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DO INTRA-ARAB LABOUR FLOWS PROMOTE REGIONAL ECONOMIC INTEGRATION?

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> "Migration decisions are often made jointly by the migrant and by some group of nonmigrants. Costs and returns are shared, with the rule governing the distribution of both spelled out in an implicit contractual arrangement between the two parties. For example, one important component of the direct returns to the nonmigrating family from the migration of a family member are his or her remittances. Theory suggests the view, that empirical evidence seems to support, that patterns of remittances are better explained as an intertemporal contractual arrangement between the migrant and the family than as the result of purely altruistic consideration." (Stark, 1991 pg. 25)

The elimination of economic impediments and the dismantling of trade restrictions have become common features of economic integration across economies in the world. Many countries in several regions of the world have increased their intra-regional flows of productive factors; the Arab region has experienced an increase in labour flows, in particular during the period of the oil price boom. Consequently, remittances between Arab countries were increased; especially remittances obtained from Arab Gulf countries (GCC region). Using the panel data fixed effects estimation, this study investigates the relationship between remittances and economic integration in the Arab region, covering the period 1983–2003. Despite the existence of expanding intra-Arab labour flows, the paper argues that a continued expansion requires — in addition to other factors – a harmonization of the economic policies and removal of obstacles to intra-regional labour flows. Moreover, reducing differences in per capita GDPs of the Arab countries is important for enhancing Arab economic integration. A real desire to increase intra-Arab labour flows and subsequently economic integration is also required.

Key words: Arab economic integration; Intra-Arab labour flows; Remittances.

1. Introduction

Economic integration is enhanced by various factors. One of these factors is labour flows between certain countries; the role of labour flows is important in terms of economic growth and development. In addition, labour flows are significant not only for the host country, but also for the source country with remittances between source and host

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countries often representing an important form of economic support. The Arab region can be divided into two main groups of countries: (i) those with large populations; and (ii) those with significant oil resources. One would expect there is potential for extension of economic integration between these two groups. In point of fact, the Arab countries initially can be classified into the following sub-groups: (i) countries characterized by abundant labour, including Egypt, Yemen, Sudan, Syria, Lebanon, Morocco, Tunisia and Jordan; (ii) countries characterized by high oil resources and labour scarcity, including Gulf cooperation council countries (GCC) and Libya; and (iii) countries characterized by significant oil resources and reasonably abundant labour, that is Algeria and Iraq. The purpose of this paper is three-fold: first, we investigate the roles of intra-Arab labour flows in promoting Arab economic integration. Secondly, we examine which Arab countries have the greatest potential for achieving meaningful integration. Finally we seek to isolate factors that promote remittances of migrants from host to home countries in the Arab region. This paper is organised as follows: Section 2 summarizes historical features of the intra-Arab labour market. Section 3 presents a literature review. Section 4 covers model specification and empirical results. Concluding comments are given in section 5.

2. Intra-Arab Labour Flows: A Snapshot

Intra-regional migration has played a dominant role in the Arab region. The consensus seems to be that intra-regional labour migration has had positive labour market outcomes for both receiving (host) and sending (home) countries, and fostered closer economic linkages between home and host countries. The oil price boom of the 1970s unleashed historically unprecedented labour movements within the region. The catalyst was an ‘open door’ labour market policy adopted by the oil-rich Gulf countries. Expatriates migrated in droves without visible restrictions, while the Gulf countries actually competed with each other to attract expatriate labour during the oil boom of the 1970s.

In the historical context, on the one hand, the Arab countries have been a region of diverse migratory flows with a trend towards labour flows between Arab countries. On the other hand, there has also been a trend towards labour flows to other regions. Since WWII, migration from the Arab countries to countries outside of the Arab region – especially to Western Europe and South America- has represented an important component of the wider flow from developing countries with, as an example, about 850,000 Algerians, 60,000 Tunisians and 60,000 Moroccans migrating to France. Furthermore, there is a large group of Lebanese, Egyptian, Yemenis and Sudanese migrants in Europe, South America and Asia. Nonetheless, there are clear indications that movements of labour between Arab countries have significantly increased in many years, especially during the oil boom of the 1970s. However, these intra-Arab labour flows have declined in relative terms especially during the first Gulf War and even more markedly during the second Gulf War (1990s). As a result of these changes, remittances between Arab countries have been affected, with consequences for development and economic integration in the region.

The Gulf crisis and other events arising from the Gulf Wars, such as oil price fluctuations, decreased revenues, and greater difficulties in living in the Gulf region, led to return of many Arab expatriates to their home countries. The most immediate outcome of the Gulf crisis was the displacement of a significant number of migrants from their countries of residence. More than 700,000 Egyptians returned from Iraq, Kuwait and Jordan, and more than 800,000 Yemenis were forced to return home from Saudi Arabia and Kuwait. About 200,000 Jordanians returned from Gulf region, and a considerable number of Iraqis and Sudanese expatriates were also forced to leave their jobs in the Gulf countries to return to their home countries. These movements in turn created economic problems such as unemployment in their home countries, and economic stagnation in the Gulf countries. Subsequently, these changes in labour flows are believed to have impacted on economic integration amongst Arab countries. This points to the case that economic integration amongst the Arab countries can be affected greatly by labour mobility between the Arab countries.

The open door labour market policy of the 1970s was underpinned by ambitious state-led programs of development that used burgeoning oil revenues to finance rapid expansion of free health care and education as well as massive investment in infrastructure projects to upgrade transport and communications. This inevitably created labour shortages across the entire skill spectrum and shaped immigration policies of the Gulf States. Geographic proximity, cultural and linguistic similarities reinforced the economic incentives unleashed by the labour shortages that erupted in the Gulf countries. The labour market responses were impressive. As Yousef (2005 pp.6-7) notes:

> In the mid-1980s, non-nationals represented close to 70 percent of the total work force and almost 26 percent of the population in the Gulf countries. Arab workers during this period outnumbered those from other regions by a ratio of 3:1. By some estimates, close to 10 percent of Egypt's labour force and almost 15 percent of the Republic of Yemen's were employed abroad in the region in the 1980s. From 1975 to 1985, the peak years of oil-led growth in the region, the Gulf countries experienced unprecedented labour force growth of 7.7 percent a year, with growth in Bahrain reaching 10.5 percent and growth in Saudi Arabia reaching 8.1 percent. During this period, the non-national labour force grew at an average annual rate of nearly 13 percent, reaching 15 percent in Bahrain and 17 percent in Saudi Arabia.

The oil price boom that drove intra-regional migration in the Arab region also triggered massive flows of remittance income to the labour-exporting countries (see Figure 1 below). Such flows clearly had a positive impact on the living standards of poor families. At the same time, intra-regional migration eased pressures on local labour markets, especially in urban areas, and helped in the alleviation of unemployment (see Gangopadhyay and Nath, 2001; Gangopadhyay, 1998).

While the oil price boom of the 1970s fed massive labour movements within the Arab region with remarkable consequences, the collapse of oil prices in the early 1980s and the first Gulf War led to a reversal of such movements and had adverse effects on the labour market. The reduced revenues from the decline in oil prices fed into reduced demand for expatriate labour. The share of expatriates in the Gulf state work-force fell from an average of 67 per cent in 1995 to an average of 64 per cent in 2000, with Saudi Arabia registering the sharpest decline, from 64 per cent to 55 per cent over the same period.

Geopolitical developments also ruptured the closer integration among Arab economies fostered by intra-regional migration of the 1970s and early 1980s. The 1991 Gulf War turned out to be a turning point. One study documents the dramatic impact of this geopolitical event. It led to:

> The repatriation of millions of expatriate workers from the Gulf countries … created huge pressures on the labour forces of the labour-exporting countries, thus causing sharp, temporary increases in unemployment in addition to the loss of remittance income. Among the repatriated workers were an estimated 150,000 Palestinians, 300,000 Jordanians, 500,000 Egyptians, and 800,000 Yemenis, who fled the conflict. (Yousef, 2005 pp.11).

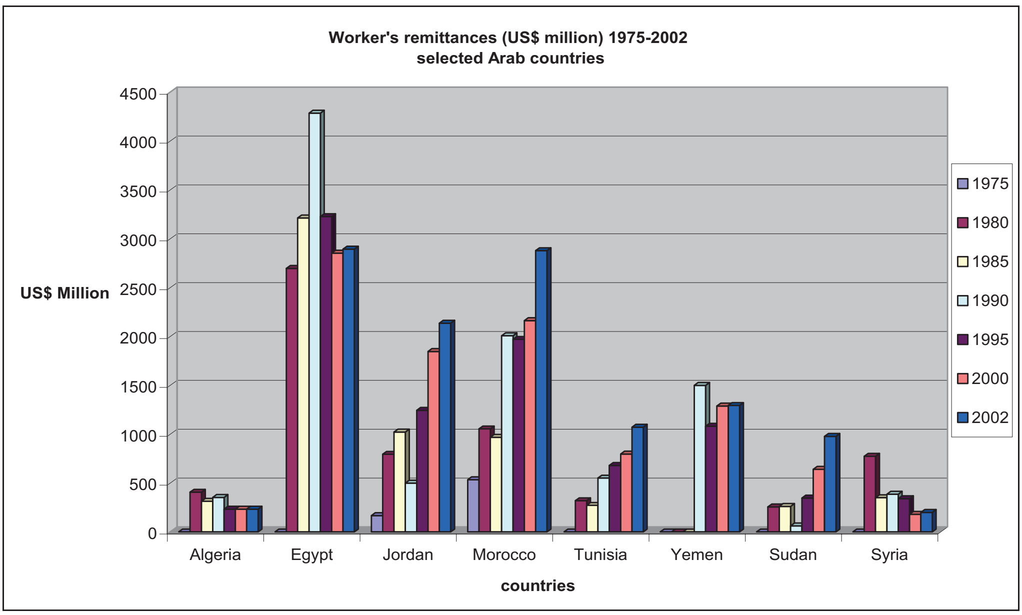

Figure 1: Worker's remittances of selected Arab countries 1975–2002 (US$ Million)

Source: World Development Indicators, 2004, CD.

3. A Brief Literature Review

In a comprehensive study Staley Fischer (1997) investigated the GCC region in terms of trade and labour flows. Due to the characteristics of the products that are demanded in this region, which are only found in products from advanced countries, the trade flows of this region are more significant with developed countries than with Arab countries. However, only labour-intensive and skill-specific services are demanded in the GCC region, and this demand can be met partly by labour flows from Arab countries with abundant labour and low labour incomes. Consequently, intra-Arab goods trade is very limited, and intra-Arab labour flows are very large. It would be useful to extend the Fischer (1997) study to investigate more Arab countries during significant international events, such as the Gulf War or the York World Trade Centre September11, 2001.

Based on the size, economic structures and resource endowments Karshenas (1997) divided the Arab region into four broad groupings. The first group is low absorption oil economies with low populations and high income, namely Saudi Arabia, Libya, Kuwait, the United Arab Emirates, Bahrain, Oman and Qatar. Although these countries are close to high income industrialized countries in terms of income per capita, their economic structures are very different from the industrialized economies. The second group is the high absorption oil economies of Algeria and Iraq. In this group of countries, the percentage of hydrocarbons in exports has reached more than 90 per cent. However, the sizes of these countries are large. As a result, they have a more differentiated production structure. Relatively speaking, this group of countries has a longer industrialization experience; additionally it has huge complementary land and labour resources. In the 1970s and the 1980s, the percentage of the combined share of agriculture and industry in GDP of this group was 40-50 per cent. The third group is large non-oil economies, namely Egypt, Morocco, Sudan and Syria. While more than 50 per cent of the Arab region's population is in this group of countries, this group produces about 25 per cent or less of total Arab GNP. Moreover, these countries have a lower per capita income than both previously mentioned groups. On the other hand, the economies of countries in this group are characterized by a higher degree of diversification, both in terms of foreign trade and structure of production. The fourth group is small non-oil economies, namely Lebanon, Jordan, Yemen and Tunisia. While the population of this group of countries forms 10 per cent of the population of the region, the economies of these countries account for less than 5 per cent of the national income in the Arab region. The economies of these countries are also distinct because of their small size and open nature. Consequently, they are highly dependent on economic activity in the region as a whole.

Karshenas (1997) concluded that developments in the Arab labour markets have been closely linked with important economic factors, such as growth and processes of structural change during two particular phases: (i) the pre-1980s period, which was characterized by rapid inward-oriented industrialization fostered by fast growth of primary commodity export volumes and prices; and (ii) the phase since 1980, which has witnessed a sharp decline in primary commodity export volumes and prices. The latter phase has been a period of economic adjustment and restructuring.

Awad (2004) identified interrelated labour mobility as a preference given to workers from particular countries to respond to a rising demand for workers resulting from economic growth. Due to the increasing flows and stocks of migrant workers between countries, and the elimination of impediments and preferential treatment, economies can grow. If there is a lack of integrated economic policies and an absence of common markets, such as in the Arab region, economic growth results only in an increased demand for labour in receiving countries. Intra-Arab migrant workers are not given any preference; as a result, they are left to face competition from workers that have migrated from non-Arab countries.

Ibrahim (2005) investigated the labour market of the GCC and demonstrated that in spite of the elimination of barriers of intra-employment policy among GCC countries, intra-employment among their nationals is still limited due to the division and unavailability of information in terms of both supply and demand and the lack of interest of both GCC employers and employees. The limited qualifications of most of the Arab job seekers can be considered one of the reasons for limited intra-Arab labour movements. Ibrahim (2005) adopted a methodology that involved descriptive and analytical analysis of GCC labour market matters relating to intra-GCC employment, such as labour market policies, productivity and flexibility. The main finding of the study was that one major feature of intra-GCC labour mobility is that it does not represent a major component of employment in the GCC region compared to expatriates. The study also suggested that the opening up of the GCC labour market is the most important requirement for achieving flexibility of this market. To improve the economic integration process, the establishment of a common currency for the region may be a vital factor, especially with regard to forcing member countries to remove any impediments that limit labour flexibility and mobility.

4. Model Specification and the Empirical Result

The model applied in this study allows investigation of the relationship between remittances as the dependent variable, and some economic independent variables, such as per capita GDP of the remittance receiving country, and its conversion factor to the official exchange rate ratio (purchasing power parity PPP). Furthermore, as independent variables the model includes Saudi Arabia's oil production and its oil exports and the real price of oil. Due to its domination of the oil market and history as a host to many Arab immigrants, Saudi Arabia has been selected as the reference country for data on oil production and the real oil price. Based on data availability, 12 Arab countries have been selected to be investigated in terms of remittances and their role in the Arab economic integration.

The model assumes that remittances are positively related to the economic growth of both the remittance sending and receiving countries. Accordingly, when remittances increase, this is associated with more oil production in Saudi Arabia (the remittance sending country) and more economic prosperity, and assuming there is no Dutch Disease in Saudi Arabia, more wages for the immigrants. Consequently, when remittances increase, economic growth of the home-countries of the immigrants (Arab countries) is promoted. This reflects the strong relationship between the remittance sending country and the receiving country, which in turn reveals the degree of economic integration between these countries.

The model can be written as follows:

$$\begin{aligned} R_{jt} = \alpha_0 + \alpha_1 SOP_t + \alpha_2 SOE_t + \alpha_3 RP_t + \alpha_4 PC_{jt} + \alpha_5 PPP_{jt} + \\ \alpha_6 DUM_1 + \alpha_7 DUM_2 + \varepsilon \end{aligned} \tag{1}$$

In equation (1) R_{jt} is remittances of country j in period t, SOP_t represents Saudi Arabia's oil production in period t, SOE_t is Saudi Arabia's oil exports in period t, and RP_t is the real price of oil in period t. PC_{jt} represents per capita GDP of the Arab receiving remittance country j in period t. PPP_{jt} is the conversion factor to official exchange rate ratio, which in fact represents the purchasing power parity of the Arab receiving remittance country j in period t. DUM_1 represents political stability. It takes the value one if both Saudi Arabia and the receiving country are politically stable, and takes the value 0 otherwise. DUM_2 is sub-regional union dummy variable, which takes the value one if the country is a member in Gulf Cooperation Council (GCC) or Arab Maghreb Union (AMU), and takes the value 0 otherwise. The random disturbance term is represented by ε.

Writing all the non-dummy variables in logarithmic form results in the following transformed model:

$$LnR_{jt} = \alpha_0 + \alpha_1 LnSOP_t + \alpha_2 LnSOE_t + \alpha_3 LnRP_t + \alpha_4 LnPC_{jt} + \alpha_5 LnPPP_{jt} + \alpha_6 DUM_1 + \alpha_7 DUM_2 + \varepsilon. \tag{2}$$

Based on this equation, the panel data set fixed effects estimates have been obtained. The empirical results given in Table 1 show that remittances from Saudi Arabia to the other Arab countries are positively related to GDP per capita of the home country j. On the other hand, these remittances are negatively related to the purchasing power parity of the home country j. The relationship between remittances and political stability and sub-regional unions is also found to be negative. The positive relationship between GDP per capita of the home country j and remittances from Saudi Arabia reveals that more labour flows from home countries (Arab countries) to GCC region, in particular to Saudi Arabia (a rich oil country) lead to increase the remittance of these expatriates. Consequently, more prosperity and economic development in the home countries occur. Thereby, their GDPs per capita increase. This reveals that the remittances between the Arab countries underscore their interdependence and thereby enhance their economic integration. The negative relationship between remittances and the PPP is basically attributable to the purchasing power parity of the home country j, since when the purchasing power parity of the home country decreases, the expatriates need to send more remittances to their relatives in their home-countries to mitigate the effects of the decrease of purchasing power parity. The negative relationship between remittances and political stability is readily explained by the fact that when home countries are politically instable more people emigrate to other countries, fleeing the economy and avoiding politically difficult circumstances. Consequently, the expatriates increase their remittances to their families in their home countries. On the other hand, for countries with stable political states citizens do not need to emigrate to other countries. As expected, remittances are negatively related to the sub-regional union (GCC, AMU) dummy variable because all members of GCC are oil countries. Therefore, they do not need to send their workers to Saudi Arabia to capture remittances; this is the same for the members of the AMU, which includes the oil exporting countries of Algeria and Libya. It might also be the case that the other members of the AMU prefer to expatriate to the AMU region due to preferential treatment amongst AMU members and due to the close vicinity. Accordingly, most of the Arab expatriates in Saudi Arabia are from non-oil Arab countries and from non-sub-regional Arab unions.

Table 1: The regression result from the panel estimate

Dependent Variable: LNR_{jt}				
Method: Panel Least Squares				
Sample: 1983 2003				
Cross-sections included: 9				
Total panel (balanced) observations: 189				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	−7.64534	18.76218	−0.40749	0.6842
LNSOP	7.385796	5.029951	1.468363	0.1441
LNSOE	−5.38131	3.497159	−1.53877	0.1259
LNRP	0.240551	0.802145	0.299885	0.7647
LNPC	1.051763	0.246642	4.264337	0
LNPPP	−1.98962	0.268657	−7.4058	0
DUM_1	−0.6459	0.276899	−2.3326	0.021
DUM_2	−2.27218	0.312912	−7.26139	0
Effects Specification				
Cross-section fixed (dummy variables) Period fixed (dummy variables)				
R-squared	0.633375	Mean dependent var		19.48651
Adjusted R-squared	0.549506	S.D. dependent var		2.06415
S.E. of regression	1.385433	Akaike info criterion		3.659546
Sum squared resid	293.672	Schwarz criterion		4.277021
Log likelihood	−309.827	F-statistic		7.551997
Durbin-Watson stat	2.546019	Prob(F-statistic)		0

5. Conclusion

From the empirical results of estimating the model, it can be seen that remittances amongst Arab countries depend significantly on economic variables. Since such remittances stream among the Arab countries, it can also be concluded that the labour market flows significantly affect economic integration in the Arab region. Accordingly, Arab economic integration can be boosted and extended through concerted programs of labour flows amongst Arab countries. Remittances sent to Arab home countries by expatriates in the GCC region are also very important for the home countries for economic progress; the inter-relationship between remittances and per capita GDP of the home countries is significant. However, our policy prescription is that Arab countries should coordinate their policies to promote labour flows to avoid adverse consequences of large unplanned labour migration in the region.

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