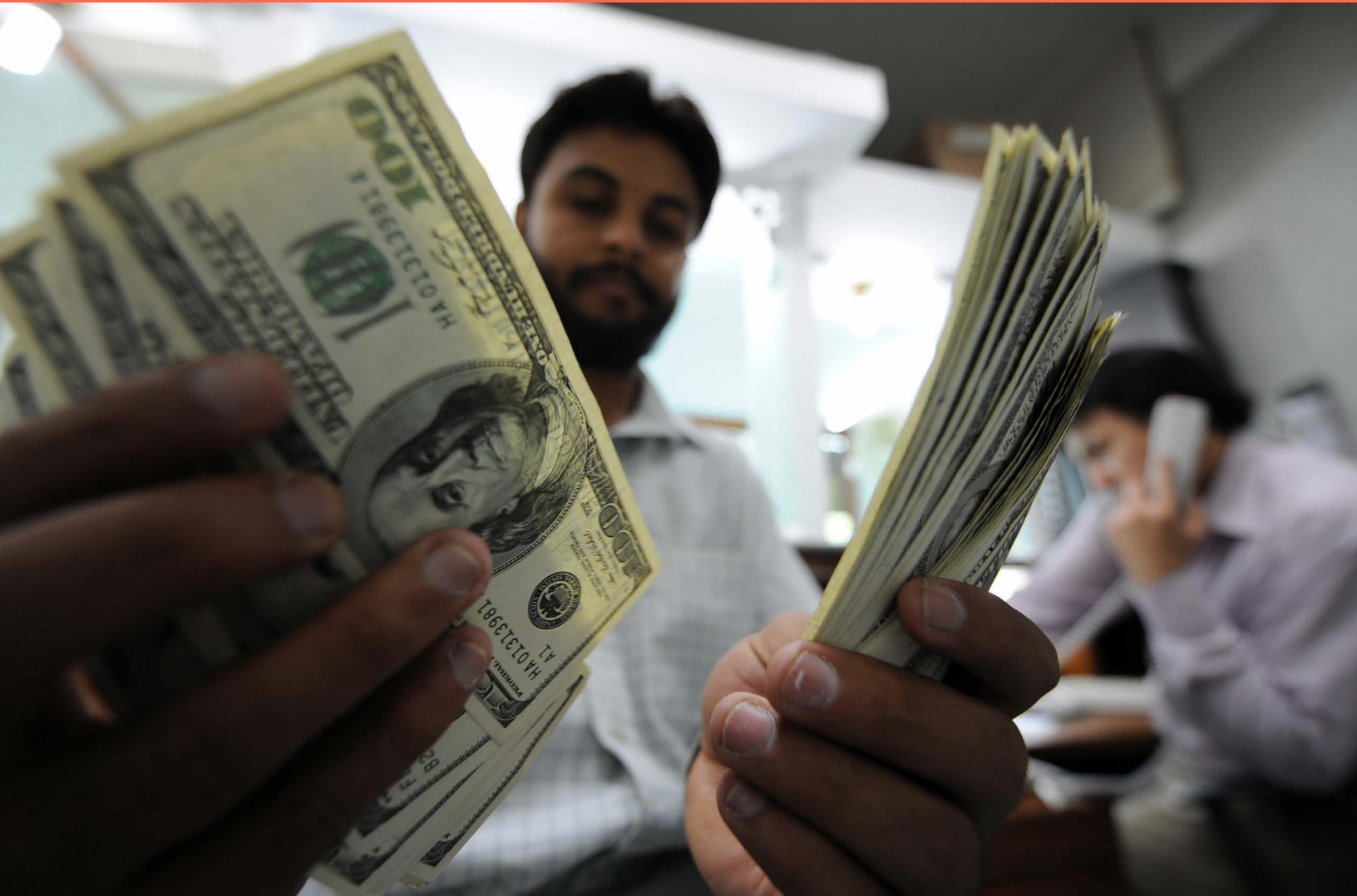


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## Refugee Crisis and Economic Migration: Regional Economic Interdependence and the Arab Gulf States

Karen E. Young

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## About the Author

**Karen E. Young** is a senior resident scholar at the Arab Gulf States Institute in Washington. She was research fellow at the Middle East Centre (MEC) of the London School of Economics and Political Science from 2014-15, where she remains a non-resident fellow. From 2009-14, she was assistant professor of political science at the American University of Sharjah (UAE). Her research interests are based in comparative politics and political economy, focusing on processes of economic and political transition, state formation, and foreign policy decision-making. She has done extensive fieldwork in Ecuador, Bulgaria, and in the Gulf Cooperation Council states. Young is the author of *The Political Economy of Energy, Finance and Security in the United Arab Emirates: Between the Majilis and the Market*, published by Palgrave in 2014.

October 13, 2015

# Refugee Crisis and Economic Migration: Regional Economic Interdependence and the Arab Gulf States

By Karen E. Young

## Executive Summary

The institutional design of the Arab Gulf states sought to build economic capacity, social services, and basic infrastructure for small citizen populations. The reality, however, is that the states are regional drivers of economic growth and regional economic stability. Their outward placement of foreign investment, cash, and in-kind (often oil and gas) donations to unstable governments, and their support of regional economies via remittances, offer a wide net of support to states and citizens across the wider Middle East and North Africa region.

In effect, the Arab Gulf states are at the center of debate on two related policy dilemmas. The first is creating coherent immigration and human rights policy toward refugees and economic migrants. The second is in crafting foreign policy responses, often in collaboration with allies, to intervene financially or militarily in neighboring conflicts and political transitions. It is the conflict, and the failed governance that precedes it, that creates the demand for refuge, both political and economic.

The choices that Arab Gulf states will make in the coming years in foreign policy will have wide reaching effects on the lives of existing refugees and the creation of new ones (from Yemen, Syria, Iraq, and beyond). Recent interventions in Bahrain, Egypt, Libya, and Yemen demonstrate that the Gulf Cooperation Council states are prepared to use both economic and military force.

The choices that Arab Gulf states make in their domestic policies are equally important. Choices on fiscal policy will continue to stir debate on the relationship between citizen and government, from food and energy subsidies, entitlements to health care and housing, as well as public employment. A contraction in state spending on large infrastructure projects, including real estate and tourism, will have wide-reaching effects on economic migration and remittance patterns in the Middle East, North Africa, and South Asia. There could be fewer jobs and remittance flows back to the states (and refugee camps) where foreign currency is so dear.

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## Introduction

The world is experiencing an unprecedented moment of human displacement and mobility. The United Nations estimates that over 51 million people were displaced from their homes at the end of 2013, most of them from civil war and conflict. Of the displaced people who have left their home countries, The New York Times reports that 11 million fled across international borders away from violence in 2014, mostly from conflicts in Iraq, Syria, Ukraine, and Afghanistan.<sup>1</sup> There are over 11 million people displaced from the conflict in Syria alone, about four million of them have sought refuge in neighboring countries, and thousands have attempted journeys to Europe.<sup>2</sup>

According to experts, this is the most severe migration crisis since World War II. Formally, a migrant is a person who chooses to emigrate, often out of economic necessity, while a refugee, according to the United Nations 1951 Refugee Convention, is someone who “owing to a well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group or political opinion, is outside the country of his nationality, and is unable to, or owing to such fear, is unwilling to avail himself of the protection of that country.”<sup>3</sup> The line between economic migrant and refugee blurs, however, when staying in one’s home country means unemployment, risk of violence, and lawlessness. It is the failure of governments that most people flee.

The Middle East and North Africa (MENA) region is at the center of this crisis, and the strain on receiving countries is extreme. Unemployment is surging in Jordan, particularly among young men looking for unskilled positions in construction, as the influx of refugees has distorted informal labor markets and depressed wages. Beyond scarce social services and employment opportunities, migration is further tipping the demographic balance of non-nationals to nationals in countries like Lebanon, which can spark a sectarian and multinational tinderbox. An International Labor Organization report in May estimated that unemployment levels in Jordan increased from 11.5 percent in 2011 to over 22 percent in early 2015.<sup>4</sup> Lebanon is now home to more than 1.1 million registered Syrian refugees, according to the U.N. Refugee Agency UNHCR.<sup>5</sup>

## Arab Gulf States Context

This paper presents some of the challenges the Arab Gulf states face in a time of regional upheaval and international pressure to help accommodate the flow of refugees. Domestically, Gulf states face declining revenue from natural resources and increasing pressures to

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<sup>1</sup> Patrick Boehler and Sergio Pecanha, “The Global Struggle to Respond to the Worst Refugee Crisis in Generations,” *The New York Times*, July 1, 2015, [http://www.nytimes.com/interactive/2015/06/09/world/migrants-global-refugee-crisis-mediterranean-ukraine-syria-rohingya-malaysia-iraq.html?\\_r=0](http://www.nytimes.com/interactive/2015/06/09/world/migrants-global-refugee-crisis-mediterranean-ukraine-syria-rohingya-malaysia-iraq.html?_r=0).

<sup>2</sup> UNHCR, <http://www.unhcr.org/pages/49e486a76.html>.

<sup>3</sup> UNHCR, <http://www.unhcr.org/pages/49c3646c125.html>.

<sup>4</sup> Svein Erik Stave and Solveig Hillesund, “Impact of Syrian refugees on the Jordanian labour market,” International Labour Organization, United Nations, Geneva, 2015, [http://www.ilo.org/beirut/publications/WCMS\\_364162/lang--en/index.htm](http://www.ilo.org/beirut/publications/WCMS_364162/lang--en/index.htm).

<sup>5</sup> UNHCR, “Syrian Regional Refugee Response,” <http://data.unhcr.org/syrianrefugees/country.php?id=122>.

accommodate the fiscal expenditure citizens expect with the social transformation inherent in building new states with large noncitizen populations. The Gulf Cooperation Council (GCC) states have achieved enormous success in their economic development agendas since their formation just decades ago. However, their ascendance as regional, and to an extent, global economic players, has come with some institutional features that are stubborn to change. Those features include immigration and labor policy that does not accommodate the permanent settlement of noncitizens, much less refugees. Further, their outward economic reach, or economic statecraft, includes generous provisions of foreign aid, but often outside of established multilateral channels, as well as foreign investment that serves state-related entities and their profit motives simultaneously with foreign policy objectives.

This type of foreign economic policy, a dual aid and investment intervention, often neglects a long-term development strategy in the target country. Large cash deposits in central banks can actually create inflation and distort government spending patterns in infrastructure that cannot be maintained in subsequent fiscal years. The rapid economic growth of the GCC states has enabled this activist aid and foreign policy intervention. Yet, the strategic objectives of these policies are not necessarily well formed, or are at least more short term in their horizon.

From 1970-2013 the gross domestic product (GDP) of the United Arab Emirates increased by \$401.2 billion (or 365.7 times). Across the new oil and gas producing states of the Arabian Peninsula, there is an acceleration of wealth coinciding with a state interest in outward investment and more activist foreign policy. For states like Qatar and the UAE, the curve has been steep.

The institutional design of the Arab Gulf states sought to build economic capacity, social services, and basic infrastructure for small citizen populations. The reality, however, is that these states are regional drivers of economic growth and regional economic stability. Their outward placement of foreign investment, cash, and in-kind (often oil and gas) donations to unstable governments, and their support of regional economies via remittances, offer a wide net of support to states and citizens across the wider MENA region. Unfortunately, these types of support and engagement are also volatile – sensitive to global commodity prices and shifts in domestic political interest. Allies are being made quickly, military interventions have been exploratory, and financial aid commitments have sometimes been arranged hastily.

In effect, the Arab Gulf states are at the center of debate on two related policy dilemmas. The first is creating coherent immigration and human rights policy toward refugees and economic migrants. The second is in crafting foreign policy responses, often in collaboration with allies, to intervene financially or militarily in neighboring conflicts and political transitions. It is the conflict, and the failed governance that precedes it, that creates the demand for refuge, both political and economic.

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government, from food and energy subsidies, entitlements to health care and housing, as well as public employment. A contraction in state spending on large infrastructure projects, including real estate and tourism, will have wide-reaching effects on economic migration and remittance patterns in the Middle East, North Africa, and South Asia. There could be fewer jobs and remittance flows back to the states (and refugee camps) where foreign currency is so dear.

Arab Gulf states have been sharply criticized for failing to admit vulnerable neighbors as refugees, but the legal and institutional structures of these states make formal immigration with refugee status nearly impossible. Arab Gulf states have tightly controlled labor markets, which they manage through immigration policy that ties people to employers. This institutional design is partly a remnant of early state-building practices that sought imported human capital to propel very small populations (and their traditional societies) through a rapid modernization. That process has succeeded, with advanced standards in health care, education, and public administration, enabling population growth and a multicultural transformation.

However, citizen populations have bypassed a generation or two of graduate career and social mobility, in that young Gulf Arabs are rarely interested in low-wage retail, manufacturing, or service sector employment, especially when the public sector offers excellent wages and benefits. See, for example, what one scholar calls the “Thawb syndrome,” (the thawb is the white robe worn by many male Gulf nationals) to describe a preference among many Gulf nationals for managerial roles that maintain an economic and cultural distinction between citizens and foreign laborers. National dress also becomes a signifier of status and difference.<sup>6</sup> In this way, both national identity and labor policy are intertwined, complicating labor market reform efforts.

Labor, as opposed to citizenship, is at the heart of Arab Gulf state (AGS) economic and security policy. Rather than a politics of belonging, a politics of access defines Gulf state and subject relations. This paper identifies: AGS policies toward refugees and economic migrants; regional reliance on remittances; AGS patterns of economic aid and investment in MENA; and regional effects of AGS fiscal consolidation.

## Migrants and Refugees in the Arab Gulf States

No region is exempt, though few destination countries have successfully tackled how to create immigration policies that allow flexibility for an influx of refugees and economic migrants. According to the World Bank, the top five migrant destination countries are the United States, Saudi Arabia, Germany, the Russian Federation, and the UAE.<sup>7</sup> South-South migration and remittance flows outnumber South-North patterns.<sup>8</sup> Images of Syrian refugees struggling to reach Europe have shocked the world, yet the majority of movement of refugees and economic migrants is between countries in the Global South. The Arab Gulf states are positioned geographically and culturally to be target destinations for the majority of people

<sup>6</sup> Makio Yamada, “Battle against the Thawb Syndrome: Labor Nationalization, Industrial Diversification, and Education Reform in Saudi Arabia,” *Gulf Affairs, Oxford Center for Gulf and Arabian Peninsula Studies Forum (OxGAPS)*, August 2015.

<sup>7</sup> World Bank, “Migration and Development Brief, no. 24,” April 13, 2015, 3.

<sup>8</sup> South-South migration stood at 37 percent of the global migrant flows, and South-South remittances accounted for 34 percent of global remittance flows. *Ibid.*



fleeing countries in the Middle East, North Africa, and South Asia, yet they have no official capacity or international legal obligation to host refugees.

Moreover, governments struggle to create policies differentiating between economic migrants who might stay for short-term periods and those who intend to stay and seek a path to citizenship or long-term residency. Policies on refugee settlement are notoriously contentious, as multinational bodies like the United Nations and European Union struggle to agree on how to allocate the burden of refugee sponsorship. And, of course, there are states that bypass the international treaty on refugees and instead respond to refugee crises through case-by-case residency visas, foreign aid, and private charity. For example, the UAE has issued 100,000 residency visas to Syrians since 2011, making the population of Arab expatriates over 240,000, according to a statement provided by the government to the Associated Press.<sup>9</sup> It is not clear, however, how many Syrians held residency visas before the Arab uprisings of 2011. Many Syrians were denied visa renewals in the UAE after 2011. The Kingdom of Saudi Arabia announced on September 11 that it had “received” more than two million Syrians since 2011, though not formally as refugees.<sup>10</sup>

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*The Kingdom of Saudi Arabia announced on September 11 that it had “received” more than two million Syrians since 2011, though not formally as refugees.*

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The latter has been the “case-by-case” refugee strategy of Arab Gulf states at least since the first Gulf War in 1991, when Saudi Arabia quietly admitted thousands of Iraqis (as did Syria and Jordan). Saudi Arabia served as a conduit for Iraqi refugees, mainly Shia, in camps organized by UNHCR. An estimated 35,000 Iraqis found asylum in Saudi Arabia in the Rafha camp, though their legal status was tenuous. Saudi Arabia never signed the U.N. Convention on Refugees of 1951 or the 1967 Protocol; instead, it created a Memorandum of Understanding with UNHCR specifically for the temporary sponsorship of Iraqis.<sup>11</sup> Most refugees were resettled in third countries before a major resettlement in Iraq after the 2003 war. Kuwait funded much of the expenses for the camps and for the resettlement through U.N. organizations. Without accession to the 1951 convention, there is no legal provision for refugee status in any of the GCC states. Ad hoc refugee policy, as amended work force immigration, may provide temporary relief, but it further represses political rights and puts refugees at the mercy of a revocable residency permit.

Earlier Arab migration patterns to the Gulf in the 1960s and 1970s included thousands of Palestinians who migrated as professionals building educational, health, and social service administrations in the newly formed Gulf states. Arab nationalism, and support for Palestine, provided the political context for immigration as aid among some Gulf states for a time, until the policy reversed by the 1980s, for reasons discussed below. The Arab Gulf states are not necessarily closed to regional neighbors in crisis, but they have always strategically managed migrant populations, often with the objective of insulating themselves from political crisis in the wider Middle East. Figure 1 illustrates some of these aid patterns from the Gulf directed at the

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<sup>9</sup> Adam Schreck, “Emirates defends its response to Syrian refugee crisis,” *Associated Press*, September 9, 2015, <http://bigstory.ap.org/article/9cfb46113644483798391911c841a2a7/emirates-defends-its-response-syrian-refugee-crisis>.

<sup>10</sup> Al Arabiya News, “Saudi Official: We received 2.5 mln Syrians,” September 12, 2015, <http://english.alarabiya.net/en/News/middle-east/2015/09/12/Saudi-official-we-received-2-5-mln-Syrians-since-conflict.html>.

<sup>11</sup> UNHCR, “Compilation Report – Universal Periodic Review: The Kingdom of Saudi Arabia,” <http://www.refworld.org/pdfid/5135c0902.pdf>.



Syrian conflict and refugee crisis.

Domestic politics increasingly drive immigration and refugee policy in the Arab Gulf states. The idea of creating a path for refugees to settle, even for the short term, is not politically viable. Existing tensions of demographic “imbalance” and a sense of cultural underrepresentation make the settlement of foreigners who are vulnerable and not tied to employment a security risk, but also a threat to building a cohesive national identity.<sup>12</sup> Immigration is one policy area in which security planning from Gulf rulers and decentralized citizen public opinion (and an emerging political culture) converge. The structure of the Arab Gulf states political economy privileges state authority at the expense of political activism and representation. In a time of prolonged oil price decline and fiscal consolidation, citizens are more protective of their benefits from the state, including generous social welfare programs in health, education, housing, and the expectation of public sector employment.

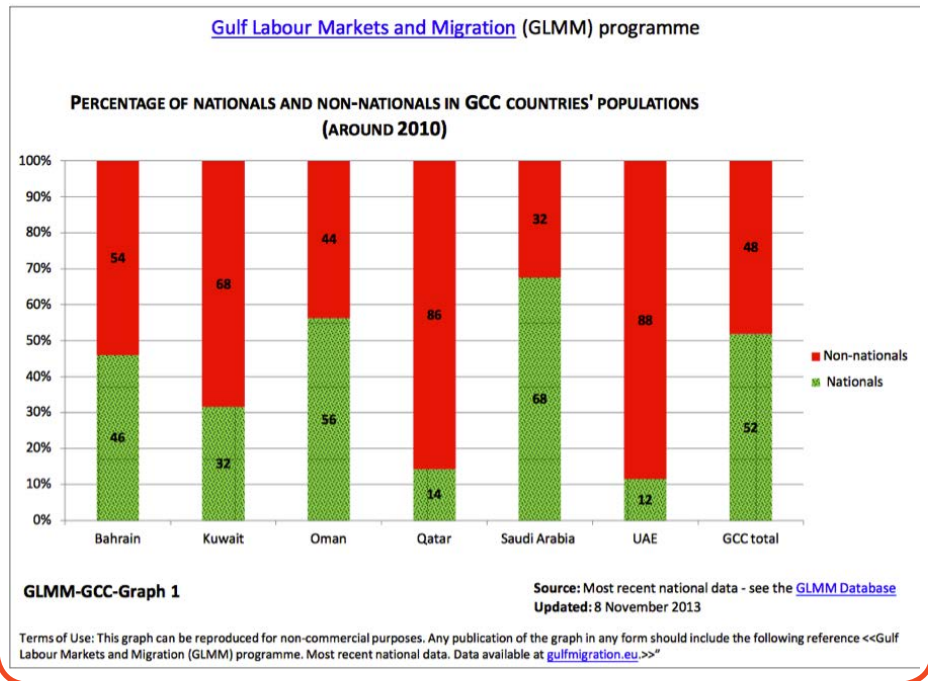
Economic migrants, mostly on valid visas, make up the majority of populations in four of the six GCC states. (See Figure 2.) Most of these economic migrants have been invited, encouraged to relocate to the Gulf through a system of intermediaries, including their home country governments and corporate and state-related entities seeking to build major infrastructure and development projects. Since the early 1960s, the Arab Gulf states have managed short-term immigration as a labor force issue, rather than as social

Figure 1: How GCC States Help Syria

- The wealthy Gulf states have been generous funders of UNHCR, as well as donating privately and directly to charities and camps in neighboring countries.
  - Since 2011, Kuwait's government contributed \$221.3m to UNHCR, and was the seventh largest donor in 2013.
  - Saudi Arabia has contributed \$117.6m to the UNHCR budget since 2011: in 2013, it was the 19th largest contributor globally. The private sector added another \$2.1m, with billionaire investor Prince Alwaleed bin Talal al-Saud's foundation a major donor.
  - Qatar donated \$26.6m, and another \$20.9m has come from the private sector.
  - The UAE government gave \$10.7m to the UNHCR with the private sector adding another \$17.1m. A UAE official says in total it has donated \$38m through bilateral aid since 2011
  - The 2014 UN humanitarian appeal for Syrian refugees garnered \$149.5m from Kuwait, \$14.1m from Qatar, \$14m from Saudi Arabia and \$10m from the UAE.
- Source: UNHCR

Simeon Kerr “Gulf states under pressure to take Syrian migrants,” September 4, 2015, *Financial Times*, <http://www.ft.com/intl/cms/s/0/55f828a8-5216-11e5-8642-453585f2cfd.html#axzz3lGeN163r>.

Figure 2: Percentage of Nationals and Non-Nationals in GCC Countries' Populations (2010)



<sup>12</sup> Simeon Kerr, “Gulf states under pressure to take Syrian migrants,” *Financial Times*, September 4, 2015, <http://www.ft.com/intl/cms/s/0/55f828a8-5216-11e5-8642-453585f2cfd.html#axzz3lGeN163r>.

policy.<sup>13</sup> By 1985, the percentage of migrants in the GCC countries accounted for by Arabs had fallen to 56 percent (from 72 percent in 1975). Non-Arabs constituted only 12 percent of all workers in the Gulf in 1970, but by 1985 Asians comprised an estimated 63 percent of the Gulf workforce.<sup>14</sup> The shift in a target labor force in the late 1970s and early 1980s came about when Arab nationalism and the movement of political Islam (also as a revolutionary force in Iran) challenged the political order of Gulf ruling families.

## Multinational Gulf Societies

By 2015, however, societies emerged with the imprint of multinational, economically, ethnically, and religiously diverse populations. Minority groups of citizens preside over majority groups of residents. As Janet Abu-Lughod presciently described over 30 years ago, “what Gulf countries lack in population, they make up for in interest, for seldom has the world seen a more striking in situ experiment of instant urbanization and hot house forced social change.”<sup>15</sup> Gulf societies have transformed, while Gulf bases of political authority and citizen populations have not. Citizenship is not easily transferred, especially for women who marry non-nationals, and is not readily granted to any non-nationals by the state.

Much of the academic literature has focused on the impact of this demographic imbalance on the local population and the host government. There is a cultural sense of siege among many Arab Gulf nationals, which manifests in concern over the use of English as a first language in many homes,<sup>16</sup> in problems creating dynamic entrepreneur economies as many nationals prefer public sector employment,<sup>17</sup> and in broader fiscal challenges to GCC governments that have created entrenched subsidy and entitlement programs for their citizens.<sup>18</sup>

As long-term residents, most economic migrants in the GCC states are tied to employment as a means of legal residency. State-led economic growth models of the 1960s and 1970s prioritized national ownership of local business, including franchises, in a mechanism to include citizens in the growth of local economies through commercial ties abroad. The program, including restrictions on foreign ownership of banks, financial institutions, and property, has been highly successful in its mission to create wealth among a population that had little educational or cultural exposure to Western capitalism. That system relied on foreign labor to construct local markets, everything from building roads to schools and shopping malls, using citizens as the brokers of labor contracts through the kafala system, or visa sponsorship.

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*As long-term residents, most economic migrants in the GCC states are tied to employment as a means of legal residency.*

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<sup>13</sup> John Chalcraft, “Monarchy, Migration and Hegemony in the Arabian Peninsula,” *Kuwait Programme, London School of Economics*, October 2010. [http://eprints.lse.ac.uk/32556/1/Monarchy\\_migration\\_and\\_hegemony\\_working\\_paper.pdf](http://eprints.lse.ac.uk/32556/1/Monarchy_migration_and_hegemony_working_paper.pdf).

<sup>14</sup> *Ibid.*, 24.

<sup>15</sup> Janet Abu-Lughod, “Urbanization and Social Change in the Arab World,” *Ekistics* 50, no. 300 (1983): 227.

<sup>16</sup> Jumana Khamis, “Cultural Identity in Danger in the GCC,” *Gulf News*, December 17, 2013, <http://gulfnews.com/news/uae/society/cultural-identity-in-danger-in-the-gcc-1.1268187>.

<sup>17</sup> Steffen Hertog, “Rent Distribution, Labour Markets and Development in High-Rent Countries,” Working Paper, London, 2014; International Monetary Fund, “Labor Market Reforms to Boost Employment and Productivity in the GCC.”

<sup>18</sup> Ingo Forstenlechner and E. Rutledge, “The GCC’s ‘demographic imbalance’: Perceptions, Realities and Policy Options,” *Middle East Policy* 18, no. 4 (2011): 25-43.

Low wage migrant workers dominate the discussion of state–society relations in Gulf states between nationals and guest workers. However, migrant populations in the GCC states are not always transitory and can be civically engaged. Subgroups of migrants, many from Arab states, are long-term residents. Demographic data from the GCC states is not public and can be difficult to assemble and analyze. A project by the Gulf Research Centre, [www.gulfmigration.eu](http://www.gulfmigration.eu), has been able to access and disseminate some important findings. The average worker is young and tends to stay less than five years, but as workers are more advanced in age, and presumably their careers, they are more likely to have a longer sojourn. There is evidence that expatriates, at least in the case of the UAE, for which there are data, over the age of 40 are as likely to stay 10 to 14 years as they are one to four years. Long-term residents in the prime of their careers are a source of human capital and foreign investment and are pillars of civil society, largely through their leadership in private sector businesses.<sup>19</sup>

Recent inflows of economic migrants to the Gulf include wealthy Arabs seeking an investment refuge from conflicts in neighboring countries. There are cultural affiliations that drive immigration to the Arab Gulf, particularly in the last four years as Arab migrants (and investors) have flocked to the region after the Arab uprisings of 2011. An International Monetary Fund (IMF) report details how some Gulf economies have actually benefitted from this upheaval in the region, as investment in real estate surged from 2012-14 in areas like Dubai and Ras al-Khaimah where some free zones enable residency visas attached to land or housing purchases.<sup>20</sup> This is a population that will be vital to the transformation of the political economy of Arab Gulf states in the next decade.

## Regional Reliance on Gulf Remittances

What has not been uncovered is what motivates migrants to work in the Gulf and what compels them to stay. Migrants to the Arab Gulf states are usually driven by economic need. New ethnographic research by Andrew Gardner, associate professor of anthropology at the University of Puget Sound, details that, for some low wage economic migrants, a sojourn in the Gulf is actually a financial loss, rather than a gain for the worker and a family anxiously waiting a remittance at home.<sup>21</sup> Even still, the Gulf remains a major source of global remittances, especially to regional neighbors in South Asia and the Middle East. According to a recent report by the World Bank, Pakistan receives more than 60 percent of remittances from GCC countries. India is the largest recipient of Gulf remittances, estimated at \$29.7 billion in 2012.<sup>22</sup>

In times of political crisis, remittance flows generally rise as family members working abroad tend to increase their transfer amounts. The World Bank estimates that the 13 percent rise in remittances to Lebanon from 2013-14 is likely due to the increase in Syrian refugees there. Yemen relies on remittances for more than 10 percent of its GDP, based on figures for 2013

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<sup>19</sup> Gulf Research Center, "Gulf Labour Markets and Migration," <http://gulfmigration.eu/uae-employed-non-emirati-population-15-years-and-above-by-sex-age-group-and-duration-of-residence-in-the-uae-2005/>.

<sup>20</sup> International Monetary Fund, "IMF Country Report 13/239," July 2013.

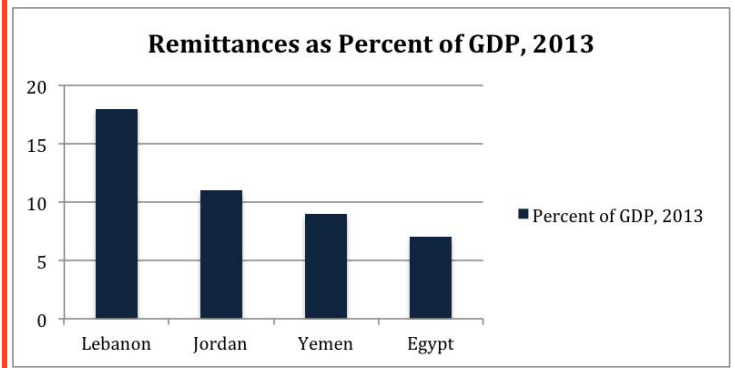
<sup>21</sup> Andrew Gardner, "Why Do They Keep Coming? Labor Migrants in the Gulf States," in *Migrant Labor in the Persian Gulf*, eds. Mehran Kamrava and Zahra Babar (London: Hurst & Co., 2012), 41-58.

<sup>22</sup> Arabian Business, "Where Gulf expats sent remittance," May 13, 2013, <http://www.arabianbusiness.com/revealed-where-gulf-expats-sent-remittance-in-2012-501232.html>.

before the current war. Lebanon relies on remittances for nearly a fifth of its GDP. (See Figure 3.)

At present, there is no strong evidence of a decline of remittance flows in 2015 after the drop in oil prices from the Gulf. In fact, Gulf remittances to Pakistan increased 10 percent between the fourth quarters of 2013 and 2014. But it is not unusual for economic slowdown in the GCC states to take some time to filter into government and labor market decision making. Currently, international aid agencies are preparing for the impact of persistent declining oil revenue on construction and service sector employment. These are the main sectors in which foreign laborers work, especially those from poorer countries most reliant on remittance payments.<sup>23</sup> Workers in Saudi Arabia sent \$44 billion to their home countries in 2014, a force of investment and financial sustenance that governments and aid agencies would be hard pressed to match in a sharp downturn.<sup>24</sup>

Figure 3: Remittances as a Percentage of GDP, Selected MENA Countries



World Bank, "Migration and Development Brief, 24," 2015, pg. 21.

The 2008 financial crisis showed that remittance flows are affected by economic downturn and can fluctuate substantially from one year to the next. World Bank analysts reported a six percent overall decline in remittances in 2009, and even tracked the late effect of Dubai's economic downturn in remittance patterns to Pakistan from the UAE from 2008-10.<sup>25</sup> Receiving countries are particularly vulnerable, as remittances finance education, health care, and many social services that states either cannot or do not provide. Arab Gulf states are also independently sources of foreign investment in the same countries to which their residents send remittances.

## Gulf Aid and Investment in MENA

Arab Gulf states have emerged as important donors to humanitarian causes, led by state initiatives such as the Kuwait Fund for Development, which created a state mechanism for channeling resource wealth abroad (often inside the Middle East) as development aid. It is only recently that Arab Gulf states have used financial aid and foreign direct investment as a tool of economic statecraft.

There is a positive correlation between oil price and Gulf Arab state aid, but it is not always

<sup>23</sup> World Bank, "Migration and Development Brief, no. 24," April 13, 2015, 23.

<sup>24</sup> Suresh Pattali, "Remittances from Gulf soar to \$100 billion," *Khaleej Times*, June 11, 2015, <http://www.khaleejtimes.com/article/20150610/ARTICLE/306109915/1016>.

<sup>25</sup> Sanket Mohapatra and Dilip Ratha, "The Impact of the Global Financial Crisis on Migration and Remittances," in *The Day After Tomorrow: A Handbook on the Future of Economic Policy in the Developing World*, eds. Otaviano Canuto and Marcelo Guigale (World Bank), 297-320, [http://siteresources.worldbank.org/EXTPREMNET/Resources/C17TDAT\\_297-320.pdf](http://siteresources.worldbank.org/EXTPREMNET/Resources/C17TDAT_297-320.pdf).

so closely linked.<sup>26</sup> There are episodes in which oil prices rise without a respective increase in Gulf foreign aid. There are also very recent examples of Gulf states extending regional development aid while oil prices are at historical lows and Gulf states' fiscal budgets are facing deficits. The politics of Gulf Arab state aid is, above all else, strategic. Political goals can override economic prudence. The reverberation of this shift challenges norms of Western aid practices and development programs.<sup>27</sup>

The 2011 uprisings created an opportunity for direct financial intervention using economic statecraft, the parallel tools of foreign ministries and state-related entities, linking regional security policy with an aid agenda. For example in the case of Egypt, the GCC states provided massive assistance to the administration of President Abdel Fattah al-Sisi after 2013. (See Figure 4.)

What is novel about Arab Gulf state aid and investment patterns is the flexibility of these transfers, in both their quantity and composition. The financial interventions are occurring as cash injections into central banks, as in-kind donations of oil, gas, and refined petroleum, as well as investment partnerships in real estate, agriculture, and industry.

One of the side effects of these aid and financial intervention policies is volatility, which underlines the importance of crafting long-term strategic relationships between the Arab Gulf states and their regional partners, especially those partner states that are poorer and more

Figure 4: GCC Financial Assistance to Egypt (fiscal year 2013-14; \$U.S. billion)

Donor	Central Bank Egypt Deposit	Grants	Energy	Total
KSA	2.0	2.0	3.8	7.8
UAE	2.0	2.7	3.2	7.9
Kuwait	2.0		0.7	2.7
Qatar			0.2	0.2
<b>Total</b>	<b>6.0</b>	<b>4.7</b>	<b>7.9</b>	<b>18.6</b>

IMF

Figure 5: (Select) Gulf Arab State Aid to Egypt, 2011-15

Country	2011	2012	2013	2014	2015
UAE	\$3 billion (of which \$1.5bn Khalifa bin Zayed fund for housing and SME support) Private reported aid: \$22.8m	Private reported aid: \$22.19m	A grant of \$1 billion and a further \$2 billion deposit Central Bank of Egypt. In kind (petroleum and gas) \$225m.		\$4 billion aid package committed to Egypt: \$2 bn Central Bank of Egypt, and \$2 bn project finance
KSA			A total of \$5 billion aid package: \$1bn cash grant, \$2bn in kind (petroleum and gas), \$2 bn deposit Central Bank of Egypt		\$1bn pledge CBE; (\$3bn investment pledge)
Qatar	\$500m cash grant, \$2bn deposit Central Bank of Egypt.	\$1 bn cash grant; approx. \$4 bn CBE deposits			
Kuwait			\$1bn cash grant; \$2bn deposit CBE.		(\$4bn investment pledge)

UAE Ministry of Foreign Affairs, African Development Bank Group, Kingdom of Saudi Arabia Ministry of Foreign Affairs, Qatar Ministry of Foreign Affairs.

<sup>26</sup> Karen E. Young, "The Limits of Gulf Arab Aid: Energy Markets and Foreign Policy," *Kings College Centre for Energy and Resource Security*, Working Paper Series 1 (Summer 2015).

<sup>27</sup> Amitav Acharya, "How Ideas Spread: Whose Norms Matter? Norm Localization and Institutional Change in Asian Regionalism," *International Organization* 58, no. 2 (2004): 239-75, excerpted in Momani and Ennis (2013): 608.

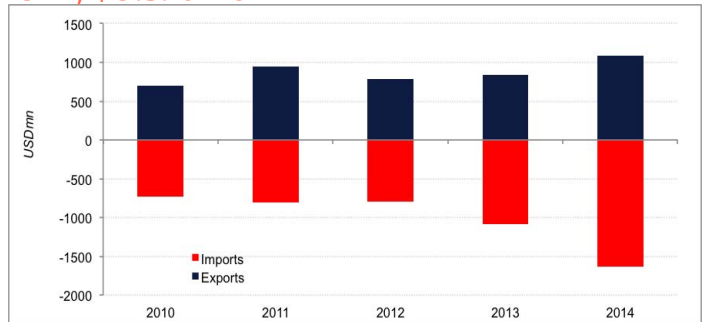


reliant on foreign investment and remittances. Recent changes in the investment relationship between the UAE and Egypt illustrate how bilateral ties in security and economic concerns can shift from one year to the next. Remittance payments figure prominently into the aid and investment balance. Imports from the UAE to Egypt have more than doubled between 2010 and 2014, according to regional bank sources. More importantly, aid to Egypt has rarely rivaled remittance payments as a contribution to the country's economy, that is, until late 2013 when aid began to reach 30 to 50 percent of remittance levels. That proportion seems to be again rebalancing, as (UAE) aid has diminished since the end of 2014. The UAE strategy has been to increase foreign investment, seen as a benefit to both the recipient state and the state of origin. (See Figures 6, 7, and 8.)

According to Middle East Economic Digest, Egypt is the largest destination in the Middle East for remittances, with inflows of \$19.2 billion in 2014. Saudi Arabia is the largest source of Egyptian destined remittances, with almost \$7.6 billion sent from the kingdom to Egypt in 2014. Egyptians have been sending more money home from the GCC, with an increase of 44 percent between 2012 and 2014. Some of this increase could be explained in changes in migration patterns as fewer Egyptians seek work in Libya and may now prefer working in the Gulf, while the political crisis in Egypt has also likely prompted more people to seek work abroad. Likewise, Yemenis working in the GCC states sent home \$3.5 billion in 2014, \$2.2 billion from Saudi Arabia alone. As the civil war makes travel and communication more precarious, the availability of remittances will mean survival for many Yemeni families.

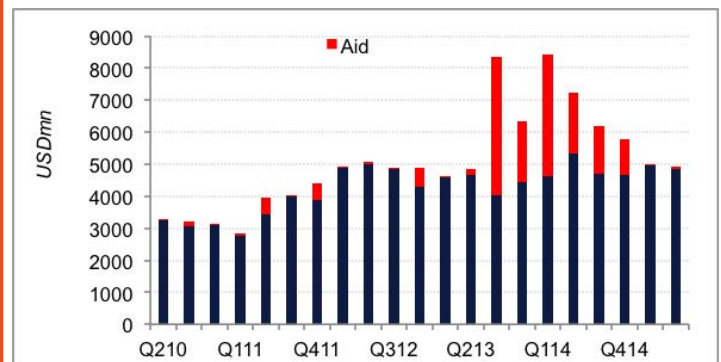
The relative security and calm of the Arab Gulf states among their neighbors in crisis, both political and economic, often obscures the very interdependent nature of their economic ties and their mutual reliance on human capital for labor in the Gulf and financial support in the region.

Figure 6: Egypt Exports to and Imports from UAE, \$U.S. billion



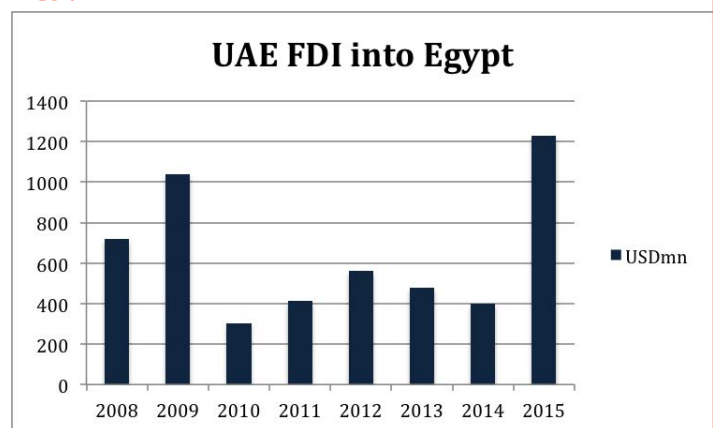
Emirates NBD

Figure 7: Remittances and Foreign Aid in Egypt, 2010 (Quarter 2) - 2014 (Quarter 4)



Emirates NBD

Figure 8: UAE Foreign Direct Investment in Egypt, 2008-15, \$U.S. million



Emirates NBD

## Projecting Regional Effects of AGS Fiscal Consolidation

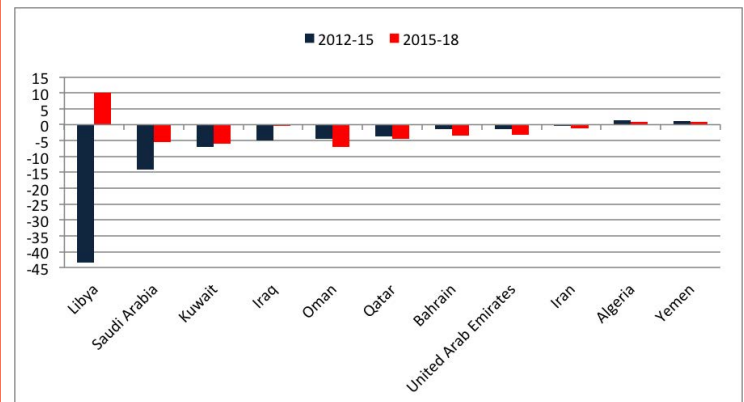
The downturn in global commodity prices (not only oil) will have a number of ripple effects across developing economies in 2015. The IMF is warning of a critical impact on West African government finances due to diminished demand in China for commodities.<sup>28</sup> Declining energy markets will certainly affect Arab Gulf states' fiscal plans for the near term. For the MENA region, the price decline has come at a very difficult moment. While many non-oil producing MENA states will benefit from lower energy prices, making it easier for governments to introduce subsidy reforms on fuel and electricity, their success will also have to endure a changing aid and investment climate that increasingly relies on Gulf economic intervention. Variations in that intervention could have serious consequences in recipient states.

The fiscal situation in the Arab Gulf states is worrisome, as deficits are anticipated across the GCC in 2015. The IMF expects the Saudi deficit to be close to 20 percent of GDP this year. Moody's predicts the UAE to experience a 27 percent drop in government revenue this year with a fiscal deficit of just 2.3 percent of GDP. In Saudi Arabia, income from oil accounts for about 90 percent of revenue, and the more than 50 percent drop in prices over the past year has led to a flurry of bond issues and a new government interest in reducing at least some capital spending (mostly in infrastructure investments). Other Arab Gulf states, including the UAE and Oman, are experimenting with reduced subsidies on gasoline products, electricity, and water, but not to the extent that will dramatically improve their budgets for 2015-16.

The fiscal positions of the GCC states are indeed shifting. IMF projections from late 2014 included negative growth well into 2017. By the May IMF Regional Economic Outlook report, the projections deteriorated. (See Figures 9 and 10.)

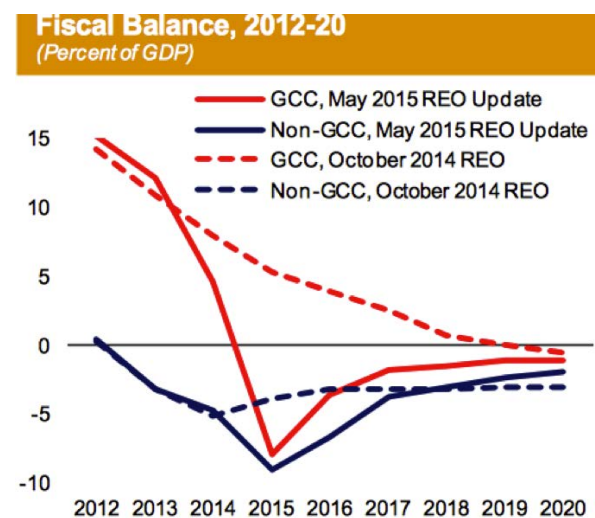
The financial sector of the GCC states could also face scrutiny. There is increasing pressure on retail

Figure 9: GCC Fiscal Positions: Change in Fiscal Balance as Percentage of GDP



IMF Regional Economic Outlook database, IMF Regional Economic Outlook, Middle East and Central Asia, October 2014.

Figure 10: IMF, Regional Economic Outlook, Middle East and Central Asia – May 2015



Sources: National authorities; and IMF staff calculations.

<http://www.imf.org/external/pubs/ft/reo/2015/mcd/eng/pdf/>

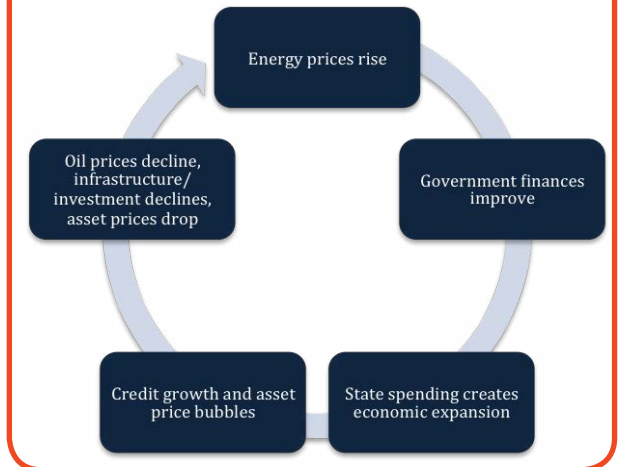
<sup>28</sup> Reuters, "IMF says it's committed to backing Liberia's recovery from Ebola," September 10, 2015, <http://af.reuters.com/article/guineaNews/idAFL5N11G4A120150910>.



banks, particularly for dollar-based deposits. This is because there is less cash being deposited in banks in the Gulf as governments, related entities, and national oil companies are key deposit holders, providing from 10 to 35 percent of banks' nonequity funding across the GCC. This puts additional pressure on bank systems and creates increased demand for U.S. dollar foreign exchange.

Debt markets are also shifting, as investment banks are eager to cater to new sovereign customers.<sup>29</sup> The reliance on state-backed entities in real estate and infrastructure may also change in the GCC, as governments are less willing to sign agreements with international lenders and investors. The model of state-led economic growth, fueled by high oil prices, focusing on infrastructure, real estate, and tourism industries is prone to a boom-bust economic cycle. The limits of financial architecture in the GCC are stretched when local banks extend credit to government-related entities and are also reliant on the government for deposits tied to oil revenue.<sup>30</sup> (See Figure 11.)

Figure 11: Energy price and market effects in GCC states



## Conclusion

The interdependence of markets in the GCC states with those of the advanced economies and the significant economies of the Global South are a result of 40 years of exceptional growth and innovative economic development planning. The continued innovation and transformation of the Arab Gulf states will require the same willingness to embrace change.

The possible spillover effects in the wider Middle East from a slowdown in Gulf economies will be important to watch. As so many regional economies are dependent on Arab Gulf states for foreign investment, aid, and remittances, a slowdown in the Gulf will also mean a contraction in these sites of economic intervention. This could mean additional social pressure on fragile political economies in Egypt, Jordan, Lebanon, and Pakistan. For countries like Yemen and Syria, a Gulf economic contraction could not come at a worse time.

Furthermore, the transformation of Arab Gulf economies, as they seek to diversify and reform labor markets to meet the demands of citizens and residents, will require financial resources and partnerships with the private sector, as well as disciplined fiscal policy.

The future of the MENA region in many ways depends on the economic resilience of the Arab Gulf states. But economic growth within the Arab Gulf states requires a reconsideration of the role of human capital, both national and expatriate, and considerable coordination of the regional political economy.

<sup>29</sup> David French, "Gulf firms turn to banks to fund big projects as state coffers squeezed - SocGen," September 9, 2015, <http://www.reuters.com/article/2015/09/09/ste-generale-mideast-idUSL5N11D22720150909>.

<sup>30</sup> Karen E. Young, "Economic Institutions on Demand," *Georgetown Journal of International Affairs* 16, no. 2 (Summer/Fall 2015), <http://journal.georgetown.edu/happy-birthday-un/>.

