

WHERE DOES THE MONEY GO?

REMITTANCES FLEEING THE GCC COUNTRIES

By George Naufal (gnaufal@aus.edu) and Ali Termos (atermos@aus.edu)

Background

In the last two decades remittances have been increasing tremendously. In fact, for several least developed countries remittances already outweigh Foreign Direct Investment (FDI). The increase in the stock of international migrants and the reduction of fees for transferring money have spurred a huge increase in the international flow of migrant's remittances. The latest estimates from the World Bank value the remittances flows in 2007 to be around US\$ 318 billion (Migration and Remittances, Factbook 2008). Note here that remittances are the amount of money sent by migrants to their family and friends back in the home country. All the values of remittances are based on the official estimates of countries' Central Banks and the World Bank. The monetary transfers that are not channeled through financial institutions and International Service Providers (such as Western Union) go undocumented. Therefore the official values are an underestimate of the actual remittances transfers.

Most of the Gulf Cooperation Council (GCC) countries have experienced a strong economic growth in the last decade. The main force behind this growth is a strong labor force which is mainly formed by expatriates. The GCC countries have been a preferred destination for workers from South Asia for years largely due to its geographical proximity. However, the late economic surge backed by a strong political stability, the GCC has attracted foreign labor from all over the world. This huge influx of expatriates produced one of the most diverse human capital stock in the world. Still, as diverse as the subset of expatriates is, expatriates share one common goal: to send as much money back home as possible.

Most expatriates in the GCC are not allowed ownership of property nor adjustment for their legal status. All these factors have rendered the GCC countries as a temporary destination for thousands of foreign workers. Therefore it is expected that expatriates move to the GCC countries to remit money back home.

Expatriates in the GCC

None of the studies on remittances have looked at the economic effects of remittances on the sending country. The reason is that in most sending countries, migrants do not constitute a significant portion of the total population. The GCC countries are unique in this regard since the expatriates population constitute on average around 50.4% of the total population with the highest being 78.3% (Qatar) and the lowest is 24.5% (Oman) (Table 1).

Table 1: Expatriates and GDP in the GCC

Country	% of Population as Expatriates (2005)	Top 10 Source Countries	Income Per Capita (2006)	Mean Annual GDP Growth (2002-2006)
Bahrain	40.7	India, Saudi Arabia, Egypt, Iran, Sudan, Algeria, Morocco, Iraq, Yemen and Syria	14,370 \$	6.2%
Kuwait	62.1	Saudi Arabia, United States, Canada, India, United Kingdom, Australia, Netherlands, Denmark, Sweden and France	30,360 \$	8.3%
Oman	24.5	India, Bangladesh, Pakistan, Egypt, Sri Lanka, Philippines, Sudan, Jordan, United Kingdom and Netherlands	9,070 \$	2.1%
Qatar	78.3	-	-	9.4%
Saudi Arabia	25.9	India, Egypt, Pakistan, Philippines, Bangladesh, Yemen, Indonesia, Sudan, Jordan and Sri Lanka	12,510 \$	4.9%
UAE	71.4	-	23,950 \$	8.2%

Notes: 1. The source is Migration and Remittances, Factbook 2008. We preferred to report the income per capita for Qatar from the source rather than showing a measure from another source to keep consistency.

The top source of expatriates across the GCC countries is India. In fact, out the top 10 migration corridors in the World, the India – UAE and India – Saudi Arabia corridors rank 4th and 9th. The next common country source are Egypt (Egypt – Saudi Arabia migration corridor is ranked 10th in the World), Pakistan, Philippines, Jordan, Sri Lanka and Bangladesh. As mentioned earlier, the GCC countries were able to attract labor force from the Western world as seen in Kuwait and Oman (United States, United Kingdom, Denmark, Netherlands, Sweden and France).

Furthermore, Figure 1 ranks the top 10 countries by the highest immigrants as a percentage of their populations (Migration and Remittances, Factbook 2008). Among the top 10 countries in the world, four belong to the GCC (Qatar, United Arab Emirates, Kuwait and Bahrain).

Figure 1:
% of Population as Expatriates by Country 2005

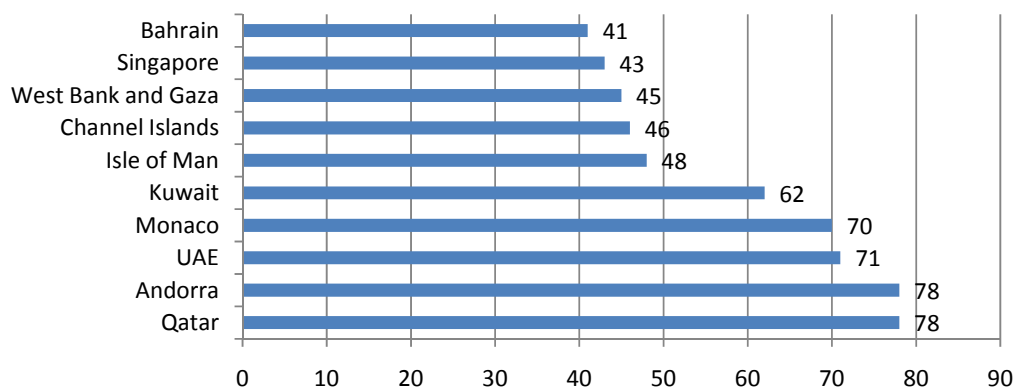
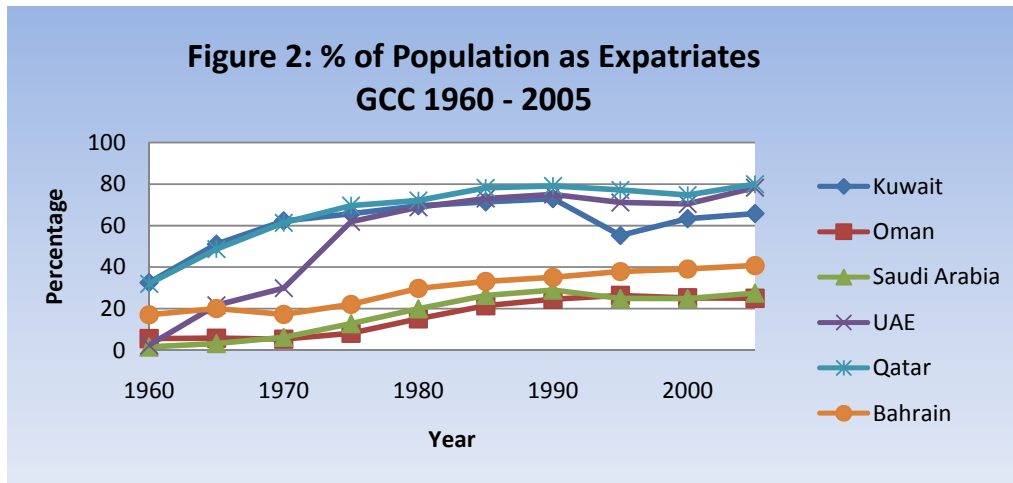


Figure 2 shows the percentage of population as expatriates for all six GCC countries from 1960 to 2005 (World Development Indicators). The percentages are of five year increments due to data availability. Kuwait, Qatar and the United Arab Emirates are all on a much higher scale than the other three countries. All six countries exhibit a positive trend of percentage of population as expatriates.



Remittances from the GCC

The Middle East is considered one of the top destinations for migrant remittances. In fact, the Middle East has two countries in the top 10 remittance receiving countries in 2006 as a percentage of their Gross Domestic Product (GDP). Lebanon and Jordan rank 8th and 10th in the world in terms of receiving remittances as a percentage of their GDP with 23% and 20% respectively.

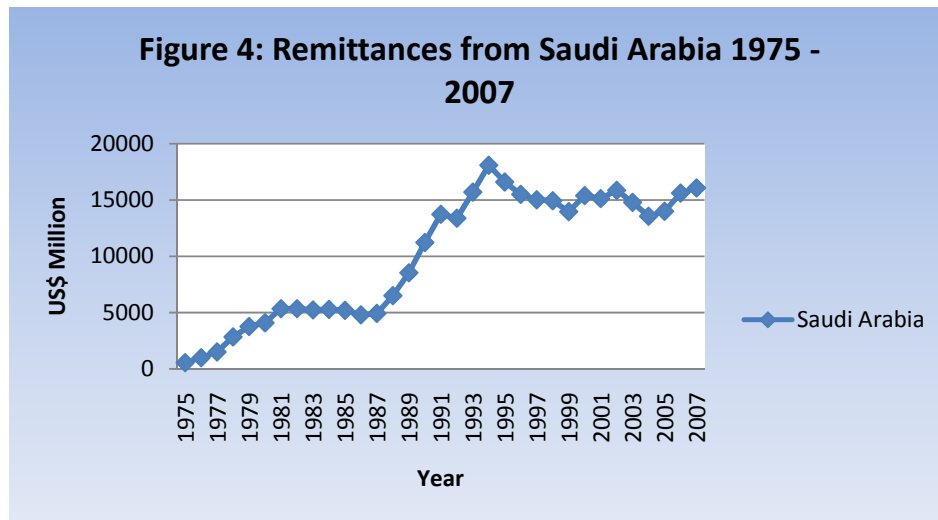
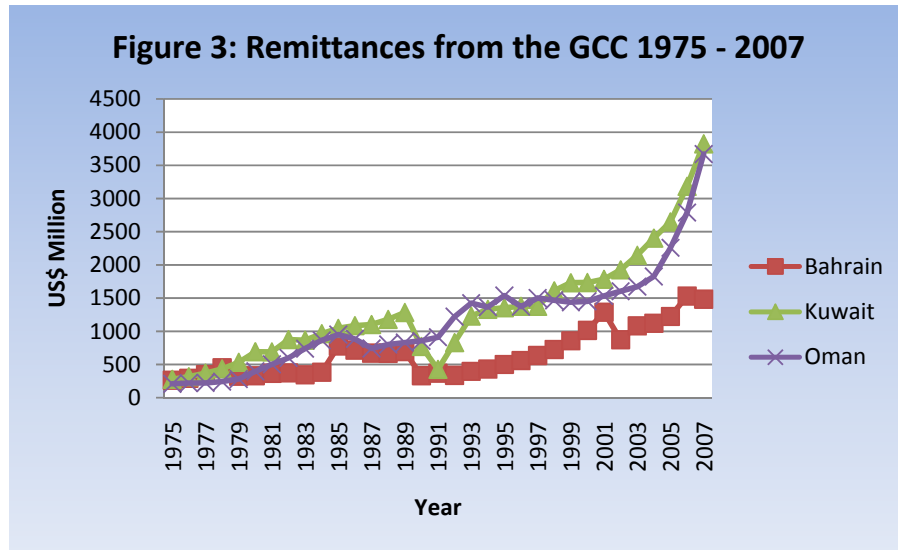
Nevertheless, the GCC countries exhibit an opposite remittance behavior. The GCC countries are considered senders rather than receivers. Actually, Saudi Arabia was the second top remittance sending country in the World in 2006 with an estimated value of remittances close to 16 US\$ billion behind the United States. Kuwait, Oman and Bahrain all show up in the top 30 sender countries in terms of estimated value. On a different scale, Bahrain ranks 4th in the World as a top remittance sender country with remittances equal to an astonishing 12% of its GDP. Saudi Arabia and Kuwait both remit 5% and 4% worth of their GDP (Table 2).

Table 2: Remittances Values from the GCC 2006

Country	Remittances Sent US\$ Billion	Rank in the World	Remittances Sent Percent of GDP	Rank in the World
Bahrain	1.5	30 th	12	4 th
Kuwait	3.0	18 th	4	12 th
Oman	2.8	21 st	5.8*	-
Qatar	-	-	-	-
Saudi Arabia	15.6	2 nd	5	9 th
UAE	-	-	-	-

Notes: 1. The source is Migration and Remittances, Factbook 2008. 2. Data not available for Qatar and United Arab Emirates. 3. * is for 2007.

Figure 3 shows the sums of remittances sent from Bahrain, Kuwait and Oman in the last three decades. Remittances sent from Saudi Arabia are shown in Figure 4 for scaling purposes.



Figures 3 and 4 both show a consistent increase in the monetary transfers from all four countries in the last 30 years. However, Saudi Arabia differs from Oman and Kuwait in terms of the timing of the largest surge in the value of remittances. Remittances peaked in Saudi Arabia in the late eighties and early nineties while in Oman and Kuwait this surge happened in the early 2000s.

Potential Effect of Remittances on Sending Economies

Past research on remittances has focused mainly on the effects of these monetary flows on the receiving economies. These studies have significantly ignored the impact of remittances on the sending economy. The main reason is the fact that normally the monetary leakage out of these economies is negligible if taken as percentage of GDP. However, this is not the case for the GCC economies. In fact we can argue that GCC economies are unique in the sense that outflow remittances constitute a large size of their GDP and therefore deserve a special attention (Table 2). In what follows we highlight the major concerns of the impact of the outflow remittances of GCC on their economies.

1. Pressure on exchange rates: remitting money home by expatriates distorts the market of exchange rate by placing pressure on foreign reserves. As GCC countries peg their currency to the U.S. dollar, by remitting money, the expatriates are converting the local currency into a more easily converted and widely accepted currency like the dollar. Thus exerting additional pressure on GCC central banks to keep high foreign reserves in order to maintain the pegged exchange rate.
2. Pressure on fiscal policy: given the sheer size of the money fleeing the economy, it is expected that this would weaken the performance of the fiscal policy. The growing size of these remittances adds downward pressure on the government spending multiplier. In other words, when the government plans to boost spending in case of recession, this spending level should be relatively higher to compensate for the higher remittances.
3. Pressure on monetary policy: it is argued that the monetary policy of the GCC countries is closely linked to the U.S. monetary policy because of the pegging of their currencies to the dollar. Therefore, interest rates volatilities follow that of the United States. However, the pressure of remittances is felt on the money supply and therefore on the money multiplier. This issue gets more amplified when the GCC economies get united under one monetary union.
4. Pressure on investment. The lack of re-investing expatriates money in the GCC economies hinders the real business cycle dynamics. As the money made in these countries is not fully recycled domestically. Thus, that puts a downward pressure on the investment multiplier.
5. Rise of underground economic activities. The possibility of money laundering being transformed or legalized through remittances is of a grave concern. In general, to remit money, expatriates use conventional methods such as financial institutions (local and foreign banks, International Service Providers) and relatives and friends visiting home. However, due to cost effectiveness some expatriates prefer the Hawala system (the money is transferred through a system of individuals and agents located in the sending and receiving countries).

What can be done?

The limited human capital in the GCC countries has made any economic growth contingent on a large expatriate population. One of the consequences of the dependency on foreign labor is the monetary leakage that is associated with expatriates sending money back to their families.

The monetary transfers from the GCC countries have experienced dramatic increase over the last two decades placing the GCC countries among the top remittance senders in the World. Some GCC countries are already sketching policies to prevent these huge amounts of leaving their countries. The ultimate objective is to direct this money into domestic investments. For that to happen, the goal is to make expatriates feel more at home. The following are some suggestions for policy makers that should help reduce the flow of remittances from the GCC countries:

1. Allow full or partial foreign ownership of property
2. Making family reunions for blue-collar workers less of a burden
3. Open the door for gradual naturalization