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FINANCIAL CAPITAL WITHOUT INSTITUTIONAL CONDITIONS: PAKISTAN'S DIASPORA ENGAGEMENT STRATEGY AND ITS LIMITS

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Abstract

This study explained why financially the policy of engagement with Pakistan's diaspora was successful for the first year but failed institutionally thereafter. This study points out that financial capital inflows to the origin countries occur only when the condition of the institutions in the origin countries is considered to be safe enough for the diaspora investors. This study utilized the theoretical concept of brain circulation. This is based on the data presented in the Pakistan Migration Report 2024 (Shah, Shahzad, Quddus, & Qazi, 2024). There is a significant and economically important professional Pakistani diaspora. The US and UK collectively received between 24.3% and 30.9% of the total remittances received by Pakistan in the last four years (FY2019 to FY2022) with less than 0.5% of the Bureau of Emigration and Overseas Employment (BEOE) registered emigrants for Pakistan. To tap this financial potential in the diaspora investment, SBP introduced the Roshan Digital Account (RDA) in August 2020. During the first year, 58.2% of net inflows into the RDA went towards investment instruments, totaling USD 1,518 million. In FY2022-23 net flows declined to USD 1,087 million and USD 488 million was withdrawn by the diaspora investors. Diaspora capital flows out faster than they flow in when governance fails due to exchange rate misalignment, macroeconomic contraction and political instability. The RDA's experience in Pakistan is that institutional reforms can't be replaced by diaspora engagement programmes. They can only amplify it and not diminish. The paper pinpoints three structural flaws in Pakistan's diaspora engagement engagements: lack of investment instruments under the protection of government, exchange rate misalignment that encouraged informal remittance channels and a lack of non-financial diaspora engagement mechanisms, such as knowledge networks, virtual faculty programmes and less short-term governance-sensitive diaspora advisory boards. This study conclude that institutional quality is not financial product design as this is what is needed to turn Pakistan's brain drain into brain circulation.

1. INTRODUCTION

Pakistan is among the topmost countries in the world with the largest diaspora. In FY21-22, it became a record high with USD 31.28 billion remitted home by its overseas workers (Shah, Shahzad, Quddus & Qazi, 2024). In total, the

United States and United Kingdom represented about 24-31% of BEOE inflows during FY2019-FY2022, or less than 0.5% of the total BEOE emigrants. This imbalance indicates a huge, established, high-income professional diaspora in both countries, whose migration is not captured by the official databases of Pakistan, but is quite visible in the finances of the State Bank of Pakistan in its remittances.

The Pakistani government realized this monetary potential. The State Bank of Pakistan (SBP) launched Roshan Digital Account (RDA) in August 2020, as a major digital banking initiative to bring the Pakistani diaspora under the umbrella of Pakistan banking system. The RDA facilitated overseas Pakistanis to open foreign currency and Rupee Accounts over the Internet. It provided investment products: Naya Pakistan Certificates (NPC), Roshan Equity, government securities, real estate and mutual funds. It was their mission to funnel remittances through institutionalized banking channels, and also to raise funds from the diaspora for local investment (Shah et al., 2024).

RDA operated for a short period of time. It received USD 1,518 million of net inflows in FY2020-21. Of this, 58.2% (around USD 883 million) was invested in instruments of investment. The biggest investment instrument was NPC. This was a clear message: In Pakistan, the professional community were ready to invest when the instrument was trustworthy and the conditions were favorable. After that it failed to work. The total investment dropped to USD 336 million in FY2021-22 from USD 883 million the previous year. As of FY2022-23, investment reversed its trend to go negative at minus USD 488 million. Diaspora investors were not only not making new investments, they were taking out the money that they'd already dedicated. The repatriation ratio (amounts that were remitted from RDA accounts to foreign countries as a share of total inflows) increased from 2.4% for FY2020-21 to 24.9% for FY2021-22 and 37.7% for FY2022-23 (Shah et al., 2024).

The effectiveness of diaspora engagement is partly a function of the size of diaspora communities overseas, or the amount of remittances, but also depends on the institutional context that makes it easier for migrants to invest their financial, social and intellectual resources. Existing evidence in the case of Pakistan indicates that the state has been more concerned about the export of labour and remittance generation to the detriment of developing institutional processes for supporting diaspora investment, knowledge transfer and professional partnerships to the long-term benefit of the state. Ashraf (2022a) suggests that the recovery of overseas migration from COVID was merely numerical, and that migration policies maintained the traditional model of labour exports instead of building long-term migration processes to utilize skills and knowledge of the diaspora. This institutional constraint is further manifested in the "skilled" nature of skilled migration. Despite major brain drain of highly qualified individuals to the advanced countries like the USA and the UK, opportunities to sustain professional linkages for brain drain to become brain circulation or knowledge exchange are limited due to the lack of coherent policies (Ashraf, 2022b).

Furthermore, lack of gender equality is an ongoing challenge to diaspora engagement. In a recent study, Ashraf (2022c) illustrates how structural, cultural, and institutional barriers limit women's access to international migration and consequently the variety of skills, networks, and entrepreneurial capital that can be tapped by national programs and projects for diasporas. All these studies indicate that the Pakistan's policy on the diaspora is still skewed towards financial remittance and lacks to tap the larger developmental potential of the overseas Pakistanis. The mismatch underscores the importance of building more robust institutional structures to be able to bring together skilled migrants, women migrants, and transnational networks in a more comprehensive and sustainable way of engaging with migrants in a diasporic mode.

This paper explores this question. It claims that this is not a failure of the product design as the RDA was a very short-lived phenomenon. It's a tale of institutional factors. The diaspora came into play when they saw stability. Expanding GDP growth to 4.3%, controlling food inflation to

26%, pushing credit growth to 5%, and maintaining exchange rate stability did not help the situation .Their disenchantment was caused by the misalignment of the Pakistani exchange rate, its macroeconomic contraction, food inflation at 26%, GDP growth at 0.3% and the political crisis. The financial instrument made no failure. The leadership and management of the school did. The paper presents itself in the context of three debates. Firstly, it challenges the brain circulation theory (i.e., diaspora capital can be converted to development investment) using the RDA data of Pakistan. Second, it shows the institutional conditions that need to be in place for successful diaspora engagement—or lack thereof. Third, it suggests an institution-innovation pathway of engaging in institutional reform followed by financial product innovation. The paper has relied on the data from only two sources: Pakistan Migration Report 2020 (Shah, Amjad, Hameed, & Shahzad, 2020) and Pakistan Migration Report 2024 (Shah et al., 2024).

1.1 Research Questions

1. What does the RDA's trajectory reveal about the relationship between diaspora financial engagement and governance quality?
2. Why did Pakistan's remittances decline in FY2022-23 despite rising emigration?
3. How does exchange rate misalignment affect the choice between formal and informal remittance channels?
4. What non-financial diaspora engagement mechanisms are more resilient to short-term governance deterioration?

2. THEORETICAL FRAMEWORK

2.1 Brain Circulation: The Promise

The theory of brain circulation has a positive outlook. It is based on an implicit premise: sufficient institutional conditions in the origin countries to receive and retain diaspora engagement. An assumption was observed by Chand (2019) in their study of the African diaspora in the United States. He was surprised to discover that the professionals in the African diaspora community have the required resources, skills and networks to make a significant contribution to their countries of origin. They do so when institutional conditions are conducive, in particular when property rights are robust, rule of law is enforced, corruption is minimal and macroeconomic conditions are stable.

If the institutions are weak, diaspora capital does not interact or interacts only for a short time and then it is removed. Chand (2019) found that not only push factors but also poor-quality institutions, corruption and nepotism are factors that push for initial emigration. They also pose challenges for return migrations and diaspora reinvestment. A diaspora professional will not invest in Pakistan's real estate sector if he/she feels the property rights are not safe in Pakistan. They won't put money into Pakistani banks if they feel that exchange rate misalignment will decrease the value of their rupee deposits.

There are two policy reactions to brain drain, and Davenport (2004) highlighted one important difference between them. The first is 'panic' - “restriction of outflow”, “alarm”, “in the case of emigration it is a crisis”. The second is 'stimulation' – development of research excellence, leveraging diaspora relationships and making engagement rational. Stimulation policies work. Panic policies don't. However, the institutions need to be in place before stimulation policies can be implemented. Stable research funding and meritocratic institutions are needed to build research excellence. Diaspora linkages need to be exploited and for this there is a need for governance credibility.

Brain chains' is a more subtle concept than brain circulation, as proposed by Friesen and Collins (2017), which refers to the intricate connections between individuals, families, diaspora communities, private agents and nation states. Brain chains recognize that knowledge and capital does not just "trickle down" the diaspora paths. They move through certain institutional structures and pathways which need to be actively managed. In Pakistan, there is an effort being made to form one such road via the RDA. The RDA's performance is a good reflection of the effects of deteriorating institutional conditions on brain chains.

2.2 The Institutional Condition: When Circulation Fails

Brain circulation theory is optimistic. Its optimism rests on an assumption that is often unstated: that origin-country institutional conditions are adequate to receive and retain diaspora engagement. Chand (2019), studying African diaspora in the United States, identified this assumption explicitly. He found that African diaspora professionals have the resources, skills, and networks to contribute substantially to their countries of origin. But they do so only when institutional conditions property rights, rule of law, absence of corruption, macroeconomic stability make engagement safe and productive.

When institutions are weak, diaspora capital does not engage or engages briefly and then withdraws. Chand (2019) showed that poor-quality institutions, corruption, and nepotism are not just push factors that drive initial emigration. They are also barriers to return migration and diaspora reinvestment. A diaspora professional who left because of poor governance will not invest in Pakistan's real estate sector if they believe property rights are insecure. They will not deposit savings in Pakistani banks if they believe exchange rate misalignment will erode the value of their rupee balances.

Davenport (2004) drew an important distinction between two policy responses to brain drain. The first is 'panic' restricting outflow, expressing alarm, treating emigration as crisis. The second is 'stimulation' building research excellence, exploiting diaspora connections, creating conditions that make engagement rational. Stimulation policies work. Panic policies do not. But stimulation policies require institutional foundations. Building research excellence requires stable research funding and meritocratic institutions. Exploiting diaspora connections requires governance credibility.

Friesen and Collins (2017) proposed 'brain chains' the complex linkages between individuals, families, diaspora communities, private agents, and nation states — as a more nuanced concept than simple brain circulation. Brain chains acknowledge that knowledge and capital do not flow automatically along diaspora networks. They flow along specific institutional pathways that require active management. Pakistan has attempted to create one such pathway through the RDA. The RDA's performance shows exactly how brain chains can break down when institutional conditions deteriorate.

2.3 Remittances, Exchange Rates, and Channel Choice

Remittances are the most direct financial connection between the diaspora communities and countries of origin. There are not simple implications for governance. Robertson (2006) pointed out that the remittance was a partial offset to costs of brain drain had long been recognized by migration scholars. No matter if the migrants transfer their skills or not, when educated migrants send money home, they transfer financial resources. Some analysts have viewed big remittance inflows as a sign that brain drain does not have to be a negative.

However, the choice of remittances channels has an impact on remittances. The migrants can transfer money through the formal banking channels which give rise to measurable money transfers to the State Bank, provide support to the foreign exchange reserves of the country and are accounted for in the national accounts or through the informal channels of hundi, hawala through which there are higher rates but no record in the official statistics. The difference between the official rate and the market rate is the main determinant of channels of choice. If this is narrow, formal channels prevail. Informal channels get more appealing when they widen, since they provide a higher number of Pakistani rupees per dollar (Shah et al., 2024).

Muhammad (2021) found that Pakistan's migration-remittances-growth nexus significantly got disturbed during COVID-19 pandemic as confirmed in the empirical study. Remittances were channeled into the informal sector due to the macroeconomic shocks and pressures of 2020-2021, in addition to exchange rate pressures. Salik (2020) had already pointed to this same danger prior to the pandemic, and emphasized the importance of exchange rate policy as the key instrument to keep the formal remittance

channels going. The theoretical and empirical findings are directly applicable in deriving the understanding of recent decline in remittances in Pakistan in FY2022-2023.

The broader context was provided by research on brain drain over the last 40 years, which suggests that the link between skilled migration and the welfare of the origin country is channeled through several mechanisms such as remittances, return migration, diaspora externalities and network effects, as outlined by Docquier and Rapoport (2012). The most applicable channel here is diaspora externalities, or the investment, knowledge transfers and institutional interaction that do not involve remittance transfers. This channel was tried to be activated by RDA Pakistan. It is a story of where institutional structures are not in place prior to channel opening.

3. DATA AND METHOD

3.1 Data Sources

This study is based on two main sources of data. The Pakistan Migration Report 2024 (Shah, Shahzad, Quddus, & Qazi, 2024) specifically Chapters 2 and 3 contain: the Bilateral Remittance Data from SBP for FY2019-FY2024; the Net Inflow and Usage Data for Roshan Digital Account for FY2021-FY2024; the Emigrant Occupational and Destination Data from BEOE for 2019-2023; and the macro-economic context data from SBP such as GDP growth and inflation rates for FY2021-FY2024. Second, the Pakistan Migration Report 2020 (Shah, Amjad, Hameed, & Shahzad, 2020) which helps to set a pre-RDA baseline and historic context of migration governance in Pakistan. The quantitative data presented in this paper are all taken from these two. No other datasets are added. The limitation is methodological since the paper aims to demonstrate the findings of a careful analysis of official migration figures of Pakistan, rather than assume the validity of external evidence that might be more representative of different institutional features.

3.2 Analytical Approach

The paper has a descriptive-analytical method in four analytical levels. The data on net inflow, local utilization, investment and repatriation are used by Shah et al. (2024), Table 2.3, to document the RDA trajectory. Second, the remittance paradox (as both emigration increases and official net inflows decrease) is explored using exchange rates and the informal channel argument. Thirdly, diaspora engagement beyond remittances is measured by the breakdown of diaspora investments in the RDA and the occupational makeup of emigrants to the USA/UK. In the fourth step, institutional conditions framework of Chand (2019) and Davenport (2004) has been used to identify the reasons of temporary success and subsequent failure of Pakistan's strategy.

3.3 Research Design

The type of research design used is qualitative descriptive. Does not generate new quantitative results. It uses a diaspora engagement and brain circulation theory to read and interpret current quantitative evidence. The design is suitable as the key gap the policy was expected to fill is an interpretive one how did Pakistan's most important diaspora engagement instrument evolve in this way and what does this evolution suggest for the future of policy? One that is not empirical (data exists and can be accessed from Shah et al. 2024), but interpretive.

4. THE ROSHAN DIGITAL ACCOUNT: RISE, DECLINE, AND WHAT IT REVEALS

4.1 The RDA's Architecture and Initial Performance

The State Bank of Pakistan (SBP) introduced Roshan Digital Account in August 2020. It was no coincidence that this took place at this time. The normal routes of remittances were affected by COVID-19 lockdowns. There had been an uptick in diaspora worry for family members in Pakistan due to the pandemic, too. This is an opportunity for the State Bank to unveil a product that would help move the financial engagement of the diasporas into the formal banking system (Shah et al., 2024).

The RDA permitted foreign currency and non-resident rupee accounts of overseas Pakistanis to be opened remotely (without coming to the Pakistani bank branch). These could be used for

regular transactions, for paying bills and for transferring money. The most importantly, money can be also invested in Naya Pakistan Certificates (NPC), Roshan Equity, government securities, real estate, and mutual funds. The remittance channel and investment platform is a dual purpose that aims to activate the most development-relevant channel of diaspora engagement identified by Docquier and Rapoport (2012) as for remittances. Early results have been good. The RDA trajectory for FY2021-FY2024 is given in Table 1.

Table 1 ***Roshan Digital Account — Net Inflows and Usage, FY2021–FY2024 (Million USD)***

RDA Indicator	FY2021	FY2022	FY2023	FY2024*
Net inflows (million USD)	1,518	2,286	1,087	1,186
Locally utilised (million USD)	391	1,731	1,655	1,025
Investment — NPC & Roshan Equity (USD m)	883	336	−488	155
Balances in account (million USD)	244	219	−80	−4
Investment as % of net inflows	58.2%	14.7%	Negative	13.1%
Repatriation ratio (% of inflows withdrawn)	2.4%	24.9%	37.7%	N/A

*Source: Shah et al. (2024, Table 2.3). *FY2024 figures are for nine months (July 2023–March 2024). Repatriation ratio = funds withdrawn back to foreign accounts as a proportion of total inflows. NPC = Naya Pakistan Certificates.*

Net inflows for investment instruments accounted for 58.2% of the total net inflows during FY2021. This type of investment rate is high. It is indicative of the fact that Pakistan's expatriate professionals, who were mostly in higher paying jobs in USA and UK, were ready to invest huge amounts in Pakistan in the early days when the situation appeared to be calm. On the scientific diasporas, Seguin et al. (2006) proposed that they are very important partners in development cooperation. The RDA's first set of investment numbers shows this is the case.

4.2 The Decline: What Changed

In FY2022, the investment landscape had completely turned upside-down. Net inflows increased to USD 2,286 million (the largest the RDA had ever seen) while investment decreased from USD 883 million to USD 336 million. The figure of local utilization increased from USD 391 million to USD 1,731 million. Things changed: diaspora money came in, but was spent locally, not invested. Shah et al. (2024) explain this by the increase in costs of families in Pakistan due to inflation. The diaspora remitters were sending money in order to purchase financial instruments in Pakistan, but not for the purpose of helping family members to deal with the rising expenses.

The situation was even worse by FY2023. Net inflows fell to USD 1,087 million — a 52.4% drop from FY2022. The investment decreased from the positive figure of USD 16 million to the negative of USD 488 million. The diaspora investors were selling their NPC and Roshan Equity investments. They were also closing out accounts, resulting in minus USD 80 million account balances. In fact, the repatriation ratio was at 37.7% — repatriating over 1/3 of every dollar that was added to the RDA.

What happened? The macro-economic story is provided by Shah et al. (2024). The real GDP growth of Pakistan decreased to 0.3% in FY2022-23. Inflation surged to 29.2%. The State Bank had to increase the monetary policy rate to 22.0% to curb inflation but that did not draw diaspora savings to it, as the advanced economies had also

increased their interest rates at the same time, thus providing their professionals with better returns with lower political risk. As of January 2023, the official-market exchange rate gap has increased to around 4%. This gap (very small in percentage terms but very significant in case of big transactions) made remittances to be shifted towards informal channels such as 'hundi' and 'hawala' which provided better 'rupee exchange rate' (Shah et al., 2024).

Chand (2019) demonstrated that diasporas invest based on governance signals. The messages that the country sent in the fiscal year 2022-23 were all negative, ranging from macroeconomic recession to high inflation, exchange rate instability, and political turmoil. The diaspora investors withdrew, in a rational manner.

4.3 The Partial Recovery: FY2024 and Its Limits

There has been some improvement in the latest data, for the nine months ending in March 2024 (FY24). The net inflows increased by USD 1,186 million during the first 9 months. As of this writing, investment has restarted at USD 155 million. Shah et al. (2024) note that the trend 'seems to be improving in 2023-2024.' The latter, however, indicate that investment is picking up by 'a much lower volume as compared to the previous years. The recovery is solid but precarious. It is a sign of improving stabilization aspects under IMF and not of a structural solution of the institutional failures that led to the decline.

This is a partial recovery pattern which is important to analyze. It asserts that diaspora engagement is not a precondition of institutional conditions, but it is a dynamic relationship. When times are good, diaspora money comes in; when times are bad, it goes out. This sensitivity is good as well as bad news. It is a possibility because good governance can quickly lure in the investment of the diaspora. It is a warning as any diminishment of governance will bring about a related and equally rapid disengagement. Pakistan cannot expect the engagement of Pakistanis in the diaspora to be a reliable source of funds. It should be a feedback signal as to governance.

5. THE REMITTANCE PARADOX: RISING EMIGRATION, FALLING OFFICIAL INFLOWS

5.1 The Paradox Stated

Pakistan's total registered emigration rose from 288,280 in 2021 to 832,339 in 2022 and 862,625 in 2023 (Shah et al., 2024). Since more emigration means more remittances, one could expect that this relationship would be positive. Instead, remittances fell from USD 31.28 billion in FY2021-22 to USD 27.33 billion in FY2022-23 — a decline of 12.6%. This is the remittance paradox! The number of people who left increased, while the amount of funds that came in via official routes decreased. Diaspora engagement policy and why.

The key bilateral remittance data and the emigration figures are presented in Table 2 which highlights the paradox.

Table 2 ***Pakistan Remittance Inflows — USA and UK Share vs. Total Trend, FY2019–FY2023***

Measure	FY2019	FY2020	FY2021	FY2022	FY2023
Total remittances (USD billion)	21.74	23.13	29.45	31.28	27.33
USA share (% of total)	15.2%	7.5%	8.8%	9.9%	11.6%
UK share (% of total)	15.7%	11.1%	13.9%	14.4%	14.9%
USA + UK combined share (%)	30.9%	18.6%	22.7%	24.3%	26.5%
Saudi Arabia share (%)	23.0%	28.6%	26.2%	24.8%	23.9%
UAE share (%)	21.2%	24.3%	20.9%	18.7%	17.0%

Measure	FY2019	FY2020	FY2021	FY2022	FY2023
Growth rate of total inflows	+9.2%	+6.4%	+27.3%	+6.2%	−12.6%
BEOE registered emigrants (N)	625,876	225,213	288,280	832,339	862,625

Source: Shah et al. (2024, Table 2.2, Figure 2.1). FY = fiscal year July–June. UAE = United Arab Emirates. BEOE = Bureau of Emigration and Overseas Employment.

5.2 The Exchange Rate Explanation

Shah et al. (2024) single out the main cause behind the paradox as the effect of exchange rate misalignment of the remittance channel through formal banking systems to informal systems such as hundis and hawalas. The difference between the official exchange rate and open market rate in Pakistan was estimated to be around 4% as of January 2023. This sounds small. To a Pakistani working in Saudi Arabia and remitting PKR 50,000 home each month, the "official" versus the "informal" rate is a real amount of money, and the decision is a simple calculation.

The State Bank acknowledged this idea. Shah et al. (2024) write that 'Observers have noted a "redirection" of flows through unofficial channels that seems to explain the apparent contradiction between the trends in migration and inflows in remittances. The State Bank had already taken some steps to regulate the foreign exchange open market and minus the difference between the official and market rates. Formal inflows increased after those measures made a significant impact in closing the gap. With a widening of the gap as a result of balance of payment difficulties, currency depreciation and economic uncertainty, informal channels re-emerged.

Remittances from educated migrants, however, are not seen to be necessarily higher than those from uneducated migrants, as was noted by Robertson (2006) in other countries, but in the case of Pakistan, the USA and UK based educated migrants only account for less than 0.5% of the BEOE registered emigrants, but send 24-31% of the total remittance of formal migrants. This means very big per-capita remittance volumes from a professional who wishes to go to the West – remittance volumes that are big enough to warrant a decision on channel.

5.3 The COVID Disruption and its Legacy

The remittance share of the USA has decreased significantly in the COVID period from 15.2% in FY2019 to 7.5% in FY2020. This was the biggest remittance percentage drop for any major sending country in Pakistan's remittance history (Shah et al., 2024). Salik (2020) had highlighted the very risk for Pakistan – disruption of remittances may have macroeconomic repercussions as Pakistan's foreign exchange was being largely generated through these remittances.

According to Ryazantsev et al. (2020), the COVID-19 situation severely affected labour migration in several sending countries as migrant workers lost their jobs, were barred from entering their countries by the borders were closed, and received limited social protection. The disruption that hit the Pakistani-American community in the USA was sectoral, given the fact that many of them are active in different sectors in the USA such as technology, finance and self-employment, and these areas were most severely hit in the early days of the pandemic. UK remittances were less affected, decreasing from 15.7% to 11.1% (Shah et al., 2024) and the UK diaspora was more focused on employment within the NHS.

The pandemic has highlighted how many international students and skilled workers, who were 'home-trained' in their host countries, were treated as guests and not part of these societies during a crisis situation, as demonstrated by de Lange (2020). This meant in the USA during 2020 that no job security, visa anxiety and loss of income meant that they had less capacity to remit. The FY23 overall remittance share of 11.6% is a recovery from FY2020 when it was 7.5% however, it has still not reached pre-covid levels.

5.4 Pro-cyclical Remittances and Governance

Shah et al. (2024) find that there is a pro-cyclical relationship between the remittances and economic growth of Pakistan. Remittances peaked at USD 31.28 billion in FY2021-22 when the economy of Pakistan expanded at 6.0%. A negative growth of GDP by 0.3% in FY2022-23 reduced remittance to USD 27.33 billion. This is no accident. It is a measure of investors' motivation in sending money overseas. Diaspora professionals in the USA and UK invest money in their home countries for the survival of their families, but also for various investment opportunities, such as real estate, savings instruments, and business opportunities. As investment environment worsens, investment driven remittance component decreases.

The RDA directly relates to this pro-cyclical pattern. The USA and UK remittance shares also failed to make any move, due to the same governance issues that stunted RDA investment. The same institutional factors turn both channels on and the same governance issues turn them off. This is not a 2 separate issues. The problem is that it is one problem and institutional quality is the deciding factor in the realization or wastage of Pakistan's financial potential of its diaspora.

6. BEYOND REMITTANCES: NON-FINANCIAL DIASPORA ENGAGEMENT AND ITS RESILIENCE

6.1 Why Non-Financial Engagement Matters

The policy of the Pakistan nationals abroad has been solely on remittances and investment in RDA. This emphasis is perfectly understandable. Remittances are an important macroeconomic resource that is worth USD 27-31 billion annually. However, this singular emphasis on financial flows is missing in the brain circulation literature the other dimensions of diaspora value.

The findings of Seguin et al. (2006) indicated that the scientific diasporas are important development partners, not so much in terms of financial capital but of knowledge capital, which include expertise, networks of scientists, technology transfer and institutional knowledge. The contributions are of course not intended for return migration. They don't need Pakistanis to be professionals in Silicon Valley to come back to Lahore. They need institutional structures which facilitate their distant involvement: virtual faculty programs, diaspora advisory boards, collaborative research agreements and professional mentorship networks.

Most importantly, the deterioration of governance, in the short term, has a lesser impact on knowledge capital contributions than on financial capital contributions. A Pakistani academic in the US university can co-supervise its PhD student in Pakistan; can be a part of the curriculum development; can contribute, whether the exchange rate is in alignment or misaligned, to a research project of the US university. The institutional sensitivity of knowledge transfer mechanisms is not as critical as of the investment decision.

6.2 The Occupational Evidence for Knowledge Capital Potential

Remittance data suggests that the Pakistan professional community in USA and UK has a concentration of professionals from high knowledge professions (inferred from the composition of professional diaspora in these countries since no remittance data is captured on this aspect by BEOE). Among the female Pakistani emigrants, who have a much higher proportion of skilled migrants than male emigrants, doctors, nurses, and managers are the top three occupational groups noted by Shah et al (2024). In 2022, about 45% of the female Pakistani emigrants were highly qualified and skilled emigration, whereas about 5% of the male emigrants were highly qualified and skilled emigration.

This is an imbalance in skills, coupled by the structurally disproportionate contribution from the USA and the UK in remittances, means that the diaspora is skewed in medicine, engineering, information technology and academic areas the areas that would have the greatest effect on Pakistan's development challenges. Kone and Ozden (2017) reported that high-skilled migration is increasingly taking place in a few OECD economies, where English is the predominant language. Two-thirds of all migrants with tertiary

education qualifications settle in the USA, UK, Canada or Australia. This is the case with Pakistanis around the world. There is a knowledge potential. There are no institutional mechanisms to activate it.

6.3 What Non-Financial Engagement Requires

Gaillard et al. (2015) followed the process of diaspora knowledge engagement in practice. They found two important features to be: firstly, that ICT has made it possible to make the presence of diaspora researchers possible; secondly, that the innovation systems of origin countries need to be sufficiently developed to be able to actively engage in the knowledge exchange process. It's like transferring a valuable knowledge to an institution that is not equipped to receive and implement it.

Brain chains the complicated network of linkages among people, families, diaspora communities and states were proposed as the analytical unit of knowledge migration by Friesen and Collins (2017). Brain chains demonstrate that knowledge is not necessarily transferred through diaspora networks. It takes place within certain institutional channels. Pakistan needs to create such pathways: Virtual faculty programmes organized by HEC that provide a formal platform for the diaspora academics to be part of the Pakistani universities; Sector-wise advisory boards established by the health and education ministries of Pakistan involving the diaspora academics and diaspora international institutions; and research collaborations between the Pakistani universities and diaspora connected international institutions.

Table 3 ***Financial vs. Non-Financial Diaspora Engagement — Comparative Assessment for Pakistan***

Dimension	Financial Engagement (RDA)	Non-Financial Engagement (Knowledge)
Primary mechanism	Roshan Digital Account; NPC; remittances	Virtual faculty; diaspora advisory boards; research collaboration
Governance sensitivity	High — withdraws quickly when conditions deteriorate	Moderate — knowledge transfer less sensitive to exchange rates
Pakistan experience	USD 883m investment FY2021 → −488m FY2023	Not systematically attempted; HEC scholarship return rates low
Theoretical basis	Docquier & Rapoport (2012); Robertson (2006)	Seguin et al. (2006); Gaillard et al. (2015); Friesen & Collins (2017)
Key enabling condition	Exchange rate stability; macroeconomic predictability	Research infrastructure; meritocratic institutions; ICT connectivity
Pakistan policy status	Active since 2020; partial recovery in FY2024	Absent; HEC programmes not sustained across government cycles
Development impact	Macroeconomic stabilisation; foreign exchange reserves	State capacity building; human capital formation; institutional reform

Source: Shah et al. (2024); Shah et al. (2020); Seguin et al. (2006); Gaillard et al. (2015); Friesen & Collins (2017); Docquier & Rapoport (2012); Davenport (2004). NPC = Naya Pakistan Certificates.

7. A SEQUENCED DIASPORA ENGAGEMENT FRAMEWORK FOR PAKISTAN

7.1 Why Sequencing Matters

These are 'stimulation' policies, as termed by Davenport (2004) who meant policies that create research excellence and capitalize on diaspora connections, not policies that seek to stifle out-migration or that express regret over emigration. Since 2020, the financial aspect of the RDA is being the focal point of Pakistan's policy in stimulating the diaspora. The knowledge dimension, which is less vulnerable to the deterioration in governance and more directly linked to state capacity, has not been given the same attention.

This paper's main thrust is that diaspora engagement programmes are not a solution to institutional change. All they can do is make it worse. This is a clear implication for their sequencing: financial and knowledge engagement mechanisms must be created within an institutional environment. The RDA without establishing exchange rate stability, macroeconomic predictability and credibility of governance was like opening up a bank without securing the vault. Capital's entrance and exit when the depositors saw that the vault was not secure.

Wadhwa (2009) documented the reverse brain drain of diaspora professionals to India and China, which occurred as conditions deteriorated at home, with increasing return rates when conditions improved, and revealed that the reverse brain drain was more a function of improving conditions at home than any specific diaspora programmes. This approach – conditions first, engagement second – is a lesson that Pakistan should take from its own RDA experience as well as from comparative cases.

This framework is proposed to have three steps. Does not offer new financial products. It suggests institutional bedrock to get existing and future products into action.

7.2 Stage One: Establish Institutional Credibility

Exchange Rate Management

Exchange rate stability is the immediate need of the institutions in the context of diasporas' financial involvement. One of the immediate demands for institutions in the context of the financial involvement of diasporas is exchange rate stability. Shah et al. (2024) state clearly that a remittance policy based on 'exchange rate policies, which are mainly formulated on the back of the value of foreign debt and trade policy' is not adequate to explain the nature of remittance behaviour. Increased official-market gap leads to an increase in informal remittances. This gap increased to around 4% at the time of the collapse of the RDA investment in FY2022-23.The investment collapse of RDA in FY2022-23 happened at the same time it widened by nearly 4% as above. The one thing that can be done is to close the gap, and keeping it closed.

Macroeconomic Stabilization

When there are positive economic signals, diaspora professionals invest. They pulled out of RDA when the GDP of Pakistan started to decline, inflation rose to 29.2% and MP rate reached 22%. Salik (2020) had found macroeconomic stability to be the key to whether diaspora capital comes through formal mechanisms or not. The stabilization programme supported by IMF, which is mentioned by Shah et al. (2024) to have improved FY2024 conditions, is on the right path. Stabilization, however, needs to be maintained not only from one IMF programme to the next, but over the entire political cycle.

7.3 Stage Two: Activate Financial Engagement

Institutional credibility is achieved and financial engagement mechanisms can be effective. The design of the RDA framework is good. It's not that it was a bad architecture, it was just an environmental failure. As the exchange rate remains stable and macroeconomic parameters are predictable, the NPC and Roshan Equity

instruments can draw the investment which they showed to be possible in their FY2021 performance.

- Ring Fenced Governance Protection: Develop the instruments of investment with RDA, which have returns in USD not PKR, to avoid exchange rate risk that resulted in withdrawal of investment in FY2022-23. It gives a push to currency risk from the diaspora investor to the State Bank (which can trade the currency risk in its foreign exchange dealings) and ensures that the investment decisions do not depend on the investor's expectations about rupee depreciation.
- Clear performance reporting: Make RDA performance data (inflow, investment and repatriation ratios) available quarterly to the diaspora investors. Governance credibility is conveyed through transparency. The reporting in the present is annual and academic summarized by Shah et al. (2024). Real-time signals are needed by diaspora investors.
- Sector-specific instruments: Chand (2019) observed that there is a difference in how engaged diaspora professionals are with various instruments in the same sector depending on their personal and professional knowledge of the sector. Establish RDA sub-accounts for the development of healthcare infrastructure, research at universities and technology parks, where Pakistan's professional diaspora in USA and UK has first-hand experience and direct motivation.

7.4 Stage Three: Activate Knowledge Engagement

Knowledge engagement is the most fragile aspect of Pakistan's diaspora policy, and least vulnerable to the impact of short-term governance deterioration. It should be constructed on the basis of financial commitment and not as a follow-on.

- Virtual Diaspora Faculty Programme: Engage Pakistani University Vice-Chancellors to have formal co-supervision agreement between diaspora faculty and Pakistani PhD students. Seguin et al. (2006) demonstrated knowledge diasporas can make an impact in technological advancements of the home country even if they never return physically. This programme lays the institutional track for that contribution.
- Uk-Pakistani NHS and academic medical centres' diaspora advisory boards: Formal advisory boards, to be established, for the health ministry (comprising Pakistani medical professionals in the NHS and US academic medical centres) and the education ministry (comprising Pakistani academics in US and UK universities). These boards should be non-ceremonial, have formal role in policy, have clear requirements and have clear, measurable output. Gaillard et al. (2015) demonstrated that diaspora can be a source of innovation systems in the national level, but without the institutional interlocutors to facilitate this contribution, which Pakistan does not have yet.
- Brain chain mapping: Friesen and Collins (2017) demonstrated that knowledge movement occurs in a complex chain of persons, families, institutions and states. Pakistan has insufficient knowledge of the nature and whereabouts of its professional community so that it can tap into these linkages. High Commissions in DC, NY, and London should create a registry for the professional diaspora not for the purpose of limiting mobility, but to create the network intelligence to engage them with a targeted approach.

8. DISCUSSION

8.1 What the RDA Tells Us about Brain Circulation Theory

The brain circulation thesis is put to the test with the case of Pakistan's RDA. The thesis is that the diaspora capital can be utilized as an investment for development by using the right financial tools. The RDA also asserts the first element, namely there is diaspora capital available and interested to participate. In FY2021, USD 883 million of diaspora investment indicated the professional community in Pakistan, both overseas and within the country has the resources and the development inclination to invest in Pakistan.

The RDA also poses a challenge to the thesis. Brain flow is not a given. This needs institutional conditions not dependent on the financial instrument. Brain circulation is the result of the

globalization, reduction in immigration restrictions and boundary less careers, according to Tung (2008). These are authentic facilitators. They are however supply side forces. They enable diaspora engagement to happen. They are not a must. However, demand-side factors, such as governance quality, institutional credibility and macroeconomic stability, can make or break whether or not supply of diaspora willingness can be realized in actual engagement.

Boeri (2012) presented examples of how most developing countries can benefit from a net migration of skilled workers provided they implement the proper policy conditions to benefit from diaspora externalities. The RDA experience in Pakistan is that it is not product conditions, but governance conditions that make for 'right policy conditions'. The design of the NPC and Roshan Equity was good. They did not have an unfit governance structure.

8.2 The Limits of Financial Substitution

The government of Pakistan has so far focused on engagement of the Pakistanis abroad as a foreign exchange policy. The trade deficit is made up for by remittances. The investment in RDA adds up foreign exchange reserves. This framing is of an economic sense. Pakistan is plagued with structural trade deficit, and has a stressed foreign exchange situation. But it sees diaspora engagement as a means to a financial end, instead of an end in itself in relation to governance reform.

This is the institutional replacement trap. Using diaspora remittances to shore up the economy in the absence of structural changes underlying the economy's stress level increases the dependency of the economy on remittances and makes them more difficult to reform, while postponing the need for the economy to reform. The first time this trap comes up in explicit reference is in the comments made by Shah et al (2024) who state: 'Remittances are one such source of foreign exchange and provide a buffer against the ongoing trade deficit in Pakistan, which is necessary in the absence of structural changes.

Stimulation policies, says Davenport (2004), are those that 'exploit the diaspora' in a positive way, and so those that would build domestic capacity through diaspora connections, rather than just supplement domestic revenue. In Pakistan's engagement policy, the exploitation of a narrow idea has been to extract financial resources from the Pakistani expatriates. It hasn't been about the stimulation that is needed in the home environment to make a diaspora engagement productive and self-reinforcing, as Davenport (2004) has outlined.

8.3 Gender and the Skilled Diaspora

Gender is one aspect of the engagement of the Pakistani diaspora which has been underutilized. In their paper, Shah et al. (2024) report that the skilled proportion of female Pakistani emigrants is far higher than that of males, at some 45% of those in highly-qualified and skilled categories in 2022 and some 5% of males. Doctors, nurses and managers are the top three occupational groups among the female emigrants.

This is particularly relevant to the UK. The UK saw the most disproportionate numbers of Pakistani female labour migrants with 10.3% – a share that is far higher than the UK share of total BEOE-registered emigrants of 0.4%. The high proportion of skilled women in the Pakistani migration to the UK is largely due to the recruitment of nurses by the UK's National Health Services.

Raghuram (2009) contextualized this as being in the postcolonial context of the NHS's reliance on overseas migrants to fill vacancies and the influence of historical relationships on the UK and South Asian medical labour markets. Pakistan's medical diaspora in the UK is not just a population of doctors and other medical professionals, but a valuable knowledge resource for Pakistan's health system, one that it is systematically losing to the recruitment of its doctors by the NHS. Therefore, the channel should be a specific focus of diaspora engagement policy, grounded in gender issues.

9. CONCLUSION

This study analyzed Pakistan's diaspora engagement strategy by using the example of the success and failure of the implementation of

Roshan Digital account between FY21 and FY23. The RDA's trajectory is also a controlled research into diaspora engagement: while there was a lot of investment in the diaspora during FY2021, when institutional conditions were relatively stable. Diaspora investment dried up and capital was repatriated during the macroeconomic crisis (FY2022-23) because of the crisis conditions. During the macroeconomic crisis (FY2022-23) conditions worsened and diaspora investment was suspended and capital was repatriated. The paper concluded that there were three points to be concluded. Diaspora financial capital is governance sensitive; first. It moves in quickly when conditions are favorable, and out quickly when conditions are unfavorable. Diaspora financial engagement cannot be a regular financial development instrument until Pakistan provides its institutional stability that will enable rational engagement by the diaspora investors for financial development. Second, the remittance paradox (increase in emigration and decrease in official inflows in FY2022-23) appears to be due to exchange rate misalignment, rather than to a change in the willingness of the diaspora to send remittances. The immediate policy guns which can be pulled to restore formal remittance inflows are the closure of the gap between the official-market exchange rate and the black-market exchange rate. Third, engagement of the diaspora in non-financial activities is a more durable measure than financial engagement in case of any short-term deterioration in the government's governance and of greater relevance to development of the capacity of the state, which Pakistan needs to meet its development goals.

The brain drain is a reality in Pakistan. It is worth noting that its professional diaspora in the USA and UK remits USD 7-8 billion annually back home, and an amount which BEOE data is invisible of a professional community. This diaspora has shown to be willing to invest locally. That is borne out by the record of investments achieved by the RDA in FY2021. The diaspora will not tolerate the macroeconomic instability and institutional uncertainty that will impair its ability to invest.

The key to utilizing Brain Drain in the country is to get the sequence right, which is Brain Circulation. Institutional conditions first. Financial engagement second. Knowledge involvement along with both. The RDA embarked in Step Two while Step One was still underway. Pakistan's policy for engagement with the Pakistani diaspora needs to be right this way around. Diaspora is willing to participate. They need to be available for reception by the institutions.

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