen [1940:86-117], Schapera [1947: 103] and Watson [1975:132-135] also report that the families of migrants dress better and eat better because of remitted money from abroad. Serageldin, et. al., [1983:87-8] observed a similar remittance spending pattern in the Y.A.R. They report that:

tastes are altering to favour imported goods and a higher standard of consumer goods in general. Diets have changed, with imported foods being substituted for sorghum.

In the case of the Y.A.R., Sawson [1979:70-85] reports that vast expenditures on housing is another way in which emigration has improved the standard of living of the migrants' families. As far as urban investment is concerned, apart from real estate, other investment which captures a bulk of remittances is the establishment of the emigrant agency. An interesting feature of remittances to Yemen Arab Republic is a large sum of money remitted through the Wakil, who gets commission for distributing it among the migrants' relatives. In certain cases where remitted money is not wanted by the migrants' families immediately, the Wakil then invest the migrants' remittances on any profitable project. This provides benefit to the Wakil as well as to the migrant's family. Retail marketing of imported products and transport is another area where the migrants' investment is

growing. Rural investment is not a popular feature and, according to Sawson [1979], this is mainly because of the fact that rural investment options are very limited. As a result of this, the cities of Taiz and Sanaa are attracting the majority of the remittances, even though these cities too, do not offer many investment opportunities to the potential investors.

Facing a similar situation of a lack of investment in productive projects, the government of Jordan has introduced a "Development Bank", intended to be a channel for transforming cash balances into savings and productive investment. The introduction of this scheme is basically to stop the flow of remittances towards the purchase of imported consumer goods [Birks and Sinclair, 1980:104]. The Egyptian National Plan, 1978-82, observed that Egyptian migrants abroad, coming back to Egypt with a lot of foreign earned money, were directing their incomes not towards savings and investment, but towards the consumption of luxury goods [Serageldin et. al., 1983:89]. However, whether these government sponsored investment schemes have met the challenge is not yet known.

A 1978-79 survey of different migrants' household groups in Bangladesh carried out by Ali et. al. [1981:129-138] has revealed the following results regarding remittance spending pattern in Bangladesh.

Table 4.2 Remittance Spending Pattern in Bangladesh

Expenditures	Percentage of Migrants	
	Rural	Urban
Current Consumption (1978 - 1979)	45	42
Purchase of Land (1974 - 75 / 1978 - 79)	37	23
House Construction	29	19
Consumer Durables	9	3
Ornaments	4	3
Repayment of Debt	17	18
Agricultural Investment	7	-
Investment in Business	2	18

Source : Ali, et. al., 1981 : 129-138

Viewing the remittance spending pattern in rural as well as in urban Bangladesh, we may conclude that a large portion of remitted money is used to meet current consumption needs. The use of remittances for agricultural and industrial investment is not a popular feature among the migrants' households; a considerable sum of remittance money is being spent on the purchase of land both in the rural as well as in the urban areas. Repayment of the earlier debts is another channel which absorbs a significant amount of remittance money.

Connell et. al. [1976:93-101] reviewed various studies to analyse the remittance spending pattern in the rural areas of outmigration. Quoting Mook [1972:94], Connell [1976] reports that, in the case of Kenya, heavy inflow of remittance towards the village of Maragoli was aimed at paying school fees, thus stimulating further migration. However, while a part of remittances is used to finance education in the areas of outmigration, the bulk of remittance was spent on home consumption.

Table 4.3 Use of Remittances in some Regions of Rural Asia and Africa (% of Remittances)

Country and Year	Author	Source	Home Consumption	Educa- tion	Agri- culture Invest- ment	House Build- ing	Others
Kenya (1972)	Johnson and White Law	Connell et. al [1976:98]	96	12	4	-	-
Nigeria (1979)	Aedpoji	Connell et. al [1976:98]	92	9	7	-	-
* India (Punjab) (1980)	Oberai and Singh	Oberai and Singh [1980:236- 237]	75	1	6	25	-
** Pakis- tan (N.W.F.P) (1971-72)	Mahmood, Butcher and Gotsch	Mahmood, Butcher and Gotsch [1975:15-17]	83	10	7	-	19

* The figures in the case of rural Punjab are the percentage of the migrants who spent remittance on different items.

** Others include remittances spent on repayment of debts and social ceremonies.

Table 4.3 indicates the pattern of remittance spending in different receiving areas of rural Asia and Africa.

These findings support the generally held belief that most of the remitted money is spent on consumption. The fact that more than 90 percent of the remittances is spent to meet the consumption and household requirements, leaves very little chance for remittance-led development in these areas.

Caldwell's [1969:163] findings show that 73 percent of rural families used remittances to maintain the family. Analysing the remittance spending pattern of South-West Nigeria migrants, Ahiauyo [1974:156-169], concludes that, after meeting the basic needs, remittances flow towards conspicuous consumption. They are used as a means through which the migrants can build their prestige in the community. Dus-sauze-Ingrand [1974:239-257] found that among the Sarakole in Mauritania, remittances were invested in the form of purchase of cattle and jewellery. He concluded that remittances were thus used for the future security of the family.

In a Eastern Uttar Pradesh village in India, Simon [1966:242-251], noted that increased remittances had led to increased expenditures on education among the migrants' households. Anderson [1972:10-11] reports a similar trend in the case of the Philippines. Dahya [1973:54-57] perceived a sequence in the remittance spending pattern among the migrants' households of the Mirpur district of Pakistan. Ac-

According to him, remittances are first of all used to repay old debt incurred in financing the migration. The second use of remittances was the purchase of land and farm inputs, and then the building of a Pakka (permanent) house made of cement. The last priority they give is to any kind of economic investment. The same sequence of remittance spending pattern is reported by Hopper [1957:297].

In his review of these studies, Connell [1976] concludes that the spending of remittances shows the poverty and lack of investment opportunities in the region from which migrants come, with the result that most of the remittances are consumed in daily family needs and conspicuous consumption.

A survey [Commerce, December 9, 1978] conducted in the state of Kerala in India, reports that in 1977, land and buildings which accounted for 75 percent of the average value of assets of an emigrant household were purchased through remittance money. The survey reports that 60 percent of the emigrants were in debt and unemployed at the time of migration. After paying the old debts and meeting the immediate needs of the family, the next priorities of the migrants were the purchase of land, building and jewellery.

Baucic's study [1972:23-36], regarding the effects of emigration from Yugoslavia, reports that the largest proportion of remittance is spent by migrant workers on improving housing conditions, as 32 percent of the sample migrants had

spent remittances on building, repairing or purchasing a house. More than 48 percent of the migrants stated that the major aim for taking employment abroad was to improve their housing conditions. Six percent of the migrants are reported to be investing their savings out of remittances in the purchase of agricultural land, agricultural machinery and farm buildings. Eight percent of the migrants spent the major portion of their savings on the purchase of motor cars. There is no evidence in the study regarding current consumption expenditures out of remittances. However, while planning the future spending pattern out of remittances, more than 6 percent of the migrants showed their plans to spend on daily needs of life. Rempel and Lobdell [1978:333-336], while analysing the use made of remittances in the rural areas of the world, reviewed various studies in this regard. Quoting Lipton [1976:34-35], Rempel and Lobdell [1978] mention that 90 percent of the remittances received are spent on the purchase of consumption goods of daily use. Lipton [1976] lists four priorities of the migrants regarding the use of remittances, in order of preference: the payment of debts and expenditures on education of the children, the purchase of consumer goods to meet daily needs, the education of younger siblings and economic investment. Philpott [1970], Weisner [1972] and Suzuki [1964], mention the use of remittances to finance the migration of other people. In the case of Malawi, Boeder [1973:44] reports that in some cases,

remittance money is used to purchase retail business, maize mills, lorries and cattle. Phipps [1973] reports that remittance money helped many people to become large scale fishermen on Lake Chilwa in Malawi. Long [1968] reports that in the case of the Serenje District of Zambia, remittances were used to establish farms, purchase implements and seeds, hire labour or establish a non-agricultural enterprise. Goddard [1974], reports that 14 to 33 percent of respondents to surveys conducted in northern Nigeria, invested remittances in the agricultural sector. Eames [1954:22] reports that 12 percent of the respondents in a village in north central India used remittances to support agriculture. Rempel and Lobdell [1978] are of the view that in most of the cases, not much of the remittances are diverted to productive investment in the rural area - contrary to Stark's [1976] argument that inward remittances to the rural areas is a key factor to increase agricultural productivity. They conclude that remittances are used as an insurance premium to protect the migrant against an uncertain future.

In the Pacific region, Connell [1980:24-38], reports a similar remittance spending pattern. The remittance spending pattern which emerges from the various studies reviewed by Connell [1980] is summarized in the following table.

Table 4.4 Use of Remittances in the South Pacific

Region	Author	Expenditures
Northern Kiributi	Lamberk [1975 : 220]	Improved Housing, Imported Consumer Goods
Western Samoa	Shankman [1976 : 63]	Improved Housing
South Pacific Region	Watters [1970 : 135]	Better Food, Housing, Consumer Durables
Etal atoll Truk	Nason [1975 : 142]	Land Purchase
American and Western Soma	Holmes [1971 : 101]	Land Purchase
New Caledonia	Saussol [1971 : 240]	Land Purchase
Northern Guadalcanal and Siwai	Lasaga [1972 : 268]	Wage Payment to Farm Workers
Choiseul Island	Connell [1980]	Cattle Project, Coconut Plantations, Motor Vehicle, Motor Boats
Tonga	DeBres and Campbell [1975]	Village Infra-Structure
Western Samoa	Shankman [1976 : 68 - 70]	Religious Demands, Village Infra-Structure
Tokelaus	Hopperand Huntman [1973]	Religious Demands, Village Infra-Structure
PNG(Northern Province)	Baxter [1972 : 104]	Bride Price, Social Functions
PNP(Eastern Highlands)	Hayano [1979 : 43]	Bride Price

Source : Connell [1980 : 24 - 38]

It seems that in certain cases, remittances are spent on farm investment and on the making of village infrastructure. However, Connell [1980] concludes from the south Pacific experience that most of the remitted money is spent on conspicuous consumption, essentially, due to the lack of productive options in the rural economy, and because of the fact that,

for most absentee migrants the actual physical contribution and distribution of remittances is itself sufficient; productive investment (even where opportunities are available) is rarely the aim of remittances (especially since many migrants may have little control over their use) [Connell, 1980:37].

The picture which emerges from the remittance spending patterns in various parts of the world reveals that the bulk of remittances is used to meet current consumption demands. This consumption demand ranged from basic needs to conspicuous consumption. A significant portion of remittances, apart from consumption, is captured by the purchase of real estate, as migrants use remittances to help the family back home to improve their living conditions. Purchase of a new house and building or repairing of the house is a common feature in almost all the areas of outmigration. Migrants perceive expenditures on housing or land as not only a form of future security, but also a symbol of social success in the community. In any status conscious society, it seems to be very logical, on the part of migrants or their families,

to utilize remittances in such a way so that they can achieve the desired social status in the society. In various areas of outmigration, the possession of jewellery, ornaments and consumer durables is viewed as a symbol of success. Sometimes migrants also use considerable amounts of remittances to repay debts. Normally these debts indicate financing of migration through loans from friends or relatives. Education is another area where migrants are reported to spend remitted incomes. Productive investment in rural as well as in urban areas attracts a very small portion of the remitted money. In the urban sector, this investment may take the form of financial, industrial or business investment, whereas in the rural areas, remittances are spent on acquiring seeds, fertilizer and farm machinery. Investing remittances in the non-agricultural sector of the rural economy is a rare feature in most of the rural areas of outmigration, which may imply a lack of non-agricultural investment opportunities in the area. Investment in transport and retail business seems to be a common feature both in the rural as well as in the urban areas. A quite interesting feature which emerges from a number of cases, is the fact that government sponsored schemes to induce migrants to invest in the productive sector of the economy, were not met with much success. The reason for this poor performance seems to be: a lack of information to the migrants and their families about the profitable investment projects, their

lack of knowhow for such type of schemes, a lack of managerial skill and low returns on these investment schemes.

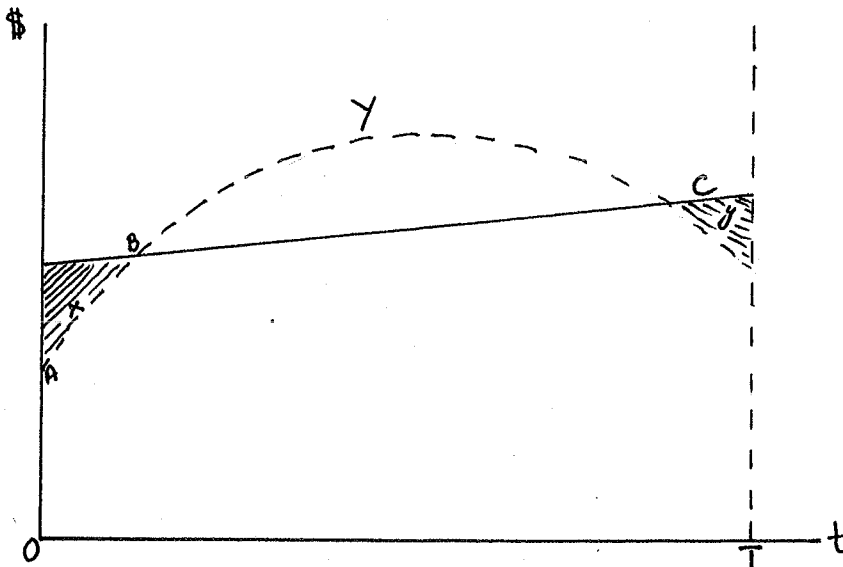
From this discussion, we may conclude that remittances have largely failed to contribute to productive investment in the region of outmigration, which may generate direct benefits to the migrants as well as to the society as a whole. Instead, social expenditures have dominance in the remittance-receiving areas. This typical pattern of remittance spending, which prevails in most of the remittance receiving regions, poses many questions, such as: why are migrants and their families not utilizing remitted money to enhance the productive capacity of the region; why are remittances channeled into conspicuous consumption and real estate instead of productive investment; is there any economic rationale behind the social expenditure with remitted money; why have government sponsored schemes failed to capture the development potential of remittances; how can remittances be captured for productive investment.

Apart from analysing these issues in the context of a Pakistani experience, the following discussion will also take into account the rationale for the similarities and the differences which may exist in the remittance spending pattern in Pakistan and that which emerges from the study of various remittance receiving regions of the world.

4.1 REMITTANCE SPENDING PATTERN

The remittance spending pattern of migrants and their households can be explained in the context of a life cycle hypothesis of consumption as postulated by Ando and Modigliani [Branson and Litvack, 1980:186-87]. According to this hypothesis, a typical individual has an income which is relatively low at the beginning and at the end of his life, when his productivity is also low. On the other hand, his income is high during the middle of his life, when his productivity is comparatively higher. The typical income stream of an individual is shown in the form of curve (Y), in Figure 4.1.

Life Cycle Hypothesis of Consumption (Figure 4.1)

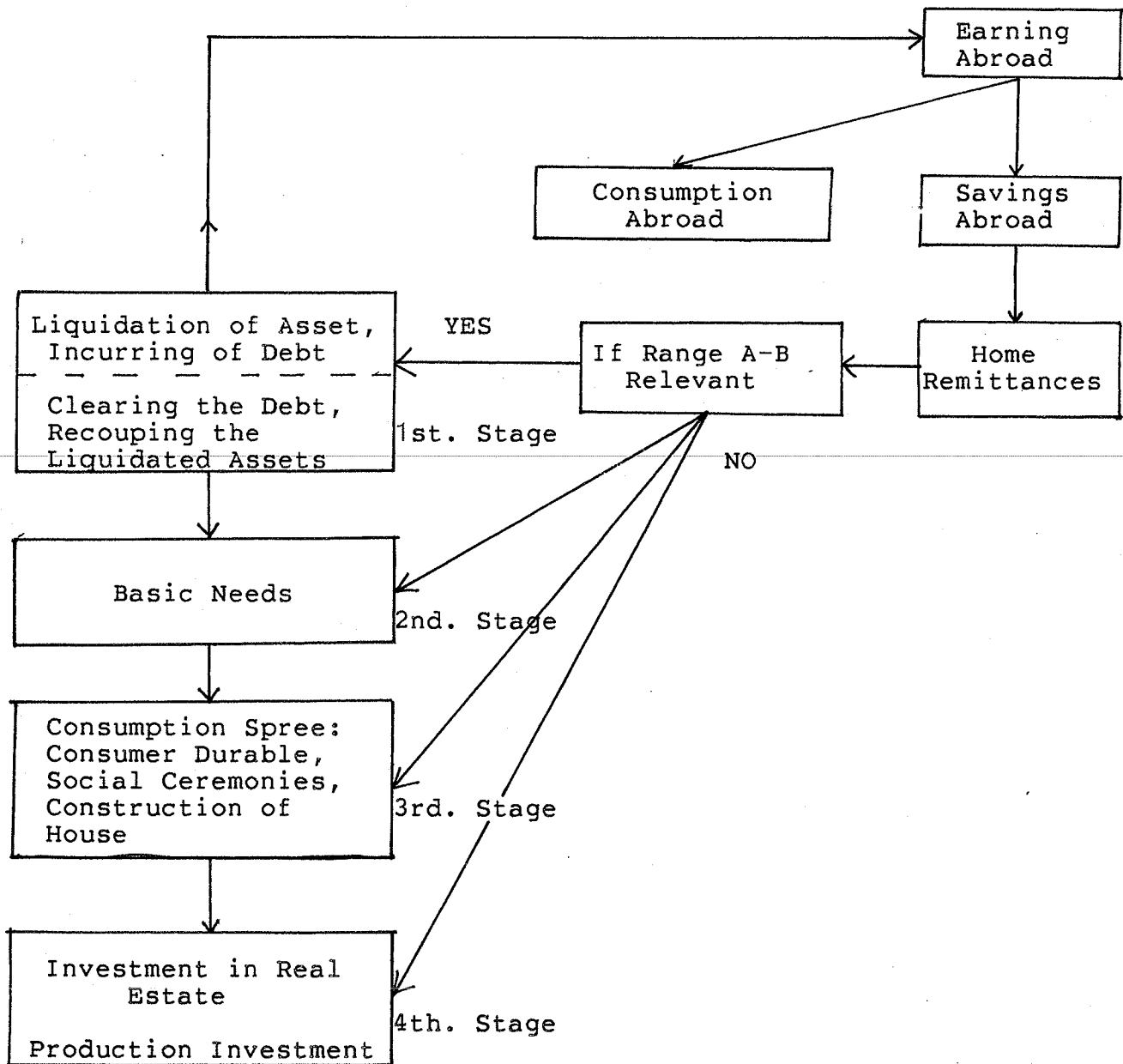


The expected life time is represented by point (T) on the time-axis. The individual might be expected to maintain a more or less constant or slightly increasing level of consumption throughout his life time. However, in our case, the individual is following an increasing level of consumption throughout his life, as shown in terms of curve (C). The life cycle consumption model suggests that, in the early years of an individual's life, (shaded area x), he is a net borrower, whereas, in the middle years of his life, he saves to repay the debt and provide for the life yet to come. The second shaded area, (y), depicts the situation in which the individual dissaves in the later years of his life.

4.2 REMITTANCE SPENDING MODEL

In the light of the life cycle hypothesis of consumption, the existing remittance spending pattern of the migrants and their families can be illustrated with the help of the following model. Our remittance spending model represents four stages of remittance use, which we may discuss one by one.

Figure 4.2 Remittance Spending Model



4.2.1 First Stage

This is very similar to the life cycle hypothesis of consumption, in that during the early years of a person's life, he is a net borrower. Prior to his departure to a foreign country, an emigrant worker incurs substantial expenditures. He incurs these expenditures, not only on his fare, but also on obtaining an employment visa, passport, and completion of other formalities. As most of the migrants come from economically depressed and poor classes, such expenditures are usually financed by the liquidation of existing assets, i.e., shop, house, land, jewellery or by incurring debt from relatives or friends. In some cases, these expenditures are financed by taking loans against their assets. The first use of remittances, or the first stage of the remittance spending pattern model, involves, therefore, recouping the liquidated assets or clearing the debts. The first use of remittances to regain lost assets is not surprising in a society where people attach great value to such assets.

This stage, however, represents the situation when the migrant borrows money to finance his migration. In that case, the segment (AB) of the curve (Y) represents the position of the migrant and his family in the life cycle of consumption, prior to the migration.

4.2.2 Second Stage

In the second stage of the remittance spending pattern model, the migrant's family spends remittances on the fulfilment of their basic needs or on essential consumption requirements. This includes expenditures on adequate food, housing, clothing, health care and other basic immediate basic requirements, which sometimes also include electricity and water supply connection for the home.

4.2.3 Third Stage

In the third stage of the remittance spending pattern model, the bulk of the remittances is used for improvement in the living conditions and for satisfying the pent-up demands for a number of consumer goods. This stage represents a consumption spree transcending into a consumption explosion. In this stage, the family of the migrant seeks to improve its social status in the community. This involves substantial expenditures on jewellery and consumer durables. These consumer durables include televisions, refrigerators, air-conditioners, video cassette recorders, tape recorders, cars, motor-cycles and the like. This stage also involves expenditures on marriages, funerals, childbirth, and circumcision. Improvement and decoration of the house also come under this stage.

4.2.4 Fourth Stage

Realizing that the present migration is temporary, the migrants pay attention towards future sources of income. They look for investment opportunities which may provide secure future returns. Hence, the fourth stage of the remittance spending pattern involves investment to secure the future. We can categorize this investment into expenditures on real estate and money spent on financial, industrial, commercial, business, agricultural and non-agricultural sectors of the economy. The migrants and their families spend the bulk of remittances on real estate, which includes construction or purchase of a new house and/or a shop, or a building for rental purposes. Purchase of land also comes under this category. While a part of the remittances goes to real estate, another portion is spent in the financial, commercial, industrial, and agricultural sector of the economy. In urban areas, this investment can take in the form of the establishment of cottage and small scale industries, retail and transport businesses, and investment in financial schemes. In rural areas, migrants and their families may invest remitted money in agricultural as well as in the non-agricultural sectors. In the agricultural sector, this investment may take the form of purchase of farm inputs, i.e., fertilizer, seeds, pesticides, and the hiring of farm workers. To mechanize the farm operation, migrants may invest remittance money on the purchase of farm machinery. This may lead to

the purchase of tractors, tubwells, wheat threshers and other related agriculture machinery. The purchase of live-stock and the construction of godowns also come under this category.

Investment in the non-agricultural sector of rural areas usually consists of the establishment of agro-based industries, workshops and the like. Construction of cold storage facilities and investment in rural transport are the other investment areas which can attract remittance money.

Now, going back to our remittance spending pattern model and the life cycle hypothesis of consumption, it follows that it is not essential that a migrant's household necessarily moves from stage one of the remittance spending pattern model to stage four in a sequential manner. It is quite possible that, with the inflow of home remittances, a migrant's household may find himself in the second stage of the remittance spending model, where he fulfils the basic needs of the family, i.e., somewhere along the segment (BC) of the curve (Y) in Figure 4.1. Similarly, the migrant's household might start the remittance spending while they are already in stage three or stage four of the remittance spending model; however, this depends on the position of the migrant's household in the life cycle of consumption, prior to the inflow of remittances. If the migrant's family is receiving the remittances, while they are in between, on the segment

(BC), [see Figure 4.1], then they may end up in any of the stages two to four of the remittance spending pattern model. It is quite logical that those migrants' households already in stage three may not need to spend remitted money on fulfilling the basic needs and meeting current consumption needs. A migrant's family in the range A to B, [Figure 4.1], will follow the remittance spending pattern model, starting from stage one and then moving towards stage four. Another possibility is that a migrant's household might find himself in stage two initially, and then following the remittance spending pattern model, that is, moving to stage four through stage three.

4.3 REMITTANCE SPENDING PATTERN: EMPIRICAL EVIDENCE

The majority of emigrants come from the poorer classes of society. Some have to sell off their properties or have to borrow from friends and relatives to meet the expenses of emigration. Therefore, their first priorities, while spending their savings from abroad, are to clear the debts, repurchase lost assets and provide for the rising material expectation of their families.

Findings of a survey [Rahman, 1981:68] conducted in the rural Punjab throws light on this issue. These findings show the purposes for which loans were taken by the intending emigrants before their emigration and their priorities for ex-

penditures. Although the purchase of agricultural land was also a purpose for borrowing, borrowing to finance emigration was the major motivation.

Table 4.5 gives a good illustration of the findings on the use of borrowed money.

Table 4.5 Average Amount Borrowed by Emigrant Household and its Use (%) Rupees

Average Amount Borrowed/ Household	Purchase of Agricultural Land	Purchase of Non-Agricultural Land	Housing	Agriculture Machinery, Input	Emigration	Education, Marriage
100	4.07	18.1	6.9	6.2	62.53	2.17

Source : Rahman [1981:68]

It is very obvious from the table that a significant portion of the borrowed money is spent to finance the emigration of the migrant in the rural Punjab. This result has a very striking implication: people from the rural area are migrating inspite of the fact that they are unable to finance their emigration because of poverty. As reported by Gilani, et. al., [1981] the migrants' household, prior to migration, have a slightly higher average income than the rest of the population, that is, Rs 21,000 annually, as compared with Rs 20,000 for the population at large. But, keeping in view the fact that two thirds of the migrant workers originate from rural areas and approximately half of all are unskilled labour, this may imply that a major proportion of the migrants belong to lower income families.

There is no direct information about the proportion of remittances which are spent by the migrants' households in the form of repayment of debts. A 1979 survey of migrants' households and migrants by the Pakistan Institute of Development Economics (PIDE) offers some insight into the remittance spending pattern. These survey findings support the commonly-held belief that a considerable portion of home remittances goes to satisfy consumption needs. Table 4.6 reflects the spending pattern of home remittances.

Table 4.6 Use of Remittances (Per Migrant / Per Year)

Expenditure	% of Remittances
Consumption	
a) Recurring Consumption	57.00
b) Marriages	2.35
c) Consumer Durables	2.84
Sub-Total	----- 62.19
Consumption Type Investment (Real Estate)	
a) Construction / Purchase of Residential House	12.14
b) Improvement in Home	2.27
c) Commercial Real Estate	5.72
d) Agricultural Land	1.55
Sub-Total	----- 21.68
Productive Investment / Savings	
a) Agricultural Investment	3.30
b) Industrial Investment	8.21
c) Financial Investment	1.44
Sub-Total	----- 12.95
Residual	3.18 *
Total	----- 100.00 =====

* The unexplained residual of the total remittance comprises of cash balances, current account, gold, etc.

Source : Gilani, et.al, [1981:144]

[1981:144]

4.3.1 Consumption

The survey findings show that 57 percent of the remittances were spent on recurring consumption. This category of consumption includes items such as food, fuel, electricity, gas, transport, house-rent, clothing, shoes and other household needs. Expenditures on marriages were estimated to be 2 percent of the remittances. The expenditures on consumer durables, which are 3 percent of the remittances, include expenditure on the purchase of cars, motorcycles, air-conditioners, television sets, radios, tape recorders, electric irons, refrigerators, sewing machines, cameras, etc.. A total of 62 percent of the remittances is being spent on consumption goods.

4.3.2 Consumption Type Investment

Expenditures which give benefits to the individual investors and not to the society as such are classified as the consumption type investment [Gilani, 1981:82]. Expenditures of this type include the purchase or construction of own house, improvement of own house, expenditure on real estate, and expenditure on health and education.

According to the PIDE survey, the annual expenditure on the construction or improvement of a house works out to be 12 percent of remittances, whereas 2 percent of the remittances are spent on the improvement of the house. In addition to the purchase and improvement of their own house, migrants also spent a large sum of remittances on the purchase of real estate for rental and income generating purposes. These expenditures on commercial real estate were 6 percent of the remittances. These expenditures include money spent on the purchase of houses, flats, hotels, shops, etc.. The amount spent on commercial real estate does not take into account money spent on the purchase of agricultural land and orchards which is 2 percent of the remittances.

4.3.3 Productive Investment

These expenditures result in a net addition to society's productive resources in the form of physical or capital stock. The category of productive investment includes agricultural as well as industrial and commercial investment.

4.3.4 Agricultural Investment

Investment in agriculture includes expenditure on agricultural machinery, live stock, improvement of agricultural land and purchase of improved agricultural inputs.

Agricultural Machinery: According to the PIDE survey, the amount spent on the purchase of tractors, tubwells, and other agricultural implements was 1 percent of the remittances.

Expenditures on Agricultural Land Improvement: These expenditures include money spent on erosion control, levelling the land, digging or paving the channels and digging of a new well for irrigation. According to the survey findings, expenditures on the improvement of land amount to 2 percent of the remittances.

Expenditures on Agricultural Inputs: These expenditures include money spent on better seeds, fertilizers, modern agricultural implements and the use of machinery. The amount spent on this category works out to be less than 1 percent of the remittances.

The total amount spent on agricultural investment per migrant in a year summed to 3 percent of the remittances.

4.3.5 Industrial Investment

Industrial investment here includes the purchase of industrial machinery, commercial vehicles and investment in cottage industry. The expenditures on industrial investment include money spent on looms, workshops, welding machines, flour mills, grinders, etc.. Investment in cottage industry includes purchase of looms and the establishment of textile factories. In the case of investment in the transport busi-

ness, purchase of vehicles is meant for rental purposes. This includes the purchase of a car for taxi, pickups (taxi), wagon, tractor and truck. The total amount spent on industrial investment is 8 percent of the remittances.

4.3.6 Financial Investment and Savings

Financial investment includes the purchase of shares in firms and investment in financial corporations. Investment in finance corporations was 0.1 percent of the remittances, whereas the amount spent on the purchase of share in firms was 1 percent of the remittances. The total expenditure on financial investment comes to 1 percent of the remittances. Savings includes cash, time deposits, savings certificates, prize bonds, insurance, National Investment Trust (NIT) units and committee (co-operative financing). The amount of savings and financial investment worked out to be 1 percent of the remittances.

The findings of the PIDE survey confirm that the bulk of remittances is spent on consumption, whereas expenditures on real estate come next to the consumption expenditures. The amount spent on productive investment is small as compared to that on consumption and on real estate. Whereas the survey findings explained the remittance spending pattern, they also depict the migrants and their family's preferences regarding allocation of home remittances for various uses. Ac-

According to these findings, it is easy to perceive that migrants' and their families' first preference is consumption expenditures, which absorb more than fifty percent of the total remittances. Comparing the figures of productive investment and consumption type investment (expenditure on real estate), a major portion of remittances is captured by the real estate. Savings and financial investment come at the last and attract a minimal sum of remittances.

Another survey [Bilquees and Hamid, 1981:14], confined to one small village in Tehsil Gujar Khan of district Rawalpindi in Pakistan, which has experienced a large scale outmigration, shows that 71 percent of the investment out of remittances was channeled into the building of a new house, whereas 15 percent of investment was carried out on land improvement. The remaining portion was spent on the purchase of live-stock, which works out to be 7 percent. Renovation of a newly constructed house or already existing house is also a category on which migrants spend. Expenditures under this category work out to be 5 percent of the total investment out of home remittances. The amount involved in the construction of a new well for irrigation works out to be 2 percent of the total investment.

As far as consumption out of remittances is concerned, although there is no evidence about the proportion of remittances spent on consumption, a comparison of food consump-

tion pattern of the emigrant and non-emigrant household may however help us in determining the effect of an inflow of home remittances on the consumption level of the migrant's family.

Table 4.7 Monthly Per-Capita (Adult Male Equivalent) Consumption
(Weight in Kilogram)

Commodities	Emigrant Household	Non-Emigrant Household
Meat	0.807	0.431
Ghee	1.581	1.229
Sugar	0.411	0.669
Gur	3.552	2.785
Wheat	22.18	21.128
Maize	6.92	3.807
Tea (lbs)	0.544	0.362

Source : Bilquees and Hamid [1981:14]

Table 4.7 shows that the monthly per capita income of migrant households is higher than that of non-migrant households. Hence, we can draw the conclusion from this finding that, due to the inflow of home remittances, the consumption level of the migrants' families has increased. These results do not represent the remittance spending pattern of rural Pakistan; however, they do throw light on the expenditure behaviour of the migrants' families in the rural area.

A 1980-81 survey conducted by Pakistan's Agricultural Research Council [1983:177], in twelve wheat growing districts of Punjab, showed that 37 percent of the farmers were receiving home remittances. The remittance spending pattern of these farmers in the wheat growing region of Punjab was quite similar to the overall remittance spending pattern of the country, as a major portion of the remittances (63 percent) were spent on consumption expenditures, whereas the remaining portion of the remittances was allocated between farm investment (19 percent) and construction of a house (19 percent).

Another survey conducted by PARC [1983:12-13] in the groundnut growing area of the Punjab, in 1982, confirms the findings of earlier surveys. According to this survey 44 percent of the farmers were receiving remittances. Out of these remittances, 82 percent were used by the farm families for home consumption. The money spent on farm investment

worked out to be 14 percent of the remittances. However, the amount spent on the construction or improvement of the house is quite low, 5 percent, as compared to the findings of other surveys.

From the empirical evidence available regarding the remittance spending pattern in Pakistan, it seems that there is no doubt that migrants' families and the migrants spend the major portion of remittances on consumption. The consumption side seems to be their first preference, when the migrants' families receive remittances. Next, they spent on the construction of new houses and the purchase of real estate. The amount invested in the productive investment shows that either migrants' families are indifferent to such types of investment or there is a lack of such opportunities where they can invest these earnings. In the light of the results obtained from the empirical evidence of remittance spending pattern, it is indeed logical to analyse the root causes, which compel them to follow a typical spending pattern emerging from various survey findings. The subsequent section will analyse the causes of the existing remittance spending pattern.

4.4 REMITTANCE SPENDING PATTERN: THE ANALYSIS

The empirical results show that the first two stages of our remittance spending pattern model (see Figure 4.2), in which the migrant first pays for the debt and provides for the basic needs of the family, are of primary importance. After spending their whole life under the yoke of poverty, the migrant worker and his family cannot overcome the temptation of a demonstration effect in their expenditures. Therefore, after paying the debt and fulfilling basic requirements, a top priority of the migrant's family is an improved standard of living. This includes higher and improved level of consumption, in which the major consumption is food. These expenditures are coupled with remittances spent on the purchase of consumer durables like televisions, refrigerators, tape recorders, etc., as the possession of such consumer durables is a symbol of the upper class in the Pakistani society.

Although the possession of consumer durables may be among the top priorities of the migrant's household, the PIDE finding on the portion of remittances spent on consumer durable (3 percent) is quite striking. Various explanations can be provided from this finding. First, remittances spent on consumer durables do not include the value of remittance in kind, either as a source of income or as a part of consumption. This will certainly influence the results because

the existence of remittances in kind is likely to depress the desire to purchase such consumer goods. Second, this low level spending on consumer durables may occur because remittances spent on marriages frequently consist of the purchase of consumer durables in the form of gifts for the bride or in the form of dowries. In the existing social set up, dowries have great importance in the decision for marriages, and normally consist of expensive consumer durables.

However, PIDE findings about remittances spent on consumer durables are considerably lower than the findings of Rahman [1981:56-60], which show that an average migrant household spends 11 percent of the remittances on the purchase of consumer durables in the rural Punjab.

An interesting feature of the purchase of consumer durable is that sometimes migrants' households purchase these items just for the sake of possession, and seldom use them. This feature is especially common in rural areas. Another reason for an increase in consumption expenditure due to the inflow of home remittances is the fact that although the migrant labour abroad is a target saver, the beneficiary of remittances sent home may not be so. The effect of remittances on the household is that its level of income suddenly rises three or four fold. Given the back-log of unsatisfied wants and given the demonstration effect of conspicuous consumption, there is an irresistible temptation to accelerate consumption expenditure on the part of the migrant families.

Besides an increase in consumption expenditure, a significant portion of home remittances is spent on the purchase of real estate for rental and selling purposes and constructing a new home for the family. There are various socio-economic factors involved in the decision of the migrant and his family to invest in real estate. In order to explain why a large amount is spent on the construction of houses and the purchase of real estate, we must not forget that there is a severe shortage of houses in the rural areas, as well as in the urban areas. The shortage of houses in cities like Karachi, Lahore and Faisalabad is more severe because of rural migration to these industrial cities. Rents are quite high and living in rented houses is quite expensive. Therefore, the migrants' families, facing a housing problem, give a high priority to the purchase or the construction of a new house.

The desire to construct a new house is reinforced by the social set up in the rural as well as in the urban areas, where possession of a house is synonymous with higher social status and is a symbol of success and prestige.

The implication of existing social standards and values can be seen from the way migrants families construct their houses. In a majority of the cases, the expenditures on houses are not limited to construction of a simple house providing the basic requirements; these expenditures result

in an enlarged structure, designed to impress the people living around them. It is mainly due to these extended expenditures that now it is easier for a stranger to locate the house of a migrant in a rural or urban locality. This distinction can be made by observing the use of expensive marble, colourful tiles often painted with designs or pictures with multicolour front of the house. This pattern is more or less alike in all of the newly constructed houses of the migrants. Another feature which makes them distinct from other houses is the very obvious presence of consumer durables in these houses, which can be seen by observing one or more air conditioners facing the street or road, parking space for a car or motorcycle and a long television antenna, showing the presence of a television in the house.

Another feature involved in the decision of expenditure out of remittance on real estate and the construction of a house is the fact that migrants and their families perceive it as a quite safe and positive investment, which can be disposed of at a higher price at any instant of time. The expenditure on real estate shows their concern about the temporary nature of remittance; investment in real estate provides them with security against future uncertainty.

In the rural areas, apart from the construction of a new house, the purchase of agricultural land is a common feature. The motive behind this purchase is not to increase the

area under cultivation or raise productivity but to increase the households influence in rural society, since as in rural Pakistan possession of land is directly linked with social status in the locality.

Although expenditures on construction and purchase of land are a symbol of social status in Pakistani society, it is not right to say that the migrant families or migrants are not willing to spend remittances on other than these items, such as purchase of shops, apartments, houses for renting purposes reflect the concern of migrants and their families about the future. Therefore, we may rule out the possibility that migrants and their families are not interested in or are indifferent about their future. However, spending of remittances on real estate, luxurious consumption, and consumer durables indicates that there may exist limited opportunities for investment in rural as well as in the urban areas of the country. As a result, migrants are forced to opt for such a spending pattern. To analyse this possibility of "social and frustrated expenditures", we have to take into account the existing investment opportunities (excluding real estate) available to the migrants and their families. Here we must not forget that the majority of the migrant workers belongs to the economically poor class. These workers and their families are not accustomed to a surplus in earnings, savings or investment. Therefore, investment in the productive sector largely depends on the

government effort to capture the remittances for productive investment or to direct these remittances towards more productive uses through guiding the migrants and their families.

At present, the simplest and easiest investment alternative available to the remittor or his family is to hold the remittances in a bank deposit or in specialized savings schemes such as defence savings certificates, Khas deposit, NIT units, etc., but this channel of investment is subject to the high inflation rate. As long as the rate of return on savings is greater than the rate of inflation, these investment schemes can attract remittances, but during an inflationary period real returns on savings can be negative if invested in this way. The remittance boom in Pakistan coincided with a high rate of inflation, which caused the effort of commercial banks and other savings schemes to lose their attractiveness. As a result, those migrants and their families who planned to depend on this form of savings are no longer investing their incomes from remittances on this unproductive "productive investment".

The introduction of Zakat (an obligatory charity) on savings deposits and certificates further weakens the real value of investment into the financial investment and national savings schemes. In fact, the combination of Zakat and inflation implies that almost every savings program operating

in Pakistan yields a negative rate of return. Especially in the rural areas, migrants' families are not excited by small returns from the investment schemes.

The second alternative of investment available for the remittances is that remitters or their families hold it in the form of stock. This investment alternative not only suffers from the draw-back that real rates of returns may be negative, but also from the fact that the stock market does not appear to have staged a durable cumulative recovery. Investors are generally risk averse; remitters are no exception. Apart from this, the investment in the stock exchange business is not attractive as many of the companies listed on it do not pay any dividend or small dividend. Moreover, it is hard to sell the shares in these circumstances. Migrants read or hear about large scale swindling in national saving organizations and banks, and feel that such investments made by them may come to grief [Dawn, May 25, 1981]. Moreover, the potential of these companies to capture rural remittances are very remote.

As for industrial investment, it is indeed logical to expect that Pakistani workers and their dependents should think of using the home remittances for financing small as well as large industrial units which may benefit the individual by insuring him a positive stream of future income, and to the society through increased output and creation of

new job opportunities. But, so far this has not happened. It is also logical to expect that many emigrant workers have given thought to creating conditions for future self employment on their return, but this too, does not appear to have happened in any significant way. This state of affair is not because there is a lack of motivation on the part of overseas workers or their dependents back home in Pakistan, but because of the unwillingness of the government to respond to the new challenge. The rigid adherence to rules and regulations have tended to thwart the effort of even the most potentially successful emigrant workers or their families to invest remittances for the establishment of new industrial units or small enterprises in their respective area. Hence, it is not the migrants or their families who are indifferent to the productive investment opportunities, but the failures of the planners who are unable to offer any attractive investment opportunity, especially to capture the workers' remittances, knowing that migrant workers and their families are not able to create investment opportunities on their own. Moreover, what investment opportunities are available in the industrial sector are controlled by the government and approval is subject to lengthy time procedures and exasperating delays. These constraints are to a large extent responsible for diverting precious financial resources towards unproductive channels.

With reference to agricultural investment in the country, the PIDE survey shows that 63 percent of the migrants comes from rural areas, which implies that the major flow of home remittances is towards the rural areas of Pakistan. It is logical to expect that these remittances may be spent on agricultural investment, leading to increased agricultural production. Pakistan is now able to feed her own people plus export a few important crops like wheat and rice. But still, there is great potential to increase agricultural produce which so far has not been achieved. As revealed by the PARC survey [1983], in wheat growing districts of the Punjab, which is also an area of extensive outmigration, there exists a large gap between potential and actual yield per acre. The major determinant of the yield gap is a lack of the use of agricultural inputs. The presence of a yield gap in this region where the inflow of remittances is high, indicates that there is a potential to increase the per acre yield to a larger extent by diverting remittances towards agricultural investment.

Under the given circumstances when every productive activity is directly or indirectly controlled by the government and subject to its approval, now we may examine the government's role regarding utilization of remittances in Pakistan.

4.5 ROLE OF THE GOVERNMENT

At present, approximately one out of every four rupees has been flowing into channels which are expected to provide a firm and independent economic base to the remitters on their return home either as small businessman, modest industrial entrepreneur, farmer or real estate dealer. This is happening without the existence of any public policy framework, thus showing that remitters and their families are concerned about their future. They want to create and develop suitable alternative means of income and employment at home, which could in the first place help them to maintain the high standard of living which they have attained through an inflow of remittances and secondly, provide them a vehicle of social mobility and further advancement in income and status.

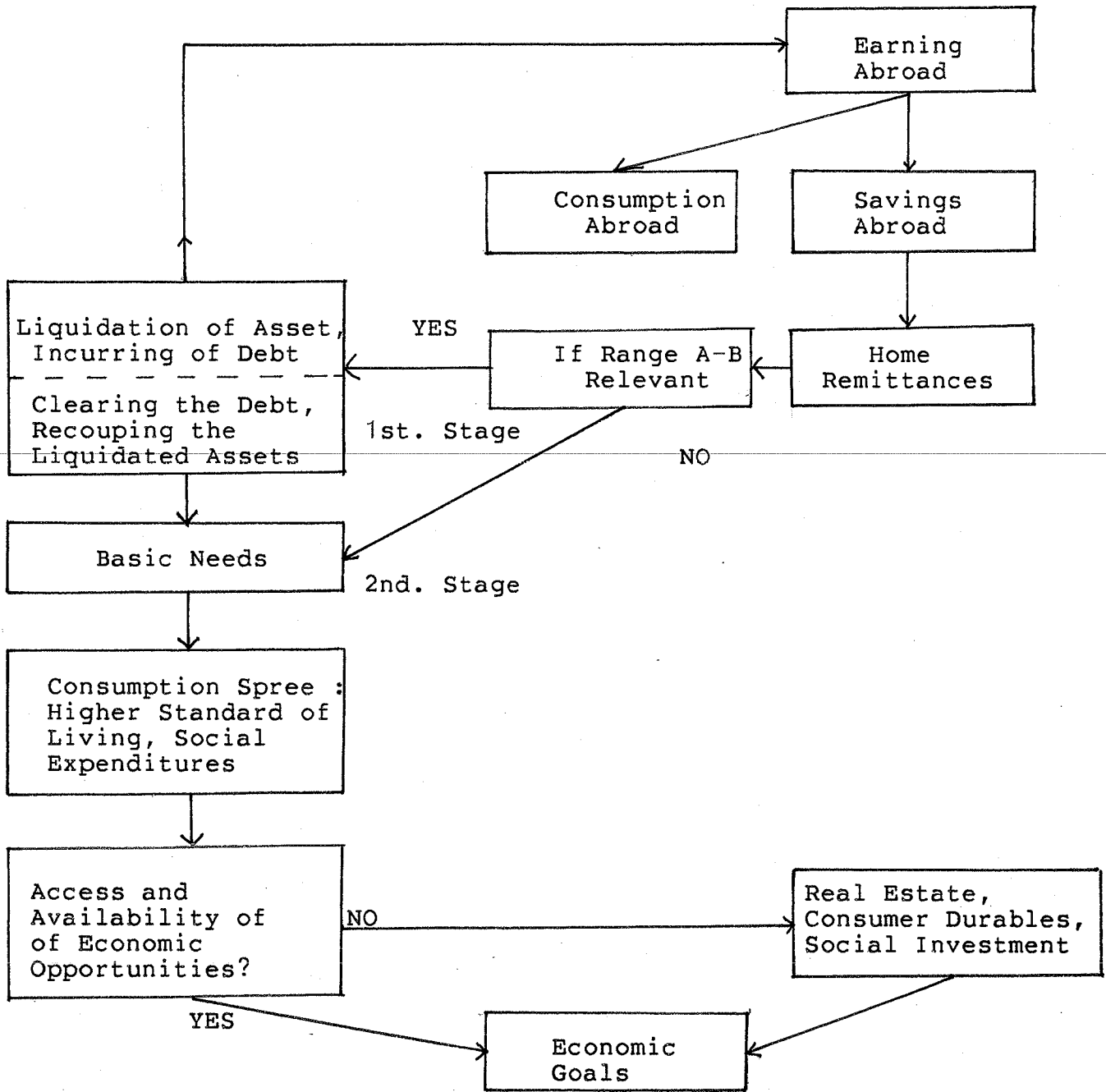
Public policy which is consciously geared to these objectives could achieve a lot more. But unfortunately, the organisers of public policy in Pakistan are more concerned about the efforts to maximize the future flow of home remittances. Conversely, not much attention and serious thought has been given to the idea of productive utilization of home remittances. As a result, no serious and effective effort on the part of government has been made to devise measures which can capture remittances for productive investment, fulfilling the future development targets of the country.

The existing investment opportunities provided by the government are either not attractive or access to these opportunities is uphill task due to existing bureaucratic structure of the country. Apart from this, there are very obvious examples of government policies which, instead of encouraging the migrants and their families to invest in the productive sector, discourage them to take initiative in this direction. This situation is more severe in the rural area. Given the socio-economic, political and cultural structure of the rural society, migrants and their families want to invest their money in the area of their origin; apart from the purchase of land, they want to invest in the establishment of various industrial units in the rural area. Investment of migrants' earnings on rural industry can have a great impact on the development of the rural area, which should be the target of developing country like Pakistan, where 72 percent [Pakistan Economic Survey 1982-83:170] of the population is living in the rural areas, but the idea of non-agricultural rural investment is alien to Pakistan's economy. In spite of the fact that the large scale manufacturing sector in Pakistan depends heavily on rural areas for raw material and labour supplies, industries have tended to concentrate in large urban sectors. In fact, government policy has been to discourage rural industrialization; for example, the law prohibits the location and operation of even small cotton ginnings and rice husking mills in rural area [Chaudhry 1981:50].

From the above discussion, we may conclude that, although there exists certain social factors in the Pakistani society which divert a portion of home remittance towards improved standard of living and the purchase of real estate to some extent, there are also some economic factors prevailing in the economy, which force the migrants and their families, in the absence of investment opportunities, to opt for social investment and large expenditures on the purchase of real estate.

Now after observing the distribution of migrants belonging to various professions and classes and the existing remittance spending in the country, it is hard to perceive that migrant households are receiving remittances while they are already in the third or fourth stage of the remittance spending pattern model. Apart from this, the extent of remittance spent on real estate and on different kinds of social investment in the absence of lack of productive opportunities may lead us to reformulate our remittance spending pattern model.

Figure 4.3 Modified Version of Remittance Spending Pattern Model



4.6 MODIFIED VERSION OF REMITTANCE SPENDING PATTERN MODEL

According to our modified version of remittance spending pattern model, expenditures on consumer durables and real estate indicate that the private as well as the public sector of the economy has failed to capture or attract the remittances towards productive industrial, financial, commercial, and agricultural investment. This is partly due to a lack of investment opportunities available to the migrants and their families and partly due to the existing socio-economic set up of the society. Willingness of migrants to invest their earnings, especially in the financial sector, has been discouraged by the imposition of Zakat. On the other hand, the imposition of Zakat has encouraged the migrants and their families to invest their earnings in real estate, which is

exempt from the Zakat and, in the case of Pakistan, is often insulated from the destructive effect of inflation as well.

Given these circumstances, when there exists a lack of investment opportunities in the country combined with an indifferent attitude of the government towards the use of remittances by the migrant along with low rates of return on existing investment options and the imposition of Zakat, the migrants and their families, behaving in a quite rational way, spend the remitted money on social investment and

the purchase of real estate. This investment not only gives them a higher status in a status-conscious environment but also provides them an opportunity to achieve economic ends through the social mobility. This brings them close to the local elite, who controls and has access to economic means. This social mobility through remittance money provides migrants and their families avenues of economic opportunities, previously available only to a small segment of society.

The study and analysis of the remittance spending pattern in Pakistan indicates that this spending pattern is not much different to the one which has been found in other regions of outmigration in the world. However, our findings contradict the argument put forward by Griffin [1976] and Stark [1976] about the developmental role of remittances in the rural areas. Griffin's argument that remittances bring technological change, support capital formation and enable the rural farmers to invest remitted savings in the agricultural sector has not been confirmed in the case of Pakistan. Where even knowing the existence of a yield gap in the agricultural production, no effort has been made to utilize remittances to bridge this gap and to support the rural economy.

As far as non-agricultural investment in the rural areas is concerned, there are signs of individual efforts on the part of migrants and their families. However, considering the volume of remittances flowing towards rural areas, there

is no such mechanism through which migrants and their families can invest these remittances in the non-agricultural sector of the rural economy. Due to a lack of experience and guidance, they frequently invest the remitted money in those sectors which are already crowded with business, with the result that, instead of receiving profits from these investments, they have to face losses. This has happened in the case of investment in the Punjab on cold storage, oil mills, and rural transport. Initially, investment on such ventures provided good returns but soon after, due to overcrowding in the business the situation reached its saturation point.

We have seen in the case of Pakistan that most of the remittances are spent to meet daily needs as well as conspicuous consumption demand, which also includes the purchase of consumer durables. The second major expenditures were on the purchase of real estate for commercial and own use. However, part of these expenditures were mainly due to the severe shortage of houses in rural and the urban areas of Pakistan. The purchase of real estate has also been used as security for an uncertain future and as a source of social mobility. This finding is very similar to that of other regions of outmigration where possession of a house or land is considered as symbol of social success in the community.

Remittance used for productive investment, that is, investment in the agricultural, industrial and commercial sec-

tor of rural and urban economy, seems to be least attractive to migrant remittances in Pakistan. This is again a phenomenon which has been found in other parts of the world. One main reason put forward by many economists is the lack of investment opportunities in the areas of outmigration. However, in the case of Pakistan, it seems to be not the only reason, because only a class of local elite have access to and control over the economic opportunities. The migrants use remittances to bridge the gap between themselves and the elite class, to achieve their desired economic ends. This may also be true for other labour exporting, poor developing nations. This may imply that instead of using remittances for their economic independence in a class society, migrants use their earnings to become part of it and reinforce the existing socio-economic set up. This may suggest that:

it is not merely a matter of a failure to use the remittances for development; they may be used to prevent the change for development [Rempel, 1981:153].

Various studies have shown that the government sponsored schemes to attract remittances, have failed to produce the desired results of contributing to long term developmental objectives. Apart from other reasons for this poor performance, one was the ineffective planning and lack of public confidence in such ventures [Chandavarkar, 1980:38], which may imply a poor performance on the part of planners to of-

fer economically attractive returns on these schemes, and promise security to migrants' investment. Any schemes for productive investment which offer attractive returns with security of their investment, and are easy to implement and understand may attract remittance money. In the case of Pakistan, we have seen there is no special treatment which is given to capture remittances for productive use by the government. All options open for migrants to invest their earnings are not perceived by migrants as "productive investment" due to difficult access and complicated procedures of such schemes and an inability of these schemes to provide positive attractive returns.

Financing of education through remitted income has been found in almost all areas of outmigration. Connell [1980:27] argues that investment in education encourages the migration of only educated people and therefore it increases the selectivity of migration. A case where people get education to become "potential migrants" and in this way remittances generate conditions for further remittance inflow. But this may not be true for rural Pakistan where, as in other parts of the world, though remittances do generate conditions for further remittance, investment in education may not be considered as one of the determinants. A survey of migrant's children shows,

a higher rate of dropout from the school, they show little interest in education as they feel that they are going abroad sooner or later. It is believed that they would be working as unskilled

workers, and to continue education seem to them totally useless. This view is not of the children only, but parents also share the view [Bilquees and Hamid, 1981:4].

Repayment of old debts is another common feature which Pakistani migrants share with other regions. Normally, migrants undertake these loans to finance their migration. This use of remittances contradicts the general impression that only those people migrate who can finance the expenditures involved. This may be mainly due to the job security and minimum risk which is involved in the present wave of migration to the Middle East from Pakistan.

Our analysis of remittance spending pattern in Pakistan shows that following the life cycle hypothesis of consumption and viewing their own position in that life cycle prior to the migration, migrants and their families spend remittances according to various stages of our remittances spending pattern model. The first use of remittances is to repay old debts and to recoup liquidated assets. The second stage involves the fulfillment of the families basic needs and are essential consumption requirements. The third stage involves the satisfaction of pent-up demands and expenditures on consumer durables and improvements in housing. The fourth stage involves expenditures on real estate, while remaining funds may be used for productive investment. In the absence of attractive productive investment opportunities, according to our modified version of the remittance spending pattern mod-

el, migrants are likely to choose investment in real estate as the only attractive option. A similar remittance spending pattern is reported by Lipton [1976:34-5], Dahya [1973:254-57], and Hopper [1957:297], who suggest that spending of remittance and its use follow a set sequence in the areas of outmigration. However, these sequences of use of remittances can only describe the spending pattern of the migrant belonging to an area and society, homogeneous in every respect. This may not be a realistic general assumption, as migrants may belong to different areas of a country or a region with different socio-economic backgrounds, prior to migration--which is typical of the present migration of Pakistani workers to the Middle East, since migrants come from different socio-economic and cultural backgrounds represented different occupational groups. Therefore the remittance spending pattern of these migrants and their families can only be explained with the help of the life cycle hypothesis of consumption, where migrants and their families spend remittance, according to their position in that life cycle.

Chapter V

CONCLUSION AND POLICY IMPLICATIONS

In a situation where millions of people are struggling for adequate food, proper and hygienic living conditions, employment opportunities, shelter, access to daily needs, education, and health facilities, the exodus of Pakistani workers to the Middle Eastern countries and the resulting inflow of remittances is an important socio-economic event in the history of Pakistan. The oil boom in the early 1970's led to ambitious developmental programs in the oil-rich countries of the Middle East, the Persian/Arabian Gulf and North Africa. Due to the development programs of these newly-rich countries and their inability to fulfill the labour requirements, a spontaneous demand was created for Pakistani skilled, unskilled, and professional workers.

Pakistani workers have been migrating to these oil importing rich countries, through legal as well as illegal channels. Legal channels include migration through the public sector (Overseas Employment Corporation), and the private sector (overseas employment promoters). Our findings show that the majority of the migrants have been migrating through the private sector. This indicates the success of the private sector, in spite of the fact that the private

overseas employment promoters charge migrants more than ten times the fee charged by the public sector. The main reason for the success of the private sector in the manpower export business is its efficient and speedy procedures, coupled with the provision of ample job opportunities. That is why the migrant does not hesitate to meet the manpower exporter's financial requirements.

From our analysis, we may conclude that the World Bank estimates of the net demand to the Middle East not only overstate the Pakistani share in the total net demand, but also underestimates the manpower requirement in the Middle East. This suggests that any analysis based on the World Bank estimates regarding the manpower requirements in the Middle East may result in misleading conclusions and incorrect policy implications for the labour exporting countries.

We believe that the present migration of Pakistani workers to the Middle East is by no means permanent in nature and that it is wrong to oversimplify the apparent dependency of these labour importing countries on expatriate labour. The demand for Pakistani workers by the Middle Eastern countries is bound to diminish with the completion of infrastructure and the resulting changes in the manpower requirements of these countries. Our projections of the future demand for Pakistani manpower by the Middle East reveal that a decline in the demand for Pakistani workers is inevitable.

We project that the demand for Pakistani workers will decline at an increasing rate after 1985, and the number of returnee migrants is bound to increase after 1985. The rate of increase of returnee migrants will be quite sharp after the mid 1980's, with the result that the number of returnees will exceed the number of out-migrants by the end of the decade. However, this may not significantly affect the net volume of the Pakistani workers in the Middle East, which is expected to remain high--assuring the continuation of the stream of home remittances.

Our findings show that the present migration of Pakistani workers is composed of different categories of people, representing different professions, occupations, age groups, and classes. We hold the common belief that the majority of the migrants are in the most productive period of their lives, and have had some kind of employment prior to the migration. The occupational breakdown of the migrants shows more than 80 percent of the migrants are production workers, of whom half are unskilled. These are the workers who will be most disadvantaged by any future changes in the current manpower requirements of the Middle Eastern countries.

We conclude from our findings that the majority of the migrants originated from the rural areas. However, it is possible that these figures of rural migrants do not represent the exact proportion of rural migrants in the total stock of

Pakistani workers. Some of the rural migrants as a first step, move to urban centres and thereafter migrate to the oil rich countries of the Middle East.

There is a chain of push-and-pull factors responsible for the present movement of Pakistani workers to the Middle Eastern region. Population pressure is also a factor pushing Pakistanis to migrate. Like any other third world developing country, a rapid rate of increase in the population is causing increasing numbers of people to join the labour force, while the economy is already struggling to fight against unemployment, underemployment and disguised employment. Another cause for increasing unemployment is the premature introduction of labour-saving, capital-intensive techniques in the agricultural, industrial and business sectors of the economy. Under these conditions when employment conditions have been deteriorating, the manpower requirements in the Middle East work as a push as well as a pull factor for unemployed and apparently employed Pakistani workers.

Our findings reveal that wages offered by the employers in the labour importing countries of the Middle East have been the main attraction, pulling the Pakistani workers on a large scale towards that region. It has been estimated that an average Pakistani skilled and unskilled worker in the Middle East can earn, respectively, more than three and sev-

en times than that of one in Pakistan. These estimates may understate these earnings, as they do not include various fringe benefits which the migrant receives in addition to the nominal wage. Viewing the extent of wage differentials between Pakistan and the Middle East, one may conclude that the higher wages and fringe benefits offered by the foreign employer are the most attractive factors influencing the decision of the Pakistani workers to migrate to these countries.

The present migration of Pakistani workers to the Middle East can also be viewed as a protest against the existing socio economic disparities prevalent in the society. The protest is against the class system, which values an individual according to his social status, economic strength and appearance. Under the prevailing socio-economic set up of the country, a man's higher social status entitles him to pursue economic benefits. This presents a Catch-22 situation for the socially and economically disadvantaged segment of the society, who exploited the employment opportunities in the Middle East to overthrow the yoke of poverty and to achieve a respectable position in the community. We may consider the inflow of home remittances by the Pakistani workers in the Middle East as their reaction against those forces which have been pushing them to migrate for better living conditions for themselves and for their families. The decision to remit money home is used by them as a tool to offset

socio-economic exploitation by the economically and socially privileged class of the society.

Our review of various studies regarding the extent of remittances to different regions of outmigration of the world reveals that the inflow of remittances towards these areas can be considered as a natural outcome of migration, irrespective of the social, cultural, economic and geographical background of the migrants. Similarly, if we look at the present migration of Pakistani workers to the Middle East, it seems that the most visible result in the present case is the inflow of home remittances. At present for labour exporting countries, the inward remittances have not only become a source of foreign exchange earnings, in terms of hard currencies to meet the developmental needs of the country, but they also have increased the income of migrant households manyfold.

If we observe the extent of remittances in the other regions of outmigration, the present level of remittances towards Pakistan seems to be no exception. Initially, and up until the late 1960's, the remittances from Pakistani workers working in the Middle Eastern countries was considerably low. However, this situation changed dramatically after the early 1970's. This can be seen in the current volume of remittances to Pakistan, in which the share of the Middle Eastern countries is more than 80 percent (U.S. \$2.4 billion at

1982-83 prices). The trend in the growth of remittances shows that after the late 1970's the growth rate of remittances to Pakistan has been slowing down. The main reason for this slow progress was the sharp decline in the growth rate of remittances generated from the Middle Eastern countries. This may indicate that the overall volume of remittances to Pakistan to a large extent depends on the volume of remittances coming from Middle Eastern countries.

The way the present volume of remittances is serving the country can be seen from the fact that while in 1972-73 remittances were 17 percent of the total value of imports, in 1981-82, 39 percent of imports were financed through remittances. These remittances, as a percentage of export earnings, rose from 16.6 percent in the year 1972-73 to 88.7 percent in 1982-83. In addition, home remittances represent the fastest growing component of the gross national product. Their contribution to the country's gross national product, which was 2.2 percent in 1972-73, increased to 7 percent in 1981-82.

The channels through which the migrants sent their savings home may have deep implications for the economy. Our findings show that, even with the presence of an attractive rate of exchange offered by the illegal channels, a majority of the migrants (86 percent of them) have been using the official banking channels to remit their savings. The use of

official channels on the part of migrants provides an opportunity for the government to channel the remitted money in the form of hard currency to meet the development needs of the country.

Our analysis of the present issue reveals that a realistic exchange rate for the domestic currency can attract the remitted money through the official channels, discouraging illegal ways of remitting money. The delinking of the Pakistani rupee with the U.S. dollar seems to have removed the previously existing disparity between the official and illegal rate of exchange at least to some extent. However, the fact that most migrants have been routing their earnings through the official channels, even in the presence of an attractive exchange rate offered by illegal channels, shows that the disparity between official and open market exchange rates has not been posing any serious threat to the level of remittances, remitted through legal channels.

Although the migrants' decision to remit money to their families is a natural consequence of outmigration, there exists a number of socio-economic factors determining the extent of remittances to the areas of migration. These factors may differ from one region to another--explaining the variations in the socio-economic forces working in different regions of outmigration. We believe that in the case of Pakistan too, there are various socio-economic factors which

have been determining the extent of home remittances. The overall flow of remittances to a large extent depends on such factors as the number of Pakistani workers abroad, net addition to the number of these workers and the number of returning migrants. From our projections regarding the future flow of workers from Pakistan, we may conclude that with a sharp increase in returning migrants at the end of this decade, the growth of remittances to Pakistan is bound to decline.

We have observed that, in the case of Pakistani migrants in the Middle East, these migrants are not only the 'target remitters', but are also the 'target savers'. Their propensity to remit out of these savings varies from one occupational group to another. Our findings indicate that out of the Pakistani workers in the Middle East, professionals are not only earning the highest average income, but their propensity to save out of these earnings is also the highest. However, the propensity to remit out of these savings is the lowest. In contrast to this, the skilled and unskilled workers with a lower level of income, display a lower propensity to save but a higher propensity to remit out of these savings. This may indicate that in the present case the extent of remittances is largely determined by the proportion of unskilled and skilled Pakistani workers in the net stock of Pakistani migrant workers in the Middle East. This may suggest that any sudden change in the skill composition of Pak-

istani workers, leading to a lower proportion of skilled and unskilled workers, may affect the volume of inward remittances

Our findings contradict a common hypothesis that the length of a migrant's period of stay abroad is inversely related to the amount remitted home. In the case of current migration, the length of migrants' stay abroad seems to be unrelated to their decision to remit. However, with an increase in real income abroad, the possibility of a decline in the proportion of income remitted cannot be ruled out.

From our projections based on two different scenarios, we conclude that a moderately gradual change in the skill composition of the migrants may not affect the level of remittances. This is especially the case in the 1980's, assuming that any change in the composition of the migrant's occupational representation in a particular year is not going to upset the net stock of Pakistani migrant workers in that year. But any failure to meet the rapidly changing demand requirements of the Middle Eastern countries may result in a significant drop in the volume of remittances.

Remittance-led development depends on the way remittances are used in the region of outmigration. This may indicate that the development potential of home remittances depends on whether remittances can create the conditions for new employment opportunities, savings, investment, increased output

and net addition to the country's productive capacity -- leading to positive externalities for a large segment of the nonmigrant population of the country. However, our study reveals that, in the various areas of outmigration of the world, a major portion of remittances is used to meet the current consumption needs of the family. These consumption needs vary from the provision of basic needs to conspicuous consumption.

A second use of remittances is the purchase of real estate, which may take the form of construction or purchase of a house, shop or commercial building, and the purchase of agricultural land, etc. In areas where there exists a lack of investment opportunities, the possession of real estate, which provides security for the future, also gives the migrants and their families recognition in the community and a respectable status in the society. Just as the possession of a house or land is considered a symbol of social success and respect, another prerequisite to achieve the desired level of status in the society is the extended expenditures on consumer durables, social ceremonies, jewellery and garments, etc. By spending large sums of money on these goods, the migrants and their families attempt to associate themselves with the upper class of the society. In some cases, remittances are used to repay debts and to finance educational expenditures.

Use of remittances for financial, industrial, commercial, business and agricultural investment is not popular. This is true both for the rural as well as the urban remittance receiving areas. The overall picture which emerges from the study of remittance receiving areas of the world is that remittances have failed to contribute to the productive capacity of the areas of outmigration which can provide benefits to the individual as well as to the area as a whole. Instead, productive investment has been dominated by social investment, in terms of extended expenditures on real estate, consumer durables as well as non-durables, and extravagant social ceremonies.

After analysing the use of remittances in various remittance receiving areas, it seems that the existing remittance spending pattern in Pakistan is not much different from the one which has emerged

in other parts of the world. In the case of Pakistan, more than half of the remitted amount is being spent to satisfy the basic as well as conspicuous consumption demands of the family. Like any other remittance receiving areas, the use of remittances for the purchase of real estate is quite popular among the migrants and their families. The expenditures on real estate relieve the shortage of housing generally, and of the migrants in particular. To this extent, they are justifiable. However, by looking at the volume of remittances spent on the buying of real estate and the way

the remitted money is used, it seems that the purchase of real estate does more than solve the housing problem. These expenditures also represent an investment in future security and at the same time, provide a tool for social mobility in the existing socio-economic environment where ownership of a house or land is viewed as a sign of success and prestige in the community. Remittances for productive investment which may create the conditions for development in rural as well as urban Pakistan are not popular among the migrants or their households in either rural or urban Pakistan. Our findings in the case of Pakistan reveal that one reason for non-utilization of the remittance for productive investment is the fact that there exists a lack of investment opportunities in both the rural as well as the urban sector of the economy. The few opportunities for productive investment which do exist are not designed to capture the earnings of migrants who are unfamiliar with the idea of surplus income, savings, or investment. Even in the case of potential migrant investors, who want to invest their earnings in a way which coincides with the development needs of the country, their efforts are hampered by their inability to approach that segment of the society which controls or has access to the mode of production and economic opportunities. The main obstacle is their existing social status, which separates them from the economically and socially privileged class of the society. Under these conditions, expenditures on real

estate, coupled with remittances spent on consumer durables, social ceremonies and improved living standards, enables the migrants and their households to reach their economic goal by associating themselves with the privileged class of the society.

Migrants and their households behave in a very rational way by hesitating to invest their earnings in available financial or commercial investment options. These existing financial or commercial investments bring a low or negative rate of return because there exists a high rate of inflation in the country. Migrants and their families perceive investment in real estate to be quite safe, which is not only rewarding, but in the case of Pakistan, is also free from any adverse effect of inflation. Moreover, at a time when all types of financial investments and savings are subjected to Zakat according to Islamic law, real estate is exempted from the Zakat. This is an added feature, encouraging the migrants to spend money on the purchase of real estate.

In the case of Pakistan, our findings support the hypothesis that remittances do generate conditions for further remittances. In the case of Pakistan, our findings show that remittances do create conditions for further remittances but not through expenditures on education. Indeed, migrant households which are capable of financing the migration of their children often consider education as unnecessary.

Instead of sending their children to school for formal education, they prefer to finance their migration abroad as unskilled workers. Realizing the temporary nature of the present migration movement to the Middle East, migrant households may consider the formal schooling of their children as waste of their "productive youth". For them, formal education can only increase unemployment in the country, whereas the option for going abroad as unskilled migrant workers to the Middle East may bring prosperity, a higher standard of living and desired status in the society, after only a few years of earnings abroad.

Another feature regarding the use of remittances in Pakistan which emerged from our findings is the use of remitted money to repay debts. The migrants acquire these loans to finance their migration to the Middle East. Our finding contradicts the hypothesis that it is not the poor who migrate. Migration of the poor, in the present case, is mainly due to the fact that migration to the Middle East through legal channels is without any element of financial risk, which gives enough confidence to borrowers as well as lenders to engage in such transactions.

Our analysis of the remittance spending pattern in Pakistan reveals that migrants and their households follow the life cycle hypothesis of consumption. The spending pattern of migrants and their households is determined by their po-

sition in that life cycle. Prior to the inflow of remittances following a sequential pattern, migrants may spend remittances according to our remittance spending pattern model i.e., according to their position in the life cycle of consumption. In the light of empirical evidence regarding the use of remittances in Pakistan, migrants and their households may start the spending of remittance while they are in stage one or two of our modified version of the remittance spending pattern model. Stage one and two of the spending pattern model represent the situation where the migrant repays the debt that he has incurred to finance his migration and to provide for the basic needs of the family. The third stage of the remittance spending model indicates that the remittance is spent to satisfy the pent up demands of the family. The expenditures in this stage include the purchase of consumer durables, and extended expenditures on social ceremonies, renovation and improvement of housing and other expenditures on social investment.

From our findings we may conclude that, given the circumstances where there exists a lack of investment opportunities in the country, an indifferent attitude of the government towards the use of remittances, a low rate of returns on existing investment opportunities, and an inability of the migrants to pursue economic goals due to their low socio-economic status in the society, they are forced to engage in social investment and expenditures on real estate. This

type of investment which provides them a secure investment for the future, also gives them a chance to achieve economic goals through social mobility by associating themselves with the economically privileged class of the society. This social transformation with the help of remittances provides the migrants and their families with opportunities previously available only to a very small segment of the society.

We have observed in the case of Pakistan that remittances are not being utilized in a manner that works as a stimulant for the enhancement of the country's productive capacity. Use of remittances for productive investment not only gives the benefits to the individual migrant investors but it also matches the development needs of the country.

The government has made no serious effort to divert this flow of remittances towards productive investment, or to encourage the migrants and their families to invest the remittances in projects which would fulfill the development needs of the country and at the same time bring prosperity for thousands of migrant families. At present, more remittances mean an addition to the already existing purchasing power without any addition to the country's productive capacity. This may lead to an overall increase in the price level which may create more pressure on the non-migrant segment of the society. Although our findings indicate that the bulk of remittances is spent to meet consumption demand, it is by no

means rational to assume that all the consumption expenditures are unproductive. Achievement of better nutrition standards, proper and hygienic housing, health care, availability of water and electricity are the provisions which coincide with the basic need approach to development. Provision of basic needs without any government help is appreciable. The objection regarding the use of remittances arises only when the expenditures go beyond the level of basic needs. Unless basic needs are provided to the migrants and their families, it is not justifiable to criticize these expenditures, and to expect them to invest their earnings elsewhere.

Although remittances in kind release pressure on domestic demand, they do not support domestic industry and thereby do nothing to alleviate unemployment. situation. A variety of consumer durables and other goods for domestic use is free from import duty and allowed under personal baggage rule. These goods are quite cheap in the foreign market. These goods have a special attraction for the migrants and their families. On the contrary, domestic production of the same kind of goods is subject to heavy taxes, with the result that the domestic industry cannot compete with the international market. To support the domestic industry and to save foreign exchange, the returning migrants should be allowed to buy domestically produced consumer durables without paying any kind of sales or excise tax.

Though Pakistan still comes under the category of a poor and developing country, the people of Pakistan are now exposed to all the comforts of durable goods, along with a higher standard of living mainly due to the influx of remittances in kind and the use of remittances which have improved living standard of migrants and their households. Now that the entire population in the urban as well as in the rural areas have been exposed to luxury consumer durables and other imported goods of domestic use, it is too late to ban the import of such goods. Such a policy could only give support to already established markets for smuggled goods. The realistic policy under such conditions is to direct the use of remittances towards the establishment of industrial units, thereby meeting the growing demand for these consumer durables and other imported items. With time, after achieving economies of scale, such industries should not only satisfy the migrant's demands but a large segment of the non-migrant population should be also able to benefit from their production. With availability and easy access for such goods, the values attached to them may lose their significance.

Looking at the poor performance of the financial and commercial sector, we believe that there is an urgent need for radical reform in these sectors of the economy. One simple and realistic approach in this regard could be a return to financial and commercial investment well above the prevailing high rate of inflation.

One of the handicaps faced by the migrants and their families is the fact that they are unfamiliar with the concepts of surplus income, savings, or investment. They perceive remittance income as life long savings, which they do not want to lose by investing in those sectors of the economy in which they do not have prior knowledge or experience. For them, investment in real estate is an easy and secure way to save their earnings. Under these circumstances, there is a need to offer investment schemes which can attract the migrant's remittances. At the same time there is a need to inform, educate, and guide the migrants regarding such investment schemes. Pakistani missions working in the labour importing countries of the Middle East can utilize their services in this regard.

To fulfil long-term development objectives and to help migrants to become progressive farmers, modern entrepreneurs and small businessmen, the import of industrial and agricultural machinery needs to be encouraged by exempting these items from import duty and by helping and supervising their investments.

We have observed in the present case that construction of a house seems to be the goal of every migrant. Nobody can deny the urgency of this need. In the past several years the remittance boom has been accompanied by a construction boom in the country. Where this construction activity has provid-

ed housing facilities to migrants' families, it also has boosted the construction industry in the country. The Pakistani construction industry is highly labour intensive and thus has generated a large number of employment opportunities in the economy. To the extent that the construction industry uses indigenous materials, it has provided a long range of backward linkages in the economy. However, because of the expenditures on imported fittings and other related material and an emphasis on a luxurious style of construction, there is a need to streamline investment in this sector, more nearly matching the development requirements of the economy.

Regarding the rural economy, we believe that the government can best serve its interests by devising investment schemes especially designed to capture the rural remittances. Such schemes need to coincide with the overall development strategy of the country and to match the socio-economic aspirations of the rural migrants and their households. Such investment packages will provide benefits to individual migrants, and at the same time they will provide employment opportunities and a solid base for rural infrastructure. Emergence of better living conditions in the rural environments may reduce the population pressure from the urban centres.

The presence of a favourable investment climate is essential to route the remittances towards industrial, commercial, business and agricultural investment in the country. Rapid changes in the institutional framework may affect the migrants' decision to invest in the above sectors of the economy. The large scale nationalization of the small, medium, and large scale industrial units in the early 1970's has discouraged many potential migrants from private investment in the industrial sector. Even the policies of de-nationalization, pursued in late 1970's and early 1980's did not meet much success, mainly due to the uncertain future of these reforms. In these conditions, without providing future security to the migrants in exchange for their hard earned earnings, it is irrational to expect them to invest in the insecure sectors of the economy. Any policy or reform in this regard must take into account the socio-economic ambitions of the migrants and their families. An investment strategy which is not perceived by the migrants or their families as a true reward of their hard earned money will not meet with much success.

There is also need for radical changes in the present bureacractic structure of the country. Migrants are discouraged by the lengthy procedures set up by the bureacracy in every field of life. Any investment attempt by the potential migrants is frustrated by their inability to conform with requirements and formalities. Every effort should be made to

facilitate the migrants investment by simplifying the procedures.

We believe that the problem is not only the productive use of remittances but also that of absorbing the influx of returnee migrants, when the capacity of the country to re-absorb the migrant workers is uncertain. It is now time to reconsider the long term implications of manpower export and reliance on remittances. A change in the present strategy must be made if the country has to avoid the repercussions in the domestic economy resulting from the migrant workers returning home without opportunities for further progress. We believe that in the long run, there is need to follow policies which would bring a shift from the export of labour to the export of labour-intensive goods from Pakistan.

APPENDIX 1

External Trade

(Million Rs.)

<u>Year</u>	<u>Imports</u>	<u>Exports</u>	<u>Balance</u>
1947-48	318.8	443.9	+125.1
1948-49	1176.8	542.4	-634.4
1949-50	912.2	535.1	-377.1
1950-51	1167.1	1342.5	+175.4
1951-52	1473.9	921.9	-552.0
1952-53	1017.3	867.4	-149.9
1953-54	824.3	641.0	-183.3
1954-55	783.0	491.4	-291.6
1955-56	964.5	742.4	-222.1
1956-57	1516.0	698.2	-817.8
1957-58	1314.3	433.6	-880.7
1958-59	1024.6	444.4	-580.2
1959-60	1805.7	763.1	-1042.6
1960-61	2173.2	540.2	-1633.0
1961-62	2236.3	542.9	-1693.4

1962-63	2800.1	998.1	-1802.0
1963-64	2981.6	1075.0	-1906.6
1964-65	3672.4	1139.6	-2532.8
1965-66	2880.3	1203.6	-1676.7
1966-67	3625.7	1297.3	-2328.4
1967-68	3327.2	1644.8	-1682.4
1968-69	3046.6	1699.9	-1346.7
1969-70	3285.1	1608.6	-1676.5
1970-71	3602.4	1998.4	-1604.0
1971-72	3495.4	3371.4	-124.0
1972-73	8398.3	8551.2	+152.9
1973-74	13479.2	10161.2	-3218.0
1974-75	20925.0	10286.3	-10638.7
1975-76	20465.3	11252.9	-9212.4
1976-77	23012.2	11293.9	-11718.3
1977-78	27814.7	12980.4	-14834.3
1978-79	36388.1	16925.0	-19463.1
1979-80	46929.1	23410.1	-23519.0

1980-81	53543.7	29279.5	-24264.2
1981-82	59481.3	26269.9	-33211.4

Source : Pakistan Economic Survey [1982-83 : 150]

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