

## THE IMPACT OF BRITISH PAKISTANI REMITTANCES ON HOUSEHOLD RESILIENCE AND NATIONAL ECONOMY IN PAKISTAN

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### Abstract

*This study examines the dual impact of British Pakistani remittances on Pakistan's household resilience and national economy. At the micro level, remittances enhance household resilience by enabling consumption smoothing during economic/environmental shocks (e.g., covering 40% of basic needs), funding education and healthcare (28–34% of household spending), and facilitating limited asset accumulation. However, they also foster dependency, reduce labour force participation, and reinforce gender inequalities in education. At the macro level, remittances (\$3.2 billion in 2023) stabilize Pakistan's balance of payments (covering 35% of the trade deficit) and external debt servicing but risk inducing Dutch Disease, distorting exchange rates, and undermining export competitiveness. Critically, remittances enable fiscal complacency, delaying essential tax reforms and industrial diversification. While serving as a vital transnational lifeline, they perpetuate a "survivalist" economic model rather than driving structural transformation. The paper argues for policy interventions—financial inclusion, SME investment incentives, diaspora bonds, and skills mobility partnerships—to convert remittances from a dependency crutch into a catalyst for sustainable development.*

### INTRODUCTION

In the complex world of economic dependence, remittance has come out as a saviour of developing economies. Pakistan in the world is the fifth-largest country where there is dependence on remittance (World Bank, 2023), and this money allows the country to remain stable by continuing to feed the family both economically and physically. One of the most important of these groups of people includes the 1.5 million plus British Pakistani community whose remittances among other things, have been a pillar of Pakistan's financial scaffolding. Remittances that the

United Kingdom sent to Pakistan in 2023 alone reached USD 3.2 billion, which makes it the second-largest source of cross-border transfer to Pakistan after Saudi Arabia (State Bank of Pakistan [SBP], 2023). Such inflows are not an act of money transfer, but a support system transnational in nature that subsidizes the consumption of households, household health, and education of millions living in Pakistan, especially in rural and peri-urban geography.

The remittances of British Pakistanis are integrated into the permanent ties of kinship being crossed

boundaries. Largely coming out of states such as Mirpur in Azad Jammu and Kashmir and cities such as Faisalabad and Gujrat, the movement of Pakistani workers into the UK since the post-World War II industrial spurt turned out to be a transitional labour movement into permanent diaspora settlement (Ballard, 2003). Remittances have increasingly evolved as a systematic part of Pakistan's household economy, over the years. Such transnational remittances are now determining not only the daily livelihood financial planning of the recipient households but also the overall macroeconomic agenda of the country.

The paper aims to discuss the twofold effects of British Pakistani remittances, at the micro level, on household resilience (which is measured in terms of consumption smoothing, human capital investment (education and healthcare), and asset accumulation), and at the macro level, and in the economy of Pakistan (foreign exchange reserves, fiscal policy, structural reform incentives).

**Specifically, this research is guided by two central questions:**

1. How do remittances from British Pakistanis influence the resilience and adaptive capacity of recipient households?
2. What are the broader implications of these remittance flows for Pakistan's fiscal health and development trajectory?

This paper tries to argue that British Pakistani remittances have become a double-edged sword. On the one hand, they play an important role in ensuring households relative to economic shocks and, in essence, can be regarded as a form of informal social protection (Amjad, 2013; Hagen-Zanker & Siegel, 2007). Conversely, they facilitate structural dependency both at the individual household level where beneficiaries cut labour market involvement in a bid to await a welfare transfer, and also at the national level where the policymakers can postpone necessary tax and industrial reforms as a result of the available certainty of a sustained inflow of money transfers to offset fiscal shortfalls (Kapur, 2004).

Moreover, in addition to short-term poverty reduction as well as the ability to invest money in education and healthcare, remittances seldom result in productive economic change. The vast majority of the

remittances are wasted (whether counterproductively spent on non-productive consumer items such as land or by use of marriage or other celebrations) and less than a quarter of it is directed into business (entrepreneurship) or savings (World Bank, 2022). It is an emerging trend that questions the sustainability of the long-term development of remittances, despite cushioning properties in the short term.

In short, remittances by British Pakistanis create an international lifeline which is a lifeline, as well as a restrictor. They give much-needed assistance to households and macroeconomic support to the state but face the risk of institutionalizing a survivalist mode of economic development which distracts structural reform. This paper takes a critical look at this paradox by evaluating the dynamics of remittance and remittance impact using theoretical frameworks and empirical case studies with a view to offering policy pathways of using remittance as not only a source of resilience but also as a tool of inclusive and sustainable development.

## 2. Theoretical Framework

The concept of multidimensional effects of British Pakistani remittances was studied because a framework of analysis is needed that links micro-level relationships within households and macroeconomic systems. The discussion of the remittance-enabled cross-border financial flows as the contributors or constraint facilitators of development will rely on two main theoretical frameworks: the Remittance Resilience Framework and the Dependency Theory. Such frameworks are also complemented with models that examine motives for remitting behaviour and various transmission channels that can be used through which remittances can influence the economy.

The Remittance Resilience Framework designs the structure of remittances around viewing them as informal systems of social protection. Remittances are flexible ways of dealing with a situation that may exist either in an economic sense, in a political sense, or on a natural scale; they are like a cushion by which the households receiving the remittances live so that they can attain a bare standard of living (Hagen-Zanker & Hinojosa, 2009). Remittances can replace government welfare in places where the level of institutional safety nets is low and prone to bureaucracy such as in

Pakistan. As witnessed during the flooding of 2022, remittance receiver households have been in a position to retain access to food, clean water, and basic healthcare despite local infrastructures crumbling (UNDP, 2023). Therefore, the remittances provide counter-cyclic flows that protect the families against income shocks and support the household's bargaining power.

This resilience itself is however problematized by the Dependency Theory as the model is seen to be a survivalist economy and remittances need not be a developmental model. Derived from the criticism of global capitalist imbalances, the Dependency Theory alludes that although remittances are sources of alleviating poverty, they create dependency trappings that never dissolve, both in the micro and macro aspects (Frank, 1967; Amin, 1976). Families at the household level can cut local economic activity or postpone the entry of the labor force, as they expect regular remittances. This regularity of the inflows of remittances at the national level will induce a sense of complacency amongst policymakers leading to the postponement of fiscal reforms or investment in industrial policy in a bid to save the day using the dollars sent in by the diaspora to maintain the necessary liquidity and to service the debtors (Kapur, 2004). Therefore, the lifeline, which leads towards short-term survival can prevent long-term transformation.

In further analysis of this, it would be necessary to look at the reasons that cause an individual to engage in remitting behaviour. In the economic literature, a distinction has been made between altruistic motives (where migrants transfer the money because they feel required to by familial requirements or attachment) and strategic motives (such as inheritance claims, asset accumulation, or the desire to continue to influence land and marital choices in the home country) (Lucas & Stark, 1985). British Pakistanis, especially those belonging to settled communities equip themselves with the logic of a hybrid: they are motivated to send money home as much by the emotional as they are by the long-term plans of socio-economic presence. This ambivalence explains why the remittances have found ways of investment in land buying or other marital activities, instead of putting them into productive activity.

Remittances also have a very complex role demonstrated by the economic transmission channels through which they work. On the one hand, remittance helps to reduce poverty since it aids the growth of disposable income, consumption, and investment in human capital (Ratha, 2013). Conversely, they can bring forth the Dutch Disease-going by the meaning that substantial amounts of foreign exchange cause an appreciation of the real exchange rate in such a way that export-related industries such as manufacturing and agriculture become less competitive (Acosta et al., 2009). This has seen the case in Pakistan in the form of the newly developing real estate industry (diaspora fuelled) along with unchanging industrial production.

This kind of study is characterized by what can be termed as a double bind logic: if remittances provide empowerment to households and stabilization to economies, they at the same time present vulnerability concerns by putting off structural reforms. Policymakers find themselves in a dilemma between the fact that remittance is one of the development resources that should not be distorted. As an example, the ease offered by a 3-billion-dollar yearly flow of UK capital can cause a lack of urgency in regards to seeking tax base increases or skills-based development schemes and this continues the short-sighted pattern of growth (consumption-based).

Overall, the theoretical framework of this study places the aspect of British Pakistani remittance and its dependency at the point of resilience. Although they serve as crucial cushions against shocks, they are a threat to the perpetuation of a status quo that distorts innovation, productivity, and reform. The lenses allow us to better understand the part of remittances as a structural factor (rather than as a financial flow) influencing the developmental trajectory of Pakistan.

### 3. Historical & Demographic Context

In order to place British Pakistani remittances in a broader sociohistorical context of migration, diasporic formation, and demographic composition of the recipient households in Pakistan, they have to be placed in this perspective. These trends of remittance flows are steeped into the post-colonial context of the UK-Pakistan relationships, the structural changes within the British Pakistani

diaspora, and the ongoing rural-urban divide in the intra-Pakistani socio-economic development context.

### **Migration History: From Industrial Labor to Transnational Networks**

The large-scale journey of the Pakistanis to the United Kingdom started in real earnest in the 1950s and gained youthful strength during the 1970s when there was a lack of labor in the United Kingdom that came in because of the post-war demand. The need for industrial labor pulled high numbers of men who were in the rural areas like Mirpur in Azad Jammu and Kashmir and other areas of northern Punjab who settled in cities like Birmingham, Bradford, Manchester, and Luton (Ballard, 2003). These migrants began working on low-paid work in the textile industry, foundries, and transport industry, creating ethnically specific closed environments.

Another characteristic of the early British Pakistan immigration was that it was circular since the migrants stayed in close contact with their families back in Pakistan and sent most of their income to domestic in the informal hawala (Anwar, 2010). This later developed into a more lasting settlement, especially after the 1980s when family reunification policy resulted in the influx of spouses and children. By the early 2000s, a second and a third generation of British Pakistanis had formed—an increasingly educated and professionally differentiated British Pakistani community still imprisoned in archipelagic transnational webs of kinship and obligation (Charsley & Bolognani, 2017).

Remittances had changed their nature with this generational change. The first generation remitted to sustain life, that is, food, shelter, and emergency but with the inception of the newer generation, the money flowed into education, health, and property investments. The existence of dual identities and bicultural capital also enabled the establishment of its income networks that encode both British and Pakistani economies, usually with season visits, real estate development, and diaspora philanthropy processes (Gardner & Osella, 2004).

### **Remittance Trends: Formalization and Digital Penetration**

The amount and character of UK remittances towards Pakistan have experienced a serious change since the

beginning of the 2000s. After the post-9/11 regulatory crackdown on informal money transfer systems like hawala, there has been an overwhelming movement into formal banking systems. Such trends were validated by such developments as the Pakistan Remittance Initiative (PRI) introduced in 2009 which introduced fee waivers and collaborated with the United Kingdom financial institutions to encourage legal transfers (State Bank of Pakistan [SBP], 2022).

The fintech rave has also transformed the scene. The availability of mobile applications (e.g. WorldRemit, Remitly) and online payment transfer services, as well as smartphone penetration, have provided easy and transparent cross-border transfers. This has seen the volume of remittances in the UK not only increasing but also becoming much more stable and steadier as opposed to the ones in the Gulf area which are prone to fluctuations depending on the labour markets (World Bank, 2023).

This codification has facilitated the analysis of the remittance flows and their socio-economic consequences. Nevertheless, a great deal of remittances still got untracked by official authorities because of the fact that some rural destinations still employ informal mechanisms of conducting remittances, as it occurs in certain remote corners.

### **Recipient Profiles: Gendered and Rural Dimensions**

The UK remittance inflows are very biased on the part of rural areas, both Punjab and Khyber Pakhtunkhwa (KPK) have around 68 percent of the recipient households (UNDP, 2022). These regions tend to be experiencing poor infrastructure, and inadequate provision of services to its citizens and are highly informal both in their economies as well as in their economy-related business practices, making remittances not only crucial but frequently the only reliable form of income.

One of the outstanding demographic dynamics is the feminization of the remittance management. It is estimated that 55 percent of families receiving remittances are headed by women, and this is mostly a result of men who go to earn a living in other countries (UNDP, 2022). Such women tend to become de facto financial managers, yet they lack access to formal banking tools and investment knowledge or credit systems. This adds towards the consumption-oriented usage of remittances where the

recipient focuses on his daily household needs compared to generating long-term wealth and building up future businesses.

Further, the lack of any planned financial support or financial literacy programs implies that although women may be trusted to take charge of a high monthly inflow, they tend not to sport any increased economic decision-making platform. This leads to an ironic process: even though remittances can empower women as the heads of households, they rarely contribute to broader economic empowerment and property ownership (Siddiqui & Kamal, 2021).

The British Pakistani remittances system is therefore anchored in a subplot of British history; the transnational post-war migrations of migrant industrial labour to the construction of a transnational, financially engaged, middle class. However, even with the improvement in formal channels of remittance and the digital system, the landscape of the recipients is structurally exposed: Female-headed, rural, and not empowered in terms of accessing the system of finance. It is imperative to be aware of these historical and demographic outlines to shape policy that can not only ease flows to enhance successes in remittance but can direct the flow channel into sustainable and inclusive development.

#### **4. Micro-Impact: Household Resilience**

Although the value of remittance to the Pakistani economy is measured through macroeconomic indicators, the effects of this flow of finances are the most felt at the household level. The remittances of the British Pakistani diaspora are an essential source of income to the development of what may be referred to as resilience without transformation in a room of resisting the economic hit and living standards to a higher level but not bringing about structural change in their socioeconomic status. The section decomposes the micro-level effects of remittances in three fundamental dimensions: consumption smoothing, human capital investment, and asset accumulation. Both emphasize the beneficial role that financial inflows play in the risk management of households, but both also show that remittances can only go so far as sources of sustainable development.

#### **Case Study 1: Consumption Smoothing A Lifeline During Crises**

In households facing economic or environmental shocks, the immediate and quickest defence option is frequently remittances. In the context of Pakistan, there are frequent floods, inflation, and unemployment hence to be in a security net remittance income is a lifesaver. The World Bank data (2023) show that remittances can meet an average of 40 percent of the basic needs of households that receive such inbound streams (food, rent, clothing, and payment to utilities).

Families that received remittances from the UK-based were found to be more food secure, could have sustained their shelter, and the children experienced lesser incidences of malnutrition, during the monsoon floods that took place in 2022 and hit more than 33 million people in Punjab and Sindh and displaced thousands (UNDP, 2023). Remittance inflows were timely and predictable unlike government relief, which was always late or imperfectly distributed to survivors, making it possible to move to new places, rent housing, and buy emergency supplies. Such finances played a vital role in stabilizing consumption during the time of extreme exposure.

#### **Day to day Inflation Control**

Remittances also cushioned the cost of living in case of chronic inflation which was especially illogical following the 2023-rupee devaluation of 38 percent in the Pakistani currency. Non-remittance households tended to sell assets or use informal credit when food and energy prices were at historic highs. On the contrary, remittance families were more stable and less dependent on predatory lending markets (Siddiqui & Kamal, 2021).

Nevertheless, such resilience is defensive. It does not push households out of impoverished poverty into sustainable middle classes, but it does keep them out. In this regard, remittances make economic dependency more vulnerable and fail to organize this economically.

#### **Case Study 2: Human Capital Investment Education: Financing Futures—With Caveats**

The remittances made by the British Pakistani have helped thousands of children in rural and peri-urban

areas of Pakistan to attend privately funded schooling which is believed to be much better in comparison to the overcrowded and under-resourced government-provided schools. It is shown that this proportion can reach 34 percent of a household's education spending using remittances (World Bank, 2023). The most often funded items include tuition fees, school uniforms, and transportation.

However, this outlay is not evenly drawn. Gender gaps are also quite outstanding: families always give priority to boys over girls in their education. A 2022 opinion poll by UNDP showed that 61 percent of households receiving remittances specified that boys were favored to receive an education in exclusive facilities and girls were typically left with less desirable, more expensive institutions, and sometimes not at all. This signifies the culture as well as the value of the future investment pay-off since the sons are to become income earners or go out to work in other countries. Therefore, as much as remittances may enhance access to school, they tend to cement the gender hierarchy already in place thus restricting their potential to break intergenerational inequalities.

#### **Health: Responding to Medical insecurity**

Remittances are also helpful in facilitating the means to health in places with poor or very limited health infrastructure. The National Institute of Population Studies (NIPS, 2021) says that 28 percent of international remittance inflows are spent by households on medical checks, drugs, and treatment payments at medical institutions.

The result is low infant fatality and enhanced maternal healthcare in other areas such as southern Punjab and upper KPK where remittance-funded healthcare has been received. The consistent flow of remittances has been found to improve the chances of families giving birth in medical institutions as opposed to doing it at home hence a decline in preventable fatalities. Also, migrants tend to directly finance emergency doctors' services to the aging of their parents or chronically ill family members, thus making them informal insurers in a short-financed healthcare system.

But like in the case of education, healthcare expenditure is mostly curative and does not support long-term health or systemic change. Remittance

covers short-term gaps but is not a replacement for solid public health infrastructure.

#### **Case Study 3: Asset Accumulation & Entrepreneurship Rural Land, Urban Enterprise**

In addition to consumption and social services, remittances are often used in the accumulation of assets especially through land purchases in rural Pakistan. Land-owning is one of the major status symbols and security and returning migrants usually purchase land or settle down in ancestral villages. Such property is practical, as well as symbolic, and can guarantee family futures, inheritance, and a connection to the community identity (Charsley&Bolognani, 2017).

Urban settings allow people to start micro-entrepreneurial activities with the income they receive through remittances by opening a grocery store, auto repair shop, or clothing store. Known to come up as the migrants come home or relatives start employing the savings they have made, such ventures are self-employed by the migrants. Although these businesses may help you diversify your sources of revenue, they tend to be low-profit, high-risk, and low-capital with short-scaling opportunities.

#### **Investment Paradox**

Nevertheless, a very few percentages, about 15%, of remittance revenue is utilized in building up productive assets or businesses (World Bank, 2023). Most of it is channelled into consumption, housing, and ceremonies such as weddings. There are several reasons behind this trend:

#### **Poor financial IQ of the recipients.**

- Inability to get credit or business building facilities.
- Potential low security of internal markets (particularly in the countryside).

The net effect on development is a paradox: the growth of remittance increases personal assets but not always employment and addition of value. As a matter of fact, remittances can be used to drive inequality inadvertently, increasing inequality by inflating the real estate prices in the recipient region and rendering the land less affordable to non-recipient families (Acosta et al., 2009).

**Critical Insight: Resilience ≠ Transformation**

In these three areas, a theme runs through; remittances have been shown to achieve household resilience in limited cases of structural transformation. They can mitigate crises, retain children in school, and invest in health, yet these achievements are short-term, risk-averse, and socially limited.

Remittances in most cases are used as a replacement of state capacity instead of facilitation of it. This relation strengthens the dependence on foreign flows and allows governments to postpone awkward reforms (in taxation, service delivery, or economic diversity). Besides, even the migration-remittance cycle itself often acts as a deterrent to the domestic labor force since it discourages the domestic labor force, especially the youths who expect that those in foreign places will send money back home (Kapur, 2004).

Therefore, although remittance as a form of over-development might be designed to be supportive of informal welfare systems, it is ill-prepared to provide inclusive or transformational development. Their long-term developmental effect is however limited without the absence of complementary policies like financial inclusion, SME policy, and female education.

The remittance sent by the British Pakistanis has by no doubt transformed the daily living of the millions of Pakistanis. On the micro level, they strengthen resilience- to disaster, poverty, and systematic exclusion. But this resilience is more reactive, rather than transformative. To make remittances leverage to upward mobility and structural change, the remittances should be coupled to wider development plans, where the focus will be on productive utilization, fiscal empowerment, and an inclusive policy framework.

**5. Macro-Impact: National Economy**

Although there may be attempts to valorise remittances as a means of reducing poverty and stimulating household expenditure, its macro-economic effects are much more complicated. In Pakistan, the British Pakistani diaspora, which has an organized and regularized proportion of the overall inflows, forms a crucial support of economic resilience. However, this dependency also creates structural imbalances, conceals inherent problems in

institutions, and sustains regional and regional disparities.

In this section, the interaction between British Pakistani remittances and the Pakistani macroeconomic architecture in terms of stabilizing dynamics as well as distortions in the system is informally discussed.

**I. Positive Contributions: Stabilizing the Macroeconomy****1. Balance of Payments Relief**

Foreign remittances have been essential to Pakistan in helping to resolve its trade deficit which is a structural problem caused by the low-value exports and dependence on imports. The total amount of remittance inflows stood at around USD 27 Bn in FY 2022/23, the share of which the United Kingdom contributed to around USD 3.2 Bn 11.8 (State Bank of Pakistan [SBP], 2023). These transfers reduced the pressure on foreign exchange transactions as well as limited the necessity of short-term borrowings, because of covering about 35 percent of the trade deficit in Pakistan.

Compared with volatile capital flows or conditionalities-tied aid, remittance flows are stable and countercyclical; that is, the remittances rise during an economic downturn or crisis experienced by the recipient country (World Bank, 2023). This sets them apart as a highly unique tool to hold in terms of short-term liquidity especially when one is faced with cases of balance-of-payments distress.

**2. Extern Debt Service**

Debt management has also created a strategy of using remittances as a buffer. Pakistan had to use more than USD 1.2 billion of its remittance reserves to pay external debts in 2022, thus avoiding default due to a falling reservoir size and increasing world interest rates (IMF, 2023). The role of this has become more significant because the public debt of Pakistan has reached over USD 125 billion or close to 78 percent of GDP, most of which is in the form of foreign currency.

It is with this in mind that the remittances, particularly those that are drawn by stable sources such as the UK have become quasi-fiscal instruments, where indirectly they are supporting the

creditworthiness of the country by international lenders.

## II. Structural Risks and Negative Externalities

The macroeconomic long-term dependency on remittances has perverse incentives as well as trade-offs though they serve as stabilizing factors. Policy complacency, failing to implement the desirable tax, export, and industrial changes, is a common vane of the political economy of remittance-driven stability.

### 1. Dutch Disease and Export Competitiveness

Dutch Disease is one of the most quoted macroeconomic risks of large remittance inflows which is a situation whereby inflows of foreign currency appreciate the real exchange rate thus making exports uncompetitive. In Pakistan, remittances as a source of foreign exchange grew so much that to resulted in the over-valuation of the rupee rendering Pakistani manufacturers uncompetitive in the international market (Lopez et al., 2007).

This trend has been aided by the steady inflow of remittances the UK provides that has helped cushion the rupee, especially in the recent times of 2021 and 2022. Although this contributed to undermining short-term inflation it had the effect of putting further pressure on the already dwindling export base which was primarily comprised of low-value-added textiles and agriculture. Output in manufacturing was stagnant with exporters forced to observe increasing costs of their inputs and global demand situations for expensive products (Pakistan Bureau of Statistics, 2023).

### 2. Reformer Deterrents and Budgetary Avoidance

The existence of remittances as an external cushion, on many occasions, has diminished the level of concern about deep structural reforms. As over USD 27 billion flows each year overseas the Pakistani government has failed to initiate steps of:

- Increased tax base: Only one percent of the population pays income taxes.
- Export diversification: The textiles are still low-tech.
- Energy subsidies: Remittances make it possible to continue giving on energy at the expense of re-pricing unsustainable energy prices.

Remittances have in effect served as a macroeconomic painkiller, which simply dampened the symptoms in the short run by giving the infected conditions (fiscal indiscipline, trade imbalances, and institutional inertia) a chance to grow deeper (Kapur, 2004).

## III. Sectoral Distortions and Unequal Growth

The sector channels of remittances are very skewed such that it fuels a boom in non-productive industries such as real estate whilst crowding out the productive investments in the manufacturing industries and innovation.

### 1. Inflation through Real Estate vs. Turtle Industrial Stagnation

The property boom in urban and peri-urban Pakistan is one of the most evident macroeconomic responses of the diaspora remittances, especially the UK-based diasporic funds. Remittance money tends to be used by migrants and their families to be invested in land, construction of houses, or as a form of property speculation. The cost of residential plots has more than trebled in the last decade and is moving much faster than wages and industrial growth, especially in cities such as Lahore, Rawalpindi, and Gujrat (Zaman & Khan, 2022).

**Although this has brought in local jobs in the construction sector, it has resulted in:**

- Inflation of assets that excludes the non-remittance of local households.
- The waste of capital is because it is tied up in unproductive resources.
- Export-oriented industries are not given attention as real estate speculative returns surpass returns generated by manufacturing or small and medium enterprises.

Comparatively, industrial work especially that of small and medium enterprises has been stagnant due to an unstable supply of energy, unavailability of credit, and an overvalued currency. The lopsidedness is indicative of an abnormal investment eco-system, driven by remittance inclinations and a weak regulatory control.

### 2. Urban-Rural Divergence in Capital Absorption

The capital of remittance is consumed disproportionately also. The disproportionate flow of

real estate and retail investments into urban cities, such as Lahore, Karachi, and Islamabad, has an unfavourable result of low reinvestment of remittance-earning in the rural areas, which are primary beneficiaries of remittances. In part, it is due to:

- Poor local infrastructure, unfriendly to entrepreneurship in the rural places.
- The penetration of financial services, particularly by women is limited.
- Towards reduced returns on investment in the rural area, urban property looks more appealing.

Consequently, the remittances tend to fuel the spatial disparity in terms of accumulating wealth in well-developed urban corridors and solidifying such rural areas as places of dependency and underdevelopment (UNDP, 2022).

There is the aspect that British Pakistani remittances that present a dual edge in the macroeconomy of Pakistan. On the one hand, they render essential balance-of-payments respite; facilitate servicing of external debt; and create liquidity in an economy with structural shortages. On the one hand, they reinforce dependency, falsify policy incentives, and create sectoral imbalances that inhibit the capacity to develop long-term.

**The difficulty is how to start getting rid of the survival through remittances to get to transformations through remittances. That would necessitate:**

- Taxation reforms, as well as indeed export reforms were affected in order to decrease excessive dependence on outside inflows.
- Providing the possibility of productive investment of remittances, stimulated financial inclusion policies.
- Development programs were introduced in the rural areas to absorb the capital in a more balanced manner.

Without these, remittances will continue to be a macroeconomic crutch- sustaining an unsustainable model of growth and not an inclusive and resilient model of development.

#### 6. Comparative Analysis: UK vs. Gulf Remittances

The remittance flows to Pakistan are influenced by two different geographies of migrations namely the United Kingdom and the Gulf Cooperation Council (GCC) countries (Saudi Arabia, the United Arab

Emirates, and others) are mainly involved in the remittance flows to Pakistan. Even though the two streams play an important role in providing foreign exchange reserves in Pakistan, the two types are different in many ways and vary in their sources, levels, remittance patterns, type of recipients, and development outcomes. These differences are very important in the design of responsive policies that would take advantage of the distinct features of each corridor.

The British Pakistani diaspora began with the post-war labour migrations (from the 1950s to the 1970s) of massive male migration from Azad Jammu and Kashmir, especially the Mirpur district, to the industrial towns in Britain: Bradford, Birmingham, and Luton. During the next decades, those migrants moved to the status of citizens and permanent residents. Most of them are today the members of the families of the second or the third generations, having dual citizenship and transnational lives. This has rendered a pattern of remittances that is relatively stable and formal and is targeted towards longer-run investments including education, healthcare, and housing. Conversely, the Gulf is dominated by the Pakistani labour force whose number consists mainly of men, working in precarious, low-skilled jobs including construction, hospitality, and domestic spheres. These immigrants also work under the Kafala (sponsorship) system where they have minimal rights or employment protection. The resultant remittance flows are of a short-term nature, which is meant to benefit daily supplication towards the household by most institutions and are usually conveyed through informal such as the hawala network.

In quantitative terms, the Gulf still accounts for the biggest remittance region of Pakistan. During fiscal year 2022-2023, the remittance inflows of the GCC countries (Saudi Arabia, the UAE, Qatar, and Oman) amounted to about USD 12.5 billion, which represents about 46 percent of the total remittance inflows. On the contrary, the UK had given about USD 3.2 billion, which was about 12 percent of the whole. However, though smaller in terms of volume, the UK remittances are stable and predictable. As an illustration, remittances that the UK sent went up by 17 percent at the time of the COVID-19 pandemic, with two contributing factors: the financial support programs implemented in Britain, and greater

utilization of the digital remittance providers. Overall, however, GCC remittances contracted dramatically as border closures, termination of employment contracts, and delay of payment revealed the weak point of movements relying on temporary working populations.

These contrasting dynamics are also represented in the use of remittances. The UK funds are usually budgeted for education, wellness, and long-term asset construction. The World Bank data (2023) examines the households, that obtain the remittance of the UK origin, and tend to spend it on financing the school fees, purchasing houses in the private hospitals, and property. These remittances are often delivered via regulated routes, such as British banks, authorized money transfer companies, and financial technology services, such as Wise and Remitly. The State Bank of Pakistan also registered that as of 2022, more than 85 percent of remittances of UK origin were funnelled through formal channels. Unlike GCC-origin remittances, which are more sporadic and are channelled instead to current consumption. In a similar report by the World Bank, it was indicated that households, whose income is through Gulf remittances, tend to spend more of the income on food, utility expenses, and health incidents, and a small portion of the money is given to savings or investment. Besides, not more than 62 percent of all Gulf-origin remittances are sent through formal bank channels mainly because of consideration of cost, constraint of labour mobility, and restricted access to bank facilities on behalf of the Gulf migrants.

Such distinctions also affect recipients' profiles. In Punjab and Khyber Pakhtunkhwa, especially in rural areas where such households are more common, UK remittances are more expected to come to the family budgets, children's schooling, and health insurance. Contrastingly, the Gulf remittances are normally targeted at immediate family members such as elderly parents, as well as dependent siblings, with women playing little roles in finances. The study reported by UNDP in 2022 established that 55 percent of the remittance-receiving homes in the UK were female with the rest being male-dominated recipients in the Gulf countries.

Policy implications of such contrasts are huge. Remittances of UK origin, which are higher per capita, more frequent, and formally channelled,

provide a better platform on which development-oriented instruments can be built like diaspora bonds, education-linked savings accounts, and co-investment in small and medium enterprises. They are also stable which improves the balance of payments in Pakistan and which acts as a cushion against financial shocks in the case of external financial shocks. In comparison, gulf remittances though a crucial source of short-term liquidity and subsistence at the household level are prone to cyclical changes in labour markets and political instability in host nations. They provide only the low possibility of strategic investment or growth in the long term unless combined with greater migrant protections and financial literacy programs.

Overall, both the UK remittances and Gulf ones can be viewed as two support banks with different but congruent financial resources. The Gulf is still of prime importance in terms of volume, but the UK sources are more reliable and do not require so much development. This leaves policymakers with no choice but to embrace a differentiated set of policies namely: a strategy that will stabilize and secure the Gulf corridor whilst exploiting the full investment potential of the British Pakistani diaspora. It is only at such time that the remittances can be evolved as a safety net into a springboard in the sustainability of the development.

## 7. Challenges & Vulnerabilities

Though there is a comprehensive agreement on the positive effects of remittances on poverty reduction rates and family exigence, excessive dependence on external financial inflows is also subjecting individual households and the national economy to multiple structural risks. These issues became especially visible in recent years even in Pakistan because of macroeconomic instability, climate-related disturbances, and long-standing governance weaknesses when it comes to ensuring financial controls. Such weaknesses are especially felt when the flow of remittances is made by geographically or demographically limited migration groups, like the Pakistani diaspora in the United Kingdom and the Gulf Cooperation Council (GCC) states.

One of the most urgent problems on the household level is the inflation and depreciation of the currency leading to the reduction of the value of the real

remittances. The Pakistani rupee was suddenly devalued by about 38 percent in 2023, relative to the US dollar (State Bank of Pakistan [SBP], 2023). As the nominal inflows in the form of remittances were rising, the purchasing power of these funds was reduced substantially. This led to the inability of the families to depend mostly on remittances to meet their basic needs which included food, healthcare, and education. The inflationary conditions have established a scenario in which the remittance which used to give surplus income before becoming remunerative is now quite sufficient to keep the person on the barest of bare. This effectively makes the remittances useless as far as its development ability is concerned. This difficulty is worsened by the fact that most remittance-receiving households are situated in rural areas, specifically Punjab and Khyber Pakhtunkhwa, where the real income is already below the national average (UNDP, 2022).

Youth dependency and economic inertia are other great issues at the micro level. Young adults in most remittance-receiving families (mostly in rural or peri-urban settings) grow dependent socially and economically on overseas earnings as opposed to pursuing the job markets or venturing into business. Such a syndrome of waiting for remittances is a deterrence to entering the labor force and an encouragement to passive consumption. A study by Amjad and Arif (2011) on the behaviour of remittances in Pakistan observes a statistically significant linkage between persistent inflows of remittances and postponed entries into the workforce characterized by young men. Without institutionalization of skills training or entry into the labour market, remittances are an indirect way of generating dependency and not empowerment among the generations.

Institutional inefficiencies in financial governance and policy planning enhance the associated risks of remittance dependency at a national level. Some formalization of remittance channels has been achieved in Pakistan with projects such as the Pakistan Remittance Initiative (PRI) however a significant portion of flows (particularly that occurring in the Gulf) is still handled by informal channels such as hawala. This makes the country vulnerable to capital flight and money laundering, which dismisses transparency and accountability of the flow of money.

Time and again, the Financial Action Task Force (FATF) has pointed out that Pakistan has a weak mechanism in the surveillance of informal money-sending mechanisms that could be misused to make illegal transfers (FATF, 2022). Although remittances add to the balance of payments and the foreign exchange reserves, they also enable the state to postpone structural changes that are needed including but not limited to expanding the tax base, diversifying exports, or fiscal deficit using measures that are sustainable.

A new concern that is likely to have lasting impacts is the encounter between remittance flows and climatic vulnerability. There is an emerging body of evidence that climate shocks (in the forms of floods, droughts, and heatwaves) impact most severely the rural households receiving remittances, which usually have to subsist on both their agricultural activities and outside income. In the case of Pakistan, 33.95 million individuals became internally displaced, and the most recent floods in worse-hit regions Sindh and South Punjab (the two most diaspora-dependent areas) resulted in an estimated damage of more than USD 30 billion (World Bank, 2023). Although remittances did aid people in meeting short-run demands, they could not be used as a substitute for resilience at a systems level. With the increasing climatic change, socioeconomic vulnerability could be escalated by the unpredictability of remittance in disaster-stricken regions.

As a complex, the household and national-level vulnerabilities reveal a paradox that although the remittances help in short-term relief when it comes to financial independence or consumption smoothing, they can become a barrier or break to long-term economic self and institutional responsibility. Pakistan will have the challenge of reducing these risks without compromising the positive input that is given by remittances. This demands a concerted effort that encompasses financial inclusion of beneficiaries, policy-focused youth employment, better monitoring of the remittance channels, and climate adaptation as part of diaspora development plans.

### 8. Policy Recommendations

Although the sustainability potential and development of British Pakistani remittances are clear, the lack of institutional coordination, financial infrastructure, and the participation of the diaspora

are underutilized. In order to shift these inflows, which have become tools of survival into new tools of resilience and reinvestment, Pakistan needs to pursue a two-pronged approach; domestically institutionalize and direct remittances into productive productivity and on an external front, develop long-term UK-Pakistan diaspora relationship.

Closely related to the home country, the formalization and financial integration of the transfer of remittances should be the priority at the national level. Although the scene has witnessed some developments of late such as the Pakistan Remittance Initiative (PRI), an alarming percentage of remittance continues to enter Pakistan via informal channels, especially the Gulf nations. The government can give an incentive to formal channels by giving tax credits or attractive loan facilities to households who regularly utilize bank transfers. Financial inclusion must be increased in the digital field. Based on the World Bank (2023), more than 60 percent of the households that receive remittance in rural Pakistan do not have access to basic financial planning, i.e., savings, accounts, insurance, or mobile banking. An even greater potential improvement in recipient financial literacy and saving behavior would come with tightened fintech collaborations to offer convenient, low-cost mobile wallets and micro-invest that recipients could easily use. Clear regulation and more consumer protection, particularly of female-headed households, will be important to developing confidence in such systems.

Second, remittances should be diverted into productive investment and not unproductive consumption or speculative hoarding of assets. The introduction of a match-funded remittance scheme for small and medium-sized enterprises (SMEs) is one of the promising models. As per such schemes, every rupee being sent through official means could be partly counterbalanced by the state or P-Multilateral donors to be invested once again in agricultural zones, renewable energy, or service industry endeavours. This model has proved to be successful in other countries such as Mexico and the Philippines where microenterprises supported by diaspora enterprise have created new jobs locally and established networks of capital. A domestically-centered Pakistani version, maybe using SME boards per province, may be focused on remittance-saturated districts such as

Mirpur, Mandi Bahauddin, and Swat. Also, more effective taxation should be imposed on real estate speculation, which may be supported by remittances of the diaspora, which leads to a boom in housing that does not create any employment or exports.

At the international level, improved bilateral relations exist between Pakistan and the UK which have a great deal of potential. British Pakistani diaspora with its strong transnational affiliations and patterns of wealth transfer across generations is best placed to make more than just household remittances. Alternatively, it can issue the diaspora bonds, which are directly aimed at British Pakistanis. These bonds, previously tested by India and Israel, might provide returns that are associated with infrastructure development or development finances, especially in the fields of health, education, or green energy. Maturities of such instruments are however based on political credibility, macroeconomic stability, and transparent control. Thus, they have to be implemented along with the third-party audits and monitoring of civil society.

Further, the UK and Pakistan ought to actively seek skills mobility networks with the objective of ensuring that labour exports meet the new economic demands in Britain, particularly in the medical sphere, in the area of care services for the older population, and in the digital domain. During the safari, Pakistan could have certified semi-skilled and skilled employees through a support-sponsored training program which would have fulfilled the need for labour supply in Britain, which in turn can help stabilize and increase the value of remittance. Such alliances must incorporate certification transferability, language training, and rights-based migration guarantees in order to sustain ethical labour standards and future diaspora involvement.

Finally, the diaspora has to be taken up into symbolic outreach to institutionalized involvement. Creation of a Diaspora economic council (achieved through representatives of business people, scholars, and community leaders). This council has the potential to offer a strategic advisory body, which can be used to align the development aspirations with the capabilities of the migrants. The institution would also be in a position to monitor pilot projects, and propose changes in regulations and areas of bottlenecks in moving the remittances.

Overall, even as remittances in the UK are an indispensable source of fiscal and household resilience within Pakistan, they can only be effective in transformative effect in case of strategic redirection. Short-term compensation: A combination of policies to enhance formalization, financial literacy, and incentives to invest can transform remittances into long-term development instruments. Having the political will and institutional changes, and most importantly reorienting the way of thinking about remittances as a financial flow, but transnational resources factored into inclusive national development will be needed to make this change.

### 9. Conclusion

The British Pakistani diaspora is a major source of the transnational lifeline that sustains the survival of households and the macroeconomy of Pakistan. Flows exceeding \$3.2 billion in 2023 alone out of the UK (State Bank of Pakistan, 2023) keep millions of families out of reach of economic shocks, support and sustain vital services such as education or healthcare, and provide critical liquidity to the fundamentally illiquid Pakistan balance of payments. But, as this paper has tried to maintain, they are always two-edged. Although the impact of remittance on the short-term robustness and vulnerability to poverty is positive, there is a possibility of creating situations of dependency, failure to overcome structural economic weaknesses, and reinforcing the consumption trends that do not support productive development.

At the family level, remittances have certainly been enhancing well-being, most especially in rural areas and within female-headed households. However, this has not necessarily led to the ease of upward mobility across the generations and financial independence. Still in existence as structural constraints are youth dependency, underemployment, and lack of investment capacity. Nationally, remittances relieve external finance pressures and give a boost to consumption-led growth. However, thereby, they disincentivize tax reforms, diversification of industries, and export competitiveness. Besides, the dependency of the state on this external adaptation source is distracting the state from focusing on domestic institutional change and climate change preparation, especially where natural disasters

continue to endanger the places that receive remittances.

The main issue is not the number of remittances but its strategic use. Otherwise, remaining in the form of subsistence-sustaining inflows will provide a delicate balance of dependence. However, when placed in the context of a wider development agenda, remittances can emerge as a tool of sustainable change: through their financial inclusion, diasporas, investment into productive activity, and the movement of skills. This will involve a paradigm shift in how policymakers, economists, and diaspora communities understand the role of migrant capital which is not to be viewed as an emergency fund, but rather as an instrument of national renewal.

Finally, this experience of Pakistan can teach other countries which are dependent on the remittances like Bangladesh, the Philippines, and Nigeria. Transforming lifelines to launchpads is not only about making a better policy; it requires more political investment in long-term inclusive reform. This is why remittances should not be regarded in this sense as an alternative to the capacity of the state but as a booster to develop it.

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