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*MIGRATION IN THE MIDDLE EAST:  
OLD ECONOMICS OR NEW POLITICS?*

One of the most dramatic features of the Middle East today is the massive mobility of people across boundaries. The events of 1973—the oil price increase and its aftermath—unleashed large-scale investments in the Gulf and other oil-rich regions, pulling in labor from all parts of the Middle East and, more recently, from outside the region. Today, over a decade later, there are strong signs that this mobility is creating new problems for sending and receiving countries alike; some countries are even forced into conflict that could lead to war. The periodic angry accusations and rebuttals between Libya and Tunisia, or Libya and Egypt, in each instance threatening military action, often threaten new cycles of violence in a region where violence is hardly in short supply. At first glance the issues appear simple enough: it is generally believed that Colonel Quaddafi is being obstreperous once again. But beyond periodical Libyan volatility lies a deeper economic explanation that is also only partially correct, namely, that declining oil prices are slowing investments in the region, which in turn is reducing the demand for migrant workers. Return migration is thus a "normal" response to the economics at hand. That too captures part of the story, but

certainly not enough to describe the contemporary demographic landscape of the Middle East.

The net impact of cross-border mobility is that both senders and receivers are regarding manpower as their primary problem. Perceptions differ, of course, but the salience remains. For example, Libya's aborted war with Tunisia several years ago may be a preview of things to come, but a negotiated outcome may also be possible. In taking then a strong stance, Tunisia was essentially saying that Libya cannot unilaterally decide the fate of its foreign labor and that the sovereignty of the Tunisian government extends to its nationals in Libya; further, that the sovereignty of the Libyans, even in their own territory, is not absolute.

All this is new in the Middle East, and certainly new among the Arab states. None have confronted so far the true dimensions of the internationalization of their manpower, or what can be done to reduce the probability of confrontation and violence. The migration issue, however complex, is only one side of the coin. The other, perhaps even more complex, pertains to the earnings of the migrants sent back home. The remittance issue is truly Kafkaesque: everyone acknowledges that remittances are high in volume and important to the home economies and to the national governments—yet no one knows exactly how much is actually remitted, what is done with this money, who really handles the flows, and with what consequences. The governments (and international agencies) claim one set of figures, and the workers themselves claim quite a different, and much larger, set.

## II

What we have in the Middle East today is a very distinctive and peculiar phenomenon that can be under-

stood only in the context of the realities of the past decade: almost everyone is on the move. Nowhere do we see a truly national labor market. While declining oil prices will almost certainly reduce the growth of the labor mobility, even perhaps eliminating it entirely, the fact remains that almost every country relies on sending labor, or on receiving labor, or on both. This fact will remain with us well into the foreseeable future. For example, over 80 percent of Kuwait's labor force is composed of nonnationals; 50 percent of the country's population are noncitizens. While this is indeed a stark profile, it is certainly unreasonable to expect that all foreigners will be "returned." There is almost no scenario one can conjure to reestablish truly national labor markets that would, in turn, eliminate this internationalization of employment practices. This is precisely what makes the issue of labor migration an intensely political, rather than simply an economic, issue in the Middle East today. The foreign policies of nations, Arab and non-Arab, are increasingly shaped by manpower connections, and issues that were conventionally thought to be in the realm of "low politics"—to be dealt with by technocrats, bureaucrats, economists, and the like—have been catapulted into the arena of "high politics," pressing themselves upon the attention and shaping the priorities of almost every leader in the region.

The manpower issue is only one part of the story; the other, of course, is the attendant, massive flow of capital due to employment outside national boundaries. Remittances have over the past decade increased to such an extent as to constitute the main show rather than the side event in the foreign exchange earnings of labor-exporting countries. What makes the remittance situation so critical and yet so vexing is the convergence of three essential features. First, these are earnings of private citizens; the governments of the region see little of these riches. Second,

these earnings may be volatile; they are tied to economic activity in the receiving country. And third, they are illusionary; they are there but they are not quite there. The earnings are indeed made by workers abroad, and portions thereof are probably sent back home; yet they are singularly absent from the formal national income accounts. Put somewhat differently, the formal record of remitted earnings as presented in the balance of payments reflects only the very tip of the iceberg. If we consider the average earnings in oil-rich countries times the average number of migrants to these states, the resulting arithmetic is entirely at variance with the official record. So, where is that capital? Where did the foreign exchange go? Certainly construction workers are not likely to send money to Swiss banks. Despite valiant efforts by the IMF, the World Bank, and other agencies to estimate the volume of remittances in the Middle East, there is every indication that these are vastly underestimated. Indeed, the region's labor-exporting countries are extremely capital-rich; it is their governments that are poor.

There is a new conflict emerging, which is observable in several countries of the region, between the government and its nationals over the issue of remittances, that is, over who "owns" these earnings, and the arena of the conflict is the country's foreign exchange market. The most obvious cases of this conflict appear in Egypt and in Sudan. The contenders are the government on one side, led by the Ministry of Economy (in Finance), and the money dealers on the other, having access to the workers and their remittances. At least one Egyptian Minister of Economy has been a casualty of the encounter. The story has not yet come to an end in either country, and while the foreign exchange factor is only one among many domestic economic issues, the sheer volume of capital in contention makes remittances a factor of unquestionably "high politics."

To complete this view of migration in the Middle East we must consider the Asians. Asian workers are clearly visible in the labor market of the region. Some have argued that Arab governments "prefer" Asians and that they actively seek to expand the Asian component of their foreign workforce. Others argue, conversely, that Arabs cannot be actively substituted for by Asians and that there will always be a preference for Arab workers. Contending views aside, the fact remains that there is a strong Asian presence in the Middle East, and one that is not likely to disappear overnight. There, too, political issues abound and problems are in the offing. Asians argue that Arabs are insensitive to the needs of their workers and that their own governments must assume responsibility for assuring a continued and viable labor presence. Arabs, by contrast, view Asians as the migrants of last resort, and an infinite supply that can always expand to meet demand. As such, Asians are perceived as threatening, and potentially even as squeezing Arab labor entirely out of some markets.

To complicate matters further, the issue of migrants' rights is gradually emerging as an intensely political one. The labor importers regard the foreign workers as aliens with no real civil rights, least of all that of citizenship. Foreign workers, sometimes even a second generation phenomenon, consider their plight as particularly precarious. Their position places them beyond the pale, vulnerable to political winds in a hostile environment. That, too, is hardly a prescription for political stability.

None of this has happened overnight. Indeed the process took over a decade to unfold. Clearly some way must be found to mitigate the worst of the political problems ahead. In a region where hostilities abound, the last thing anyone needs is yet another source of conflict and violence. The events of 1973 effectively changed the demographic map of the region, possibly forever, and reshaped both its labor

and its capital. Governments are desperately trying to regulate and control. Even without the Libyan element, the situation does not bode well. It may well be time for some creative solutions. Reconstructing the past might provide some clues for a viable future.

### III

While the oil price increase of 1973 accelerated investments and the attendant demand for labor, two other occurrences converged at the same time to unleash what became the most massive voluntary flow of people across national borders ever witnessed in the region. One was the political atmosphere that was becoming more open, at least relative to the previous decade, and labor mobility that was not obstructed. The second was a changing economic climate that reinforced the more open political atmosphere, pulling labor into oil-rich economies. Egypt's *infitah* in 1974 represented both factors; Nasser's exit visa policies preventing emigration had been effectively abrogated.

While the volume of mobility was indeed new, the fact of mobility was not. The tradition of labor migration was one established during the 1930s and 1940s when Egyptian educators, medical workers, and clerks were sent to Saudi Arabia and the Gulf, to Libya, and to almost every other country in the region to assist in their development and, more importantly, to staff the bureaucracies. These were government-to-government arrangements, a vital feature of the nascent pan-Arabism of the time, in which migration was a formal instrument of foreign policy, for sender and receiver alike. The events of 1973 accentuated and accelerated this process, but in turn also changed both the dimension and composition of mobility. In the old days only skilled workers migrated; now almost everyone was on the move. In the old days, government was the prime, if

not only, channel for mobility; now it became the individuals, thousands of individuals, who made the decision to move and actually establish themselves elsewhere.

The events of 1973 created a period of unregulated, market-determined labor movements, governed by the laws of supply and demand and not by the imperatives of foreign policy priorities. For a time it seemed that market forces would regulate the procedure, and the hidden hand would meet the demand of both senders and receivers. For a while, a satisfactory equilibrium was maintained, buttressed by growing demand for labor. By the latter part of the decade a new phenomenon was emerging: Asians not only became visible in the Middle East but showed every indication of becoming very numerous as well. Initially Asians came largely from India and Pakistan. By some assessment it was believed that by 1978 or so the Asians were as numerous as Arabs in the labor markets of the region.

The simple Asian profile, Indians and Pakistanis, was short-lived. Almost overnight Koreans, Philipinos, Chinese, Bangladeshi, Taiwanese, and Ceylonese, among others, became visible in the region. A growing complexity in the Asian profile was emerging, a true mosaic of ethnicity and nationality. The foreign presence, Asian and Arab, became the single most important issue of public policy for all labor-importing countries of the region. Governments could no longer refrain from intervention and regulation. Manpower policy became national security policy. The survival of the state was viewed as threatened by the presence of a large alien workforce, and the security of the state became tied to its demographic composition. People became the most critical political issue. The integrity of a polity where the majority are disenfranchised was acknowledged to be fragile. Soon regulating inflow became

the dominant political priority for labor-importing countries.

At the same time, one major labor exporter, Egypt, was experiencing some peculiar changes. Traditionally, Egypt has a proverbial "surplus" of labor; now shortages were apparent in many sectors, notably construction, and wages skyrocketed. Manpower was literally (i.e., physically) not available. The country's *infatah* policy and its program of reconstruction following the 1973 war were endangered by the new scarcity of labor. These facts belied the conventional view of Egypt as a labor surplus country. The, too, Asians began to appear in the Egyptian labor market, first informally and unregulated, and then as a regular business proposition. The mobility of Asians in the service sector prompted parliamentary debates, and an apologetic government promised to safeguard the interests of Egyptian workers in the face of what came to be perceived as an impending Asian onslaught.

But the Egyptian situation is not unique. Jordan, Iraq, and Oman also export and import labor, each for different reasons and with different expectations. At this writing, there is not a single country in the region that does not either import or export labor, or both. The "self-sufficient" labor profile is absent, and the national labor market is all but a myth. Complicating this picture further is yet another form of mobility, namely refugeeism.

Refugees in the Middle East have played an important role in the region's development. Traditionally one equated refugees with Palestinians. Indeed, the events of 1948 created massive dislocations among the inhabitants of Palestine, and the creation of the state of Israel with the attendant flight of Palestinians provided the largest source of manpower for the early development of the Gulf region. In Jordan, Kuwait, Saudi Arabia, and the Gulf countries, Palestinians constituted the backbone of the labor markets.

The unfortunate events in Lebanon are creating a new stream of refugees as have those in Iran. The manpower issue in Israel is a special case, for its own demographic composition and reliance on Arab labor are incongruous with its identity and ideology. By contrast, less appreciated is the refugee inflow into Sudan, a country that has effectively exported labor traditionally to Egypt and more recently to the Gulf states and to Libya as well. It would be optimistic to suggest that refugees in Sudan will be a temporary phenomenon. In all probability they will become a permanent feature of the country's labor market, if not its political landscape.

The traditional refugees in the Middle East, the Palestinians, have been instrumental in the Gulf economies; however, continued suspicion persists regarding their commitment to these politics. Earlier the Kuwait census recorded Jordanians and Palestinians as one group, thereby avoiding an acknowledgement of their true numbers or prominence in the country. Saudi Arabia does not make available any nationality breakdown in its census or manpower surveys. This refugeeism has been the major form of large-scale labor "migration," but the events of 1973 created a new form, namely, temporary migrants, and it remains to be seen whether temporary migration will become a permanent feature of the region's labor profile and political landscape.

In contrast to Arab migration, Asians entered the Arab world with one clear objective—to market their manpower as an export commodity and to expand their foreign exchange earnings. Arabs, and this includes Egyptians, moved to the Gulf and to Libya after 1973 largely on a one-to-one basis. The practice of state-sponsored missions continued but paled in volume relative to the individual form of migration. Even when migrants moved in gangs (as in the construction sector), the process was largely

eclectic and individualized. The early streams of Asian migrants from India and Pakistan moved to the Gulf in generally the same fashion. Recently some form of organization began to take place, but in modest proportion. It is the East Asian labor suppliers that regarded the manpower connection as an integral part of a broader marketing strategy to expand export earnings—literally by marketing and exporting a critical commodity, their manpower. Koreans represent the purest form of this process—organized labor migration tied to turnkey projects, highly regimented and tightly regulated. Labor supply is one of the inputs into the production process or the project at hand.

To a larger extent, the receiving countries have welcomed the Korean model and facilitated its implementation. Less organized than Korean, but regulated nonetheless, is Philippine manpower. The large-scale entry of Philippine labor into the service sector and in household employment was facilitated by their own agencies' marketing their manpower for duties overseas. The People's Republic has followed the Korean model, perhaps with somewhat less effectiveness. Finally, there are the newer entrants, the Bangladeshis, who are trying to emulate the other Asians but are constrained by their relatively limited experience and all the problems of new entrants in a market. All of these countries have set up their own agencies to facilitate and regulate the migration process, a response that is singularly absent among the Arab states.

How many Asians are there in the Arab world? Estimates vary; however, the true figure is probably greater than 2 million, and perhaps closer to 3 million. This range is to be compared with Arab migrants who, excluding the Palestinians, number some 5 million. This figure refers to Arab nationals working in other countries

of the region. No one knows exactly (or even approximately) how many Arabs are working abroad, and it is not for the want of trying. The real reason is that the phenomenon itself is changing rapidly and, as soon as one obtains a handle on the numbers at hand, people move and numbers change.

Such ambiguities aside, however, this is a case where numbers do count. It makes a great difference to Kuwait that its labor force is 70 percent foreign (rather than some other higher or lower figure). In Saudi Arabia manpower is the Number One issue of domestic security.

#### IV

Remittances from employment abroad are a major feature of the manpower mosaic in the Middle East. By official estimates, Egyptians remit about \$3 billion per year. (But there are indications that this figure may be falling because migration is tapering off.) This is an official figure, accounted for in the country's balance of payments. Once these earnings are remitted, it is conventionally believed that a whole variety of economic effects takes place. This added income in the hands of consumers, translated into more purchasing power, leads to increased aggregate demand and eventually increased output. Most observers believe, however, that remittances are essentially "squanderables," going into consumer goods, luxury items, TV's, and so forth. No one knows for sure what happens to the remitted earnings, but analysts have tended to focus on their impact for the real side of the economy, that is, the goods market rather than the monetary side, money supply, and foreign exchange markets. Generally, almost everyone attributes the growing inflation in the labor-exporting countries to the flow of remittances. On balance, then, there are "goods" and "bads" associated with

remittances; how much of each remains quite unclear.

There are some features about the remittance pattern in the Middle East that are particularly puzzling. The evidence indicates that formal channels capture only a small fraction of remitted earnings. The true amounts flowing each year are much greater. In the case of Sudan, for example, workers themselves acknowledge that they do not use the banks to remit—rather they employ their own friends or literally hand-carry the cash or the goods in kind back home themselves. Only 10 to 15 percent of earnings abroad make their way back home through official channels. The remaining 85 to 90 percent is literally hidden. Sudan's balance of payments for 1984 records remittances of around \$450 million, but the workers themselves provide evidence to suggest that their true remittances are closer to \$3 billion for that year. So where is all that money?

Sudan's case is not idiosyncratic. The same puzzles also exist for Egypt. There the numbers are even more peculiar. For example, there may be about 3 million Egyptians abroad (although Egyptian authorities claim this number to be an overestimate), and their remittances are around \$3 billion. This brings the average annual earnings sent back to \$1,000 per worker, an absurdly low figure, given the occupational profile of Egyptians abroad. We know that the average income of Sudanese is about \$15,000 per year, and of that amount, \$9,000 is remitted. If we apply these figures to Egypt, even though we suspect that Egyptians earn more, then the true remittances of Egyptians working abroad must be closer to \$20 billion, and not \$3 billion as the formal record claims. That capital must be somewhere.

The migration of workers abroad and their remittances constitute a powerful transnational economy, one that is for all practical purposes quite hidden. This transnational economy is strong and often overshadows the formal

economies as represented in national accounts and balance of payments. This hidden economy is the most powerful force in the region, second only to the revenue from oil sales. The size of the hidden economy is overwhelming relative to the formal economy. For example, Sudan's GDP is \$18 billion or so; the actual earnings and remittances are on the order of \$3 billion per year, perhaps for each year over the past five years. Yet nowhere in Sudan is there any evidence of foreign exchange of such magnitude actually available and circulating in the economy. In Egypt the GDP is about \$30 billion; if \$20 billion is sent back home, then where is it? Surely the government would have no problem repaying its external debt if such foreign exchange were available to it.

Then, too, if these earnings were acknowledged to be remitted and available to the economy, we would not see the dramatic deterioration of the local economy relative to the dollar. After all, earnings abroad are accrued in hard currency. There are other puzzles as well, which together suggest that the size and the structure of the hidden economy are of such magnitude that it cannot be ignored. This is not an underground, or dual, or black economy—as none of this is illegal—it is an economy that does not respect the sanctity of national borders, one whose agents are not government officials, central banks, or any formal channels. It is an economy created almost entirely by large-scale capital flows (due to the productivity of nationals abroad) and circulating almost entirely outside the framework of the formal banking system. Thus, it escapes the national accounts.

The agents that mediate between the workers overseas and their families back home constitute the most powerful institutions of the hidden economy. These informal financial intermediaries are the money dealers, those who provide the function of banks but from the point of view of

the workers do so with greater reliability and less risk and therefore elicit greater confidence. In both Sudan and Egypt the money dealers are an acknowledged political force. They have access to larger quantities of foreign exchange than does the government and greater assurances of continued access. The key to their success lies in their proven ability to perform an important task—channeling money back home in a reliable fashion. The key to their financial gains lies in the conversion to local currency of remittances initially accrued in foreign exchange for delivery to the families back home. The time element in the currency conversion captures a differential in values between hard and local currency, and this differential is one source of profit for the dealers. The worker turns dollars over to the dealers, who in turn sometime later deliver local currency to the families back home. The pattern of deterioration of the local currency can be relied upon by the dealers so that it will take fewer dollars tomorrow to deliver the pounds promised today. This differential is a powerful engine for generating profits. Everyone is satisfied with this process. The workers abroad find a reliable channel for their remittances; the families back home get their expected cash regularly; and the money dealers profit from the transaction. In the process, however, the remittances are literally converted to the local currency, which has no value for international transactions. So, where does the foreign exchange go?

If it is not available and circulating in the home economy, it must be surfacing elsewhere. It would indeed be a conventional form of capital flight if foreign exchange actually entered the home economy and then was flown out again. But as both the transaction and the remittances can take place outside the home economy, there might not be that form of flight. The capital in question might well bypass the national territory and "settle" elsewhere. In

either case the attendant transactions are hidden, escaping formal accounting in any of the records of the economies in the region. And in either case the country may be deprived of this source of foreign exchange, despite the fact that remittance does indeed take place.

Every once in a while we see evidence of foreign exchange inflow and/or sharp outflow which affects the value of the local currency relative to the dollar. Often deterioration of the local currency is a sign of political and economic insecurity. Witness the dramatic drop in the Sudanese pound some weeks prior to the departure of Numeiry. Or witness the sharp drop in the Egyptian pound when, in April 1985, the government and the money dealers took to battle. (The Minister of Economy lost in the encounter.)

The shape of the hidden economy is set by the interaction of five groups of people, each pursuing their own interests. First are the workers abroad who generate the foreign exchange (they are literally the oil wells of the labor exporters). Second are their families back home, who receive the remittances in local currency. Third are the money dealers who provide the transaction services. Fourth are the Central Banks who valiantly seek to find ways of exercising control over the country's foreign exchange. And fifth are the commercial banks, who are often appendages to the Central Banks but every once in a while try to exert some independent influence on financial markets. And then there are those that claim the foreign exchange; they provide the steady demand for the hard currency that is earned by the workers. They may or may not be the money dealers themselves. Clearly, however, there is a powerful group of people who are the recipients of this capital "flight." In essence they become the real, or final, owners of these assets. Who they are in fact and where the billions of dollars in earnings of workers finally



surface is perhaps one of the greatest unknowns of this hidden economy.

To pursue a different idiom for the moment, there is thus a great capital "overhang," literally, in the Middle East. It is akin to a large cloud, floating about, respecting no territorial boundaries, and once in a while showering over one area or another. The Middle East is highly capital rich—it is only some governments that are poor. Even the poorest of the economies, such as Sudan, harbor nationals who are high earners. After all, a \$3 billion annual addition to Sudanese foreign exchange holdings is no mean feat. But those nationals who generate these billions may not be the ones who actually hold them following the remittance transaction. Koreans, Philipinos, Chinese, and other Asians have circumvented this problem by capturing government "take" at the source by deducting the remittances from the earnings of workers directly from their paychecks.

## V

Akin to Humpty Dumpty never to be put together again, the Middle East countries will have difficulties returning to labor markets delineated by territorial borders. The conventional conception of sovereignty is threatened. The region has become highly integrated—the manpower connections are strong—and the attendant capital flows are cementing further a strong network of interdependence. Governments now believe they have no option but to champion their citizens, wherever they might be. Ironically, it is a form of support that most workers abroad would prefer to do without, as it draws attention to their vulnerability and to the ineptitude of their governments in effectively supporting them. The labor-importing countries too are caught in a dilemma, for they

must continue to use foreign workers, but they cannot (or do not wish to) increase their numbers, and they cannot (or do not wish to) embark on massive "return" programs.

Then, too, while the manpower flows are visible, the capital flows are not. The formal record of remittances is only the top of an iceberg of foreign exchange—an order of magnitude greater than what lies above the surface. This capital is privately owned. When President Mubarak or others bemoan the trend in remittances, they see only a drop in the bucket. When Libya expelled 10,000 Egyptian workers, it was a political act of great significance, but the economies are marginal in the context of the total remittances of nationals abroad. In most of the economies in the Middle East, the manpower issue and its implications have become akin to the tail wagging the proverbial dog. Foreigners provide the backbone of the labor-importing economies, and remittances are literally the basis for economic performance in the labor-exporting countries.

The political dilemma for every government in the region is that it governs an ever-increasing mobile population; it has little or no control over the large-scale capital flows; and Asians are becoming part of the equation. In the economist's terms, labor as a factor endowment is shifting; it is not fixed. National boundaries are highly permeable, and the principle of territoriality is becoming particularly irrelevant to the issues at hand. The realities complicate further an already complex conflict structure in the Middle East. Creative governance is required to adapt to mobile populations, hidden economies, and clouds of capital. Finally, this situation belies the conventional view of the region as being either rich or poor. It is only the governments that can now be characterized as rich or poor. The mobility of people, and their earning power, is not well reflected in national statistics.

The concept of national security itself is assuming new

dimensions. Now the ethnicity factor and the nationality issue are the basic elements of concern to the governments of labor-importing countries. For example, one can safely argue that Saudi Arabia is much more concerned about the structure of its labor force than the prospects of war with Israel or with Iran. The country's manpower composition is regarded as more threatening to the regime's stability than even the Soviet factor. The politics of migrant labor is considerably more important to the countries of the region than the purely economic considerations. The situation is such that controlling foreign labor (and the attendant capital flows) may well become a major political issue for all governments in the years to come.

The revolutionary uprising of Palestinians within the occupied territories, and within Israel, is tying labor issues to security concerns, connecting both with strong contentions against authority of the occupying power. The simplicity of conventional definitions is being challenged: are Palestinians working in Israel "migrant labor," "citizens," "refugees," or some other category? In a region where people are intensely politicized, issues of mobility, migration, employment, and labor are increasingly ones of "high politics."