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EB/CW/DC/94/5

March 28, 1994

To: Members of the Committee of the Whole for the Development Committee

From: The Secretary

Subject: Migration and Trade - Challenges for the 1990s

There is attached for the information of the Committee of the Whole a paper on "Migration and Trade - Challenges for the 1990s" prepared for the Development Committee meeting on April 26, 1994.

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Migration and Trade:

Challenges for the 1990s

by

PHILIP L. MARTIN[1]

Summary

"Man is of all sorts of luggage the most difficult to be transported." Adam Smith

The world appears to be on the move. There are about 100 million persons living and often working outside their countries of citizenship, making this "nation of migrants" equivalent in size to the world's tenth most populous country. Second, the three factors that influence the direction and volume of migration are evolving in ways that promise more rather than less south to north movement in the 1990s. Third, too little is known about the relative importance of demand-pull, supply-push, and network factors in particular migration flows, and how these factors change over time.

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[1]Professor of Agricultural Economics at the University of California-Davis.

I am indebted to Peter Lindert, Tom Merrick, Sharon Stanton Russell, and Ed Taylor for helpful comments.

This paper summarizes recent migration patterns and recommends a three-pronged strategy to deal with the interactions between economically-motivated migration in the 1990s. In particular, we need (1) a better understanding of migration and its impacts at areas of origin and destination (e.g. what are the impacts of migrant workers who move from one developing nation to another?), (2) more research on the migration transition, the process by which an emigration country transforms itself into an immigration country, and (3) more exploration of a basis for international coordination in migration matters. It might be noted that migration is probably the most important international phenomenon that is not coordinated by an economically-oriented international organization.

A World on the Move

There appears to be a great deal of confusion on basic migration facts. Three seem important:

- most people never cross national borders to live or work in another country[2]
- at least half of all migrant workers move from one developing country to another
- countries that have successfully made the transition from exporting to importing labor range from Korea to Spain.

Given economic differences between nations, the surprise may be how *little* international migration occurs.

The world's population in 1994 is about 5.6 billion, and almost 3.5 billion people are in the 15 to 64 age group from which the world's 2.5 billion workers are drawn. The world's population and its potential work force are increasing by 90 to 95 million persons annually.

[2]There is a considerable amount of internal migration, especially that associated with rural-urban migration.

Neither people nor income are distributed equally around the globe. The World Bank divides the countries on which it collects data into 22 "high-income" and about 100 middle and low income countries. High-income countries–the United States and Canada, Western European nations such as from Sweden to Spain, and Asian countries such as Japan, Singapore, and Australia–include 15 percent of the world's population, but they accounted for over three-fourths of the world's $22 trillion GDP in 1991.[3] The average income in these rich countries was over $21,000 annually, versus a worldwide average of $4,000.

These data suggest that an average person from one of the poorer 100 countries could increase his or her income 5 to 6 times by moving into one of the 22 richest countries. Young people are responding to the opportunity to "go abroad" for opportunity. Most of them travel only a short distance, often from one developing country to another. Over half of the world's "nation of migrants" is in developing countries–indicating that there is a great deal of not-well-studied labor migration between developing countries.

However, almost 50 million immigrants, refugees and asylees, and authorized and unauthorized migrant workers in the industrial democracies are an important socio-economic and political issue. Many are unwanted, in the sense that their settlement was not anticipated–as with guestworkers who settled in Western Europe or applicants for asylum whose claims that they would face persecution at home are rejected, but who nonetheless are allowed to stay. The United States also receives unwanted immigrants. Of the 9 million persons who are today considered legal immigrants who arrived since 1982, one-third were previously illegal aliens whose status was regularized. Opinion polls in North

[3]According to the 1993 World Development Report, the 822 million people in the "high income countries" that, when ranked by GDP per capita, begin with Ireland and end with Switzerland are 15.4 percent of the 1991 world population of 5.350 billion (p289).

America and Europe indicate that a majority of the public wants such unwanted immigration curbed.

Why International Migration?

Migration research has identified three major factors that influence economically-motivated international migration. They are:

- demand-pull factors that draw migrants into another country,
- supply-push factors that encourage migrants to leave their own countries, and
- networks of friends and relatives already settled in destination countries who serve as sources of information and anchor communities for newcomers.[4]

The relative importance of each factor changes over time in particular migration streams; the most common pattern is that the importance of demand-pull factors declines as a migration stream matures.

Demand Pull

Most labor migrations began in the industrial countries, as employers there, with or without explicit government approval, recruited migrant workers. During the early years of such labor migrations, demand-pull factors so dominate that, for example, in Germany during the 1960s, the annual influx of workers could be explained almost entirely by fluctuations in the German unemployment rate, giving governments a false assurance that they really can regulate with precision migrant worker flows.

However, in what has become a familiar story, demand-pull, supply-push, and network factors evolved in a manner that justifies the aphorism that there is nothing more permanent than temporary workers. In all of the industrial

[4]Both historically and today middlemen recruiters and transporters have been involved in the migration process. Today, these understudied middlemen--who might be considered as arbitrageurs of differences between international labor markets-- play a role in much of the illegal labor migration that occurs, usually extracting a fee from migrant workers or their employers equivalent to 25 to 100 percent of what the migrant will earn in his first year abroad.

democracies, migration has seemingly taken on a life of its own, with migrant workers continuing to arrive in Western Europe, the United States, and Japan despite historically high unemployment rates. Migrant workers are often prized for their flexibility: they are willing to accept jobs that offer low wages, unpleasant or seasonal work, or unusual hours. As a result, migrant workers are found in the same industries and occupations in all industrial democracies: construction, agriculture, and service jobs that offer low wages, such as in restaurants and hotels, or night and weekend work, such as nursing.

Relatively few migrant workers are employed in industries in which trade in place of migration is a near-term option. Labor-intensive manufacturing industries such as garments and shoemaking are often dependent on migrant workers and protected from developing-nation imports, but freeing up trade in goods would directly affect less than one-fourth of the migrant workers in most industrial countries. Thus, while free trade is desirable as a means to accelerate economic growth, it will not immediately curb the desire to employ migrant construction workers, janitors, and nurses.[5]

Supply Push

The demand-pull of jobs in industrial democracies is matched neatly by the supply push of low wages and joblessness in the developing countries from which most migrant workers come. About 5 in 6 of the world's workers are in

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[5]Some industrial countries are engaged in a debate over whether the best way to discourage their employers from preferring to employ unauthorized workers is to step up border and interior enforcement so that such workers are not available, whether it is better to enforce labor laws so that migrant workers are not "exploited," or whether both immigration and labor law enforcement is needed. Generally, pro-migrant groups favor placing the emphasis on labor law enforcement, while restricionist groups favor border and interior immigration enforcement.

Over the past 5 years, a new element has entered the debate over immigration control. In both North America and Western Europe, the argument is that some immigrants come to obtain social welfare program benefits, from education to health care to assistance payments. Such arguments are made most often by those who advocate reducing social welfare programs for citizens and migrants alike.

the world's poorer nations, and every year another 80 million workers join the 2 billion strong workforce there. This leads to an enormous job creation challenge. Developing nations from Mexico to Turkey to the Philippines must create 500,000 to 1 million new jobs annually for the youth who every year enter the workforce.[6] In addition, they need to find jobs for the 20 to 40 percent of the workforce that is currently unemployed or underemployed. On top of these job creation challenges, developing nations must find jobs for ex-farmers and for workers who are not seeking work because there aren't enough jobs.

Two examples may help to illustrate the dimensions of the job creation challenge. Almost half of the workforce in developing nations are farmers, but 1 billion farmers are not needed to produce the world's food and fiber--in the industrial democracies, less than 5 percent of the workforce produces such an abundance that rich countries feel compelled to prop up prices and incomes for their farmers.[7]

Developing countries, on the other hand, often tax their farmers by requiring them to sell their cotton or coffee at below-world prices to a government agency, which in turn exports the commodity at the world price and pockets the difference. Farming thus generates only one-fourth to one-third of the average income in countries such as Mexico and Turkey, and ex-farmers crowd booming cities from Mexico City to Manila. Once rural residents arrive in these capital cities, it is much easier for them to migrate, either by boarding an airplane and, a day or two later, arriving in Frankfurt or Los Angeles, or by making contact with a middleman who promises to smuggle them abroad.

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[6]The youthful age structure in developing nations guarantees a continuing influx of teens. In the United States, for example, about 20 percent of the population is less than 15. In Mexico, almost 40 percent of the population is less than 15.

[7]If only 5 percent or 50 million of the world's one billion farmers and farm workers produced food, then an additional 950 million jobs would be needed, or 3 times more than currently exist in the industrial democracies.

A second example of the job creation challenge facing the world is the fact that many workers in developing nations do not seek work because they know jobs are scarce. In the industrial democracies, half of the population is typically in the workforce, so that the United States, with a population of 260 million, has a workforce of about 130 million. In developing nations, one-third of the population is typically in the workforce, so that Mexico, with 90 million people, has a workforce of about 30 million. Many of the Mexicans who are not in the workforce are urban women who would seek jobs if they were available.

Networks

The demand pull of jobs is linked to the supply push of low wages and joblessness by migration networks. Migration networks encompass everything that enables people to learn about opportunities abroad and take advantage of them. These networks or linkages have been shaped and strengthened by three of the major revolutions of the past generation: the communications revolution, the transportation revolution, and the rights revolution.

The *communications revolution* refers to the fact that potential migrants know far more about opportunities abroad than did turn of the century migrants from southern and eastern Europe who set out for North and South America and Australia. The major source of information is countrymen already settled abroad who can tell the migrants about opportunities in Paris or Los Angeles, and in many cases provide advice and funds to migrate, legally or illegally. The industrial democracies perhaps unwittingly add to their allure by portraying, in TV shows such as Dallas and Dynasty that are exported even to the remote corners of the globe, a life of opulence.

Some migrants have their expectations raised by these portrayals of life in the industrial democracies, and many hope to achieve a better life for themselves by migrating to richer areas. Others are motivated to go abroad by contractors, labor brokers, and other often shadowy middlemen who promise, for a fee equivalent to 1/4, 1/2, or even more of the migrant's first year's earnings abroad, access to the promised land.

The *transportation revolution* is simply the fact that the cost of traveling has dropped enormously, while convenience has increased geometrically. Even the most remote peasant is less than one week away from the bright lights of New York--once he gets to the capital city of his country, the international network of flights can take him anywhere within a day or two for less than the average monthly earnings of even an unskilled and seasonal worker in an industrial country, \$1000 to \$2000.

The third revolution that encourages migration is the *rights revolution*, or the spread of individual rights and entitlements within many nations. All of the industrial democracies have strengthened personal rights vis-a-vis government agencies, and most have signed international treaties that, for example, commit them to provide refuge to those fleeing persecution. One effect of this rights revolution is that, once an migrant arrives in an industrial country, he or she can avoid deportation for 2, 3, or even 4 years.

While a migrant's case winds its way through the legal system, industrial countries face a Hobson's choice. If they prohibit the migrant from working because his legal right to do so is in doubt, then the government must support the migrant. If the migrant is permitted to work, then the humanitarian right to due process becomes a backdoor guestworker program.

The Migration Challenge

Demand pull, supply push, and network factors are evolving in ways that encourage more migration. In light of these easily understandable forces, the world should be on the move, and it may seem to some that it is: the migrant nation is 100 million strong, and it has in recent years been increasing by between 2 and 4 million annually in the industrial democracies.[8]

But the surprise to many observers is how few, not how many, migrants move into the industrial democracies. Most people do not move: most people will live and die within a few miles of their birthplace. International migration remains an extraordinary event despite the evolution of demand, supply, and network factors that encourage migration. Furthermore, most of those who migrate internationally move only a short distance, so that most of the world's migrants move from one developing nation to another. One unlikely country, Iran, includes almost one-fourth of the world's 19 million refugees.

The 50 million migrants in the industrial democracies **are** significant. But it should be emphasized that most people do not migrate despite ever more incentives to do so. The industrial democracies are not being overrun by a tidal wave of immigrants.[9] The migration challenge remains manageable, and responsible policymakers may not be well-served by doomsday scenarios such as those painted in the film The March, in which desperate Africans set out for Europe accompanied by news crews while political leaders there debate how to stop them. The logical quick fix for such mass migrations is tight border controls and relief outside the borders of the industrial democracies to avoid rights and settlement, but there are medium-term steps that can be taken to avoid such crises.

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[8]There is a considerable amount of return migration, but the proportion of newcomers who leave is hard to predict and changes as a migration stream matures. In the United States, for example, it is believed that emigrants are equivalent to 20 to 30 percent of immigrants.

[9]It is instructive to remember that labor migration often remains region- and village-specific, even after decades of migration. Over two-thirds of Mexico's U.S.-bound migrants originate in seven of the country's 32 states; they often come from specific villages within these provinces

Needed Migration Research

With a nation of migrants that is growing, at least three types of research seem desirable to deal with the migration challenges of the 1990s. These include:

- a better understanding of the demand-pull, supply-push, and network factors that regulate particular migration flows, and how they change over time
- a better understanding of how countries make the migration transition from labor exporter to importer, and how much unwanted migration is avoided by economic integration between emigration and immigration nations
- a better understanding of basic migration facts and interests in order to lay a basis for adopting trade and other policies that affect migration in the short and long runs, and perhaps lead to the coordination of policies that affect migration.

There are also a number of specific questions that deserve more attention, from how the 3 R's of recruitment, remittances, and returning workers can be harnessed to accelerate stay-at-home development, to how trade and migration patterns and policies interact to cause migration flows in some instances to increase in snowball fashion and in other cases to decrease.

Understanding Particular Flows

In the industrial democracies, policymakers feel that migration has increasingly become a supply-push driven phenomenon, which explains why the G-7 nations in July 1991 called for international organizations to explore ways to accelerate stay-at-home development. It is true that demand-pull factors have probably declined in importance since the 1960s in explaining developing-to-industrial country labor migration, but it is also true that the three factors that influence migration probably never had equal one-third weights in any migration flow. Indeed, the paradox of the immigration control measures adopted in many industrial countries is that the employer sanctions introduced to curb demand-pull forces are often put in place only after network factors are strengthened enough to make them insufficient to operate effectively.

It would be very helpful to catalog the various migration flows, isolate the relative importance of demand-pull, supply-push, and network factors in each, and determine when and why one factor diminished in importance and another became more important. Such information is especially needed on developing-to-developing country migration.

The Migration Transition

There is a migration analog to the well-known demographic transition. Just as a country's population temporarily grows faster when death rates fall before birth rates, so an established labor migration typically swells temporarily as a country restructures for accelerated economic growth.

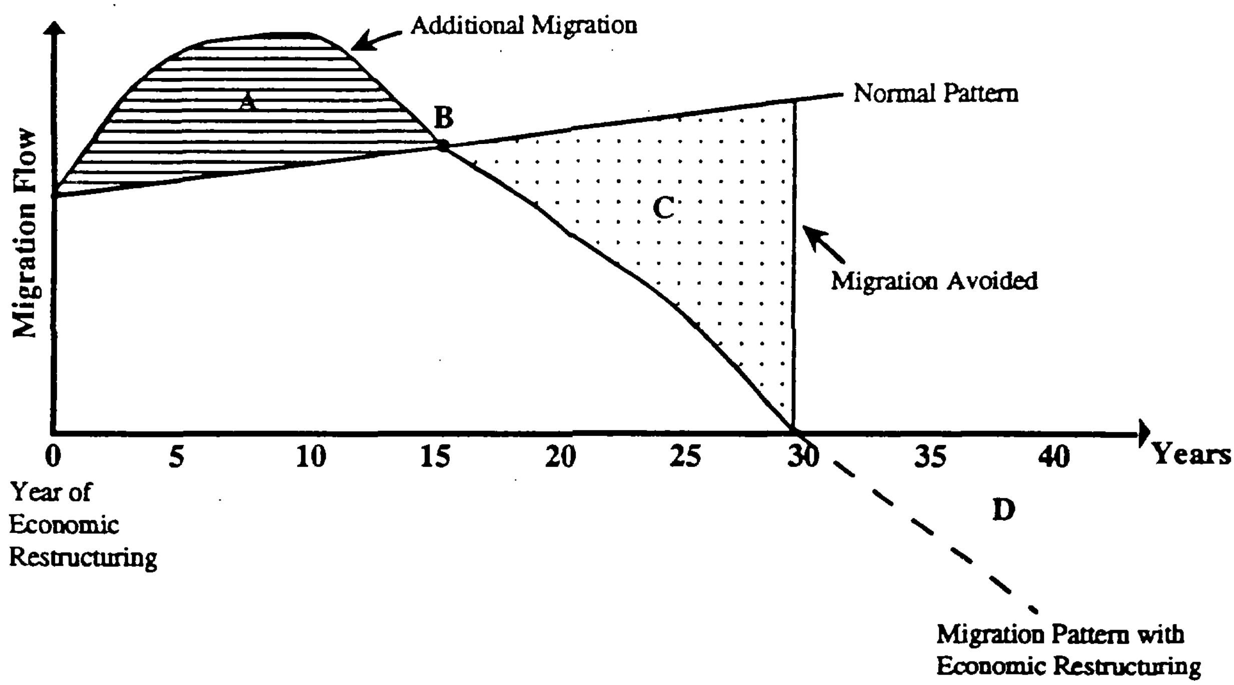
In economies that fail to restructure – to adopt outward-oriented and market-driven economic policies – economically-motivated emigration pressure mostly depends on demography.[10] Without restructuring and economic growth that exceeds population growth, emigration pressure in Turkey, Mexico, or the Philippines could be expected to have the "normal pattern" shape in the figure below.

Economies that restructure by deregulating, privatizing, and opening up to the world economy, on the other hand, tend to experience migration humps. The "hump" reflects the fact that economic restructuring often displaces workers and promotes rural-urban migration. A country on the move economically is also awash with internal migrants, some of whom spill over its borders if there is already an established international migration pattern. It has been hypothesized

[10]Jonas Widgren notes that fewer than 18 of the 180 member nations of the UN have ethnically homogeneous populations. The end of the Cold War has unleashed ethnic tensions in many countries, producing in 1994 an estimated 25 million internally displaced persons.

that such a hump would characterize Mexico-US migration, Turkey-EU migration, and East-to-West European migration.

THE MIGRATION HUMP



Source: Philip Martin. 1993. Trade and Migration: NAFTA and Agriculture. Washington: Institute for International Economics.

A migration hump or transition has three important parameters. First how big is the hump A, or how much additional migration is there during the economic takeoff phase of restructuring? Second, when is point **B** reached – when does migration return to its pre-take-off levels? Third, how large is **C**, the migration that did not occur because of stay-at-home development? We could also ask a fourth question – what enables countries such as Italy, Spain, and Korea to get to D – to be net labor importers – within two decades of economic restructuring?

We know very little about parameters such as A, B, C and D – neither in already completed migration transitions such as those of Southern Europe or

Korea, nor those underway today, such as Thailand and Malaysia. The Asian tigers may have lessons to teach the world in both economic growth policies and in accelerating the migration transition.

The migration hump can serve as an argument for increasing interest in and funding for polices that promote stay-at-home development. Industrial countries today are spending far more on immigration control and integration assistance than on official development assistance,[11] and if there were a more concrete path that could be shown to reduce migration pressures, it may be possible to shift funds toward such policies.

However, before migration funds can be shifted from migration control to development assistance, more needs to be learned about how development affects migration. The questions that need answers include: how much do wage and job differentials need to be reduced in order to stop migration? How do network and other factors affect such migration-stopping ratios? To what extent does emigration substitute for "missing markets" for e.g. insurance in rain-fed farming areas? It is clear that wage and job opportunity ratios do not have be one (equal in the origin and destination areas) to stop labor migration; indeed, it appears that a wage ratio of 1 to 4, and wages growing faster in the area of origin, is sufficient to practically stop labor migration.

Trade and Migration

Trade theory has focused mainly on the extent to which migration is a substitute or complement for trade—Box A of what are at least four possible trade and migration linkages. Trade theory recognizes that free trade can eventually reduce migration, as trade in labor-intensive goods is substituted for labor migration, and that an increase in trade can increase migration, as

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[11]ODA in 1991 totalled $56 billion.

complementary workers accompany especially specialized goods across borders. The substitution relationship often applies to economic integration between industrial and developing nations, and the complementarity to increased trade between industrial countries.

Four Trade and Migration Linkages

	Trade Patterns	Trade Policies
Migration Patterns	A Migration and trade can be substitutes, so that barriers to trade increase migration and freer trade reduces migration. Trade and migration can be complements if as when specialists migrate to service complex equipment.	B Migration can create a dependence on an external labor market for which trade and investment policies try to create a local substitute, e.g. the maquiladora program was a trade response to the termination of the Bracero program.
Migration Policies	C Importing workers can reflect a decision not to import goods from the emigration country. However, migrant worker remittances can be spent on goods produced in the country of employment, thereby increasing trade.	D Trade policy exceptions can lead to migration policy exceptions, as when protections for the U.S. sugar industry justify the H-2A foreign farm worker program. Immigration can increase trade or music imports.

The other trade and migration interactions have not received as much attention, in part because some are extensions of Box A. One of the most discussed cases in migration circles is Box D-- the case of a trade policy exception that leads to a migration policy exception, or a migration policy exception that affects trade policies. In some cases, eliminating these policy exceptions would allow trade and migration to be substitutes; in other cases, they would be complements.

A frequently-cited example of a trade policy of protectionism that led to an immigration exception is the U.S. policy that protects U.S. sugar growers by limiting imports. About 40 percent of U.S. grown-sugar produced in 1990 was from sugar cane, and over half of the sugar cane was produced in Florida. Sugar cane in Florida has been hand-harvested since the early 1940s– in 1990 with about 10,000 workers imported from Caribbean islands whose sugar exports to the United States are limited by quotas. With free trade in sugar, there would presumably be more sugar production and jobs in the Caribbean and elsewhere, thus reducing emigration pressures there, and less demand for foreign sugarcane cutters in the United States.

Immigration can increase trade in a complementary fashion. Migrant workers create a demand for travel, banking, and tradelinks to their countries of origin. It is for this reason that some argue that the United States, as the world's first "universal nation," will be able to use diverse immigrants to forge trade links to their countries of origin.

Many industrial countries recruited guestworkers during the 1960s. Box C is the interaction between a policy to import workers and its effects on trade patterns. An industrial country decision to import foreign workers should reduce trade, since the industry in which they are employed presumably expands, so that there is less room for imports of that product. But migrant workers earn wages in industrial nations, and some of the remittances sent home are in turn spent on imported goods and services. If one-third of the at least $75 billion in worldwide remittances are spent on goods imported from the industrial countries, then $25 billion in industrial to developing-country trade would be traceable to migrant remittances.[12]

Finally, Box B illustrates how trade policies can change in response to migration patterns. One example is on the U.S.-Mexican border. Some of the

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[12]By comparison, the successful completion of the Uruguay round of GATT trade negotiations is expected to expand trade worldwide by $250 to $300 billion annually. Even if developing countries shared in this expanded trade only in proportion to their share of world trade (about 20 percent of $3.3 billion in merchandise exports in 1991), they would be earning an additional $60 billion annually in foreign exchange (20 percent of $300 billion), or more than annual ODA commitment.

Bracero farm workers who migrated seasonally to the United States moved their families to Mexican border cities, where they lived off remittances. When the United States terminated the program in 1964, there were several million Mexicans in border areas who could no longer depend on U.S. earnings. Mexico responded with the maquiladora program in 1965, under which U.S. investors could operate border-area plants and pay U.S. duties only on the value added by Mexican workers. The maquiladora program was a trade and investment response to create jobs in Mexico to replace those eliminated in the US labor market.

The most fundamental trade and migration interaction is that of Box A, in which trade is generally a substitute for migration. Among industrial countries, trade and nonimmigrant labor flows appear to be complements. When there is economic integration between industrial and developing nations with a pre-existing migration relationship, there is often a migration hump. The other boxes outline policy-pattern interactions which illustrate how trade and migration can be substitutes or complements. While suggestive of the complexity of trade and migration, these other interactions tend to be extensions of the basic model.

Toward International Cooperation?

Migration is probably the most important international economic phenomenon that is *not* coordinated by an international organization. Unlike defense or economic policies, which are coordinated in international organizations from NATO to GATT, immigration policy has remained largely country-specific, although in Western Europe there is a free labor market and steps have been taken toward regional visa and related immigration control polices.

Existing or new international economic organizations are likely to find migration on their agendas in the 1990s for three reasons. First, the migrants living in the industrial countries send remittances to their countries of origin, making labor migration an important source of financial transfers from industrial to developing countries. Remittances already one and one-half times the level of Official Development Assistance, and growing faster than ODA. From Algeria to Yugoslavia, labor is the most important export of many nations, and remittances are the quickest and surest source of foreign exchange.

Many countries try to increase the remittances they receive, and channel them to accelerate development. However, there has been relatively little research on how to increase and channel remittances, especially in comparison to the vast literature that evaluates the use of development assistance funds. The research available suggests that most efforts by labor-exporting governments to manipulate and channel remittances have been expensive failures. Instead of offering dual exchange rates or other incentives to attract migrant savings, this literature suggests that correct fundamentals are most effective way to promote voluntary remittances, such as having a correctly valued currency whose exchange rate is likely to remain stable. If this conclusion is generally true, then remittance-manipulating efforts such as dual exchange rates and special migrant accounts should be discouraged. Governments that want to increase remittances should be advised to get and keep the basic economic policies right and make it easy for migrants to remit by e.g., extending banking services to migrants abroad and in their areas of origin.

Second, we are at a very early stage in having the economically-oriented international organizations deal with migration. One issue that arises as these organizations begin to deal with international labor flows is whether it makes sense to promote international coordination in migration policies. There are a great many trade and migration interactions that could develop into points of contention, ranging from whether restrictive migration polices impede trade in services to whether programs that admit migrant workers represent a trade-distorting subsidy for the garment or agricultural industries in which they are employed.

We are at a very early stage in bringing migration into international economic organizations. One strategy to help these organizations get involved would be to agree on a division of responsibility for basic issues such as definitions and data collection. Just as it was hard to bring agriculture into the international trade system until the effects of the various ways in which countries intervene in that sector could be standardized and compared, so it may be useful to launch a coordinated effort to establish uniform measures of migration pressures or migrant presence. It would be very helpful to agree on basic concepts, and then assemble and publish standardized data in a widely-distributed publication such as the WDR.

Once there is some agreement on basic concepts and data, we could deal with the third issue—how should migration enter into ongoing organizations and agreements that deal with everything from trade to development assistance ? For example, migration is linked to trade, both because the volume of imports in many countries depends on the volume of remittances, and because trade in services often involves migration. There seems to be much more research on how trade can be a substitute for migration, which leads to the conclusion that free trade will reduce migration pressures, and too little appreciation for the fact that trade and migration can also be complements, as occurs when technicians accompany specialized goods, when migrant workers create a demand for transportation, banking, and goods links to their countries of origin, or when construction firms include imported workers in their bids.

The WB could enhance our understanding of worldwide migration by developing country-by-country estimates of immigrants and emigrants, remittance flows, and the stability of migrant employment and remittances. We know that migration is a more important link to the global economy than trade for many countries and, although there are many agencies that evaluate the prospects for goods markets, little attention has been paid to prospects in the global labor market. Devaluations can spur migration, as occurred in West Africa after the CFA franc was devalued with respect to the Nigerian naira, and recession in a labor-importing country can lead to belt-tightening thousands of miles away, as occurred in Pakistan as a result of lower oil prices and remittances from workers in Saudi Arabia.