

Remittances and COVID-19:: Is Pakistan ready for a likely decline in flows?

Author(s): Kashif Majeed Salik

Sustainable Development Policy Institute (2020)

Stable URL: <http://www.jstor.com/stable/resrep24360>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at <https://about.jstor.org/terms>



Sustainable Development Policy Institute is collaborating with JSTOR to digitize, preserve and extend access to this content.

JSTOR

Policy Review
Remittances and COVID-19:
Is Pakistan ready for a likely
decline in flows?

Kashif Majeed Salik



Introduction:

The spread of COVID-19, an unprecedented anomaly of our times, is so wide and rapid that even most advanced economies are unable to respond to it quickly and appropriately. If this situation persists longer, not only the global health system may collapse but also there are apprehensions of large-scale socioeconomic meltdown.

The Global North is currently the most-affected region due to Coronavirus outbreak where most of the governments have clamped complete lockdowns (Map A). These countries not only drive the global economy, trade and politics but also paved the way for labour migration from the Global South, which is underdeveloped or least developed. The Global South is heavily dependent on financial remittances from migrants. In 2019, the global flow of remittances to developing countries was recorded US\$ 550 billion, which is larger than Foreign Direct Investment (FDI) and Official Development Assistance (ODA) (Plaza et al. 2019). This flow of remittances helped the developing countries to reduce poverty, overcome food insecurity, support balance of payments, and contribute to national economic growth.

Pakistan is among top 10 recipients of global remittances (Plaza et al. 2019). In 2019, Pakistan received Rs 21.8 billion foreign remittances, which contribute to about 8 per cent of its GDP. In the meantime, the migrant workers in GCC countries dropped to about 60 per cent in 2018 compared to 2015, which is mainly due to the nationalization policies opted by these countries (Plaza et al. 2019). The decline in demand for Pakistani migrant workers is alarming and needs immediate attention of the government. Likewise, the strict regulations imposed by the European Union against refugees and asylum seekers during the migrants crisis in 2019 also aggravated the situation.

In this backdrop, this policy review looks into the ways how COVID-19 spread can impact remittance flows and what should be the policy options to mitigate this impact.

Remittances flows – scenarios building:

Since the outbreak of COVID-19 and in the aftermath of strict lockdown in Wuhan city of China in January this year, the world has started bearing the brunt of economic crisis. As the Corona pandemic ripped through other parts of the world, particularly the Global North, its impact become more severe. One of the reasons behind was the panic and fear that caused due to the instant measures taken by the world government such as restriction in travel, social distancing and self-isolation. This has slowed down the economic activities particularly related to the global aviation industry, tourism, breakdown of supply chain for consumer

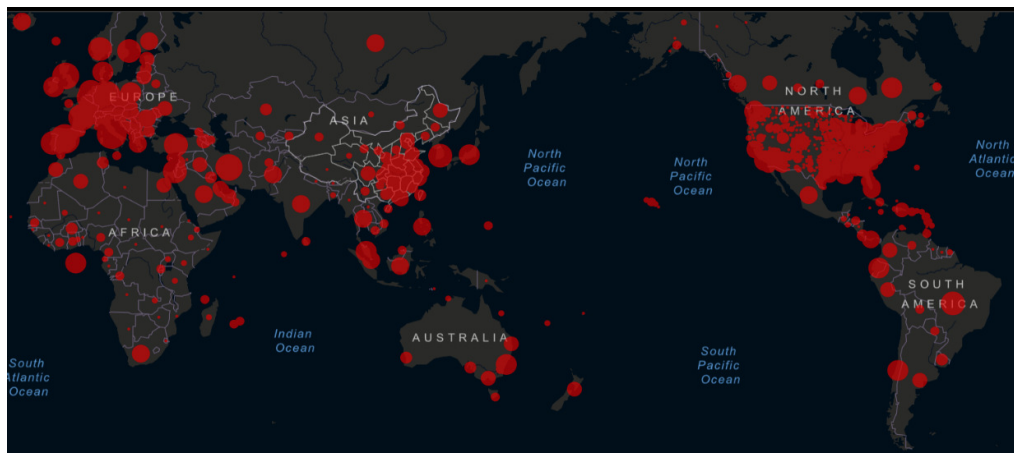
goods, services, construction and manufacturing sectors. The world economy is in shock and there is hardly any chance of its fast recovery.

Currently, the actual COVID-19 impact on the global economy as well as on migrant workers and remittance flows is not yet clear. However, there may be three possible scenarios to understand the potential of remittance flows.

1. There is a possibility of job losses, unemployment and low wages for the migrants working in the 'recession-hit' sectors such as construction, manufacturing, and services during and after the COVID-19. This has happened during the economic recession of 2008 particularly in countries that fall in the Global North (Bauer and Thant 2015). During this period, 05 to 10 per cent decline in global remittance flows was observed. In the case of Pakistan, remittance flows were not affected at least in the short-run – a decline in remittance from USA and UK during the recession period was mitigated due to boom in GCC countries that resulted in the hiring of a large number of migrant workers. However, Pakistan may face 10 per cent decline in its remittance flows in case the global situation of the pandemic persists.
2. The second possible outcome of COVID-19 spread is the large influx of Pakistani migrant workers from destination countries, particularly from GCC countries. In the 1990s, Pakistan witnessed a large-scale return of migrants during the Iraq-Kuwait war (Ahmed et al. 2011). During this period, the share of remittance flows from GCC countries was reduced to about 19 per cent. Moreover, a steep decline was also observed in remittance flows during the economic sanctions imposed by the Western world after Pakistan conducted nuclear tests in 1998 (Ahmed et al. 2011). Currently, Pakistan has also shrunk its 30 per cent share in Saudi labour market – the trend, which is continuing, may cause further significant decline in remittance flows in the future (Plaza et al. 2019). In this regard, a modest-to-major decline in economic growth is likely in the Global North. GCC region may trigger a large decline in migration flows, which may reach up to 30 per cent.
3. The third possible outcome of COVID-19 is it may hit severely the flow of remittances to Pakistan if the geographic extent and spread of the disease prolongs. This may cause a sharp decline in economic activities in migrant workers' destination countries resulting in unemployment, job losses and low wages besides the rising cost of living (including health, education, accommodation as well as access to loans for businesses). Furthermore, the severe economic recession in destination countries may compel the respective governments to introduce even more strictest policies to manage migration. They can reduce the number of migrant workers and can also expedite their return to their home

countries. Under these circumstances, the remittance flows may educe to half from the current level.

Map A: Shows the global outbreak of COVID-19 as on 29 March 2020.



Source: The Center for Systems Science and Engineering at Johns Hopkins University.

Table1: Country-wise remittance flows for the year 2019 (taken as a base year). Likely scenarios of reduction in remittance flows due to COVID-19.

Countries and regions	Country-wise remittances flow (2019-base year) Millions US Dollars (%)	Likely Scenario I	Likely Scenario II	Likely Scenario III
		Millions US Dollars (10% decline)	Millions US Dollars (10 to 30 % decline)	Millions US Dollars (50% Decline)
		Shorter term	Medium term	Longer term
USA	3,408 (16)	3067 (14)	3067 (14)	1704 (8)
UK	3,412 (16)	3071 (14)	3071 (14)	1706 (8)
Saudi Arabia	5,003 (23)	4503 (21)	3502 (16)	2502 (12)
UAE	4,617 (21)	4156 (19)	3232 (15)	2309 (11)
Other GCC countries	2,119 (10)	1907 (9)	1483 (7)	1060 (5)
EU Countries	609 (3)	548 (3)	548 (3)	305 (1)
Malaysia	1,552 (7)	1397 (6)	1086 (5)	776 (4)
Norway	43 (0.2)	39 (0.2)	39 (0.2)	22 (0.1)
Switzerland	31 (0.1)	28 (0.1)	28 (0.1)	16 (0.1)
Australia	246 (1)	221 (1)	221 (1)	123 (0.6)
Canada	213 (1)	192 (0.9)	192 (0.9)	107 (0.5)
Japan	23 (0.1)	21 (0.1)	21 (0.1)	11 (0.1)
Other Countires	561 (3)	505 (2.3)	393 (1.8)	281 (1)
Total	21,839	19,655	16,884	10,919

Source: Authors' calculations are based on remittances flow data obtained from the website of the State Bank of Pakistan.

To understand the fluctuation in remittance flows, three scenarios are developed:

Likely scenario I:

Using ‘global recession in 2008’ as a proxy to understand the potential change in remittance flows during COVID-19 spread, The World Bank estimated *10% decline* in remittance flows globally during 2009-2011 (Ratha, et al. 2009).

Likely scenario II:

A modest decline in global economic growth may *reduce 30%* of remittance flows due to possible large influx of migrant workers from destination areas, such as semi-skilled and unskilled labour from the GCC countries (Bauer and Thant 2015). Though the chances of return of highly skilled migrants (Pakistani migrants and diaspora in US and UK) are less, they can *reduce the amount of remittances up to 10%*.

Likely scenario III:

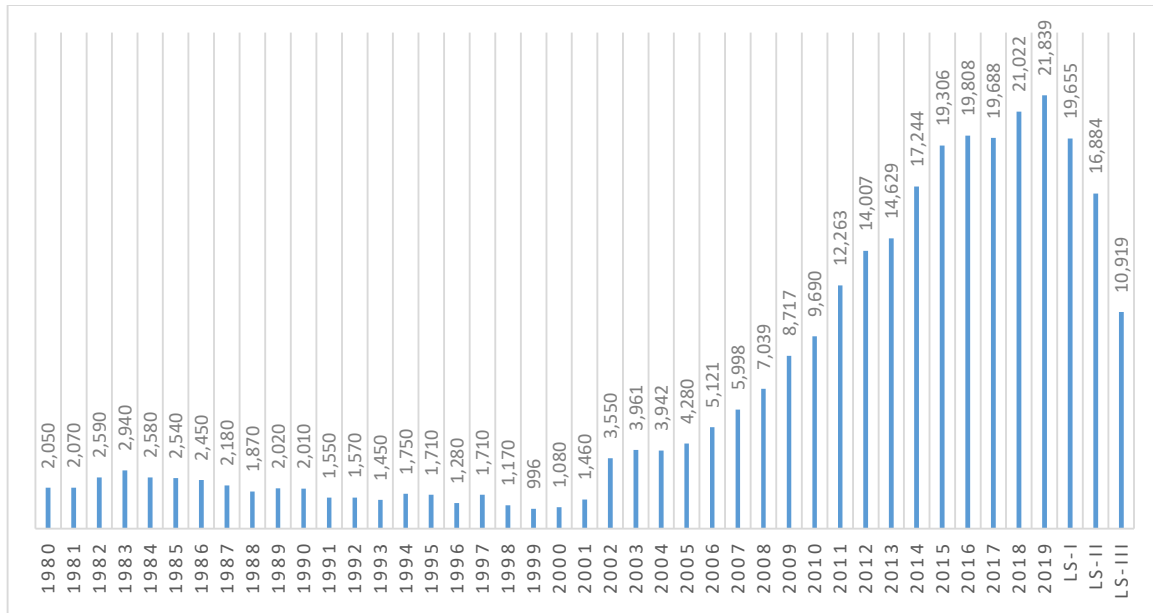
In case there is a sharp decline in global economic growth due to the prolonged socio-economic lockdown, particularly among major destination countries for Pakistani migrants like USA, UK and GCC countries, *the possibility of reduction in remittance flows is 50 per cent*.

Results and Conclusion:

Table 1 shows the projections of likely dips in remittance flows to Pakistan. The likely scenario I presents a slight decline (i.e. about US\$19,655 million - 10 per cent decline per year from the base year of 2019) in remittance flows based on the assumption to fall at a level experienced during the global economic recession period of 2009. In the medium term, a further decline of 23 per cent per year is projected under likely scenario II assuming modest impact of COVID-19 on global economic activities and likely response and coping mechanism of migrant workers (intention/forced expulsion of return to home countries or cost of staying put in destination countries) as well as Pakistani diaspora. In the longer term, assuming COVID-19 extent and spread prolong, impact equally and simultaneously to most of the economies of the Global North and South, the flow of remittances may decline up to 50 per cent per year, reaching at a level as of 2010 (Graph 1).

In conclusion, a potential decline in remittance flows for Pakistan can profess a far-reaching impact on the economy and society at large. At the micro-scale, remittance-dependent households may experience a drop in living standards, savings and investments, along with expenditure on food, housing, education and health. This may cause decline in their resilience and capacity to cope with (climatic and non-climatic) stresses. At the macro scale, the

national economy is highly dependent on remittance flows. The potential decline in remittance flows though favours real exchange rates and improved international trade competitiveness but largely constraints to national savings, foreign exchange reserve, the balance of payments and spending for development expenditure.



Graph 1: Overtime migrant remittance flows for Pakistan including projected flows for likely scenarios I, II, and III. Sources: Author's calculation from World Bank staff calculation based on data from the IMF Balance of Payments Statistics database and data releases from central banks, national statistical agencies, and World Bank country desks. (See Migration and Development Brief 28, Appendix A for details.)

Policy Recommendations

Monitoring and support to migrant workers in destination countries:

It is important to monitor the changing socioeconomic situation in destination countries particularly the GCC countries where Pakistani migrant workers are employed in economy-related sectors. This can be done through the active engagement of Ministry of Overseas Pakistanis and Human Resource Development, Pakistani Embassies/High Commissions abroad and Pakistani diaspora associations and networks. The purpose of it will be to collect information about issues by engaging such forums and take them to policymakers in Pakistan for solutions thus creating a reporting mechanism (or a knowledge base) for potential proactive responses to the crisis. Moreover, during these unusual times, special efforts should be made to support the migrant workers (and their families) in their legal, social, or economic issues. The engagements then may be extended to coordinate with governments of destination countries to negotiate with them the expected layoffs of Pakistani migrant workers.

Preparation for potential migrant returnees, reducing international hiring of Pakistani migrant workers and decline in remittance flows due to COVID-19:

The government has already signed agreements to increase the with the GCC countries hiring of Pakistani workforce into the respective country's labour markets. Now, these agreements should be pursued with care and effectively so that Pakistan and the migrant workers can get maximum benefit of it. Moreover, a plan needs to be devised for potential migrant returnees due to COVID-19 spread. Currently, no information is available that how the global economies will respond to the crisis and then move to what direction. In modest to the worst-case scenario, as this policy review, suggests a large number of migrant workers is likely to return to Pakistan. Furthermore, the high dependency of national economy on remittance flows requires credible research to understand its impact and possible mitigation measures in the aftermath COVID-19 outbreak.

Focusing on national employment generation and reducing dependency on remittance flows:

Migration literature says that brain drain can affect the human resource base of the home country and thus slowing down economic growth and, in turn, benefitting the destination countries (Sutradhar 2020). Pakistan possesses huge demographic dividend. Based on this, one may argue in favour of international migration which might be a quick fix. The demographic dividend does not last long and thus require planning and programmes for creating job and labour markets to utilize youths for national economic growth and reduce dependency on remittance flows. The wide-spread and huge impact (in terms of deaths) due

to COVID-19 in countries of Global North may also raise demand for migrant workers (particularly in the health sector) in longer-term. Under this scenario, a coherent national policy is required which may give plans and strategies to stop this crucial brain drain and look into what human capital needs to be withheld for our future growth and sustainable development.

References:

- Plaza, S, Ratha, D, De, S, Kim, EJ, Seshan, G and Yameogo, ND 2019, Migration and Remittances: Recent Developments and Outlook, *Migration and Development Brief* (31).
- Bauer, A and Thant, M (ed.) 2015, Poverty and sustainable development in Asia: Impacts and responses to the global economic crisis, Asian Development Bank.
- Ahmed, J, Zaman, K and Shah, IA, 2011, An empirical analysis of remittances-growth nexus in Pakistan using bounds testing approach, *Journal of Economics and International Finance*, vol. 3, no. 3, p.176.
- Ratha, D, Mohapatra, S and Silwal, A 2009, Migration and Development, Brief 10, Migration and Remittances Team, Development Prospect Group, World Bank, July 13, viewed 29 March 2020, <http://pubdocs.worldbank.org/en/27311444756849857/Migration-DevelopmentBrief10.pdf>
- Sutradhar, SR 2020, The impact of remittances on economic growth in Bangladesh, India, Pakistan and Sri Lanka, *International Journal of Economic Policy Studies*, vol. 14, no. 1, pp.275-295