

Pakistani Diaspora to the United States: An Economic Perspective¹

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Abstract

The Pakistani diaspora is spread over destination countries like Saudi Arabia, UAE, the US, the UK and Canada. Although under-researched, there is substantial Pakistani diaspora in the US formed as a result of recent mobility. The Pakistani migration to the US was mainly facilitated by the Luce-Cellar Act of 1946 which removed the ban on South Asian immigrants and as a result many skilled and professional Pakistanis migrated to the US. This flow was reversed after 9/11 attacks which has caught up after 2004. The remittance flow from the US to Pakistan underwent significant changes after the 9/11 attacks as migrants increased remitting to the home country. There has been a bilateral positive relation between Pakistan's recent economic growth and remittance flows from the US which is mainly motivated by the search for economic profits. However, the nature of Pakistani remittances is not homogeneous and it depends on where the remittances come from and who sends them. Ascertaining the impact of remittances on the Pakistani economy becomes difficult as official data records remittances through formal channels while substantial remittances are sent through informal channels. At the micro level, however, studies have found a positive association between remittances and poverty reduction. In the present circumstances the issue of sustainability of the remittances which is equally important as the issue of the utilization of the remittances need to be studied well.

Keywords: Pakistani Diaspora, US, Immigration, Remittances, Developing Countries.

I. Introduction

Currently there are around 4 million overseas Pakistanis², forming diaspora communities in various parts of the world³. In regional terms, the largest concentration of Pakistanis can be found in the Middle East, which hosts close to 2 million Pakistanis, 1.1 million of whom are in Saudi Arabia, and 500,000 in the United Arab Emirates. Other major concentrations are in the United Kingdom (with a Pakistani population of 800,000), the United States (600,000),

¹ This is a revised version of the paper entitled "Contemporary Issues on Pakistani Diaspora and Labour Migration: An Economic Perspective", presented in the 20th Conference of Historians of Asia (IAHA), held at Jawaharlal Nehru University, New Delhi on November 14-17, 2008. I also benefitted from comments from participants in the Conference. I would like to express my gratitude to the State Bank of Pakistan and the Bureau of Emigration and Overseas Employment of the Government of Pakistan for providing me with the data necessary for writing this paper and for discussions on current migration trends. I myself am responsible for any errors. This work was supported by KAKENHI 20510242, Grant-in-Aid for Scientific Research (C).

² The definition of an overseas Pakistani here is a Pakistani citizen who has migrated to another country or an individual of Pakistani ethnicity born outside Pakistan.

³ Figures on overseas Pakistanis are from *Year Book 2004-2005*, Government of Pakistan, Ministry of Labour, Manpower & Overseas Pakistanis.

and Canada (250,000). Pakistani residents in these five countries constitute more than 80 percent of the overseas Pakistani population.

This paper highlights Pakistani diaspora/migration to the United States and remittance flows from the United States to Pakistan. Despite its importance and the fact that the US is one of the top five destinations for Pakistanis, the migration stream of Pakistanis to the United States and the impact of American remittances on the Pakistani economy have been neglected by all but a few studies⁴. Previous studies have tended to examine the migratory flows of Pakistanis to Britain and the Middle East. In the case of Pakistani diaspora to Britain, studies often discuss social and cultural aspects of Pakistani migrants to the UK and how the Pakistani communities in the UK has been formulated while in the case of Pakistani migration to the Middle East most studies focus on the economic aspects of labor migration and remittances sent by migrants.

However, the 9/11 attacks on the US in 2001 and subsequent developments brought lots of attention to the Pakistani migrants in the US and their economic roles in particular as the event caused several significant changes in the flow of remittances. One such change is the sharp increase in remittances sent from the United States. It has been considered that Pakistan's recent economic growth was partly the outcome of these remittance flows.

This paper presents a preliminary analysis aimed at filling the existing gap in the field of Pakistani migration and remittance issues. In this paper, first, I briefly review the history of Pakistani migration to the United States, and then discuss the changing patterns of migration and the profile of migrants. Second, I examine the trends of remittance flows to developing countries and Pakistan, and also discuss the roles of remittances in the economy. Third, I analyze factors that explain the increasing trend of remittances from the United States and discuss how remittances from the US are spent.

II. A Review of Patterns of Emigration from Pakistan to the United States

Emigration to the United States constitutes a major episode of population movement from Pakistan. Compared to Pakistani migration to Britain⁵, the migratory flow to the United States is a relatively recent development. Before the mid-1960s, the number of Pakistani migrants to the United States was very limited due to a series of immigration regulations imposed by the US authorities. The 1917 Immigration Act created the "Asiatic Barred Zone", limiting the migration flow from Asian countries. The Emergency Quota Act of 1921 introduced the national origins quota system, which was first of its kind in the US history. This tendency towards tougher immigration rules became more evident in the National Origins Formula under the 1924 Immigration Act in which an annual ceiling of 154,227 for the Eastern Hemisphere countries was placed. Although the Luce-Celler Act of 1946 removed the ban on South Asian immigrants and granted the right to be a US citizen through naturalization, it allowed only 100 immigrants per year and did not boost immigration from Indian sub-continent⁶.

⁴ Examples of which are Burki (2005) and Najam (2007). Arif and Irfan (1997) also briefly discuss the migratory flow from Pakistan to the United States.

⁵ Pakistani migration to Britain has been studied quite extensively. Ballard and Werbner's contributions are particularly well known. For examples, see Ballard (1987, 1990, 1994) and Werbner (1990, 1994).

⁶ It is reported that only 9,000 Asian Indians received US citizenship between 1946 and 1965 (Li and Skop, 2008).

But the Immigration and Nationality Act amendments of 1965 (the Hart-Cellar Act) ended the quota system. It increased the number of immigrants from 150,000 to 170,000 per year for East Hemisphere countries with the ceiling of 20,000 each country and 120,000 visas for West Hemisphere countries. This is the first time that the US set the ceiling of the number of immigrants from West Hemisphere. The Act gave preference to family-related immigration and also welcomed skilled migrants. The Act created a favourable opportunity for Pakistanis who wished to migrate to the United States. Taking advantage of the 1965 Act, many Pakistanis, particularly those who possessed skills and professionals such as doctors, left Pakistan for America. Figure 1 portrays the trend in the number of Pakistani migrants to the United States and shows the gradual increase in numbers after 1965.

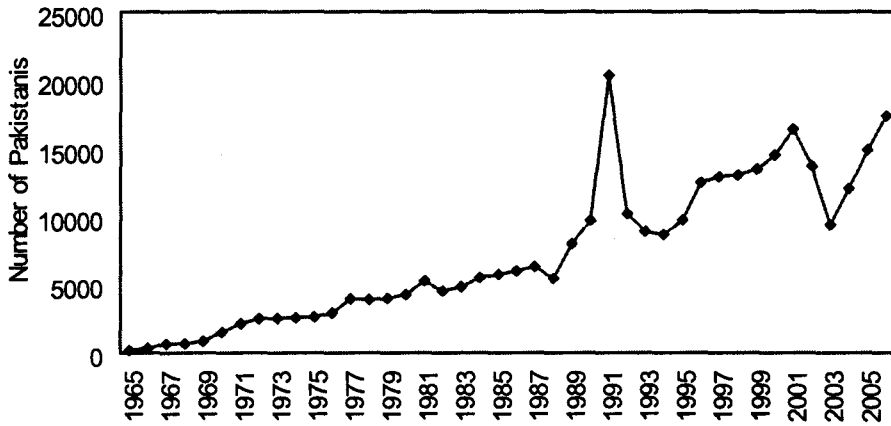


Figure 1: Number of Pakistanis Admitted to the United States, 1965 to 2006

Source: Najam (2007), and Batalova and Ferruccio (2008)

Another turning point was the period from the late 1980s to the beginning of the 1990s when the United States permitted the immigration of agricultural workers (1986) and introduced the green cards system (1990), by which visas are awarded by lottery. This caused a wave of blue-collar workers to emigrate from Pakistan to the United States. As a result of these new schemes, the number of Pakistani immigrants increased significantly and reached more than 20,000 in 1991. It can be assumed that the immigrants were relatively unskilled migrants who found jobs such as taxi drivers and shopkeepers in the Manhattan district of New York and in other big American cities.

The number of Pakistani migrants to the United States followed an upwards trend until 2001 but the 9/11 incidents put the flow into reverse. The 9/11 terrorist attacks brought about an adverse change in American attitudes towards Muslims, including Pakistanis, and have led the American authorities adopt a tougher stance on immigration applications from Pakistan. This change in policy was reflected in a dramatic fall in the number of Pakistani immigrants admitted to the United States for permanent residence, from 16,448 in 2001 to 9,444 in 2003⁷. However, this drop turned out to be short lived, and after 2004, the number of Pakistani immigrants began to recover. By 2006, it had reached a total of 17,418, the second largest annual number for the last fifty years (Batalova and Ferruccio, 2008).

⁷ Figures are from Najam (2006). Najam also describes that the number of all non-immigrant visas issued for Pakistani dropped even more from 72,982 in 2001 to 39,429 in 2003.

III. A Brief Profile of Pakistanis in the United States

According to the “official figure” by the government of Pakistan, the estimated size of the Pakistani community in the United States in 2005 was around 600,000. The figure reported in the *US 2000 Census* was 230,000. The gap can be explained by the tendency of the US census to count only Pakistani immigrants, excluding those born in the United States between Pakistani parents, while the figure provided by the Government of Pakistan was based on a survey conducted by the Pakistan Embassy in the United States.

As Pakistani communities in the United Kingdom are clustered, so are they in the United States, with New Jersey and New York being the two leading host states. The Pakistani population in these two states accounts for about 40 percent of total Pakistani population in the United States. If California, Texas and Illinois are added, the ratio increases to close to 70 percent. Cities such as the New York-New Jersey metropolitan area, Chicago (Illinois), and Houston (Texas) attract a substantial number of Pakistanis⁸.

In terms of sending areas, the American Pakistani community is more diverse, with American Pakistanis coming from various parts of Pakistan. This contrasts with the situation in Britain, where Pakistani immigrants tend to come from particular districts in Pakistan such as the Mirpur district of Azad Kashmir.

Table 1 shows a brief profile of Pakistanis in the US. More than 80 percent of Pakistani households in the US are in the form of family. This ratio is 10 percent higher than that of the US average. Part of this reflects the fact that many of Pakistanis reached the US by taking advantage of family reunion visa. The sizes of household and family are also larger than the US average.

The educational levels of Pakistanis in the US are probably higher than those in Britain. The Table 1 shows that among the male Pakistani population aged 25 years and over, 60.9 percent had bachelor's degrees or higher while the American average for the same category was 28.5 percent. Among female Pakistani residents aged 25 years and over, the figure was 45.0 percent while the US female average was 26.0 percent. This might be due to the fact that Pakistani immigrants into the United States during the 1960s and 70s were mainly skilled people and professionals. It follows that Pakistanis who arrived in America during those periods were from relatively well-off families and were well educated.

This gap in educational levels probably explains differences in the levels of earnings. In 2005, the mean and median incomes for Pakistani male full-time workers in the United States were US\$ 59,310 and US\$ 42,718 respectively, while those for American male full-time workers were US\$ 56,724 and US\$ 41,965. Similarly, the figures for Pakistani female full-time workers are also higher than those of American female workers. From these figures, it can be said that Pakistani workers earn more because of their relatively high educational levels. But the difference seems rather small compared to the difference in educational levels between the American average figures and those for the Pakistani immigrants. Possible reasons for this are 1) discrimination against immigrants and the non-white population, and 2) the quality of education in Pakistan.

⁸ The 2006 *American Community Survey* shows the distribution of the Pakistani population by metropolitan centers.

While the average earning level of Pakistani immigrants is higher than the American average, the per capita income of Pakistanis is lower than the average. The former amounts to US\$20,585 and the latter to US\$25,035. This is due to the difference in household size. The average household size among Pakistanis living in America is 3.71, considerably higher than the American average of 2.60. We should also note that the 14.9 percent poverty ratio among American Pakistanis is higher than the American average of 10.2 percent.

TABLE 1: EDUCATIONAL AND INCOME LEVELS OF PAKISTANI MIGRANTS TO THE US

	US Average	Pakistani in the US
Households by Type (%)		
Family households	66.9	80.1
Nonfamily households	33.1	19.9
Households and family size		
Average household size	2.60	3.71
Average family size	3.18	4.27
Educational Attainment (Pop. 25 years and over) (%)		
Male, bachelor's degree or higher	28.5	60.9
Female, bachelor's degree or higher	26.0	45.0
Income (US\$)		
Median household income	46,242	52,395
Median family income	55,832	56,755
Mean earning for full time, year round		
Male	56,724	59,310
Female	39,890	44,019
Median earning for full time, year round		
Male	41,965	42,718
Female	39,890	44,019
Per capita Income	25,035	20,585
Poverty Ratio (%)	10.2	14.9

Source: 2005 American Community Survey, US Census Bureau.

IV. Remittance Flows to Developing Countries and Pakistan

Remittances are the most important instrument for linking immigrants with their country of origin and can play important economic roles at the macro and micro levels of the remittance-receiving country. Whatever the reasons may be, immigrants have a motive to remit some of their earnings back to their home country. With the progress of globalization, the number of immigrants around the world has increased and accordingly the amount of remittances is also much greater than it used to be. In this section, we briefly review the overall trend of remittance flow to developing countries and Pakistan.

Figure 2 illustrates the trend in resource inflows into developing countries. As can be seen, remittance flows to developing countries have been steadily increasing and the speed of increment seems to have accelerated in recent years. The volume of remittances is not as large as that of FDI and private debt/portfolio equity, but it has nevertheless exceeded the amount of Official Development Aid (ODA) to developing countries since the early 1990s. In 2007, the total volume of remittances recorded amounted to US\$ 251.5 billion, which is more than double the size of ODA in the same year.

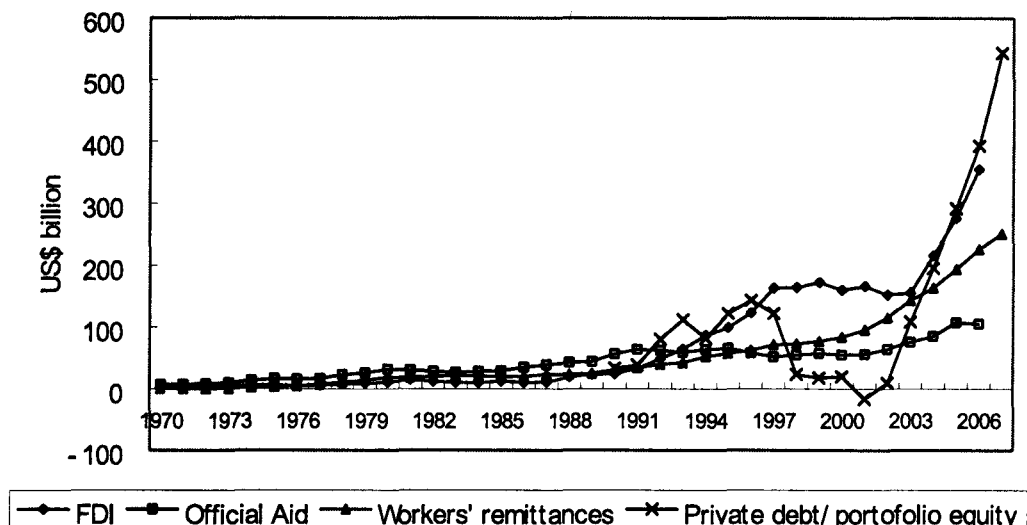


Figure 2: Financial Flows to Developing Countries

Source: The World Bank Data and IMF Balance of Payments Statistics Yearbook, Various Issues.

It is however important to note that the remittance data presented in Figure 2 are derived from official records of remittance flows. These records capture only the remittance flows made through formal channels such as banks and post offices. However, it is quite evident that many migrants use informal transfer mechanisms such as *hundi* and *hawala*. Also money or payment in kind can be carried by migrants when they return home. The amount of money transferred by way of these methods is quite substantial and unrecorded. If recorded, the size of remittances would far exceed the amount of FDI and private debt/equity (See El-Qorchi et al., 2003).

Before the mid-1970s, remittance flows to Pakistan were limited because of the small number of migrants and the nature of emigration. Many migrants to Britain and the United States were accompanied by their families, so that they did not have to transfer money⁹. As the number of migrants to countries in the Middle East increased in the 1970s, the amount of remittances to Pakistan also increased as Pakistani workers needed to send money back to support their families left behind and to repay their debt if the cost of migration had been financed by borrowing (Figure 3). In 1983, the amount of remittances even exceeded Pakistan's export volume in that year.

However, as the number of Pakistani migrant workers fell in the 1980s, the remittance flows also started shrinking after having reached a peak in 1983. This declining trend continued until 2001. While the fluctuation in the number of Pakistani migrant workers can to some extent explain the changes in the amount of remittances, we also need to consider other factors such as the increasing dependence on informal channels as a possible explanation for the decline.

The declining trend in official remittance flows to Pakistan was reversed after September 11, 2001 for several factors, which will be explained in the next section. The remittances

⁹ Instead, they purchased land and built a house in their home town, dreaming that they would live there after returning to their home country in the future. See Ballard (1987) concerning migrants from Mirpur district to the UK.

through official channels were US\$920 million in 2000/01, but increased sharply to US\$2.3 billion in 2001/02. The figure of 2007/08 was US\$6.4 billion. It seems this upward trend still continuing and the amount is likely to exceed US\$7 billion in 2008/09.

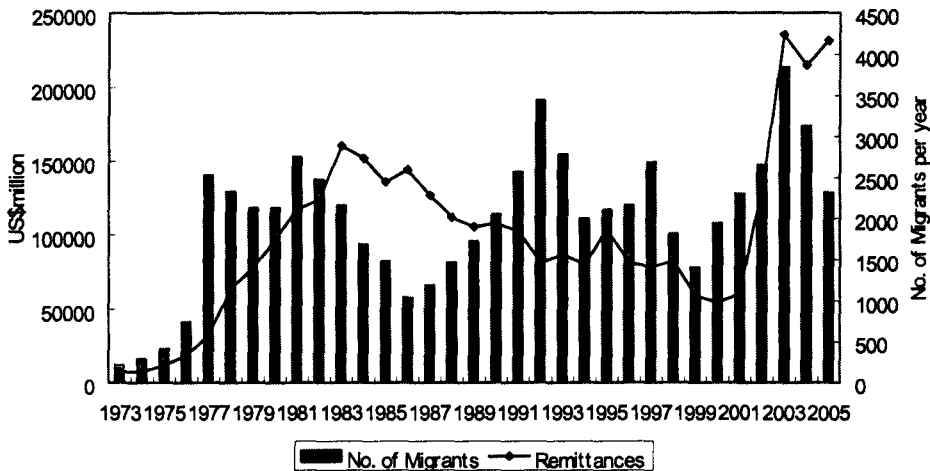


Figure 3: Relationship between Migrants and Remittances

Source: *Economic Surveys, Various Issues, Government of Pakistan, and Data Obtained from the Bureau of Emigration and Overseas Employment.*

As for the countries of origin of the remittances, the largest share, from 1976/77 until 2001/02, came from Saudi Arabia (Figure 4). Remittances from the Middle East accounted for more than 70 percent of total remittances to Pakistan. However, remittances from the United States have increased significantly since the 9/11 incident, surpassing those from Saudi Arabia. The United States has been the largest source of remittances to Pakistan since 2002/03. Remittances from Saudi Arabia are also increasing, but the rate of growth in remittances from the USA has been far faster. In 2000/01, the amount of remittances from Saudi Arabia was US\$309.9 million and thereafter increased to US\$1.25 billion. During the same period, the amount of remittances from the USA increased from US\$ 73.3 million to US\$ 1.72 billion.

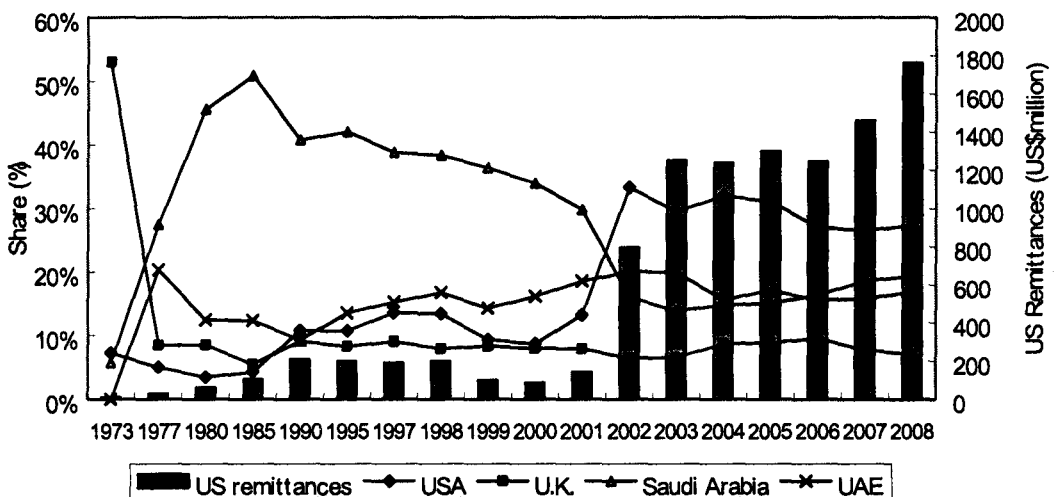


Figure 4: Share of Remittances to Pakistan by Source Country

Source: *Economic Surveys, Various Issues, Government of Pakistan*

Table 2 displays the per capita remittances by source country before and after the 9/11 incident. Figures are derived by dividing the aggregate amount of remittances by the number of Pakistani of the source country. Assuming that there had not been much change in the number of Pakistanis in each country, the figures as of June 30, 2004 are used. Though figures in Table 2 are precise in a sense, it shows the rapid increase of remittances from the US In 2000/01, per capita remittance from the US was US\$ 224.7. It increased to US\$ 2156.8. The amount increased by more than 9 times while per capita remittance from Saudi Arabia increased by just two times.

The table also indicates that each Pakistani family in the US remits considerable amount of money on average. Since the average size of Pakistani family in the US is 4.27 and per capita remittance is US\$ 2 156.8, this comes up to US\$9210 per family, which corresponds to 16 percent of the median Pakistani family income in the US.

TABLE 2: PER CAPITA REMITTANCE BY SOURCE COUNTRY

Country	Number of Pakistanis as of June 30, 2004	Per capital remittances in 2004/05 (US\$)	Per capita remittances in 2000/01(US\$)*	Ratio
U.S.A.	600,000	2156.8	224.7	9.6
Kuwait	100,000	2147.8	1233.9	1.7
Bahrain	45,000	2027.1	530.4	3.8
Qatar	52,500	1654.5	254.9	6.5
UAE	500,000	1425.2	380.1	3.7
Oman	85,000	1403.3	448.4	3.1
Germany	52,668	1022.3	174.7	5.9
Saudi Arabia	1,100,000	570.2	276.8	2.1
Japan	12,500	520.8	314.4	1.7
Norway	36,400	502.7	157.7	3.2
U.K.	800,000	464.8	101.7	4.6
Canada	250,000	194.0	19.6	9.9
Other countries	339,481	1494.3	260.4	5.7

Source: Yearbook 2004-05, Government of Pakistan, Ministry of Labour, Manpower & Overseas Pakistanis, Economic Surveys, various issues, Government of Pakistan.

*Figures are derived by dividing the amount of remittance in 2000/01 by the number of Pakistanis specified in the fourth column.

V. A Note on Remittances from the United States

Factors that help to explain the increasing trend of remittances from the United States after the 9/11 incident are (1) the crackdown on informal mechanisms of money transfer, (2) the shift of wealth from America to Pakistan, and (3) rapid economic growth under the Musharraf regime.

Due to an international crackdown on informal routes of money transfer just right after the 9/11 incident, overseas migrants including Pakistani workers began to channel money through formal transfer mechanisms. This resulted in a significant boost to the officially recorded increase of remittances. The tight surveillance of informal channels, money which used to be transferred informally is now remitted through formal channels.

The second and third factors, both of which are closely related, need some explanation. The fact is that the shift of wealth from the United States to Pakistan has been caused by a change of sentiment among Pakistani Americans. Immediately after the 9/11 attacks, the American bank accounts of Muslim individuals/businesses suspected to be involved in

financing terrorism were frozen in an attempt to contain financial flows to terrorist groups by the US government. This action planted a fear among Pakistanis living in America that their accounts might be suspended in the future. Also after the 9/11 incidents, Americans' attitudes toward Muslims became hostile, and seemed to be based on the assumption that all Muslims were terrorists. This made Pakistanis in the United States search for safe places in which to deposit their wealth.

They soon found Pakistan to be a safe alternative as Pakistan's economy started to undergo a new era of development after having suffered low growth during the decade of the 1990s. Moreover consistent economic policies and macroeconomic stability within Pakistan functioned as pull factors. The timing was perfect because Pakistanis in America were looking for a place to put their wealth and hoped to possibly gain some economic profits at the same time, and Pakistan was becoming an attractive investment destination. The rapid economic growth and improving prospects attracted investors and Pakistani Americans were looking for more favourable investment opportunities.

The growth momentum was triggered largely by President Musharraf's decision to join the team of the "war against terrorism" led by the Bush administration. This decision opened the way for external debt reduction by the Paris Club, and this helped ease the Pakistan government's fiscal position as well as the balance of payments. Before the restructuring of debt by the Paris Club, the size of Pakistan's external debt was 49.0 percent of its GDP (in 2000/01) and the servicing of the debt consumed a significant portion of foreign exchange earnings. If domestic debt was included, the size of the entire public debt (domestic and external) exceeded 100 percent of GDP and interest payments consumed around 50 percent of public spending, crowding out expenditures necessary for infrastructure development and for the improvement of social sectors such as education and health. However, after the Paris Club agreement, the size of external debt was reduced to 34.4 percent of GDP in 2003/04, resulting in a substantial reduction of debt servicing. This restructuring of external debt came as a great relief to Pakistan. The United States government also provided the Musharraf regime with a substantial amount of economic and military aid, and this aid helped Pakistan to achieve a higher rate of economic growth.

The higher economic growth of Pakistan attracted remittances not only from the US but also from other nations. In turn, these remittances contributed to further economic growth. During the five years from 2002/03 to 2006/7, Pakistan's average annual growth rate of GDP was more than 7 percent, and part of this achievement was the result of the increased amount of remittances flowing into the country from abroad (Figure 5).

In addition to these, investors around the world became interested in opportunities being provided by emerging countries, the advancement of the BRICs economies being a major factor in this change of attitude. Pakistan was defined as one of the more promising investment destinations, and capital began flowing into the country. FDI and portfolio investments increased substantially from only US\$ 322 million in 2000/01 to over 5 billion in 2006/07.

There was also an effort by the Pakistani government to attract more remittances through formal channels. In June 2001, prior to the 9/11 incident, the government announced the incentive schemes to increase remittances through formal channels (Maimbo et al., 2005). These incentive schemes coincided with the above-mentioned developments after 9/11 and no doubt facilitated more remittance flows through formal channels.

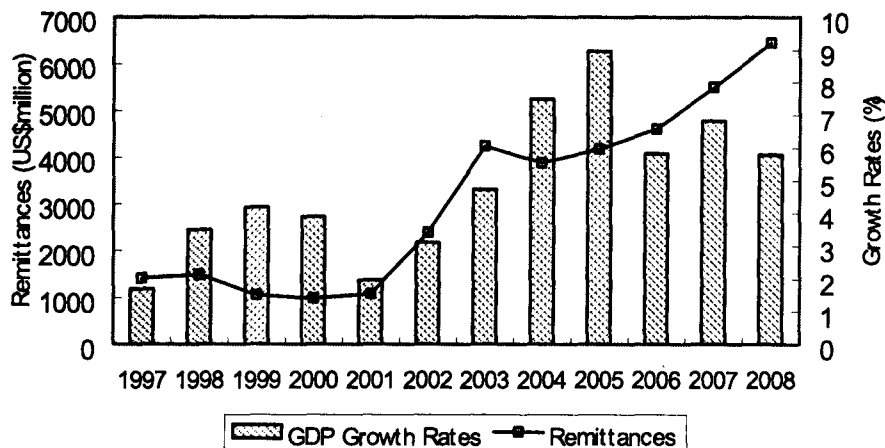


Figure 5: Real GDP Growth and Remittances

Source: *Economic Surveys. Various Issues. Government of Pakistan*

VI. Economic Impact of Remittances

The analysis of the impact of remittances on an economy at the macro and micro levels is an important issue in development studies. At the macro level, needless to say, remittances are an important source of foreign exchange. Remittances are particularly valuable to countries such as Pakistan, which has long experienced current account imbalances. Another important aspect of remittances is their impact on economic growth. On the other hand, analysis of the growth effect of remittances is fraught with problems. One of the difficulties concerns the nature of the data. As has already been pointed out, we can only use official data, which record remittances through formal channels. Remittances sent through informal channels are not recorded but it has been recognized the amount involved is substantial. In short, it is impossible to accurately measure the true size of remittance flows.

At the micro level, a number of studies have been conducted on various relevant topics. In the Pakistani context in particular, the impact of remittances on well-being and on poverty reduction of the recipient households is a pressing issue since one-third of population of Pakistan is living below the poverty line. In particular, this issue is very pertinent to the households of Middle East migrants' households many of which see overseas migration as a key element in the struggle to escape from poverty.

So far, studies of this aspect have found a positive association between remittances and poverty reduction. One such example is the work of Arif (2004). By using nation-wide household data, his study shows that the incidence of poverty was reduced by foreign remittances. Oda (2007), who has carried out a field survey in the *barani* area of Punjab Province, confirms Arif's results and arrives at the same conclusion. While he recognizes the positive impact of remittances on poverty reduction, he also points out that only those who can finance the high cost of overseas migration are able to migrate. He argues that the chances to migrate are not fairly distributed and therefore the poor remain poor.

An interesting question regarding remittances is how they are spent by recipients. This is particularly important because of perceptions concerning the impact of remittances on economic development. Unfortunately many studies report that a significant proportion of

remittances has been spent on personal consumption or unproductive items such as housing/real estate investment. For example, Gilani et al. (1981) report that 62 percent of remittances were spent on current consumption and 22 percent on real estate. However, based on village-level surveys, Oda (2007) shows that although remittances were spent mainly on daily consumption, they were also used to finance the schooling of household members, a type of expenditure that is considered a productive investment in the long run.

One issue that needs to be examined is the impact of the recent increase of remittance flows from the United States on the Pakistani economy. Are the remittances from the United States spent in the same way as those from the Middle East? How long will this increasing trend continue? In fact, American remittances to Pakistan differ markedly from the Middle Eastern remittances as the recent increase of the former is motivated mainly by the search for economic profits while the latter is primarily for helping to finance daily needs. There is abundant anecdotal evidence on the use of American remittances¹⁰. For example, it is said that the recipients have spent these remittances on the purchase of real estate in large cities such as Karachi, Lahore, and Islamabad. As a result, property prices in those cities shot up to a level at which ordinary Pakistanis were unable to buy a plot of land for their own housing. Unfortunately, official data on land prices in Pakistan are not available, and it is consequently impossible to estimate the precise impact of American remittances on the land price increase in Pakistan's big cities.

Other examples are the purchase of stocks and shares and consumer durables such as automobiles. The KSE 100, which is the benchmark of the Karachi Stock Exchange (KSE), increased from 1,247 points immediately prior to the 9/11 attack to over 15,000 points in early 2008 (See Figure 6). Although no breakdown of capital inflows to the stock market is available, there seems to be a clear positive correlation between the inflow of remittances and the movement of the KSE 100. Assuming this to be the case, it is probably safe to say that remittances from the United States pushed stock prices upwards to a considerable extent. Meanwhile annual sales of automobiles increased from slightly under 35,000 in 1999/00 to more than 180,000 in 2006/07. This suggests that excess liquidity created by remittances allowed recipient households to buy luxury items such as cars.

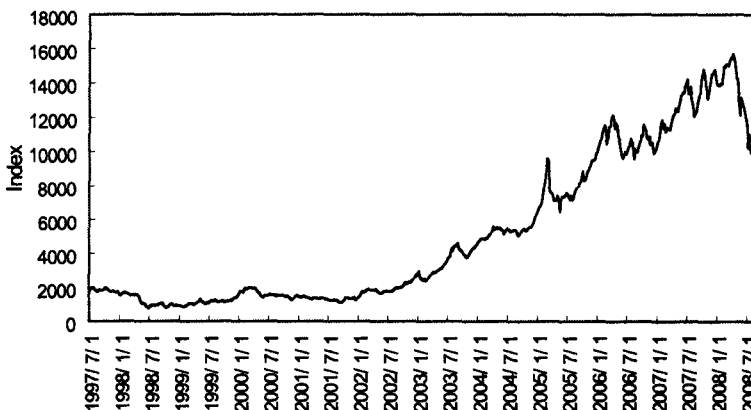


Figure 6: Trends of KSE 100

Source: Karachi Stock Exchange Website (www.kse.com.pk)

¹⁰ Burki (2005) attempts to analyze how remittances from the US are spent. What he reports is probably right, but unfortunately due to lack of data, his analysis is little better than guesswork as he partially admits.

The issue of sustainability of the US remittances is a primary concern for policy makers as Pakistan has come to depend heavily on remittances to cover trade deficits in recent years. After achieving 9.0 percent GDP growth in 2004/05, Pakistan's economy slowed down with GDP growth rate falling from 6.6 percent in 2006/07 to 5.8 percent in 2007/08. During this period, the amount of remittances from the US increased from US\$1.294 billion in 2004/05 to US\$1.762 billion in 2007/08. However, in 2008/09, it decreased by 1.5% to US\$1.736 billion while the total amount of remittance inflow to Pakistan increased by more than 20% to US\$7.811 billion.

There were two major events in 2008/09, which affected the remittance flow. One is the low GDP growth rate of Pakistani economy. It is estimated to come down to 2.0%. The other is the worldwide economic downturn triggered by the non-performing subprime loans. Particularly, it has become evident since the "Lehman Shock", the bankruptcy of Lehman Brothers in October, 2008. Because of altruism motives, if migrants were from the poor classes in Pakistan, they would have a stronger incentive to send money back home to support their families or relatives when their home country is experiencing a slowdown in economic growth¹¹. This seems to be the case of migrants to the Gulf countries, but not the case of migrants to the US. Despite the economic recession in the Gulf economies since October 2008, remittances from there to Pakistan in 2008/09 increased to a greater extent: 54.9% increase from UAE, 24.6% increase from Saudi Arabia, and 22.3% increase from other GCC countries. Looking at the monthly remittance figures (Figure 7), one can see that after the significant drop in October 2008, remittance inflows from Saudi Arabia and UAE bounced back and even surpassed the level before the Lehman Shock. The remittance flow from the US also dropped in October, and then bounced back a little bit, but it has not reached the pre-Lehman Shock level, causing the negative growth of remittances from the US. This seems to suggest that the motivation of American remittances to Pakistan is rather economic and cannot be explained by altruism since Pakistanis in the US tend to come from the relatively well-off social strata compared to Pakistani migrants to the Middle East. One might conclude that a slowdown in the both Pakistan and US economies affected the inflow negatively.

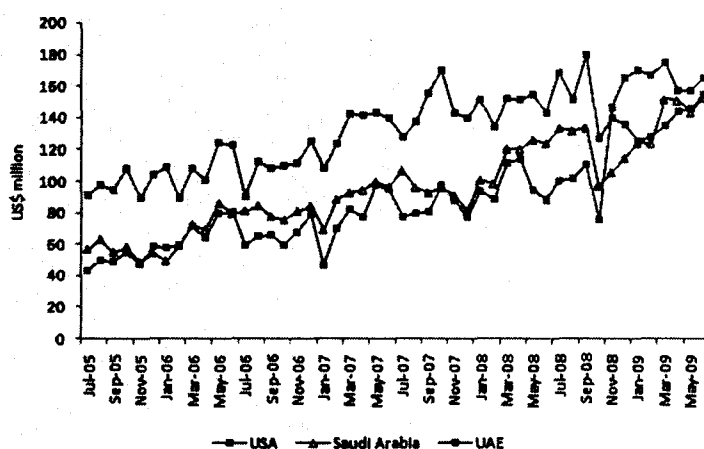


Figure 7: Remittances to Pakistan from USA, Saudi Arabia, and UAE

Source: State Bank of Pakistan website (www.sbp.org.pk)

¹¹Since the work by Lucas and Stark (1985), the determinants of remittances have been studied to a considerable extent. See Hagen-Zanker and Siegel (2007) for reviews.

VII. Concluding Remarks

This paper has focused on the Pakistani diaspora/migration to the United States. First, the paper has briefly reviewed the history of Pakistani migration to the US. It has shown that the formation of overseas Pakistani communities in the US has been influenced by changes in the immigration policies of the US government. Second, reviewing the overall trend of remittance flows to Pakistan and their impact on the economy, the paper also analyzed the remittance flow from the US to Pakistan after the 9/11 attacks on the US in 2001. The 9/11 incidents caused several significant changes in the flow of remittances. One such change is the sharp increase in remittances sent from the United States. The paper has explained factors behind this rapid increase of remittances from the US to Pakistan and discussed their economic roles. While pointing out the bilateral positive relationship between Pakistan's recent economic growth and remittance flows, the paper has argued that the characteristics of remittances from the United States differ from those originating in the Middle East as the recent increase of the former is motivated mainly by the search for economic profits while the latter is primarily for helping to finance daily needs.

Essentially the findings have shown that just as the overseas Pakistani communities are diversified, so the nature and characteristics of remittances are also not homogeneous, but rather are heterogeneous, depending on where they come from and who sends them. While the importance of remittance flows from the United States is rising, not much academic attention has been paid to this issue because of a lack of data. To better understand the reasons behind the increase in US remittances, and in order to evaluate their sustainability, further studies including household surveys are necessary. These should be aimed at clarifying who is sending money from the United States to Pakistan, who is receiving it, and in what ways the remittances are being spent.

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