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The Economics of Migrant Workers in the GCC

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The Economics of Migrant Workers in the GCC

By Omar Al-Ubaydli

Executive Summary

The presence of large migrant communities has made the Gulf Cooperation Council (GCC) countries a lightning rod for an immigration debate. Like many OECD (Organisation for Economic Co-operation and Development) countries, the GCC countries are a popular destination for people seeking a higher standard of living for themselves and their families back home. However, the unique cultural and economic circumstances of the GCC countries lead to an internationally distinct set of outcomes for the host countries, the migrant workers, and the source countries.

First, there is a desire for rapid economic growth coupled with a cultural aversion to many occupations associated with unskilled labor. This creates a massive demand for migrant workers, which the governments facilitate via open guest worker programs. The resulting economic returns to the sending and receiving country are magnified compared to the large benefits from migration that traditional advanced economies generate.[1]

Second, making it very easy for migrant workers to enter the GCC reduces the incidence of hazardous human smuggling, since such abuses are more likely in the presence of significant legal barriers to migration.[2]

Third, the novel problem of "visa trading" emerges, whereby international racketeers exploit weaknesses in the legal systems of sending countries and the dependence of receiving countries on immigrant labor to create a black market for migrant workers.

This paper analyzes these outcomes and discusses potential solutions to the most pressing challenges, most notably the problem of visa trading. On the whole, GCC migration confers very high economic returns to all parties involved and that it should be emulated elsewhere. Moreover, GCC countries should cooperate with sending countries to tackle the problem of

1 Ruhs, M., Martin, P. "Numbers vs. Rights: Trade-offs and Guest Worker Programs." *International Migration Review*, 42(1), 249-265. 2008. Hanson, G. "The Economic Consequences of the International Migration of Labor." *Annual Review of Economics*, 1, 179-208. 2009.

2 Djajic, S. "Dynamics of Immigration Control." *Journal of Population Economics*, 12(1), 45-61. 1999. Hanson, G. "The Economic Consequences of the International Migration of Labor." *Annual Review of Economics*, 1, 179-208. 2009. Casarico, A., Facchini, G., Frattin, T. "Illegal Immigration: Policy Perspectives and Challenges." *CESifo Economic Studies*. 2015.

visa trading, with an emphasis on encouraging sending countries to adopt the model of tight regulatory oversight pioneered by the Philippines.

International Migration: General Principles

Understanding the economics of GCC migration requires an understanding of the general economic principles of international migration. This is because GCC migration is largely no more than a generic form of international migration. Many misconceptions about GCC migration reflect deeper misconceptions about the economics of migration more generally.

Understanding the Effects of Migration

The reason that modern economies can sustain luxurious lifestyles, compared to the squalor of antiquity, is specialization and trade. In an efficiently functioning global economy, resources should be deployed in the geographical locale where they are most productive. In the Ricardian model of trade that most students encounter in introductory economics classes, that means that countries should specialize in producing the goods in which they have a comparative advantage (Japan producing cars), and that they should trade for the goods in which they have a comparative disadvantage (Japan exporting cars and importing oil). This model extends to the physical and human resources used in production: capital and labor should flow to where they are productive, and as compensation, profits, and wages are remitted home, such as when Chinese investors build a factory in Nigeria, or when migrants from Mexico work in the U.S. Therefore, barriers to the flow of resources and goods across political boundaries have adverse consequences on global productivity.

A good illustration of these principles is oil production in Saudi Arabia. In the early 20th century, geologists discovered large oil deposits that could be extracted cheaply. The growing, industrialized economies of the West would benefit greatly from a significant drop in the price of oil, while Saudi Arabia could use the revenues to develop its own economy. However, realizing these potential returns required Saudi Arabia to import capital and petrochemical engineers from the U.S., and, subsequently, to send its own citizens to study in top American universities. The removal of restrictions on the flow of capital and labor between the US and Saudi Arabia greatly benefited both countries and the entire global economy.

Skeptics sometimes claim that incoming migrant workers displace local workers because they are willing to accept a lower wage. It is analogous to the fear that technical progress or removing barriers to trade (such as tariffs) destroys jobs.

These negative views fail to account for the superior economic opportunities that arise in place of the departing ones. When immigrants from Mexico work as laborers in the U.S., this frees up Americans to take higher-productivity jobs, buoyed by the expansion in overall economic activity that results from the cheaper labor (lower construction costs mean more demand for houses and higher profits for construction companies). Similarly, when banks introduce ATMs, that allows human tellers to become banking sales associates, increasing the number of branches and banking jobs.[3]

3 Autor, David H. 2015. "Why Are There Still So Many Jobs? The History and Future of Workplace Automation." *Journal of Economic Perspectives*, 29(3): 3-30.

To date, no empirical study of migration has suggested that this economic model of the impacts of migration is wrong.[4] The evidence is so compelling that two of the world's most important global poverty-fighting institutions regard international migration as a win-win.[5] According to the World Bank, "Managed migration programs, including temporary work visas for low-skilled migrants in industrial countries… would contribute to significant reductions in poverty in migrant sending countries, among the migrants themselves, their families and, as remittances increase, in the broader community."[6] The United Nations Global Commission on International Migration recommended "carefully designed temporary migration programs as a means of addressing the economic needs of both countries of origin and destination."[7]

Empirical Evidence on the Effects of Migration

Prospective migrants think very carefully about migration, with economic considerations being paramount.[8] They tap migrant networks in receiving countries for information on possible opportunities, and use them as a support system upon arrival.[9] As such, the existence of 232 million international migrants in 2013,[10] combined with the persistence of large-scale international migration, together constitute compelling evidence that migration benefits migrants and their families back home.

When gauging the desirability of migration for the migrant, a common error is to compare the migrant's life in the receiving country to either the lives of residing citizens of the receiving country, or to some internationally-recognized benchmark on what constitutes a dignified life. If you want to assess if a Philippine citizen working in Japan made the right decision, then instead of comparing her circumstances to that of a Japanese citizen, the correct comparison is to the next best alternative available to her, which is likely to be staying in the Philippines and working for a much lower wage. In the case of sending countries experiencing brutal civil wars or natural disasters, the alternative to migration is so bad that even terrible conditions in the receiving country are superior to non-migration. Demagogues on both sides of the immigration debate use incorrect benchmarks as a means to building public support.

When the correct benchmarks are used, the available data supports the idea that migrant workers benefit from migration. McKenzie et al. (2006) found that Tongan migrants to New

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4 Hanson, G. "The Economic Consequences of the International Migration of Labor." *Annual Review of Economics*, Volume 1, 179-208. 2009.

5 Ruhs, M., Martin, P. "Numbers vs. Rights: Trade-offs and Guest Worker Programs." *International Migration Review*, 42(1), 249-265. 2008.

6 World Bank. "Global Economic Prospects 2006 : Economic implications of remittances and migration." Global Economic Prospects and the Developing Countries (GEP). Washington, DC, 2005.

7 Global Commission on International Migration. "Migration in an Interconnected World: New Directions for Action." 16, 2005. http://www.queensu.ca/samp/migrationresources/reports/gcim-complete-report-2005.pdf.

8 Grogger, J., Hanson, G. "Income Maximization and the Selection and Sorting of International Migrants." *Journal of Development Economics*, 95(1), 42-57. 2011.

9 Docquier, F., Peri, G., Ruyssen, I. "The Cross-country Determinants of Potential and Actual Migration." *International Migration Review*, 48(S1), S37-S99. 2014.

10 United Nations. "International Migration Report." Department of Economic and Social Affairs, Population Division. 2013. http://www.un.org/en/development/desa/population/publications/pdf/migration/migrationreport2013/Full_Document_final.pdf.

Zealand earned wages that were 263 percent higher on average[11] than they would have earned had they stayed home.[12] This is a microcosm of what happens all across the world. For example, in 2000, the average hourly wage for a 28-32 year-old male with 9-11 years of education was $2.40 in Mexico and $8.70 in the U.S.[13] Migrant workers earn higher wages in richer countries because their productivity is higher, as the legal and economic systems are superior and the other factors of production are of higher quality.

Higher wages allow the migrant to live a better life and also allow the migrant to help his or her family via remittances. Remittances are either used for essential consumption (food, utilities) or are invested in building human capital or businesses.[14] In fact, the children of households with migrant members are some of the greatest beneficiaries of remittances in terms of increased educational attainment.[15] Adams and Page (2005) collected data from 71 middle and less developed countries, and they found that a 10 percent increase in the share of outbound international migrants in a country's population led to a 2.1 percent decline in the poverty rate (living on less than a $1-a-day), while a 10 percent increase in per capita official remittances led to a 3.5 percent decline in the poverty rate.[16] In several Caribbean countries, in 2005, remittances were so important that they accounted for over 15 percent of GDP.[17]

Remittances are a more reliable source of income to poorer countries than development aid or foreign direct investment (FDI). In 2005, global remittances exceeded official development assistance in all regions except for Sub-Saharan Africa; they also exceeded 65 percent of FDI in all regions except for Europe and Central Asia.[18] In countries with ineffective financial systems, remittances provide an alternative way of financing investments and overcoming liquidity constraints.[19]

Martin et al. (2004) conducted an informative case study of the Philippines, a country that has essentially professionalized migration.[20] In 2004, approximately 7.4 million Philippine citizens resided abroad, remitting $8 billion, equal to 10 percent of the GDP, and also equal to the

11 McKenzie, D., Gibson, J., Stillman, S. "How Important is Selection? Experimental vs. Non-experimental Measures of the Income Gains From Migration." IZA Discussion Paper 2087. 2006.

12 The New Zealand-Tonga case in McKenzie at al. (2006) is a particularly informative estimate because it is based on a randomized visa program, i.e., a naturally-occurring form of randomized control, which allows researchers to be confident that wage differences are indeed the result of migration and not some other factor that was not considered.

13 Hanson, G. "The Economic Consequences of the International Migration of Labor." *Annual Review of Economics*, Volume 1, 179-208. 2009.

14 De Haas, H. "International Migration, Remittances and Development: Myths and facts." *Third World Quarterly*, 26(8), 1269-1284. 2005. Semyonov, M., Gorodzeisky, A. "Labor Migration, Remittances and Economic Well-being of Households in the Philippines." *Population Research and Policy Review*, 27(5), 619-637. 2008. Hanson, G. "International Migration and Development." *Equity and Growth in a Globalizing World*, 229-262. 2010.

15 Rapoport, H., Docquier, F. "The Economics of Migrants' Remittances." *Handbook of the Economics of Giving, Altruism, and Reciprocity*, Volume 2, 1135-1198. 2006.

16 Adams, R., Page, J. " Do International Migration and Remittances Reduce Poverty in Developing Countries?" World Development, 33(10), 1645-1669. 2005.

17 Hanson, G. "The Economic Consequences of the International Migration of Labor." Annual Review of Economics, 1, 179-208. 2009.

18 Ibid

19 Giuliano, P., Ruiz-Arranz, M. "Remittances, Financial Development, and Growth." Journal of Development Economics, 90, 144-152. 2009.

20 Martin, P., Abella, M., Midgley, E. "Best Practices to Manage Migration: The Philippines." International Migration Review, 38(4), 1544-1560. 2004.

combined contributions to the GDP of the domestic agricultural, forestry, and fishery sectors, which employed 12 million citizens.

Each year, one million Philippine citizens are deployed abroad as part of the government's willful structuring of the economy around migration as a source of income. This policy has been in effect for several decades. Extensive media coverage ensures that prospective migrants are highly informed about what to expect abroad before they make their final decision.

There are over 1,000 licensed recruitment agencies, regulated by the Overseas Employment Administration, which also provides pre-departure orientation, labor attachés at foreign consulates, and supporting bodies funded by fees collected from the migrants. The Office of Reintegration helps returning migrants start businesses, and it advises them on alternative investment opportunities. The 2002 Philippine Human Development Report concluded that going abroad increases the returns on investments in education and skills and that overseas work should be encouraged.[21] In addition to its strong economic returns, the Philippines program also demonstrates how a commitment to oversight can help diminish the incidence of the human rights abuses that befall a subset of migrants.

The reason that modern economies can sustain luxurious lifestyles, compared to the squalor of antiquity, is specialization and trade.

In the rich receiving countries, studies that focus on the overall impact on the economy are again positive. The World Bank and United Nations reports cited above confirm that receiving countries are beneficiaries of migration, in line with basic economic theory. A Federal Reserve Bank study found that in the case of the U.S., immigration had no significant effect on job growth for U.S. born workers. As it has done throughout its immigration-laden history, the U.S. economy absorbs immigrants by expanding job opportunities rather than displacement—the would-be laborer goes on to bigger and better things once the migrant laborer accepts the laboring job for a lower wage, and consumers benefit from lower food prices.[22] Moreover, the same study exploits variation in immigration across states to deduce that at the state level, the presence of immigrants is associated with higher labor productivity. This phenomenon emerges in the medium-to-long run as businesses adjust their use of capital to the expanded availability of cheap labor.

Challenges

Deception and coercion during the migration process can lead to socially undesirable migration. Human smuggling also involves hazardous transportation methods. These practices appear to be growing due to global inequality.[23] Currently, the only effective way to eliminate global inequality is mass migration, which is politically unacceptable to richer countries. As long as civil wars and natural disasters continue to strike many of the world's countries, there will be a large number of people willing to risk death to migrate, creating profit opportunities for migration racketeers who can easily operate in the weak legal environments of the poorest

21 United Nations Development Programme. "Phillipines Human Development Report." 2002. http://www.hdr.undp.org/en/content/philippines-human-development-report-2002.

22 Peri, G. "The Effect of Immigrants on U.S. Employment and Productivity." FRBSF Economic Letter 2010-26. 2010.

23 Aronowitz, A. "Smuggling and Trafficking in Human Beings: The Phenomenon, the Markets That Drive It and the Organisations That Promote It." *European Journal on Criminal Policy and Research*, 9(2), 163-195. 2001.

sending countries.

Long-term solutions (apart from mass migration) require significant coordination between sending and receiving countries. The strength of the transnational criminal organizations that oversee the smuggling and trafficking means that when a country acts alone, it succeeds only in redirecting the victims to other countries. Moreover, sending countries are typically too poor to tackle organized crime.

An additional challenge is that the efforts of rich receiving countries to decrease inward migration typically accentuate problems such as smuggling and trafficking, because making it harder for migrants to enter a country makes organized crime more lucrative.[24]

It should be noted, however, that there are some success stories. Interviews with experts and immigration officials indicate that human smuggling and trafficking of Philippine citizens is not a major problem,[25] due to the aforementioned government oversight. Notably, the Philippines is a poor country (ranked 153rd in terms of GDP per capita in 2014),[26] meaning that the adoption of its system by other sending countries is a realistic goal.

Migrant Workers in the GCC

The GCC countries are typical receiving countries: the local economy benefits from lower production costs and hence consumer prices, the migrants benefit from higher productivity and hence wages, and the sending countries benefit from the remittances. Examining the details of GCC migration reveals unique features that merit further consideration.

Labor Markets in the GCC

The GCC countries are a popular destination for migrant workers primarily due to their high per capita incomes. The GCC countries also need to import labor for two primary reasons.[27] First, their formal education systems are young; they need to import skilled labor to grow. Second, there is a cultural aversion to certain types of low-skilled labor; as such, they also need to import unskilled labor. Figure 1 shows the labor force for each GCC country broken down into nationals and foreigners. Foreigners account for at least 75 percent of the labor force in all but Saudi Arabia.

Given the huge demand for foreign labor, GCC immigration systems must make legal entry easy for large numbers of workers. They use the *kafala* system, whereby individuals and companies can sponsor guest workers subject to minimal administrative procedures. Unlike, for example, the U.S. H1B visa, there is no need for a prospective GCC sponsor to demonstrate

24 Djajic, S. "Dynamics of Immigration Control." *Journal of Population Economics*, 12(1), 45-61. 1999. Hanson, G. "The Economic Consequences of the International Migration of Labor." Annual Review of Economics, 1, 179-208. 2009. Casarico, A., Facchini, G., Frattin, T. "Illegal Immigration: Policy Perspectives and Challenges." *CESifo Economic Studies*. 2015.

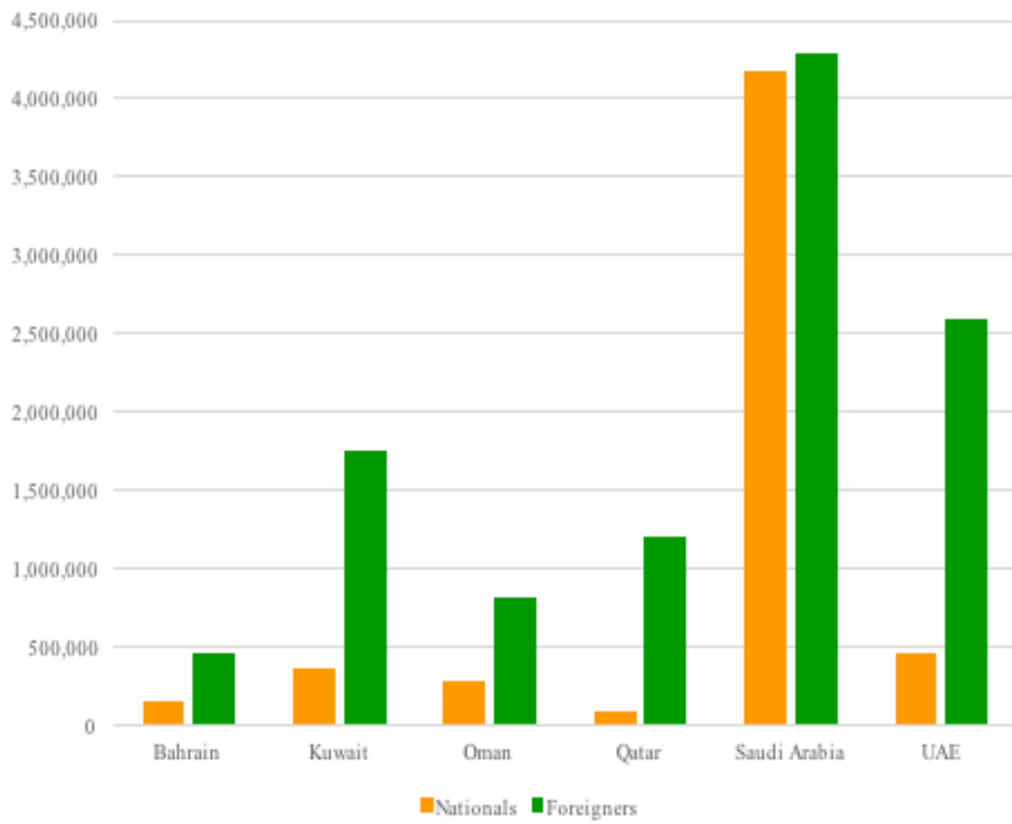
25 Aronowitz, A. "Smuggling and Trafficking in Human Beings: The Phenomenon, the Markets That Drive It and the Organisations That Promote It." *European Journal on Criminal Policy and Research*, 9(2), 163-195. 2001.

26 Central Intelligence Agency. "The World Factbook: Comparison by GDP per capita (PPP)." 2015. https://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html.

27 Naufal, G. "The Economics of Migration in the Gulf Cooperation Council Countries." *Handbook of the Economics of International Migration*, Volume 1B, 1597-1640. 2014.

that the local labor force is unable to fill the employer's vacancy, or that the prospective migrant worker is of a sufficiently high education level.

Figure 1: GCC Countries' Labor Forces

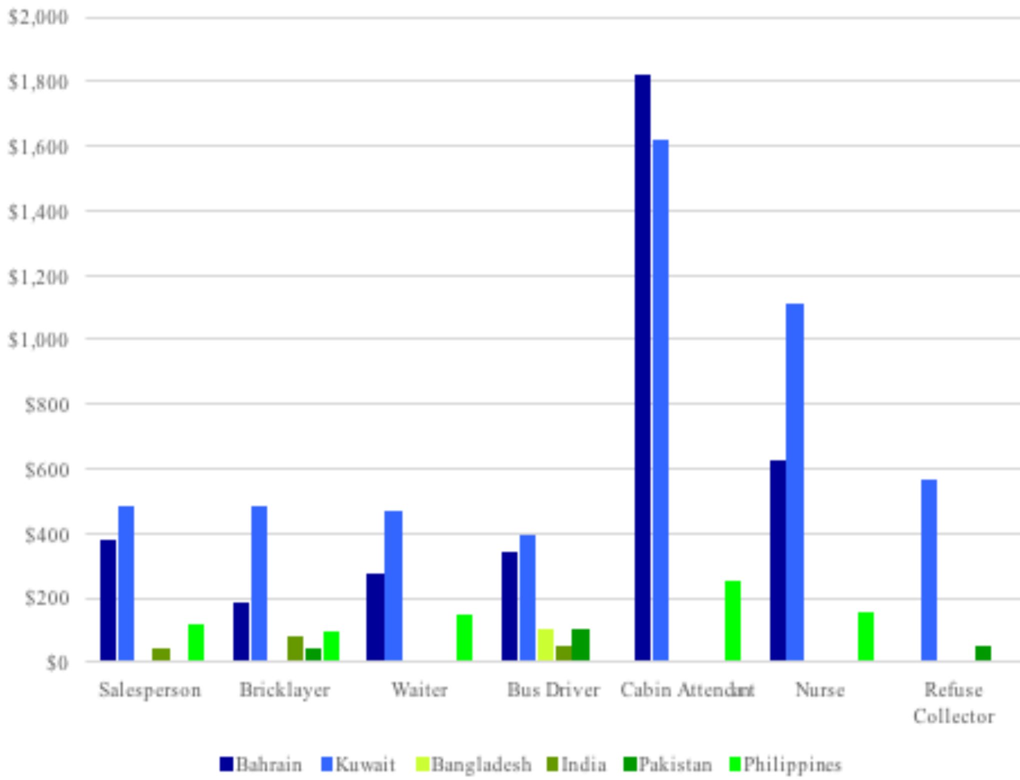


Baldwin-Edwards, M. "Labour Immigration and Labour Markets in the GCC Countries: National Patterns and Trends." Kuwait Programme on Development, Governance, and Globalisation in the Gulf States, Research Paper 15. 2011.

One result of lax borders is an amplification of the economic returns accruing to all migration stakeholders. Figure 2 shows data for seven occupations dominated by migrant workers. For each occupation, the monthly wage is shown for two GCC countries (Bahrain, Kuwait), in addition to the four important sending countries: Bangladesh, India, Pakistan, and the Philippines. The data suggests that by coming to the GCC, the migrant workers are earning significantly more than they would had they performed the same job at home. For example, a refuse worker in Pakistan earns $47 per month; in contrast, refuse collectors in Kuwait (all of whom are migrant workers) earn a monthly wage of $560. In the 1970s, Egyptians coming to Saudi Arabia could earn up to 30 times as much as they would at home,[28] a primary reason why large numbers of migrant workers voluntarily head to the GCC every year.

28 Ibid

Figure 2: Monthly Wage Comparisons for Various Migrant Worker Dominated Occupations in the Early 2000s



International Labour Organization. "LABORSTA Labour Statistics Database." Geneva, 2010. http://laborsta.ilo.org. Bahrain data is from 2005, Kuwait is from 2004, Bangladesh is from 2007, India is from 2000, Pakistan is from 2004, and Philippines is from 2006.

Figure 3a shows total remittances to the five biggest source countries (Bangladesh, Egypt, India, Pakistan, Philippines) in 2010 for the GCC countries and for a selection of other top remitters. The GCC countries remitted approximately $45 billion, a remarkable figure given how small their economies are. Figure 3b shows remittances per capita for 2010. The GCC countries dwarf other popular destinations for migrant workers, such as the U.S. and the UK. For example, for every person living in Qatar, over $2,000 were remitted to the five source countries, compared to $66 in the U.S.

Figure 3a: Remittances to Bangladesh, Egypt, India, Pakistan, and the Philippines in 2010 (millions)

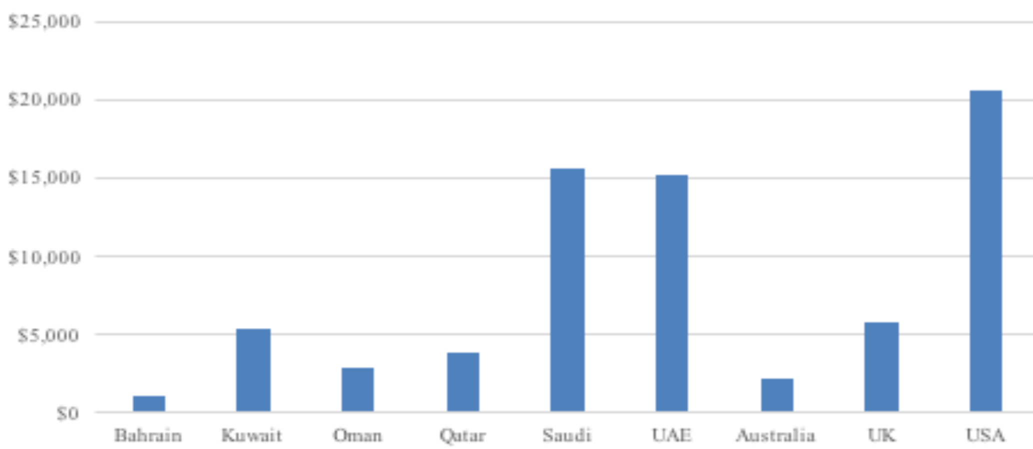
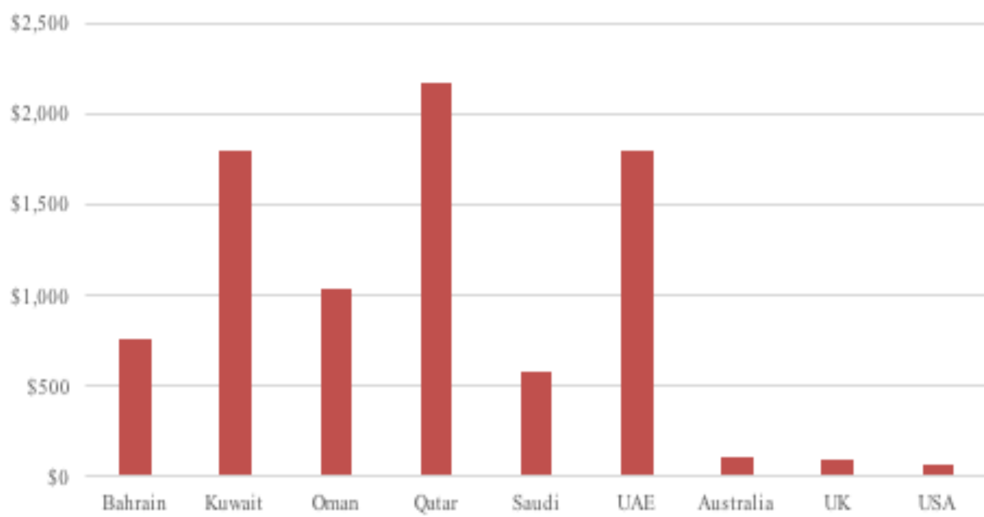


Figure 3b: Remittances Per capita to Bangladesh, Egypt, India, Pakistan, and the Philippines in 2010



The World Bank. "Migration Remittance Factbook 2011: Annual Remittances Data." http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:22759429~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html.

Table 1: Remittances Per Capita to All Countries in 2010

Country	Total Remittances Per Capita	World Rank
Andorra	$4,494	1
Macao SAR, China	$3,317	2
Monaco	$3,255	3
Northern Mariana Islands	$3,190	4
Qatar	$3,188	5
Kuwait	$2,136	6
Hong Kong SAR, China	$2,102	7
United Arab Emirates	$1,865	8
Luxembourg	$1,840	9
Liechtenstein	$1,484	10
Guam	$1,163	11
Singapore	$1,135	12
Oman	$1,099	13
Bahrain	$807	17
Saudi Arabia	$784	18
Australia	$611	24
United States	$355	36
United Kingdom	$335	39

The World Bank. "Migration Remittance Factbook 2011: Annual Remittances Data."
http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:22759429~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html.

Table 1 shows total remittances per capita to all countries (not just the top five source countries). The GCC countries are in the top 18 in the world, and include three of the top ten.

Figure 4a: Size of Immigrant Population in Bahrain in 2010

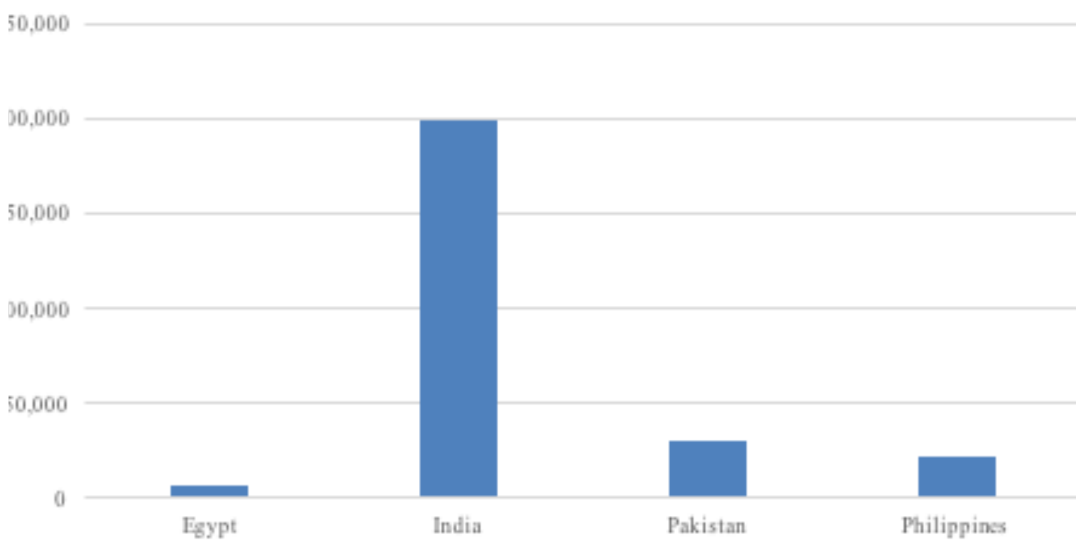
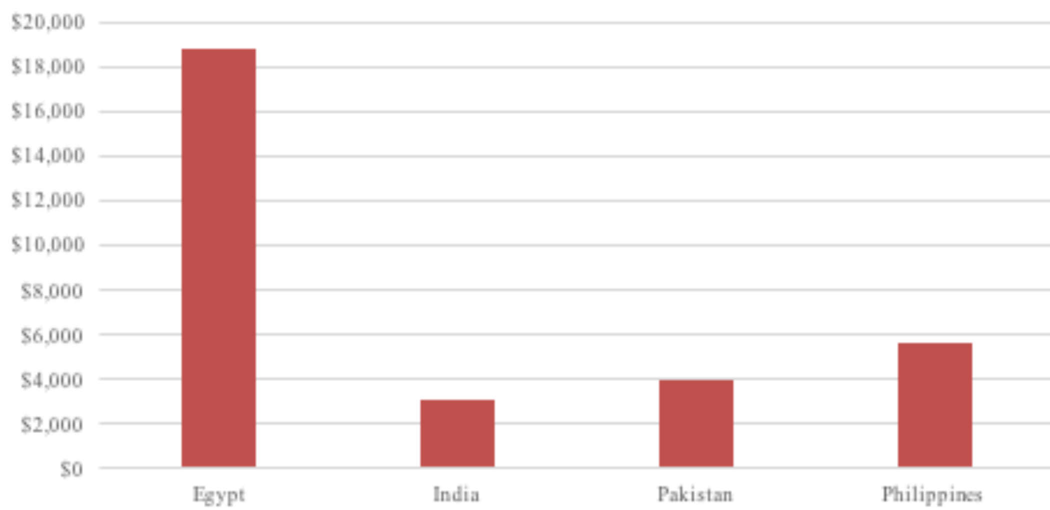


Figure 4b: Remittances per Immigrant in Bahrain in 2010



Bahrain Central Informatics Organization. "Estimated Population by National and Sex." http://www.cio.gov.bh/cio_eng/Stats_SubDetailed.aspx?subcatid=604.
The World Bank. "Migration Remittance Factbook 2011: Annual Remittances Data." http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:22759429~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html.

Figure 4a shows the size of some of the immigrant populations in Bahrain, whereas Figure 4b shows the remittances per immigrant for that population. In 2010, each Egyptian immigrant in Bahrain remitted an average of $19,000 to Egypt.

The above data supports the view that by employing laxer visa regulations than those found in OECD countries, GCC countries have amplified the economic benefits of migration. The notion that migrant workers in the GCC on the whole are suffering or exploited seems inconsistent with the data. Huge numbers of migrant workers have come and continue to come. They earn more than they would back home and they remit large amounts to their families, which in turn results in critical educational investments and helps lift families out of poverty. An implicit endorsement of this view can be found in the Philippines migration project, the benchmark for professional oversight: of the 900,000 Philippine citizens deployed in 2002, over 30 percent went to the GCC.[29]

Human rights organizations have been critical of the situation of migrant workers in the GCC. Yet even they are quick to point out the positives: a report signed by over 40 of the world's leading human rights organizations drew attention to the fact that "migrants in the Gulf make an important contribution to both the economies of their own countries and those of the countries where they work. In 2011, migrant workers in the GCC countries sent home more than $60 billion in remittances."[30]

A Unique Blend of Challenges: Visa Trading

The above data on the economic upside of migration to the GCC allows us to paint a picture of accentuated benefits. The downsides of migration are forms of clandestine behavior, which is difficult to obtain reliable data on, and therefore international comparisons are challenging.

From private conversations with migrant worker rights representatives in the GCC, it is evident that the ease of getting a visa to work in the GCC significantly reduces the need for risky methods of human smuggling. This is consistent with the finding that increasing immigration restrictions incentivizes bigger risks by migrants as they seek to smuggle themselves across borders.[31] Raising the costs of immigration has also been shown to increase the incidence of debt bondage.[32] GCC countries' lax borders instead create a different problem that has become a distinctive characteristic of GCC labor markets: visa trading.[33]

Visa trading describes a situation where a migrant is sponsored for a specific position and then, upon their arrival in the host country, the migrant performs a substantively different job. This can be because the sponsor has unofficially "sold" the worker's visa to another sponsor, whom the worker now answers to informally. Alternatively, it can be because the original sponsor never intended for the worker to perform the job cited in the visa, and the worker is "released" into the black market to earn a living in exchange for financially compensating the sponsor. The key distinction between visa trading and conventional illegal immigration is that under visa trading, the worker enters the host country with sound work-related paperwork, but then

29 Martin, P., Abella, M., Midgley, E. "Best Practices to Manage Migration: The Philippines." *International Migration Review*, 38(4), 1544-1560. 2004.

30 Human Rights Watch. "Gulf Countries: Increase Migrant Worker Protection." 2014. https://www.hrw.org/news/2014/11/23/gulf-countries-increase-migrant-worker-protection.

31 Djajic, S. "Dynamics of Immigration Control." *Journal of Population Economics*, 12(1), 45-61. 1999. Hanson, G. "The Economic Consequences of the International Migration of Labor." *Annual Review of Economics*, 1, 179-208. 2009.

32 Joarder, M., Miller, P. "Empirical Evidence on Human Trafficking and Migration-debt Contracts in Bangladesh." *Journal of Development Studies*, 50(3), 399-412. 2014.

33 Shah, N. "The Management of Irregular Migration and its Consequence for Development: Gulf Cooperation Council." ILO Asian Regional Programme on Governance of Labour Migration Working Paper 19. 2009.

subsequently enters the black market. In contrast, under conventional illegal immigration, either the entry is illegal, or it is for a non-work related purpose.

Hiring visa traded workers via the black market is attractive to sponsors because it allows them to bypass recruitment fees and to deny workers their full rights, such as housing, medical, and travel expenses. Unlike formal work contracts, the relationship can be instantly dissolved, too. However, due to the clandestine nature of the relationship, holding the worker legally accountable is more difficult, and it is harder to perform background checks on formal qualifications and skills. The original sponsor often avoids sanctions by registering the sponsored worker as "missing" after entry, while the absence of a formal relationship between the current employer and the worker protects the employer from sanctions. Workers who are sufficiently poor are often willing participants in the visa trading enterprise because of their poverty, despite the threat of sanctions, since the GCC black market still offers superior income to what they might earn at home. However, for many, the benefits are wiped out by predatory intermediaries who deceive prospective migrant workers into incurring large debts that are virtually impossible to pay off. Many are exploited by those who hire them via the black market since they have no legal recourse when, for example, an employer refuses to pay the worker's salary.

GCC countries may wish to consider providing their own loans to prospective migrants and managing those loans in a manner profitable to the GCC countries and non-exploitative for the migrant workers.

Tackling Visa Trading

A consistent theme in global migration is the need for multilateral cooperation. In the case of visa trading, sending countries can do little about the sponsors in the receiving country who are willing to deceive authorities and migrants. Receiving authorities do not have the manpower to police 75 percent of the labor force. Moreover, holding businesses accountable for employing undocumented migrant workers is historically an unsuccessful strategy, as employers lobby against it.[34]

Equivalently, there is little receiving countries can do to stop visa trading if predatory intermediaries in the sending countries are willing to deceive prospective migrants and sponsors. One of the techniques that are particularly difficult to combat is trapping prospective migrants in debt, as it leaves them at the mercy of the unscrupulous intermediary.

However, sending countries should emulate the Philippines migration management model. Migrant workers from the Philippines are underrepresented in the GCC free visa problem, especially in the exploitative forms that involve deception. In contrast, Bangladeshi citizens are overrepresented because low education levels, extreme poverty, and the ineffectiveness of Bangladeshi policymakers create a fertile ground for predatory intermediaries to exploit.

For example, the Philippines is a signatory to numerous U.N. human trafficking resolutions, including the Protocol to Prevent, Suppress and Punish Trafficking in Persons, whereas Bangladesh and Pakistan are not. According to the U.S. Trafficking in Persons (TIP) Report, the Philippines is consistently classified as a "Tier 2" country, meaning that while the government

34 Chau, N. "Strategic Amnesty and Credible Immigration Reform." *Journal of Labor Economics*, 19(3), 604-634. 2001.

does not fully comply with international minimum standards, it is making significant efforts to achieve compliance. The 2015 TIP report described government efforts at preventing trafficking as “robust.” [35]

Advocating sending countries’ adoption of the Philippines model may appear to be shifting responsibility for a shared problem on to the poorer country. However, it is a response to the realistic effectiveness of the various policy options. Visa trading creates losers in both sets of countries, but the biggest losers are the deceived migrants. As the Philippines has demonstrated, much of that problem can be dealt with by having the right oversight in the sending country. Similarly, the efforts of the U.S. government have shown that the receiving country can do very little to tackle exploitation that starts in the sending country.

In terms of the policies that can be controlled by GCC policymakers without the need to coordinate with sending countries, one strategy is to try to expand the earnings opportunities available to workers under their official sponsor. Existing labor market regulations prevent migrant workers from working for multiple sponsors, which creates an incentive for this to occur illicitly via visa trading. A recent proposal put forward by GCC business leaders is to permit a worker’s services to be legally rented out to other individuals and businesses. This undermines a key advantage of visa trading, which helps keep migrant workers away from the black market, thereby allowing them and those who purchase their services to enjoy the usual protections offered by authorities.

These “liberalization” type solutions are attractive because those that involve more restrictions and enforcement can be damaging to the economy and are likely to be opposed by multiple stakeholders, including the migrant workers under certain conditions. For example, efforts by the Saudi government to deport undocumented construction workers in 1997 as part of an amnesty led to an increase in construction sector wages of 200 percent—a huge blow to the sector.

Another recent suggestion is the creation of incentives for migrant workers to leave after the conclusion of their contracts, since an important source of free visa workers is illegal overstays. [36] For example, contracts can stipulate that the receipt of a certain proportion of earnings and pensions can be conditional on the worker repatriating at the end of the contract. However, there would still be a risk of exploitation by intermediaries in the sending country. Thus, the adoption of a Philippines style model would be a welcome component of such a strategy.

On the grounds of effectiveness, tackling the practice of predatory intermediaries trapping prospective migrants in debt before they leave their home country should be spearheaded by the sending countries themselves. However, the GCC countries may wish to consider providing their own loans to prospective migrants and managing those loans in a manner that is profitable to the GCC countries and non-exploitative for the migrant workers. For example, the manner in which student loans are administered by the U.S. government may be a useful departure point.

35 U.S. Department of State. “Trafficking in Persons Report.” 2015. http://www.state.gov/j/tip/rls/tiprpt/2015/index.htm.

36 Djajic, S., Vinogradova, A. “Guest Workers: Adequate Incentives for Voluntary Return.” Graduate Institute of International Development Studies, Working Paper 13. 2013.

Conclusion

Two University of Chicago professors recently argued that the best way to tackle global inequality is for the U.S. to emulate Qatar.[37] The authors pointed out that inequality between borders dwarfs that found within borders. For example, the poorest five percent of Americans make around $3,500 a year, which exceeds the annual earnings of around 60 percent of the world's population. Accordingly, the primary focus of those who are averse to inequality should be the global variety rather than the national one. The authors concluded that GCC countries' immigration policies are highly effective methods for combating global inequality because of the massive increases in earnings experienced by the migrant workers compared to the alternative of remaining in their home country. Mimicking GCC immigration policies is far more effective than foreign aid and human rights campaigning, and that it is worth tolerating the undesirable corollaries of such policies in light of their power in reducing inequality. Posner and Weyl poignantly remarked:

> We citizens of OECD countries take pride in our political and civil rights, and our generous welfare systems. Yet we maintain our high standard of living by giving no rights and trivial money to people who live outside our arbitrary borders. While we fuss over whether we should raise or lower our marginal tax rates, we ignore the plight of the most desperate people in the world. And yet we are surprised that leaders of China and the GCC accuse us of hypocrisy when we criticize their records on human rights.[38]

The GCC countries' immigration policies are based on self-interest and not any above-normal weight on humanitarian concerns. That many impoverished people benefit is a fortunate by-product. However, by the same token, the GCC countries are also no less humanitarian when it comes to immigration policy than their OECD counterparts. Making it increasingly physically hazardous to migrate to an OECD economy in an effort to convince people from poorer countries to stay home does not constitute a more humanitarian policy stance than the existing alternatives.

To make the comparison more stark, consider the following thought experiment: if the leaders of the developing world were asked if they would like OECD countries to adopt GCC immigration policies or maintain their current policies, which would they choose? Similarly, if the same leaders were asked if they would like GCC countries to adopt OECD immigration policies or maintain their current policies, which would they choose? My educated guess, based on the economic data, is that they would prefer the GCC policies in both cases, and decisively so. Posner and Weyl seem to agree. Picking between these two options should not, however, be confused with claiming that the favored option is the best possible policy.

GCC immigration policies suffer from significant drawbacks, many of which are shared with OECD immigration policies, and some of which are unique consequences of the GCC kafala system and the relative openness of its borders. As a responsible member of the international community, the GCC must always seek to improve the lives of its workforce, migrants and

37 Posner, E., Weyl, G. "A Radical Solution to Global Income Inequality: Make the U.S. more like Qatar." New Republic. 2014.

38 Ibid

non-migrants.

The immigration reform efforts of receiving countries should also be complemented by reform efforts by sending countries. Migration creates a large economic pie; nefarious actors will try to secure a slice through coercion and deception. The governments of the sending countries are best placed to intervene. The experience of the Philippines—a poor country by international standards—confirms that effective measures are at their disposal.

Ironically, many of the best lessons that U.S. policymakers can take from the GCC migration experience can also be discerned from a look at the U.S.'s own history of highly effective immigration. The single most important recommendation concerns the fundamental mentality toward migrants. When working alone or when cooperating with other governments, the US is currently fixated on convincing prospective migrants to stay at home or go elsewhere, inadvertently condemning them to poverty or to an increased likelihood of abuse by intermediaries. Part of this is due to its insistence on paving a path to citizenship for prospective immigrants. A guest worker program would be of significant economic benefit to the U.S., and would assist it in its global humanitarian goals. To avoid the problem of visa trading, the U.S. should wield its considerable international influence to support the adoption of the Philippines model. Crucially, this should be presented under the premise: "We want to help your government ensure that people get to the U.S. safely for everyone's benefit," rather than: "We want to help your government prevent its citizens from coming to the U.S."

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