

Economic and Social Commission for Western Asia (ESCWA)

**SOCIAL DEVELOPMENT BULLETIN: SIXTH ISSUE
IMPACT OF THE FINANCIAL CRISIS ON INTERNATIONAL
MIGRATION IN THE ARAB REGION**

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Introduction

This bulletin reviews the impact of the global financial crisis on international migration from and to the Arab region. Starting with an overview of the crisis and the resulting challenges and opportunities for the region, it then reviews lessons learned regarding the impact of wars and previous financial crises on international migration. To this end, the bulletin sets out three cases: the 1973 oil crisis, the 1990-1991 Gulf war and the Asian financial crisis of the late 1990s. The principal features of international migration in the Arab region prior to the crisis are examined, with particular focus on the different types of migration, the high proportion of immigrants in relation to the total population, the sponsor system, the increase in female labour immigration and the increased propensity of youth to migrate. Other topics explored include inward and outward remittances in the Arab region, the diminishing opportunities for migration within the region and to Europe, the growing concern about the protection of the human rights of migrants and the widespread lack of knowledge about international migration in the region.

The bulletin highlights four areas of anticipated impact of the financial crisis on international migration in the Arab region: rising unemployment rates, reduced remittances to the region, the increasing incidence of circular migration and the threat to the human rights of migrants. It concludes that the financial crisis will lead to an increase in poverty and social inequality, and that it is therefore vital that appropriate policies be devised to confront it and to limit its repercussions.

I. THE FINANCIAL CRISIS: CHALLENGES AND OPPORTUNITIES FROM A REGIONAL PERSPECTIVE

» Overview of the world financial crisis

The financial crisis first became evident in 2007 in the real estate sector in the United States of America (US) before expanding sharply in autumn 2008 with the bankruptcy of a number of large companies. The causes of the crisis are both multiple and complex, and are inextricably linked to the recession in international economic performance, including such underlying weaknesses as uncoordinated macroeconomic policies, insufficient structural reforms, failure to monitor and control the financial sector, ineffectual early warning mechanisms and what has been widely viewed as irresponsible financial behaviour.¹

The financial crisis rapidly became an economic crisis, affecting not only the banking sector, but also international stock markets in the US, Europe and Asia, requiring action by Governments in an attempt to limit its impact. While the economic crisis has negatively affected all countries, its consequences have been disproportionately severe in developing countries, where its effect has spread from financial markets to social, economic and political fields.

At the United Nations Conference on the World Financial and Economic Crisis and Its Impact on Development (New York, 24-30 June 2009) the Heads of State and Government and High Representatives affirmed the following:

“... We are deeply concerned about the adverse impact [of the crisis] on development. This crisis is negatively affecting all countries, particularly developing countries. (...) Developing countries, which did not cause the global economic and financial crisis, are nonetheless severely affected by it. The economic and social progress achieved during recent years, in particular on internationally-agreed development goals, including the Millennium Development Goals, is now being threatened in developing countries particularly least developed countries. (...) Our endeavours must be guided by the need to address the human costs of the crisis: an increase in the already unacceptable number of poor and vulnerable, particularly women and children, who suffer and die of hunger, malnutrition and preventable or curable disease; a rise in unemployment; the reduction in access to education and health services; and the current inadequacy of social protection in many countries. Women also face greater income insecurity and increased burdens of family care. These particular human costs have serious development consequences on the human security of those affected.”

Source: United Nations General Assembly resolution 63/303.

As a consequence, the world today is mired in the worst financial and economic crisis since the great depression of the 1930s. The rapidly unfolding global crisis is severely disrupting economic growth worldwide and endangers progress towards the achievement of internationally-agreed development goals, including the Millennium Development Goals. The International Labour Organization estimates that, between 2007 and 2009, an additional 50 million people worldwide will become unemployed and up to 200 million will join the ranks of the working poor. United Nations forecasts for 2009 predict negative per capita income growth for many developing countries, jeopardizing the livelihoods of billions.²

¹ United Nations General Assembly resolution 63/303: *Outcome of the Conference on the World Financial and Economic Crisis and Its Impact on Development*.

² United Nations, Department of Economic and Social Affairs. Background Note on the Global Financial and Economic Crisis, Its Impact on Development and How the World Should Respond, presented to the United Nations Conference on the World Financial and Economic Crisis and Its Impact on Development. March 2009.

The repercussions of the crisis already seen on international migration include the following:³

- Job losses, especially in construction, manufacturing, finance, services, retail and tourism;
- Lower wages and poorer working conditions as companies and employers seek to make savings to survive the crisis;
- Discrimination against immigrants, who are perceived as taking the jobs of local workers, thus reducing living standards to unacceptable levels and causing unemployment;
- The return of unemployed immigrants to their country of origin, or movement to seek employment opportunities elsewhere, despite low wages and unacceptable working conditions;
- A decline in remittances sent by immigrants to their home countries, negatively affecting both the living conditions of their families and the economies of those countries;
- An increase in irregular migration and the widening of the informal labour market, with the concomitant possibility of an increase in human trafficking.

» **Challenges stemming from the financial crisis: a regional perspective**

As it faces the financial crisis, the Arab region is undermined by a critical weakness: its dependence on oil revenue, real estate investment, tourism revenue and foreign aid, rather than productive activities, for economic growth.

Whilst most financial markets in the region have declined significantly as a result of the global financial crisis, the impact on the real economy to date has been relatively limited, due in large part to surplus liquidity, particularly in the countries of the Gulf Cooperation Council, and low market capitalization in such countries as Jordan and Lebanon. However, real gross domestic product (GDP) growth is projected to shrink from six per cent in 2007 to four per cent in 2009.⁴

Given the lack of detailed, accurate statistics, the impact of the crisis on migration in the region remains unclear. However, media reports have noted that the economic crisis has started to cause reverse migration,^{5,6} and a decrease in the number of Arab migrant workers in the Gulf,⁷ with younger workers particularly affected.⁸

It has been reported that the financial crisis has led to the freezing of construction projects worth US\$335 billion in the United Arab Emirates,⁹ endangering the jobs of 45 per cent of construction workers in the Emirates,¹⁰ as debt levels in Dubai alone have reached US\$80 billion.¹¹ There is little doubt that the crisis will intensify before abating.

³ International Organization for Migration. *IOM Policy Brief: The Impact of the Global Financial Crisis on Migration*. January 2009.

⁴ Behrendt, C., Haq T. and Kamel, N. *The Impact of the Financial and Economic Crisis on Arab States: Considerations on Employment and Social Protection Policy Responses*. International Labour Organization, Regional Office for Arab States, April 2009.

⁵ Aljazeera.net, *The Economic Crisis is Causing Reverse Migration*, 7 June 2009. (Available in Arabic only).

⁶ Al-Akhar Library, *Lebanese Workers in the Gulf Start Reverse Migration*, 6 March 2009. (Available in Arabic only).

⁷ Aljazeera.net, *Severe Reduction in the Number of Arab Workers in the Gulf*, 8 April 2009. (Available in Arabic only).

⁸ Aljazeera.net, *Arab Unemployment Crisis Exacerbates, Primarily Affecting the Young*, 6 April 2009. (Available in Arabic only).

⁹ Aljazeera.net, *The Emirates Freeze Construction Projects Worth 335 Billion Dollars Due to the Crisis*, 15 March 2009. (Available in Arabic only).

¹⁰ Aljazeera.net, *The Financial Crisis Endangers the Jobs of 45 Per Cent of Construction Workers in the Emirates*, 24 December 2008. (Available in Arabic only).

¹¹ Aljazeera.net, *Dubai Debts Reach 80 Billion Dollars*, 24 November 2008. (Available in Arabic only).

» Opportunities that could be provided by the financial crisis

Somewhat incongruously, the early stages of the crisis have provided short-term opportunities for some Arab countries. In 2008, Lebanon saw a 21 per cent increase in local bank deposits and in 2009, it experienced increased banking revenues, higher levels of loans and a six per cent increase in GDP, one of the highest growth rates globally that year. This is primarily attributable to three factors: the transfer of capital from foreign banks to Lebanese banks in order to mitigate risk; the limited interconnection of the Lebanese banking system with the global system; and the proven capacity of Lebanese banks to survive and thrive in spite of the challenges that they have faced over the years.¹² However, the country needs to make the most of these time-limited opportunities, investing gains in productive fields that contribute to advancing economic growth and human development. When, as anticipated, foreign remittances decrease, the effects of the financial crisis will become evident in the Lebanese economy.

From a demographic point of view, the expected return of emigrants to Lebanon as a result of the crisis could offer certain benefits. Since most emigrants are young men of working age, their return could restore the current gender imbalance, families will be reunited and there is likely to be a decline in the number of older people placed in institutions for the elderly as their children return and are able to care for them at home.¹³

II. LESSONS LEARNED: THE IMPACT OF WAR AND PREVIOUS FINANCIAL CRISES ON INTERNATIONAL MIGRATION

In light of the importance of reviewing lessons learned in relation to the impact of war and previous financial crises on international migration, this Bulletin examines three cases having different impacts on international migration:

» The 1973 oil crisis

The establishment of the Organization of the Petroleum Exporting Countries in 1960 led to an economic boom in the countries of the Gulf, which became attractive migration destinations, especially for workers from South-East Asia. In October 1973, members of the Organization of Arab Petroleum Exporting Countries declared an oil embargo to encourage Western countries to force Israel to retreat from the Arab land that it had occupied during the 1967 war. Following the nationalization of oil in certain countries and the substantial increase in its price, the sector spearheaded a major investment boom in the Gulf countries, which saw an unprecedented balance between labour demand and supply in the regional labour market, with 72 per cent of workers in the Gulf labour markets coming from Arab countries.

The 1973 oil crisis had a considerable and wide-scope impact on international migration. The parallel economic recession in Europe led to a downturn in a number of sectors (such as construction and manufacturing) that had employed migrant workers in the 1960s, resulting in the loss of employment for large numbers of foreign workers.¹⁴ European and US Governments used migrants as a “safety valve” to reduce domestic unemployment and release jobs for nationals when needed, although many European Governments were surprised by the refusal of nationals to take basic level jobs previously occupied by foreigners, even if they offered the only solution to unemployment in times of economic crisis.¹⁵

¹² Tabbara, R. *The Economic Crisis and its Social and Demographic Repercussions in Lebanon and the Region*. Presentation at the seminar held by the Lebanese Family Planning Association (LFPA), in collaboration with the National Permanent Population Committee (NPPC) and the Friedrich Ebert Foundation on the occasion of World Population Day (Beirut, 16 July 2009).

¹³ Ibid.

¹⁴ Development Research Centre on Migration, Globalisation and Poverty, *Migration and the Financial Crisis: How Will the Economic Downturn Affect Migrants?* February 2009.

¹⁵ Castles, S. and Vezzoli, S. The Global Economic Crisis and Migration: Temporary Interruption or Structural Change? *Paradigmes*. (2): 69-75.

» **The Gulf war (August 1990-February 1991)**

The Gulf war saw large-scale destruction of infrastructure in Iraq and Kuwait, and was accompanied by deep economic regression. Foreign workers in Gulf countries, particularly migrants from the Middle East, were deeply affected by the war.¹⁶

At the start of the war, there were some 1.1 million foreign workers in Iraq, 900,000 of whom were Egyptian, and some 1.5 million foreign workers in Kuwait, forming approximately two thirds of the population. When the war broke out, most Egyptians left Iraq, large numbers of Palestinians left Kuwait and approximately one million Yemenis were required to leave Saudi Arabia when the Government of Yemen sided with Iraq in the war. In total, an estimated five million persons were displaced due to the war.¹⁷

» **The Asian financial crisis of the late 1990s**

The Asian financial crisis lasted from 1997 to 1999 and had relatively little impact on the number of migrant workers in Asian countries, despite the rise in unemployment in many of those countries. Certain countries experienced a slight reduction in immigrants' numbers, while others saw an increase, despite the fact that Governments were deporting foreign workers and encouraging nationals to take up employment abroad as a result of the crisis.¹⁸ Such relatively limited impact was attributable to the difficulty of replacing foreign workers with national workers (for reasons which included lack of skills and refusal to occupy jobs considered low status or specific to foreigners) and the dependency of certain economic sectors, such as rice plantations and fisheries in Thailand and Malaysia, on foreign workers. In such circumstances, employers resorted to reducing the salaries of foreign workers, rather than terminating their employment.¹⁹

The impact of the current financial crisis on international migration is expected to be both broader and more severe, partly as a result of globalization and the closer interrelation between national economies, and partly because the effects of the current crisis are particularly notable in a number of economic sectors that rely heavily on foreign workers, including construction, manufacturing, finance and tourism.

III. FEATURES OF INTERNATIONAL MIGRATION IN THE ARAB REGION²⁰

International migration in the Arab region is characterized by the following features:

» **Coexistence of different types of international migration**

The currents of international migration in the Arab region involve people of almost all nationalities and encompass a number of types of international migration, including temporary migration, permanent migration, labour migration, family migration, brain drain, illegal migration and transit migration.

» **High proportion of immigrants in relation to the total population**

Immigrants constitute more than one third (36 per cent) of the total population in the Gulf region. Sixty per cent of labour migrants in the Gulf countries come from India, while the share of Arab migrants is declining.

¹⁶ Addleton, J. The Impact of the Gulf War on Migration and Remittances in Asia and the Middle East. *International Migration*. (4): 509-26.

¹⁷ Castles, S. and Miller, M.J., 2009, *The Age of Migration: International Population Movements in the Modern World*, Basingstoke: Palgrave Macmillan.

¹⁸ Skeldon, R., 2004, Migration, the Asian Financial Crisis and its Aftermath in *International Migration in the New Millennium: Global Movement and Settlement*. Edited by Joly, D. Farnham: Ashgate.

¹⁹ Development Research Centre on Migration, Globalisation and Poverty, 2009, op. cit.

²⁰ Shakoori, B. Features of International Migration in the Arab Countries and the Possibility of Regional Cooperation, paper presented to the United Nations Development Account Sixth Tranche coordination meeting (New York, 6-7 April 2009).

» **The system of “sponsor” in international migration**

The system of sponsor is exclusive to the Arab region, and the number of sponsors has increased to the extent that they are now able to influence national policies related to migration and employment.

» **Increase in female labour immigration for selected jobs**

Wealthy families in the Arab region are increasingly seeking female labour immigrants to undertake domestic work, childcare and personal assistance activities. The Gulf region and such countries as Lebanon and Jordan have experienced a substantial increase in the number of female immigrants for such work, with an estimated 1.5 million currently in the Arab region, most of whom originate from South-East Asia.

» **Increasing propensity of youth to migrate**

One of the principal reasons underlying youth migration is the difficulty of finding suitable and remunerative employment. At 14 per cent, the Arab region has the highest unemployment rate worldwide. In 2005, the youth unemployment rate in the region was 30 per cent, although this average conceals rates as high as 45 per cent in Iraq, 41 per cent in the Sudan and 39 per cent in Jordan.

» **Value of remittances in the Arab region**

In 2003, the Arab region received US\$21.6 billion of inward remittances, while in 2004, the Gulf countries were the source of US\$26 billion of outward remittances; indeed, Saudi Arabia is the second largest source of remittances worldwide (US\$13.5 billion in 2004). Yet, these figures reflect only registered remittances and it is generally acknowledged that informal remittances are of an even greater magnitude. However, despite such levels of inward remittances, net remittances in the region are negative, at a deficit of some US\$4 billion.

» **Diminishing opportunities for migration within the Arab region and to Europe**

Since 1975, opportunities for migration from the Arab region to Europe have progressively diminished; this has been accompanied by gradually increasing migration to the Gulf countries. Migration streams from the Arab region to Europe and to the Gulf countries are of roughly equal size (almost 3.5 million registered emigrants to each area), although migration to Europe tends to be permanent, while migration to the Gulf countries is more likely to be temporary.

» **Increasing concern about the human rights of immigrants**

There is a paucity of up to date, detailed and documented data on the status of immigrants, the violation of their rights and the issue of human trafficking. In view of the increasing incidence of reported violence against female labour migrants in particular, concern about the human rights of immigrants is growing.

» **Lack of knowledge about migration in the region**

Compared with other areas of the world, the Arab region suffers from a notable lack of detailed, recent data on the nature, patterns and features of international migration. Comparison of the data published by sending and receiving countries reveals serious discrepancies, due primarily to the different definitions adopted to classify such categories as temporary migration, permanent residents and refugees.

IV. THE FINANCIAL CRISIS RAISES UNEMPLOYMENT RATES IN THE ARAB REGION

The last quarter of 2008 and the first quarter of 2009 saw a notable decrease in investment, international trade and consumption as a result of the global financial crisis. In turn, this led to a decrease in demand for labour and a consequential rise in unemployment in many countries. The return of many labour

migrants to their countries of origin produced a rise in the already high rates of unemployment in a number of Arab countries.

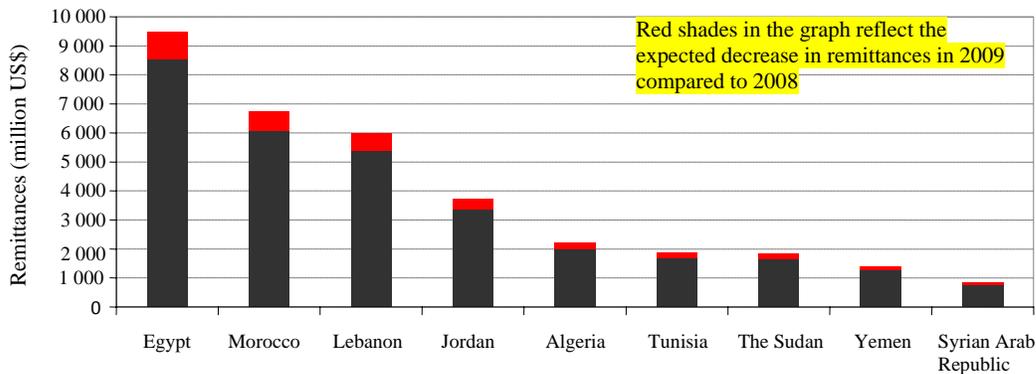
In parallel, the Arab Labour Organization (ALO) has warned that employment opportunities in Arab countries could decrease by as much as 19 per cent as a result of the global financial crisis, particularly in the banking and investment sectors.²¹ It forecast a fall of some 30 per cent in demand for Arab workers in the Gulf countries in 2009 and highlighted the decrease in demand for Arab workers in the European Union, which has favoured workers from its new member States in Eastern Europe since its twin expansions in 2004 and 2007. According to ALO estimates, unemployment in the Arab region currently stands at 14 per cent, or some 17 million workers. This is the highest level of all regions worldwide and four million new employment opportunities will be required each year in the Arab countries to prevent further deterioration.

V. THE FINANCIAL CRISIS REDUCES REMITTANCE FLOWS IN THE ARAB REGION

Remittances from migrant workers represent one of the most important direct and positive returns of migration. Although most remittances are sent directly to families, they also have an impact at the macroeconomic level, as the rate of foreign remittances to GDP is as high as 25 per cent in certain Arab countries. Furthermore, remittances have a developmental impact at the microeconomic level, helping to combat poverty and provide better education and health services for the children of migrant workers. Although most remittances are spent on goods and services, the portion saved in the form of investments helps to mitigate the severity of unemployment by providing opportunities for work.

In the Arab region in 2008, Egypt, Morocco and Lebanon headed the table in terms of the value of inward remittances at US\$9.5 billion, US\$6.7 billion and US\$6 billion respectively, and Egypt figures in the top ten recipients of migrant remittances worldwide. The rate of remittances to GDP is 23.7 per cent in Lebanon, 21.7 per cent in Jordan, 9 per cent in Morocco and 5.9 per cent in Egypt.

Figure 1. Estimated decrease in remittances, Arab region, 2009

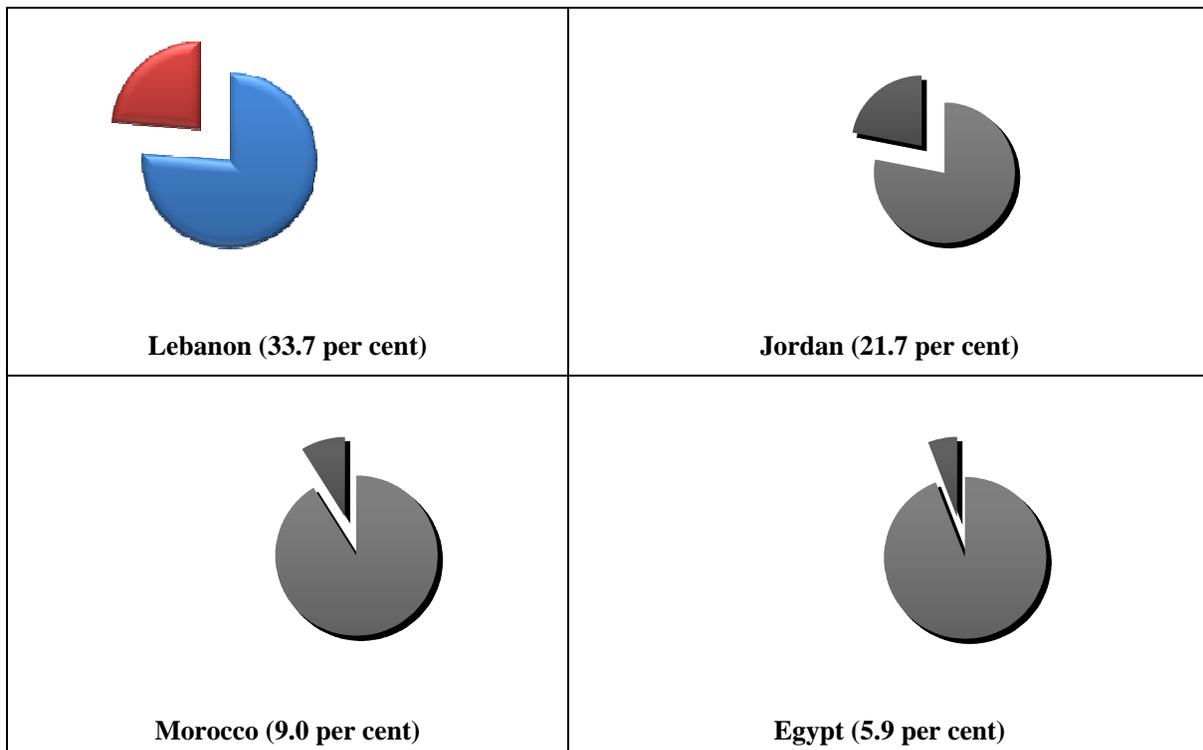


Source: World Bank, 2009.²²

²¹ ALO, *The Global Economic Crisis and its Impact on Arab Labour Markets*. Annex to the report of the Director General of the ALO, presented at the Arab Labour Convention (Amman, 5-12 April 2009).

²² World Bank, *Outlook for Remittance Flows 2009-2011: Remittances Expected to Fall by 7-10 per cent in 2009. Migration and Development Brief 10*, July 2009. Washington DC: World Bank.

Figure 2. Rate of remittances to GDP, selected Arab countries, 2007



Source: World Bank, 2009.²³

The World Bank estimates that the global financial crisis will lead to a 7.3 per cent decrease in foreign remittances to developing countries between 2008 and 2009 (US\$304 billion in 2009, compared with US\$328 billion in 2008), including a decrease of between 6.2 and 9.8 per cent in remittances to the Middle East and North Africa.²⁴ If the global economy fails to recover from the crisis during 2009, it forecasts a 10.1 per cent decrease in remittances to developing countries during the year.

The ALO anticipates a decrease in remittances to the region as a result of the global financial crisis, which will result in a recession in economic growth rates in the countries of origin of migrants.²⁵

In August 2009, the Central Bank of Egypt issued a report²⁶ which indicated that inward remittances from Egyptian workers decreased by US\$547 million (from US\$2,285 billion to US\$1,738 billion) during the first quarter of 2009, compared with the same period in 2008. The report noted that remittances from the Egyptians working in Kuwait declined to US\$337 million from US\$642 million the previous year, while remittances from Saudi Arabia declined from US\$254 million to US\$196 million in the same period. If the situation continues at the same rate, it is forecast that Egyptian remittances will decrease from US\$9.5 billion in 2008 to US\$7.3 billion in 2009, a fall of 23 per cent.

²³ World Bank, 2009, *ibid.*

²⁴ World Bank, 2009, *ibid.*

²⁵ Arab Labour Organization, 2009, *op. cit.*

²⁶ Central Bank of Egypt, *Monthly Statistical Bulletin*, issue 148, July 2009.

VI. THE FINANCIAL CRISIS BOOSTS CIRCULAR MIGRATION IN THE ARAB REGION

The global financial crisis will inevitably reduce migration, primarily affecting unskilled workers, who tend to be the most dispensable and whose only route out of poverty is closed off by their reduced capacity to compete in the labour market. It is assumed that skilled workers will be better positioned to adapt to changes in the labour market by moving from one country to another or benefiting from other employment opportunities within the same country.

The decline in labour demand resulting from the global financial crisis is expected to lead to an increase in circular migration, a solution which benefits the host country, the country of origin and migrants themselves. It meets the labour demands of the host country with no need for normalization or integration of workers, raises the skill level of the sending country's labour force when migrants return, and not only provides workers with good incomes, but also enables them to acquire new skills and knowledge while working abroad. While an increase in circular migration could have a negative effect on professional and social stability for migrants, it also serves to reaffirm the importance for countries of training the labour force and improving its capacity to compete in both regional and global markets.

VII. THE FINANCIAL CRISIS THREATENS THE HUMAN RIGHTS OF MIGRANTS IN THE ARAB REGION

Many migrant workers are expected to lose their jobs in the Gulf countries as a consequence of the recession resulting from the global financial crisis, while others will feel obliged to accept lower salaries in order to maintain continuity of employment.

According to the Gulf News,²⁷ economic experts expect GDP growth rates in the Gulf countries (Kuwait and Saudi Arabia in particular) to decline to negative figures, following strong growth rates averaging five per cent between 2002 and 2008. Such low growth rates will have a significant effect on demand for migrant workers and fuel feelings of insecurity in the labour force in the Gulf region, in turn compromising employment rights and compelling workers to accept working conditions that would otherwise have been unacceptable.

Conclusion

The global financial crisis and its negative repercussions in the Arab region will raise levels of poverty and social inequality. This is due in part to a decrease in migrant remittances, most of which are destined for family expenditure on education and health, and lower levels of which will inevitably exacerbate poverty and social inequality. Unemployment resulting from cutbacks in the labour force will increase pressure on the domestic labour market, leading to an increase in marginal jobs, low productivity levels and high rates of migration from rural to urban areas in the search for work.

Tackling the repercussions of the global financial crisis will require increasing expenditure. Indeed, the crisis can be viewed as an opportunity for countries to reinforce infrastructure and invest in development projects. Increasing expenditure in this way would not only provide employment for large numbers of workers, but would also provide the funding needed to revive markets and end the economic stagnation that could otherwise lead to further recession. Major projects of this type will require the involvement and cooperation of a number of Arab financing institutions and it will be vital that all Arab host countries give priority to Arab workers when reducing the number of incoming workers, in order to enhance Arab integration and coordinate Arab positions.

²⁷ Gulf News, 25 March 2009.