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Has Labor Migration Promoted Economic Integration in the Middle East?

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Abstract

In terms of trade and capital flows, the Middle East is one of the least economically integrated regions of the world. The major exception is labor mobility where intraregional migration flows are extensive and remittances now exceed the value of regional trade in goods as well as official capital flows. The explanation for this pattern lies in the extreme differences in factor endowments across the region and, perhaps more importantly, the development policies adopted by both labor importing and exporting countries. In the case of nontradables, such as construction, education, government and domestic services, the oil economies had no alternative but to import labor if local demand was to be met. In the case of tradables, the labor-importing countries tended to have very outward-oriented trade policies while the labor exporters tended to be inward-oriented. Thus, the demand for tradable goods from the oil economies tended to be met from the world market (particularly the OECD) rather than from regional trading partners. Because the obstacles to trade in goods have been greater than the obstacles to migration, labor mobility and its associated capital flows has been the most important mechanism

through which the benefits of the oil windfall have been spread to the poorer states of the region. There is evidence that incomes across the Middle East have become more equal. But, without efforts to solidify regional economic ties on the basis of the efficiency and mutual self-interest, labor migration will remain an anomaly in an otherwise fragmented region.

ملخـــص

أن منطقة الشرق الأوسط هي من أقل مناطق العالم من حيث الكامل الاقتصادى فيما يتعلق بالتبادل التجارى وتدفق رأس المال • والمجال الرئيسي المستثنى هو حركة العمالة ، حيث تشهد المنطقة هجرة واسعة النطاق فيما بين دول المنطقة ، وتتجاوز تحويلات العاملين فى الوقت الراهن قيمة تجارة المنطقة فى السلع وكذلك التدفقات الرأسمالية الرسمية اليها • ويكمن تفسير هذا النمط فى الفروق الشديدة فى الثروات من عوامل الانتاج بين دول المنطقة ، وربما الأهم من ذلك ، سياسات التنمية التى تتبعها الدول المستوردة للعمالة والدول المصدرة لها على السواء • ففى حالة الأنشطة غير القابلة للتبادل التجارى ، كالانشاءات والتعليم والخدمات الحكومية والمحلية ، ليس لدى اقتصادات الدول المنتجة للبترول بديل عن استيراد الأيدى العاملة لتلبية الطلب المحلى عليها • أما في حالة السلع القابلة للتبادل التجارى ، فقد مالت الدول المستوردة للعمالة عادة الى اتباع سياسات تجارية شديدة الانفتاح بينما مالت الدول المصدرة للعمالة الى إتباع سياسات انغلاقية • ولذلك تمت عادة تلبية الطلب على السلع القابلة للتبادل التجارى فى الدول المنتجة للبترول من السوق العالمية (خاصة سوق الدول الأعضاء فى منظمة التعاون الاقتصادى والتنمية) وليس من الشركاء التجاريين فى المنطقة • ولأن العقبات أمام التبادل التجارى للسلع كانت أكبر من العقبات أمام الهجرة ، كانت هجرة العمالة وتدفق الرأسمال المرتبط بها أهم آلية تم من خلالها توزيع بعض المنافع المتحققة من أرباح البترول على دول المنطقة الأشد فقرا • وتتوفر أدلة على أن الأجور أصبحت أكثر تكافؤا بين مختلف دول الشرق الأوسط • بدون بذل جهود لتعزيز الروابط الاقتصادية الاقليمية على أساس الفعالية والمصلحة الذاتية المتبادلة ستظل هجرة العمالة ظاهرة مميزة فى منطقة ينقصها التكامل فى كافة المجالات الأخرى •

ABREGE

En termes de commerce et de flux de capitaux, le Moyen-Orient est l'une des régions du monde la moins économiquement intégrée. La principale exception étant enregistrée dans le domaine de la mobilité de la main-d'oeuvre où les flux migratoires intra-régionaux sont importants et où les transferts de fonds excèdent actuellement la valeur du commerce régional de marchandises ainsi que les flux officiels de capitaux. Ce schéma s'explique par les écarts extrêmes enregistrés dans les dotations en facteurs pour l'ensemble de la région et peut être, de manière plus significative, par les politiques de développement adoptées tant par les pays importateurs que par les pays exportateurs de main-d'oeuvre. En ce qui concerne les biens non échangeables, tels que l'enseignement, les services administratifs et internes, les économies pétrolières n'ont eu d'autre alternative que l'importation de main-d'oeuvre pour satisfaire à la demande locale. En ce qui concerne les biens échangeables, les pays importateurs de main-d'oeuvre ont eu tendance à s'appuyer sur des politiques commerciales fortement ouvertes sur l'extérieur tandis que les pays exportateurs de main-d'oeuvre se sont repliés sur eux-mêmes. Ainsi, la demande de biens échangeables provenant des économies pétrolières a-t-elle été généralement satisfaite par le marché mondial (en particulier par les pays de l'OCDE) plutôt que par les partenaires commerciaux régionaux. Etant donné que les obstacles au commerce de marchandises ont été plus importants que les obstacles à la migration, la mobilité de la main-d'oeuvre et les flux de capitaux qui y sont associés ont constitué le principal instrument de transfert des bénéfices pétroliers exceptionnels aux pays les moins favorisés de la région. Une répartition plus équitable des revenus a donc été constatée pour l'ensemble du Moyen-Orient. Cependant, si des efforts ne sont pas entrepris en vue de consolider les liens économiques régionaux basés sur l'efficacité et l'intérêt mutuel, le phénomène de la migration de la main-d'oeuvre demeurera une anomalie dans une région par ailleurs fragmentée.

Has Labor Migration Promoted Economic Integration in the Middle East?

The idea of an economically integrated Arab world has been part of the region's political discourse for decades. While the idea is compelling to many, the Middle East is in some ways one of the least integrated regions in the world, despite decades of attempts to give economic meaning to the notion of Arab unity. The major exception is labor mobility where intraregional migration flows have been extensive in recent decades. Remittances from migrant labor now exceed the value of regional trade in goods as well as official capital flows.

This paper explores the characteristics of economic integration in the Middle East and analyzes why labor flows have been the major channel through which intra-regional economic ties have been forged. The paper starts with a brief summary of the motives for regional integration. The degree to which the region is integrated--in terms of trade in goods and movement of factors of production--is then analyzed. The special role that labor migration has played in regional integration is discussed in light of the region's endowment and trade policies. The Middle East's pattern of labor-based economic integration is fairly unique. Whether it has left the region better or worse off is considered in the final section.

Why Regional Integration?

The appeal of economic integration is based on the circumstances of the region and, increasingly, on the changing characteristics of the world economy. At the regional level, there have been two interrelated motives for promoting integration. One was purely political and had its origins in the ideology of Arab nationalism. An economically integrated Arab world would provide the region with critical support for sustained and meaningful political integration. The

second motive was more economic and stemmed from the view that the complementarity of endowments across the region could be the basis for enhanced development. The high income oil exporters were capital-rich, but poor in labor and productive land. Countries like the Sudan, Egypt, Syria and Morocco had substantial agricultural potential and low wage labor, but lacked capital. Lebanon and Jordan had surpluses of skilled labor. The more diversified economies, such as Algeria and Iraq, could also benefit from imports of labor and capital from abroad. Moreover, regional integration would enable all countries to take advantage of economies of scale in production, distribution and resource use. In the Middle East, there is the added dimension of regional conflict. Many argue that a region that is more economically interdependent and prosperous is less likely to experience political and military conflict.[1]

The economic motive has become increasingly important as most countries in the region experienced economic stagnation in the late 1980s and the early 1990s. Per capita income growth in the Middle East was respectable between 1960-73 and the period of the oil booms, 1973-81, was one of accelerated growth. With the collapse in oil prices in 1986, most countries in the region experienced negative per capita income growth. Only three countries -- Morocco, Turkey, Tunisia and Yemen -- in the region had positive growth rates in the second half of the 1980s. The challenge for the future is even greater because of the region's young, urbanized and rapidly growing population. The Middle East, along with Sub-Saharan Africa, has the highest rate of population growth in the world. Total population in the Middle East was about

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[1] The example of the European Coal and Steel Community formed after World War II is often cited as an example where encouraging economic ties laid the groundwork for peaceful coexistence and eventual integration in the form of the European Community.

260 million in 1990, 51% of which live in urban areas and 43% of which are under 15 years of age.[2] About one-third of the population in the region's developing countries lives in poverty (less than $1 per day).[3] This combination of growing populations and deteriorating living standards has reinforced the imperative for regional economic development.

Changes in the world economy, and particularly in world trade, have also reinforced the need for integration. Intraregional trade has been growing faster than world trade in recent years. The emergence of three major trading blocks in the world economy - dominated by the United States, Japan, and Europe - has resulted in fears that countries outside such regional arrangements could suffer a fall in exports as the adverse substitution effects of regionalization outweigh the favorable income effects. Such fears have provided a stimulus to renewed attempts at regional trading arrangements all over the world -- in Latin America, Central America, Africa and Asia.

The conventional economic view on regional integration is that it is desirable where the trade creation effects are greater than the trade diverting effects. Thus, agreements among countries that would tend to trade with each other anyway would result in greater welfare gains than those that divert trade to higher cost suppliers. This is consistent with the evidence that agreements tend to emerge among countries where there is already intense trade. In many cases, the static gains from more efficient resource allocation are overshadowed by the dynamic efficiency gains that result from competition. There is also evidence of the benefits of such agreements. Bigger countries tend to grow faster - lending support to the view that economies

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[2] World Bank (1992).

[3] Ravallion, Datt and Chen (1992).

of scale and efficiency gains associated with integration result in higher incomes.[4]

The numerous attempts to promote economic integration in the Arab world have been analyzed extensively elsewhere.[5] Since the creation of the Arab League in 1945, economic integration has been on the regional agenda. In 1953, a multilateral trading agreement was signed under the auspices of the Arab League which exempted Arab agricultural commodities from tariff barriers and reduced tariffs on some industrial goods. The Arab Economic Unity Agreement signed in 1956 sought full economic union between Egypt, Iraq, Jordan, Kuwait and Syria. The same countries, with the exception of Kuwait, formed the Arab Common Market in 1964 which sought the gradual elimination of tariff and non-tariff barriers over a ten year period.

These and numerous other attempts to promote integration failed largely because there was no willingness to subsume national interests to regional ones. Protectionist interests in all countries often secured exemptions to more open trading arrangements that undermined regional integration efforts. Coordination of other regional policies was also often undermined by local interest groups. The failure of economic integration efforts was not unique to the Middle East. The majority of such efforts failed at promoting integration in virtually every developing region.[6]

The oil boom in the 1970s spurred the growth of institutions to transfer resources from the high income oil exporters to the poorer states in the region. The national funds established

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[4] Lachler (1989).

[5] See Waterbury and Mallakh (1978), Makdisi (1979), Ghantus (1982).

[6] For a survey of attempts at regional integration in other parts of the world, see Lachler (1989).

by Kuwait (the Kuwait Fund for Arab Economic Development) and Abu Dhabi (the Abu Dhabi Fund for Arab Economic Development) actually preceded the first oil price increase in 1973, while those established by Saudi Arabia and Iraq were both created in 1974. Regional institutions were also established - such as the Arab Fund for Economic and Social Development (1968), the Islamic Development Bank (1974), the Arab Bank for Economic Development in Africa (1973), the Arab-African Technical Assistance Fund (1974), Arab-African Oil Assistance Fund (1974), the Special Fund for Arab Non-Oil Exporting Countries (1974), and the Arab Monetary Fund (1976). Most of these provided concessional financing for projects or balance of payments support. Economic integration increasingly came to mean transfers from rich to poor states, rather than the more solid ties of genuine economic interdependence.

How Economically Integrated is the Middle East?

Economic integration can take many forms. These include free trade areas, customs unions, joint-ventures, preferential payments arrangements, favored trading status or common markets. The focus here will be on those dimensions that have actually been realized in the Arab world. In particular, the extent of integration in terms of trade in goods and in factor flows will be assessed before considering the special role of labor movements.

Trade

The most striking feature of trade patterns in the Middle East is how little the countries of the region trade with each other. Table 1 provides data on Middle Eastern exports and

imports in world trade. About two-thirds of all the region's trade is with the industrial countries. Intra-regional Middle Eastern trade accounts for only between 6-7% of total imports and exports. The Middle Eastern countries trade more with Asia and with Eastern Europe and the former Soviet Union than they do with each other.

Table 1. *Intra-regional Middle Eastern Exports and Imports as a share of Total Exports and Imports, 1985-90*

	Exports						*Imports*					
	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*
Percent distribution												
Industrial countries	60.6	61.9	58.3	56.9	59.0	63.9	68.1	69.3	66.3	66.3	67.4	71.8
Developing countries	31.7	28.9	31.7	33.0	31.5	28.2	26.5	25.7	27.2	28.0	28.3	25.3
Africa	1.8	1.8	1.9	2.1	1.9	1.5	.8	1.0	.9	1.0	1.1	1.1
Asia	13.2	11.0	14.0	15.1	15.0	14.6	8.4	8.9	9.7	10.8	10.6	10.9
Europe	6.1	5.5	5.9	5.6	4.7	4.1	7.3	7.3	7.4	7.3	6.7	5.0
Middle East	6.2	6.7	6.3	6.8	6.7	5.0	7.6	6.4	7.3	6.7	7.6	6.1
Western Hemisphere	4.3	4.0	3.6	3.4	3.1	3.1	2.4	2.1	1.9	2.2	2.3	2.2
Former U.S.S.R and selected other countries n.i.e.	.8	1.1	1.0	1.0	1.5	1.8	1.2	1.6	1.6	1.4	1.2	1.1
Annual percent change												
World	-12.1	-19.9	12.9	-1.4	22.3	23.9	-17.8	-9.0	1.2	11.5	-0.9	16.9
Industrial countries	-10.8	-18.3	6.5	-3.8	26.8	34.3	-20.7	-7.3	-3.0	11.5	.6	24.4
Developing countries	-15.5	-26.8	23.7	2.6	16.5	11.1	-13.0	-11.9	7.4	14.6	....	4.4
Africa	-17.5	-20.2	20.7	11.2	10.0	-2.5	-25.2	18.5	-12.7	24.4	9.4	14.6
Asia	-20.1	-33.4	43.5	6.3	21.4	20.6	-14.8	-4.3	11.1	23.4	-2.8	20.5
Europe	-9.7	-27.9	22.0	-7.1	3.0	7.5	-13.8	-8.8	3.5	10.3	-10.2	-12.6
Middle East	-14.7	-14.1	6.6	6.3	21.0	-8.3	-9.7	-23.9	15.4	2.5	13.2	-6.3
Western Hemisphere	-7.8	-26.0	1.3	-6.3	11.6	21.3	-9.0	-19.8	-9.2	28.9	3.4	11.8
Former U.S.S.R. and selected other countries n.i.e.	18.1	6.4	....	3.7	82.7	48.1	14.6	19.9	-2.8	-1.8	-12.0	1.6

Source: IMF, Direction of Trade Statistics (1991).

When intraregional trade is decomposed by country (Table 2), the pattern is even more stark. The major share of intra-regional trade is dominated by three oil economies -- Bahrain, Saudi Arabia and the United Arab Emirates. This is because the data on trade does not exclude re-exports -- such as when Saudi Arabia "exports" oil to Bahrain for refining which Bahrain then

"reexports." Such trade involves little value added and the products are not destined ultimately for the regional market. If such reexports were excluded from the data, regional trade would be even less than that reported in Tables 1 and 2.

What is the explanation for such a low level of intra-regional trade? Some of it must lie in the composition of regional imports and exports. The exports of the Middle East remain dominated by primary products, particularly oil. Petroleum and petroleum products constitute over 90% of total exports for all the Gulf countries, as well as for Algeria and Libya. The Middle East, along with Africa, has the smallest share of world trade in manufactures.[7] The region is also a net importer of food. Thus the imports of the region, which consist largely of food, manufactures and capital goods, are not major exports of the region.

But the explanation for the composition of trade lies not only in endowment, but in the policies adopted by the governments of the region. Many of the labor surplus economies (such as Egypt, Sudan, and Syria) that could have been meeting the region's demand for food and manufactures have followed import substitution policies for decades. Meanwhile, the capital surplus economies have tended to have very open trade regimes, which enable them to import from anywhere in the world. The protected production of regional neighbors could not compete in terms of quality or price with world markets.

The evidence of the enormous divergence in trade policy between the labor surplus and the capital surplus countries of the region is presented in Tables 3-5. Three different measures

[7] World Bank (1992), p. 17.

Table 2. Intra-regional Exports and Imports of Middle Eastern Countries, 1985-90 (US$ million)

	Exports						Imports					
	1985	*1986*	*1987*	*1988*	*1989*	*1990*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*
Bahrain	1,224	942	1,189	1,029	1,309	1,390	444	253	258	274	326	351
Egypt	231	197	196	226	230	231	167	131	143	212	271	253
Iran, Islamic Republic of	143	152	220	268	372	292	823	327	414	227	292	274
Iraq	557	483	501	645	824	478	266	337	362	449	529	504
Israel	229	230	140	146	168	5	8	59	27	28	22	7
Jordan	638	479	515	565	497	587	383	329	851	391	465	427
Kuwait	298	322	389	479	588	324	780	605	684	770	843	435
Lebanon	144	100	105	152	253	287	267	251	274	349	261	258
Libya	19	24	13	16	30	40	285	104	143	1	2	4
Oman	43	66	394	472	576	547	28	27	31	38	38	38
Qatar	212	230	111	132	188	187	211	160	158	200	238	226
Saudi Arabia	783	818	634	776	903	903	2,406	1,956	2,084	2,386	2,501	2,527
Syrian Arab Republic	810	281	394	122	152	124	75	128	162	249	512	646
United Arab Emirates	859	961	988	1,071	1,397	1,405	1,216	919	866	1,028	1,190	1,048
Yemen Arab Republic	323	281	130	212	169	176	31	21	34	42	41	43
Yemen, P.D. Republic	201	194	226	220	251	264	7	9	15	21	15	16
Middle East not specified	24	19	20	20	23	21	28	31	11	14	15	16

Source: IMF, Directory of Trade Statistics (1991).

of openness are reported because there is considerable controversy over which measures are the most appropriate.[8] The structure adjusted trade intensity ratios in Table 3 represent the share of imports and exports in GDP adjusting for structural characteristics of the economies such as size, per capita income, and oil endowment. Table 4 reports average import charges by category and Table 5 reports the frequency of non-tariff barriers. The conclusions are consistent across all measures of outward orientation -- the capital surplus oil economies tend to be very open while the labor surplus economies of the region tend to be very closed.

Political alliances have added another dimension to regional trade patterns. The composition of Egypt's trade during the late 1960s and early 1970s and Syria's trade until recently were dominated by the Eastern bloc. Extensive trade with Eastern Europe and the

[8] For a discussion of the methodological debate, see Pritchett (1991).

Table 3. Structure adjusted trade intensity ratios, 1985, by rank, Middle Eastern countries

LDCs	Overall %	Overall Rank	Manufacturing %	Manufacturing Rank	Agriculture %	Agriculture Rank	Resources %	Resources Rank
Bahrain	69.1	4	21.3	6	2.7	26	44.7	3
Jordan	27.2	12	11.6	16	2.1	28	9.8	14
Egypt	22.5	17	20.8	7	7.6	11	-6.3	73
Algeria	9.6	25	8.3	23	0.1	37	1.0	26
Morocco	-2.1	40	-0.8	43	-0.9	42	-0.5	33
Sudan	-2.9	41	1.0	32	0.7	33	-4.2	57
Tunisia	-5.0	44	-0.7	42	-6.4	83	3.1	22
Syria Arab Republic	-12.4	60	-4.1	56	-0.9	41	-7.4	75
Turkey	-19.2	75	-9.2	72	-6.7	84	-2.1	42
Yemen, Arab Republic of	-21.2	77	-6.7	62	-6.1	81	-7.6	77
United Arab Emirates	-23.0	79	-26.4	92	-2.9	58	7.2	15
Kuwait	-37.7	90	-22.2	87	-1.6	50	-13.1	89
Oman	-43.4	93	-10.8	73	-1.6	49	-31.2	93

Note: The structure adjusted trade intensity ratios are derived from a regression of trade intensity (imports plus exports as a share of GDP) on population, land area, GDP per capita, transportation costs and oil endowment. The resulting residual is an indicator of the openness of the economy taking into account structural characteristics. Rank refers to where a particular country is relative to 93 other countries in the sample.

Source: Adapted from Pritchett (1991).

Table 4. UNCTAD data on mean total import charges by major aggregate, in percent and rank

	Overall %	Overall Rank	Manufacturing %	Manufacturing Rank	Agriculture %	Agriculture Rank	Resources %	Resources Rank
Saudi Arabia	3.7	4	4.1	6	1.4	3	4.4	10
Qatar	4.3	5	4.0	5	5.4	7	4.0	7
United Arab Emirates	4.3	6	4.7	7	1.5	4	5.9	13
Kuwait	6.5	7	3.9	4	2.1	6	23.1	48
Bahrain	7.2	8	7.6	8	7.6	8	5.0	12
Algeria	18.2	21	22.1	27	15.5	20	2.4	5
Syria, Arab Republic of	24.5	34	25.2	33	23.4	33	22.8	47
Jordan	27.1	39	32.2	48	16.3	23	12.4	31
Tunisia	27.5	40	28.0	40	27.8	42	10.7	30
Morocco	34.6	51	35.1	51	29.8	46	37.5	67
Egypt	41.4	62	42.6	61	57.3	68	16.0	37
Turkey	44.8	65	46.9	65	37.3	58	26.7	54
Sudan	47.0	66	49.4	66	54.6	65	25.5	52
Iran	70.1	72	80.4	74	69.2	70	20.4	42

Note: Rank refers to where a particular country is relative to 75 other countries in the sample.

Source: Adapted from Pritchett (1991).

Table 5. UNCTAD data on the frequency of nontariff barriers, by major aggregate

	Overall		Manufacturing		Agriculture		Resources	
	Ratio	*Rank*	*Ratio*	*Rank*	*Ratio*	*Rank*	*Ratio*	*Rank*
United Arab Emirates	0.5	2	0.3	3	1.5	4	0.1	9
Qatar	1.2	3	1.2	4	1.5	5	0.0	1
Bahrain	3.5	4	0.0	1	7.2	10	0.0	3
Oman	4.0	6	5.2	9	1.5	3	0.1	14
Kuwait	7.9	8	7.2	14	15.1	18	0.3	19
Sudan	8.0	9	8.4	16	12.2	14	0.0	7
Saudi Arabia	8.4	11	8.8	18	14.4	17	0.1	11
Libya	9.4	12	10.0	23	14.3	16	0.0	8
Jordan	16.8	28	7.1	13	66.5	45	0.1	12
Egypt	38.6	40	35.4	42	46.4	37	42.8	35
Morocco	39.7	41	23.0	36	66.6	46	84.4	50
Algeria	68.4	52	60.1	50	86.6	56	87.4	54
Tunisia	77.6	55	71.7	54	84.0	55	94.1	58
Turkey	90.6	59	97.8	60	79.7	50	70.2	40
Iran	98.8	62	98.6	62	94.2	60	100.0	73
Syria, Arab Republic of	100.0	63	100.0	63	100.0	63	100.0	62
Yemen	100.0	71	100.0	71	100.0	71	100.0	70

Note: Rank refers to where a particular country is relative to 75 other countries in the sample.

Source: Adapted from Pritchett (1991).

former Soviet Union was a reflection of political alliances, not market incentives. Similarly, the United States has emerged as one of Egypt's major trading partners in the 1980s, not because of comparative advantage, but because American aid is tied to U.S. source restrictions.

Capital Flows

The pattern of regional capital flows is clearly from the capital surplus oil exporters to the labor surplus countries. Because of this pattern, the size of regional capital flows is closely tied to developments in the oil market. The evidence on capital flows, both official aid and private unrequited transfers (largely remittances) is presented in Table 6. The size of regional

capital flows tended to be greatest during the oil boom of the 1970s and fell considerably after the oil price collapse in 1986.

Three economies -- Jordan, Yemen, and Egypt -- emerge as highly dependent on regional capital flows in Table 6.[9] For example, over two-thirds of the Jordan's GDP came from regional transfers in 1979 -- about half of GDP came from Arab aid and one-fifth of GDP was remittances from Arab countries. In the case of Yemen, remittances have been between one-third and one-half of GDP since the 1970s. Egypt, like Jordan, was also a major recipient of Arab aid until the Camp David accords in 1979 when the country was isolated politically and economically by Arab governments. But private capital flows continued to grow rapidly and remittances emerged as Egypt's major source of foreign exchange in the 1980s and 1990s.

Comprehensive data on other private capital flows, such as Arab investment in other Arab countries, is not available. Data from Egypt on the nationality of private investors under Law 43, the investment promotion legislation, gives some indication of the importance of such flows. On average, Arab investors constituted one-half of all foreign investment in both inland and free zone projects under Law 43 between 1977-1989.[10] The remaining foreign investment came from the European Community, the United States and other countries. Arab investors were obviously the most important foreign investors to Egypt, but were fairly small compared to Egyptian investors who constituted over 60% of total capital under Law 43 projects between 1977-1989. More importantly, the levels of private capital flows from the richer to the poor

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[9] Lebanon may also be highly dependent on regional capital flows, but the data is too poor to draw any conclusions.

[10] Calculation based on Isfahani (1990).

states in the region are a very small fraction of their total assets held abroad. This reflects the low expected return on regional investments because of risk and the economic policies of the poorer states in the region.

Remittance levels have far exceeded official aid in recent years. In 1987, private unrequited transfers were five times greater than intra-Arab official aid flows. This is largely the result of the reductions in aid after the collapse in oil prices in 1986. Remittances from labor migration are now the largest source of capital flows in the region.

Labor

Labor has been migrating in the Arab world for centuries, but it was the oil boom of the 1970s that saw a manyfold increase in the scale of the phenomenon. In 1975, there were an estimated 1.6 million migrant workers in the labor importing countries of Bahrain, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. About 1.1 million of those workers were of Arab origin.[11] Projections by Serageldin et al (1983) indicated that the number of migrant workers would double to about 3.5 million by 1985. Subsequent estimates of the actual number of migrants in 1985 are closer to 8 million, implying a fivefold increase since 1975.[12]

It is difficult to assess the scale and composition of labor migration in the 1980s and 1990s because of the absence of comprehensive data. In earlier periods, major studies of migration were conducted by Birks and Sinclair in conjunction with the Economic Commission

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[11] Seregeldin et al (1983).

[12] Klinov (1991).

for West Africa conference on migration in the Arab world in 1981 and later by the World Bank project on Manpower and International Labor Migration in the Middle East in 1983. Since then, numerous national studies of emigration have become available, but no comprehensive data collection effort for the region is available for the 1980s and 1990s.

A recent survey of the available evidence on migration patterns during the 1980s found that, despite the collapse of oil prices and the recession in the region, aggregate migration levels did not fall, although there was a redistribution of labor across the region.[13] Many of the migrant workers were in essential sectors and were retained despite the collapse in oil prices. Remittance levels did not decrease and in many labor exporting countries, actually increased. The major change in the 1980s was the emergence of Iraq as a major labor importer. With much of its male labor force in arms during its war with Iran, Iraq became especially important as a destination for Egyptian workers. There were at least 1.25 million Egyptian workers alone in Iraq. This Iraqi demand was particularly timely as the growth of labor demand in the Gulf slowed after the oil price collapse in 1986 and there was increasing substitution of Asian for Arab labor. About one in every three Egyptian migrants went to Iraq in the 1980s. There was also some increase in demand for low skilled Egyptian workers from Jordan which was experiencing a construction boom from the remittances of its own higher skill migrants in Gulf.

Fears that Asian labor would supplant Arab labor during the 1980s appear to have been unwarranted in the aggregate. Although Asian labor is often lower cost and less politically threatening to labor importing countries, the share of Arab labor has remained fairly stable since

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[13] Feiler (1991) provides a country-by-country survey of the available evidence on migration patterns during the 1980s.

1975 at about 55%. The explanation again lies in Iraq which tended to import mainly Arab labor, particularly Egyptians. This demand from Iraq appears to have offset the rise in the share of Asian labor in the Gulf.

Political reasons as well as wage differentials have played an important role in determining both the level and composition of labor migration.[14] The level of migrant workers relative to the indigenous workforce has long preoccupied the governments of the labor importing countries.[15] The increasing importance of Asian labor was clearly a response to fears about long-term Arab migrants demanding greater political rights. Moreover, shifting political alliances in the region have affected whether Egyptian, Iranian, Jordanian or Palestinian workers were welcome in the Gulf, Iraq or Libya.

The Gulf war has also fundamentally altered migration patterns in the region. The most obvious consequence was the repatriation of hundreds of thousands of Arab workers from both Iraq and Kuwait as well as the repatriation of Yemenis from Saudi Arabia. The reconstruction of Kuwait is likely to require the restoration of migration flows, but Arabs, particularly Palestinians, are likely to be a smaller proportion of the Kuwaiti workforce. In the case of Iraq, pre-war migration levels are unlikely to be restored anytime in the near future, and the Egyptian government has begun to look toward Libya to absorb some of the country's surplus labor.

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[14] For a survey of the role of politics in migration policy, see Feiler (1991) and Russell (1989).

[15] The proportion of foreigners in the labor force during the 1980s was about 80% in Kuwait, 60% in Saudi Arabia, 70% in the United Arab Emirates, and 80% in Bahrain. Feiler (1991)

Why this pattern of integration in the Middle East?

The pattern of regional integration that exists in the Middle East is fairly unique. In most parts of the world, extensive trade in goods acts as the engine for regional integration. This was certainly the case with the European Community, East Asia and the North American Free Trade Agreement. The extensive movement of goods across borders increases the benefits of coordinated policies on tariffs and non-tariff barriers as well as standards and other policies that govern economic relationships. Labor movement is usually the final, and often the most controversial, feature of regional integration.

In the Middle East, labor flows, and the remittances of capital associated with migration, have been the most important feature of regional integration. The explanation lies in the extreme differences in factor endowments across the region and, perhaps more importantly, the development policies adopted by both the labor importing and exporting countries.

The distinction between tradable and nontradable goods and services is crucial in explaining the role of factor endowments. Many of the oil exporting, capital surplus economies are characterized by structural labor shortages. In the case of tradable goods, these shortages are not problematic because local demand can be met through imports from world markets. In the case of nontradable goods and services, such as construction, education, health, government and domestic services, there is no alternative but to import labor if local demand is to be met.[16] Thus it is not surprising that the vast majority of migrant workers in the oil exporting countries

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[16] The absence of strong unions in the oil exporting countries also meant that the importation of labor did not face opposition from local interests. This is in contrast to the role of unions in opposing the migration of low cost labor in the North American Free Trade Agreement and in the European Community.

are employed in the nontradable sectors of the economy.

But why were the oil exporters not importing tradable goods from their neighbors? The explanation lies in the trade orientation of the region's regimes described above. In general, the oil exporters adopted very outward oriented trade policies in order to meet local demand for tradable goods through the world market. In contrast, the labor surplus economies that could have been meeting the regional demand for food and manufactures adopted inward-oriented import substitution policies that discouraged the production of tradable goods.[17] Because these import substitution policies tended to favor capital-intensive production (through interest rate subsidies, favorable tariffs on capital goods imports, overvalued exchange rates and skewed public investment programs), unemployment and underemployment were persistent problems. Thus the migration of labor became a convenient mechanism for labor surplus economies to export their unemployment problems. Remittances were also important for the balance of payments, which was the Achilles heel of import substitution strategies that produced little that would generate foreign exchange from export markets.

Increased regional trade in goods was also undermined by the selective protection policies that made some tradable sectors de facto nontradables. Few regional migrants worked in the tradable sectors, but where they did, there were substantial inefficiencies. The case of Saudi Arabian agriculture, which was highly subsidized through a system of input subsidies and price support to meet food self-sufficiency goals, provides an example of the disincentives to trade. The incentives provided by the Saudi government ensured that it was more advantageous for

[17] The exception here is Turkey which liberalized its trade regime relatively early and was able to benefit from exports to the Gulf during the oil boom.

landowners to import labor to tend wheat fields in Saudi Arabia than it was to import Egyptian wheat. This is despite the fact that Saudi Arabian wheat was produced at five times the world market price and that wheat was sold domestically for less than the world price for much of the period. Of course because of the low procurement prices offered to farmers in Egypt, there was no wheat for the country to export. The beneficiaries of Egypt's food pricing policies were urban consumers who were more likely to threaten the regime than a dispersed and disorganized peasantry. This convoluted set of incentives ensured that Egyptian farmers continued to migrate to produce, often less efficiently, in Saudi Arabia or in Iraq. Those who received rents from the status quo - urban wheat consumers in Egypt and rural land holders in Saudi Arabia - would oppose any moves to achieve a more economically rational distribution of production which might also result in greater regional trade.

In contrast, the obstacles to labor mobility were far less than those governing trade in goods. Most of the labor surplus economies in the region actively encouraged migration through a variety of mechanisms. In Egypt, emigration became a constitutional right in 1971, exit visas were abolished in 1973, and a Ministry of Emigrant Affairs was established to address the needs of Egyptians abroad. The officially tolerated "own exchange" market provided a channel through which remittances could enter the country at the parallel exchange rate. The government also exempted migrants from paying taxes on income earned abroad and abolished a law requiring migrants to transfer a minimum of 10% of earnings to Egypt at the over valued official exchange rate.[18] In Jordan, the government allowed migrants to postpone their military

[18] Ibrahim, 1982.

service until the age of 37 if they obtained a work permit from another country.[19]

The policies of the labor importers were intended to reduce the long run dependence on migrant labor, but were generally unsuccessful. A number of policies have been put into place to reduce the dependence on foreign workers -- including the use of more capital intensive technology, expenditures on training, requirements that nationals be in senior positions in all sectors of the economy, and, in some cases, encouraging women to enter the workforce. Despite these efforts, foreigners still constitute the vast majority of the labor force in these economies. Recognizing the limits of indigenous labor substitution, the oil economies also severely restrict the duration of migrants stay through visas, work contracts and other policies that prevent foreign workers from becoming permanent residents. These policies also insured that migrants did not become eligible for the benefits, such as housing, education and health care, associated with nationality.

[19] Feiler (1991).

Table 6. Intra-regional Arab capital flows--official and private, 1973-87

a. Total official Arab assistance as a percentage of GNP of Arab aid recipient countries, 1973-87

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	Cumulative
Arab Middle East	3.3	5.3	4.7	5.3	4.7	3.9	6.1	5.6	4.8	3.1	2.7	2.1	1.8	1.7	1.1	3.3
Bahrain	6.1	20.1	20.2	39.6	10.9	7.4	10.1	5.3	4.6	3.4	7.3	7.0	3.6	4.8	-0.1	5.9
Iraq	0.1	-0.0	0.2	-0.0	-0.0	0.1	-0.0	-0.0	0.0	0.7	0.5	0.1	0.1	0.1	-0.0	0.1
Jordan	13.8	26.8	28.9	32.2	17.3	16.6	47.5	35.5	29.3	20.1	18.4	17.2	12.2	10.5	8.2	20.6
Lebanon	0.1	3.9	0.3	0.5	2.1	5.2	1.9	4.9	9.6	3.1	0.3	-0.0	0.6	0.1	0.8	2.5
Oman	3.2	10.7	3.4	6.1	8.3	2.1	6.1	4.9	3.4	1.3	0.6	0.7	0.7	0.9	-0.3	2.2
Syria	8.9	11.0	9.6	6.3	9.8	8.1	16.1	12.1	9.7	5.6	4.6	3.8	3.6	3.5	2.5	6.7
Yemen Arab Republic	3.2	12.8	15.9	17.1	12.8	10.6	6.1	10.4	8.8	5.3	4.5	4.0	3.5	2.6	1.8	6.2
Yemen, P.D.R.	4.3	9.2	15.2	35.6	22.2	9.5	4.6	9.1	3.9	14.1	3.5	5.3	4.9	0.1	4.7	8.1
Arab Africa	2.8	4.6	6.9	4.7	5.0	3.3	1.6	1.5	1.4	0.9	0.7	0.3	0.8	0.3	0.2	1.7
Algeria	0.8	0.1	0.7	0.1	0.9	0.2	0.1	0.1	0.1	-0.5	0.0	-0.1	0.1	-0.0	-0.0	0.1
Egypt	7.4	14.5	22.6	11.9	11.5	9.9	1.2	0.0	-0.1	-0.1	-0.3	-0.1	-0.1	0.2	0.2	3.0
Mauritania	10.7	17.7	4.7	40.5	21.1	30.1	13.2	22.7	15.4	16.7	10.3	9.9	10.9	8.4	-0.2	14.6
Morocco	0.0	0.2	1.2	1.2	5.3	2.3	1.8	3.8	6.4	4.1	1.1	0.6	4.6	0.6	-0.2	2.4
Somalia	3.0	13.9	14.7	5.4	13.2	10.5	9.2	8.7	3.2	6.9	3.8	0.6	1.3	-0.2	0.1	4.8
Sudan	0.6	6.9	4.6	6.9	3.2	2.2	5.5	4.4	2.4	2.8	5.9	1.3	3.5	2.0	1.8	3.4
Tunisia	0.2	0.6	1.4	1.6	1.9	0.8	1.6	1.2	0.8	0.6	0.2	0.9	0.5	0.0	0.7	0.8
Total Aid Recipients	2.9	4.9	6.0	4.9	4.9	3.6	3.5	3.2	2.8	1.9	1.6	1.1	1.2	0.9	0.6	2.3

Source: van den Boogaerde (1990).

b. Private unrequited transfers as a percentage of GNP of Arab aid recipient countries, 1973-87

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	Cumulative
Arab Middle East	0.9	0.9	0.4	3.1	3.8	4.5	4.0	3.5	2.9	2.5	2.5	2.2	1.4	1.1	1.1	2.3
Bahrain	0.0	0.0	-53.4	-14.3	-13.1	-14.4	-9.2	-3.2	-3.2	-3.4	-2.9	-3.6	-6.6	-9.2	-7.2	-6.3
Iraq	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Jordan	8.2	10.4	16.8	30.3	26.6	22.5	20.1	20.3	25.9	24.7	23.8	27.7	21.9	22.3	15.9	22.3
Lebanon	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oman	0.0	-9.2	-12.2	-10.3	-9.4	-8.8	-7.5	-6.8	-7.0	-8.1	-9.9	-10.5	-10.2	-13.2	-9.3	-9.4
Syria	1.1	0.8	0.8	0.7	1.2	6.8	8.2	5.9	4.1	2.7	2.4	2.0	1.9	1.3	1.0	2.8
Yemen Arab Republic	0.0	18.0	28.7	54.6	60.3	37.1	30.5	30.1	19.8	18.6	20.5	19.7	16.5	11.9	15.3	22.8
Yemen, P.D.R.	11.9	12.9	19.0	28.9	35.3	41.7	42.9	42.8	44.5	47.0	45.9	44.4	40.5	32.1	32.2	38.5
Arab Africa	2.5	2.7	3.1	3.7	3.4	4.6	4.7	4.6	4.1	4.0	5.1	5.1	4.3	4.1	4.7	4.3
Algeria	3.7	2.4	2.3	2.2	1.3	1.1	1.0	0.7	0.7	0.8	0.5	0.4	0.7	1.3	0.8	1.0
Egypt	1.3	3.5	4.1	6.5	7.0	12.9	13.3	13.0	10.3	10.4	14.0	13.9	10.2	7.9	11.0	10.2
Mauritania	-5.5	-3.6	-4.9	-5.2	-4.1	-3.6	-5.0	-4.0	-2.4	-3.7	-3.4	-2.8	-2.9	-2.7	-2.2	-3.5
Morocco	3.4	3.9	5.4	5.5	5.0	5.4	5.8	5.8	7.0	5.9	7.0	7.5	8.7	9.9	9.9	6.7
Somalia	0.6	0.7	0.3	0.2	0.2	6.9	2.8	2.9	1.8	0.5	0.9	5.1	0.9	1.4	2.4	2.1
Sudan	0.3	0.1	0.0	0.7	0.6	0.9	1.3	2.1	2.6	1.2	3.1	2.8	3.2	0.9	1.2	1.6
Tunisia	3.5	3.1	3.1	2.9	3.1	3.5	3.9	3.5	4.1	4.6	4.4	3.9	3.3	4.2	5.2	3.9
Total Aid Recipients	2.0	2.0	2.1	3.5	3.5	4.6	4.4	4.1	3.6	3.3	4.0	3.8	3.1	2.9	3.2	3.5

Source: van den Boogaerde (1990).

Labor Migration - A Stepping Stone or a Substitute for Regional Integration?

Because the obstacles to trade in goods have been greater than the obstacles to labor movements in the Middle East, labor has been the first, and most successful, element of regional economic integration. Labor mobility and its associated capital flows has been the most important mechanism through which the benefits of the oil windfall have been spread to the poorer states of the region. Labor migration has not been a substitute for regional trade where nontradable goods are concerned because there are few alternatives for meeting demand. In the case of tradable goods, where far fewer migrants are employed, the role of labor migration has been more complex. Those few migrants employed in the tradable sectors could have been more efficient producing at home and exporting to the oil economies. This was especially the case where there are strong externalities associated with domestic production, many of which are not exploited in the oil economies where labor turnover is rapid.[20] But few of the labor exporting countries were characterized by policy regimes that would have produced such tradable goods, so the migrant workers were generally better off being employed abroad than being unemployed at home.

Is this pattern of integration in the Arab world desirable? It is necessary to distinguish between private and social interests. Migration obviously benefits the individuals involved - migrants earn higher wages and their employers benefit from access to low cost labor whose training costs they usually do not incur. At the level of society, the assessment is necessarily more complex. Labor importing countries benefit from the production of migrants but they incur costs in terms of political and social stability as well as questions about the long run sustainability of their dependence on foreign workers. Labor exporters benefit from less

[20] There is a growing consensus that there are substantial external benefits associated with productive human capital. See Romer (1986) and Lucas (1988). The impact of integration on such productive externalities is explored by Rivera-Batiz and Romer (1991).

unemployment and from remittances, some of which is invested in the home economy[21], but often suffer from selective skill shortages and the loss of the external benefits associated with having workers producing domestically. In some countries migration has had damaging effects -- such as in Sudan where much of the scarce human capital of that country is abroad. But for countries such as Egypt, Jordan and Yemen, migration was, given the policy regime and the large labor surplus, a benefit to society.

In general labor migration has not been a substitute for greater regional trade because it has been concentrated in nontradable sectors. Migration has also been a stepping stone to greater regional integration. Labor movements have provided a mutually beneficial mechanism for sharing the oil wealth across the region while taking advantage of underutilized human resources. The evidence on income distribution indicates that, contrary to the popular perception, incomes across the Middle East have become more equal. Figure 1 shows Lorenz curves for the region for 1970, 1981 and 1989 that indicate that the distribution of income across the Middle East has moved toward the 45 degree line of equality. This tendency toward convergence of per capita incomes has held in years of oil booms (1981) and in periods of low oil prices (1970) and moderate oil prices (1989). The Lorenz curves say nothing about income distribution within countries, about which the data is very poor in the Middle East. Nevertheless, migration has obviously played an important and effective role in spreading the region's wealth across countries.

But migration may not be the most desirable stepping stone. The macroeconomic policies of the Middle Eastern countries reduced the scope for greater integration of trade and investment flows. Greater trade in goods may be especially important for taking advantage of dynamic gains from greater competition and learning by doing. Migration may also be a weak stepping

[21] For evidence on the investment of remittances by migrant laborers, see Adams (1991).

stone, especially when the political sensitivities of the oil economies are considered as well as the substantial scope for substituting Arab labor with other nationalities. It seems clear that, without efforts to solidify regional economic ties on the basis of efficiency and mutual self-interest, labor migration will remain an anomaly in an otherwise fragmented region.

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