The political economy of migration policies in resource-rich countries

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Abstract

We study the political economy of migration policies in resource countries focusing on two policy dimensions: a) the number of migrants allowed into the country and b) whether or not to encourage migrants’ remittances. We develop a two goods macro model with traded and non-traded goods. The migration of guest workers leads to a wage drop hurting citizen workers, while capitalists and oil rent earners benefit. When foreign exchange is remitted out of the economy, the real exchange rate depreciates. The remittance outflow benefits oil rent earners while capitalists and workers lose. Hence the three classes of citizen agents have diverging interests with regard to their preferred policy mix. We derive political economy implications of diverging policy preferences. In particular, we show how an oil-rich non-democratic leader might secure support for his preferred migration policy.

Keywords: Migration, Natural resources, Political economy

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1 Introduction

Countries exporting natural resources like oil, generally experience an increased demand for labour in non traded sectors. How different countries react to the increased demand varies. Some countries let wages grow to the benefit of workers while others let migrant workers relieve the demand pressure to the benefit of capitalists and resource owners. Which policy is chosen depends on economic forces and on the sharing of gains and losses.

In this paper we focus on migration policies of the resource-rich Gulf countries. The Gulf countries have the highest proportion of migrant workers in the world. The migrants send a large amount of remittances back home, ranking the Gulf countries in the world top of remittance-sending countries. The migration policies of the Gulf countries therefore affect the lives of millions of poor families in the developing world.

Moreover, the Gulf countries provide stark examples of how gains and losses are shared unequally. Being non-democratic the ruling class has strong influence, but also a autocratic ruler needs to assure some minimum of support. The Gulf countries therefore, in addition to being interesting in their own right, exemplifies and accentuates political constraints and popular interests that will be relevant also in more democratic resource-rich countries.

We aim to work out the general equilibrium effects of migration and remittances on a migrant-receiving resource-rich economy. We study how the inflow of migrant workers and their sending of remittances affect the welfare of different classes of Gulf citizens. In particular we ask what the preferences for different migration policies will be. We discuss how the king might use agenda setting and redistribution to implement his preferred policy.

The Gulf countries we focus on are the member states of the Gulf Cooperation Council (GCC): Saudi Arabia, Oman, Kuwait, Bahrain, Qatar and the United Arab Emirates. These economies share the characteristics of being highly dependent on oil while the majority of their workforce consists of migrant workers. Figure 1 illustrates dependency on oil and gas in relation to the fraction of migrant workers to the total
Data source: GCC Statistical bulletin 2011, Volume Nineteen. (Data from 2009)

workforce. It is clear from the figure that the Gulf countries have both a high ratio of oil and gas exports and a high proportion of migrants in the workforce. While the ratio of oil and gas exports to GDP ranges from 25 % in the UAE to 53 % in Qatar, the fraction of migrants in the workforce ranges from 55 % in Saudi Arabia to 94 % in Qatar.

In Figure 2 we relate remittances to migrants’ dependency ratio, expressed as the ratio of total non-citizen population to the number of non-citizen workers. The migrants’ dependency ratio is quite low in all the host countries, and there is a marked negative correlation between dependants living in the host country and remittances sent. Remittances sent from Qatar and Kuwait, where almost all migrants are working, is 2.5 times as large as remittances sent from the Emirates, where two out of five migrants are working. The simple explanation is that most of the household income is spent in the home country when the migrant travels alone while it is spent in the host country when the rest of the household also migrates. Remittance outflows are therefore intimately linked to policies restricting the migrant workers to bring their families.

The remittance outflows, estimated at 61 billion USD and 6.7 % of GDP for the whole GCC area in 2009 (CEIC Data), have a large impact on the Gulf economies and represent an important source of capital for the poorer migrant sending coun-
tries. The migration policies and ambitions for assimilation followed by the Gulf countries are an important determinant of these flows. This serves as a motivation for studying how preferences for migration policies are determined in these resource-rich countries. In this paper we focus on two policy dimensions: a) the number of migrant workers allowed into the country and b) whether or not migrants’ who remit are preferred relative to migrants that do not remit. The latter policy dimension entails a range of possible policies that affect migrants’ incentives to remit. One possibility is the use of permits and regulation to control the assimilation and duration of residence, where less assimilated migrants on short-term contracts remit more.\footnote{Lucas and Stark (1985) argue that temporary migrants who intend to return home are likely to send more remittances, as they might wish to invest in “fixed capital such as land, livestock, or a house, in public assets to enhance prestige or political influence, and in what might be termed social assets - the relationships with family and friends” (page 904). Dustmann and Mestres (2010) investigate empirically migrants’ remittance behavior in a panel data study of immigrants in Germany. They find that temporary migrants send more remittances than permanent migrants, even when they condition on the location of the immediate family.} Other possible measures are taxing the sending of remittances or improving migrants’ investment opportunities in the host country. One of the key strategic goals of Saudi Arabia’s “Saudization” policy is to “recapture and reinvest income which otherwise would have flowed overseas as remittances to foreign workers’ home countries. (...) Increased levels of Saudization will ensure that (...) remittances are reduced to the benefit of Saudi Arabia” (Ramady 2010, p.366).

Data sources: GCC Statistical bulletin 2011, Estimates on remittances are from the database CEIC Data.
We show that while a reduction in migrants’ remittances will be to the benefit of some (Saudi) citizens, others will lose. The inflow of migrant workers pushes the wage level down and increases goods demand. The more money they send out the smaller the demand pressure on domestic prices. The costs and benefits for a particular citizen will depend on that citizen’s sources of income and consumption pattern. In the following we build a model that highlights the effects on various citizens’ welfare via shifts in functional income distribution and purchasing power, as the number of migrant workers change and as their remittance-sending behavior changes.

We find that different social groups have conflicting interests in regard to the two policy dimensions, and so policy outcomes are going to depend on the political influence of the various groups. For example: Individuals who earn all income from oil rents will want to see both high inflow of migrants and high outflow of remittances. On the other hand, workers who compete with migrant labor will like to see minimal migration and minimal remittances. The capitalists, earning profits in the non-traded sector, would like to see high migration and minimal remittances.

The welfare effects of migration have been widely discussed in the theoretical literature. Some studies address the important issue of how migration affects welfare in the poorer migrant sending countries. In particular, our work relates to Djajić (2014). He discusses the impact of temporary migration of low-skilled workers on the welfare of remaining residents in the source country, and examines implications of changes in the duration of work permits. His finding of positive welfare effects for the source countries serves as a motivation for studying how migration policies are determined in migrant-receiving countries.

To understand the scale and structure of migration flows we focus on the political processes in the migrant receiving countries that determine migration policies. We assume that the migrants themselves do not set constraints on the policy space. This is of course a simplification. Djajić (2013) provides a discussion of how immigration policies, enforcement measures and opportunities home and abroad affect the behavior of guest workers. Here we abstract from such concerns and assume
that migrants passively respects the rules set out in the chosen migration policy.

Other studies address the welfare effects of migration from the perspective of the host country. Some focus on the effects on the returns to unskilled labor versus the returns to physical or human capital. Borjas (1995) develops a simple model of a single-good economy and shows that natives benefit from migration as long as migrants are sufficiently different from the natives in terms of their productive inputs. In particular, if only natives own capital, migration leads to a surplus: While the wage decreases, this is more than offset by the increase in the return to capitalists as capital becomes relatively scarcer. Benhabib (1996) uses a similar framework for a political economy model, where natives vote on immigration policies that impose physical or human capital requirements on immigrants. In his model, majority voting will go in favor of welcoming migrants with a different capital endowment relative to the median voter.

In our model, migrants differ from citizens in two respects: Firstly, migrants receive only wage income, in contrast to citizens who also receive profit and oil rent income; secondly, migrants send remittances. Focusing on the effect of migrants’ remittances on citizens’ welfare, our work relates to Kondoh (1999) who distinguishes between the welfare effects of cross-border migrants versus permanent migrants, where the former are assumed to spend their entire income abroad. His model implies that remittances have a positive effect on citizens’ welfare when the non-traded sector is labor intensive, and a negative effect when it is capital intensive. In our model, there is a positive effect of remittances on a citizen’s welfare due to an increase in the real value of oil rents. The purchasing power of capitalists and workers decrease as an increase in remittances lowers the price of non-traded goods.

Our model is also related to the political economy theory of Razin et al. (2009). In their model there are three groups of voters: skilled workers, unskilled workers, and old retirees. These groups engage in sincere and strategic voting over a policy triplet consisting of the tax rate, the skill composition of migrants, and the total number of migrants. They find that political coalitions form between skilled voters and unskilled voters or between unskilled and old voters.
In contrast to the discussions, for example in Razin et al., our discussion starts from the premise that the Gulf countries are non-democratic. The political economy logic is therefore somewhat different from that of a majoritarian system. In our approach we follow Acemoglu and Robinson (2006) who write: “In general there are two features that shape economic policies in non-democracies: first, the preferences of the group in power; and second, the constraints faced by that group” (p.118). Hence, the preferences of the citizens only matter if they affect the king’s room to maneuver.

As in Benabou (2000) or Bourguignon and Verdier (2000) the king only needs support from an influential minority in order to implement his suggested policy. There are two policy dimensions in the model: the number of migrants and the amount of remittances. The king has what Romer and Rosenthal (1978) call “agenda setting power”, which means that he determines what policy combination to consider. Citizens have conflicting interests with regard to the different policies, and their political influence depends on their income. While citizens who are largely dependent on wage income lose from increases in both migration and remittances, citizens who earn a large share of their income from profits gain from increases in migration but lose from increases in remittances. Finally, citizens with a high share of oil rents income gain from increases in both migration and remittances.

The king can use this latter property strategically. We consider the possibility of sharing the oil rent with a section of citizens - not as a payment for support but as a means to generate a pool of citizens whom have preferences aligned to that of the king. This view of redistribution is for example in line with Acemoglu and Robinson (2006, p.956) “In particular, the elite may redistribute assets selectively to groups among the poor who are important for the threat of revolution and who can be persuaded to switch sides with such transfers.”

To highlight the consequences of resource richness we consider an economy so rich in natural resources that the traded goods sector, apart from the oil production, is completely closed down. The motivation for this is that large revenues from oil exports have led production in the traded sector to become unprofitable, in
line with a Dutch disease argument (see Corden and Neary 1982). Several papers analyze how immigration of workers interacts with the Dutch disease, theoretically as well as empirically (see e.g. Corden 1984, Wahba 1998, Razgallah 2008 and Beine et al. 2012). These analyses show that the immigration of workers tends to mitigate the Dutch disease, by dampening wage and price pressure and thus reducing the contraction of traded sector following a resource boom. In our analysis, we will consider the special case of a corner solution where there is no traded sector. Moreover, in order to focus on the conventional economy we treat the oil-sector as an enclave outside of the conventional economy, generating costless flow of resource rents. Hence, all capital and labor is employed in the non-traded sector. Only citizens own capital while both citizens and migrants are in the workforce.

With these simplifications we do not explicitly incorporate three important types of workers. First, foreign specialists in the oil sector are not included. Therefore the migrants we consider should be seen as high and low skilled regular workers going into the conventional economy. Second, citizen workers in the oil sector are not explicitly included. If their wage is at par with the non-traded sector their interest is aligned with citizen workers in general. If their wage in the oil-sector is set independently, their interest will be aligned with other oil rent earners. Third, government employees are included in an indirect way. Most Gulf countries have a large government sector with primarily citizen employees. These employees earn a wage, subsidized by oil rents, that is far above the market wage. Hence, a government employee has interest that is a mix of that of a pure wage earner and that of an oil rent earner.

We use the model to derive winners and losers among the citizens of policy reforms affecting migration and remittances. We derive implications for how an oil rich king might distribute wealth in order to secure support for his preferred migration policy. These implications give a rationale for the extensive employment of citizens in well-paid public sector jobs. We also show that a liberal migration policy will gain increased support as the stock of migrants increases. Finally, we discuss the implications of our model in light of past developments in the various
Gulf countries.

2 Model

The model we develop is a simple two goods macro model. It is a degenerate version of a traded/non-traded goods model as we assume that there is no domestic production of traded goods. Traded goods are imported and paid for by the oil rents. Hence, imports of traded goods, denoted by $M$, are financed by oil rents $Z$ net of remittances $R$.

$$M = Z - R$$  \hspace{1cm} (1)

We do not model the oil sector explicitly, nor do we consider the amounts saved in sovereign wealth funds. Rather, we treat the use of income from oil exports, $Z$ as exogenously given. The use of funds could be determined by exploration, by the oil price or by exogenous returns from a sovereign wealth fund. We assume that $Z$ is larger than $R$ so that imports are positive.\(^2\)

There are two types of workers: Citizens, $L_c$, and migrant workers, $L_m$. We denote the total number of citizens (workers and dependants) $N_c$. Measuring migrant workers in efficiency units and assuming inelastic labor supply, total labor supply $L$ is given by:

$$L = L_m + L_c$$  \hspace{1cm} (2)

Aggregate income spent in the domestic economy is given by:

$$Y = Y_c + Y_m$$  \hspace{1cm} (3)

where $Y_c$ is total income of citizens, and $Y_m$ is total income of migrants that is spent

\(^2\)If $R$ approached $Z$ from below, the traded goods sector would reemerge and the corner solution would not be appropriate. There would be no Dutch disease. This is however not a relevant issue in the Gulf countries as the inflow of foreign currency from oil exports is considerably larger than the remittance outflow.
in the domestic economy. Migrants receive a wage income and may remit a part of their income to their home country:

\[ Y_m = wL_m - R \]  

(4)

where \( w \) is the wage and \( R \) is total outflow of remittances. The citizen population, whom we assume spend all their income on consumption, receives income from three different sources: Oil rents \( Z \), profits \( \Pi \) and wage income \( wL_c \). Thus, aggregate income of citizens is given by:

\[ Y_c = wL_c + \Pi + Z \]  

(5)

We allow each citizen \( i \) to have an individual income combination. First, citizen \( i \) has a share \( z_i \) of the national oil income. Second, citizen \( i \) earns profit income \( \pi_i \). Finally he earns a wage income \( w_i \). Thus, the income of a citizen individual is given by\(^3\):

\[ y_i = w_i + \pi_i + z_i, \quad i = 1 \ldots N_c \]  

(6)

Citizens and migrant workers have identical Cobb-Douglas preferences given by

\[ u_j = c_{Nj}^\alpha c_{Tj}^{1-\alpha} \]  

(7)

where \( c_{Nj} \) and \( c_{Tj} \) denote consumer \( j \)’s consumption of non-traded and traded goods respectively. The budget constraint is given by \( pc_{Nj} + c_{Tj} \leq y_j \), where \( p \) is the price of non-traded goods and traded goods are numeraire. Maximizing utility subject to

\(^3\)Specifically we assume that \( z_i \) and \( \pi_i \) are determined in proportion to total oil rents \( Z \) and total profits \( \Pi \) of the economy such that \( z_i = a_{z,i}Z \) and \( \pi_i = a_{\pi,i}\Pi \), where \( a_{z,i} \) is \( i \)'s ownership share in oil rents and where \( a_{\pi,i} \) is the ownership share in profits. Finally the wage income is \( w_i = a_{w,i}w \) where \( a_{w,i} \) is either 0 or 1. This captures the assumption that citizens, at least in principle, compete with migrants for the same jobs. The observation that Gulf citizens in general has higher income that migrants is then explained by policies that increases \( a_{z,i} \). As argued by Herb (2009) “The paychecks that Gulf citizens receive from jobs held in the public sector are nominally tied to services rendered, but their pay might better be thought of as a monthly disbursement from the national trust fund” (p.382). Thus, we can think of the income of privileged Gulf citizens as consisting of shares of oil rents in addition to the wage. In the following, we reserve the term “wage” as referring to the competitive wage \( w \).
the budget constraint we get the demand functions:

\[ c_{Tj} = (1 - \alpha)y_j \]  \hspace{1cm} (8)

\[ c_{Nj} = \frac{\alpha y_j}{p} \]  \hspace{1cm} (9)

It follows that we can represent the welfare of individual \( j \) by the indirect utility function\(^4\)

\[ v_j = y_j p^{-\alpha} \]  \hspace{1cm} (10)

where \( p^\alpha \) is the true cost of living price index. Total demand is given by:

\[ C_T = \sum_j c_{Tj} = (1 - \alpha)Y \]  \hspace{1cm} (11)

\[ C_N = \sum_j c_{Nj} = \frac{\alpha Y}{p} \]  \hspace{1cm} (12)

Non-traded goods, \( X_N \), are produced by the use of capital \( K \) and labor \( L \). The technology can be represented by \( X_N = BL^\beta K^{1-\beta} \). We abstract from capital accumulation and assume that the use of capital is fixed at \( K = \bar{K} \). Since labor is the only variable input, we normalize \( B \) such that

\[ X_N = L^\beta \]  \hspace{1cm} (13)

Without loss of generality we also allow for there to be some form of market power in the domestic market, such that the price \( p \) is set with a mark-up \( \mu \) over marginal cost.\(^5\)

\[ p = (1 + \mu) \frac{w}{\beta L^{\beta - 1}} \]  \hspace{1cm} (14)

where we get regular competitive pricing by setting \( \mu = 0 \). Profits include the gains

\(^4\)Maximized utility is given by \( \tilde{v}_j = Ay_j p^{-\alpha} \), where \( A = (1 - \alpha)^{1-\alpha} \alpha^\alpha \). We choose utility units such that indirect utility can be written as in (10).

\(^5\)This could for example be the result of monopolistic competition where the non-traded good consists of a number of differentiated varieties with constant elasticity of substitution in demand.
from the mark-up plus payments to capital. In other words, profits are what is left when workers have been paid.

\[ \Pi = pX_N - wL \]  

(15)

In equilibrium we have that markets clear and trade is balanced, such that

\[ M = Z - R \]  

(1)

\[ C_T = M \]  

(16)

\[ C_N = X_N \]  

(17)

Note the recursiveness of the system with consumption being determined solely by supply. Consumption of traded goods is determined by access to foreign exchange \((Z - R)\), while consumption of non-traded goods is determined by total labor supply via (2) and (13). Demand then determines relative prices. By combining (11), (12), (16) and (17) it follows that

\[ pX_N = \frac{\alpha}{1 - \alpha} M \]  

(18)

showing that any change in migration or remittances works via changes in the amount of goods available for domestic consumption. Solving the system (6)-(17) we can express the key variables \(p\), \(w\) and \(\Pi\) in terms of the imports \(M\) and labor supply \(L\):

\[ p = \frac{\alpha}{1 - \alpha} M \]  

(19)

\[ w = \beta \frac{1}{1 + \mu} \frac{\alpha}{1 - \alpha} M \]  

(20)

\[ \Pi = \left( 1 - \beta \frac{1}{1 + \mu} \right) \frac{\alpha}{1 - \alpha} M \]  

(21)

These equations in combination with (1) and (2) determine how migration (via \(L\)) and remittances (via \(M\)) affect the determinants of income for the citizens.
We are interested in understanding how the welfare of different citizens are affected by changes in migration and remittances. Recall that the indirect utility function of citizens is given by $v_i = y_i p^{-\alpha}$. We see that the welfare of citizens depends on their real income given by nominal income relative to the true cost of living index. In other words, what matters to citizens is what happens to their purchasing power.

Taking log differences of the indirect utility function (10), and using equations (6), and (19)-(21) we find the total effect on utility as a weighted sum of changes in labor supply and imports.

$$\hat{v}_i = \hat{y}_i - \alpha \hat{p} = \left(\alpha \beta - \frac{w_i}{y_i}\right) \hat{L} + \left(\frac{z_i}{y_i} - (1 - \alpha)\right) (-\hat{M})$$

(22)

where a hat over a variable indicates log differentials ($\hat{x} = d\ln x = dx/x$). We have the following proposition:

**Proposition 1** A citizen will benefit from more outflow of remittances if and only if his oil rent share is large: i.e. $z_i/y_i > 1 - \alpha$. He will benefit from more inflow of migrants if and only if his wage share is low: i.e. $w_i/y_i < \alpha \beta$.

The intuition behind the first result is simple. When remittances increase, the price of non-traded goods decreases. Wages and profits decrease proportionately with the price while the real value of oil rents increases. A citizen with $z_i/y_i > (1 - \alpha)$ has income from oil rents that is larger than his traded goods consumption. He therefore spends part of the oil rent income on non-traded goods. It follows that his purchasing power increases when the price of non-traded goods go down with an increase in remittances. A citizen with $z_i/y_i < (1 - \alpha)$, however, uses his profit and wage income in part to pay for his traded goods consumption. Following an increase in the relative price of traded goods, his purchasing power will drop.

The second result follows by similar reasoning: The purchasing power of a given amount of profits as well as oil rents in terms of traded goods is unaffected by migration. With a larger inflow of migrant workers the wage decreases proportionately.
more than the price of non-traded goods, as the marginal productivity of labor decreases by a factor $\beta$. In order for a citizen to gain from migration, his wage share $w_i/y_i$ must be less than the share of income spent on non-traded goods by at least the same factor $\beta$.

Based on this proposition we can conclude that both increases in migration and remittances would hurt a citizen worker who relies entirely on wage income. A citizen who relies entirely on income from oil rents, e.g. the king, will benefit from both. Finally, a capitalist who exclusively receive profit income will benefit from migration but will lose from an increase in remittances.

Figure 3 illustrates citizens’ preferences for policy for all income combinations and provides a graphical representation of Proposition 1. Measuring the oil rent share $(z_i/y_i)$ on the x-axis and the wage share $(w_i/y_i)$ on the y-axis, we get a triangular area covering all possible combinations of relative income. The three archetypal income groups are marked in the triangle’s corners: workers in point $w$, capitalists in point $p$ and oil rent earners in point $o$. A citizen earning a combination of all three sources will be located in the interior of the triangle. Individual $j$ for example earns oil rents $z_j$ and wage income $w_j$, while his relative profit income $\pi_j$ is given by the vertical (equivalent to the horizontal) distance to the diagonal.

We know from Proposition 1 that citizens with a wage share, $w_i/y_i$, smaller than $\alpha \beta$ will support migration, and citizens with an oil rent share, $z_i/y_i$, larger than $(1 - \alpha)$ will support remittances. This divides the triangle into four subareas, representing the relative income bins for citizens who in both dimensions share preferences for policy. Citizens in the upper left area, with a high wage share, are hurt both by increases in migration and in remittances. They would like to see a drop in both. Hence the label $(m^-/r^-)$, where $m$ and $r$ stands for migration and remittances respectively. The lower left area, labeled $(m^+/r^-)$ contains citizens with predominantly profit income. This group benefits from migration but would like to see a reduction in remittances. Citizens in the lower right area $(m^+/r^+)$ have a high oil rent share, and benefits from increased migration and would like to see an increase in remittance outflow. Finally, there is the group in the $(m^-/r^+)$
region with some mix of oil rents income and wage income but little profit income. Bureaucrats and citizens in subsidized private sector jobs could belong to this area. This group would like to see less migration while they gain from an increase in remittances. Migration hurts them because their wage is depressed, but they benefit from remittances because the value of their oil rents go up.

3.1 Support for large-scale migration reform

In the above, we derived the conditions under which a citizen gains from small changes in migration and remittances. We have seen that citizens’ support depends on the relative importance of various income streams. However, as the different income components vary with migration and remittances, their relative importance will change. This means that whether a citizen gains or loses from migration and remittances depends on the initial migration and remittances levels.

Hence, when evaluating large-scale migration reforms we need to take into ac-
count how migration and remittances affect the individual income compositions. From Proposition 1 we know that a citizen with a sufficiently low wage share will favor more migration. From (20) and (21) we also see that the wage share will decline to zero for $L_m$ sufficiently high. Hence, anyone who has another income source than wage income will, for sufficiently high migration, benefit from even more migration.

There is a similar result for an increase in remittances. From (20) and (21) we see that both the wage and profits decrease with remittances. This means that anyone who has any income from oil rents will favor further increases in remittances when the current outflow of remittances is sufficiently large.

We illustrate this in Figure 4. Using (20) and (21) we can write $w = K_w M/L$ and $\pi_i = K_{\pi,i} M$, where $K_w = a_{w,i} \beta \frac{1}{1+\mu} \frac{\alpha}{1-\alpha}$ and $K_{\pi,i} = a_{\pi,i} \left(1 - \beta \frac{1}{1+\mu}\right) \frac{\alpha}{1-\alpha}$. We can now write the coordinates of point $j$ in the following way:

\[
\left(\frac{z_j}{y_j}, \frac{w_j}{y_j}\right) = \left(\frac{z_j}{K_w M/L + K_{\pi,j} M + z_j}, \frac{K_w M/L}{K_w M/L + K_{\pi,j} M + z_j}\right)
\]  

First note that the position of individual $j$, given by the coordinates above, is unaffected by proportional growth in $z_j$ and $M$. A drop in imports will thus take $j$ in the same direction as the movement caused by an increase in $z_j$. An increase in remittances (reduction of $M$ towards zero), therefore gives a linear movement towards $o$. We illustrate this by the dashed arrow in figure 4. The implication is that for a sufficient amount of remittances, the citizen will start benefiting from further increases in both migration and remittances.

The effect of migration and growth in $L$ can be analyzed in a similar way. First note that as $L$ approaches zero $(\frac{z_j}{y_j}, \frac{w_j}{y_j})$ approaches $w$. Growth in $L$ will take citizen $j$ in a linear direction away from $w$, seen by the solid arrow in figure 4. Hence, sufficiently large changes in migration eventually move the marginal effects of further changes in migration into positive territory. We can prove the following, even stronger, result: A citizen with some income other than wage income will prefer a large number of migrant workers to no migrants. There is a corresponding result for remittances: Any citizen with some share of oil rents will prefer a large outflow of remittances to no remittances. We have the following proposition:
Proposition 2  a) For a citizen with some non-wage income there exists a level of migration sufficiently large so that the citizen prefers any number of migrant workers beyond that level to any lower level of migration. b) For a citizen with some oil rent income there exists a level of remittances sufficiently large so that the citizen prefers any quantity of remittances beyond that level to any lower level of remittances.

Proof. Using (19)-(21), (10) can be written

\[ v_i = v_i(L, M) = v_{i,0} \left( \frac{M}{L} \right)^{-\alpha} \left( \frac{Z}{L_C} \right)^{-\alpha} (K_w M/L + K_{\pi,i} M + z_i) \]  

where \( K_w = a_{i,w} \beta \frac{1}{1+\mu} \frac{\alpha}{1-\alpha} \), \( K_{\pi,i} = a_{\pi,i} \left( 1 - \beta \frac{1}{1+\mu} \right) \frac{\alpha}{1-\alpha} \) and subscript 0 indicates the levels of welfare \( v_{i,0} \) in the starting case with no migration and no remittances. By increasing \( L \), \( v_i \) can be increased above \( v_{i,0} \) and beyond bounds as long as \( K_{\pi,i} M + z_i = \pi_i + z_i > 0 \) which proves a). By lowering \( M \), \( v_i \) can be increased above \( v_{i,0} \) and beyond bounds as long as \( z_i > 0 \) which proves b). \( \blacksquare \)
The result that any citizen, even with minimal non-wage income, eventually will benefit from migration rests on the assumption that the wage can be driven down close to zero. In reality, of course, eventually the reservation wage of the migrants will be binding and Proposition 2 is therefore only relevant for citizens with sufficient non-wage income.

4 Securing political support for migration policies

We have now derived gains and losses from migration and remittances. We have also derived how marginal and absolute gains and losses are affected by the magnitudes of which migration and remittances change.

As made clear in Proposition 1 the king, with oil revenue as the prime income, prefers a large number of migrant workers and he prefers migrants who remit. Moreover, from Proposition 2 we know that it is sufficient to have a tiny share of oil rents to gain from a large increase in migration and remittances. This could mean that it is sufficient for the king to distribute a small amount of oil rents to the citizens to secure support for his preferred policy. In reality, attracting a sufficiently large number of remitting migrants may be impossible. Thus, the necessary transfer each worker has to receive to support the policy reform depends on the expectations of the workers with respect to the number of migrants that the country will attract and the amount of remittances. We simplify by assuming that the workers must gain from the first migrant in order to support migration. When a citizen gains from a small increase in migration and remittances, he will also gain from any further increase.

The next question is to what extent the consequences to the welfare of people and their support affect the way the king weights policy alternatives up against each other. In the Gulf countries, with their powerful monarchies, the principle of “one person one vote” is very far from the reality, and the interest of the king tends to prevail. Still, it is reasonable to assume that the king needs some degree of popular support in order to implement policies. Moreover, we assume that the king has agenda setting power, in the sense that he determines what policy combination to
consider.

In order to be able to discuss political economy of a Gulf oligarchy within a framework akin to the majority vote framework we do as Bourgignon and Verdier (2000) and introduce a political weights function, similar also to that used by Ben-abou (2000). The weighting function assigns political weights, for each individual apart from the king, which might depend on political influence and closeness to the king. We assume that migrant workers have no political weight. The political weight for individual \( i \) is \( \omega(i) \) and all weights sum to unity, \( \sum_{i=1}^{N_c} \omega(i) = 1 \). The overall support \( \Omega_1 \) for policy \( A \), versus the status quo policy is given by

\[
\Omega_1 = \sum_{i \text{ supporting } A} \omega(i)
\]

which is the sum of the political weights of all the individuals that support \( A \) over the status quo policy.

The particularities of the regime will determine both the distribution of weights \( \omega(i) \), and what critical threshold of support \( \bar{\Omega} \) that is needed in order to implement a policy. In the standard median voter democracy all the weights are equal to \( 1/N_c \), while \( \bar{\Omega} = 1/2 \). In an absolute dictatorship \( \bar{\Omega} = 0 \) and the distribution of weights is only of second order importance. In the Gulf monarchies with their strong elites we assume that the weighting function is skewed, so that support from a minority of individuals is sufficient in order to implement a policy.

The challenge for the king is to get sufficient support from the right people for his preferred policy of attracting large numbers of remitting migrants. Referring to Figure 3 we see that he will get support for such a policy by all citizens in the \( (m^+/r^+) \) region, who have a large fraction of income from oil rents. This region covers individuals with privileged access to the oil rents, like members of the royal family. It may also contain the sometimes large number of bureaucrats in well paid jobs subsidized by oil rents. Although there might be only a small number of citizens in this region, the weight of these individuals will typically be high. If the weights of these people were sufficiently high, the necessary support would be secured. In that case the king can, without having to worry about opposition, open the borders
for migrants who remit.

4.1 Agenda setting

The political support for migration will of course be less if the king alone controls most of the oil rents. In the extreme case where the king alone controls all the oil rents, all citizens will be located along the w-p line. In that case only the king will be in favor of both a high number of migrants and large amounts of remittances. Assuming that the political weight is with the capitalist entrepreneurs located in the neighborhood of p, the king would get support for migration but not for remittance stimulating initiatives. The king could get around this by using his agenda setting power and propose a policy package that combines both migration and remittances.

We know that the king prefers migrants who remit a large fraction of their income. When analyzing this we imagine that the king manages to attract his ideal migrants, i.e. migrants who remit their entire income.\(^6\) When citizens are presented with such an alternative the king can count on the support also from some of the citizens in the \((m^+/r^-)\) region. These citizens benefit from migration but lose from remittances. Nevertheless, the gains from migration exceed the loss from remittances for some of them.

Assuming that migrant workers remit their entire income and denoting the relative increase in labor supply by \(\hat{L}\) and the relative change in imports (implied by the remittances) by \(\hat{M}\), we have \(\hat{M} = -w\hat{L}\frac{L}{M}\). Then it follows from (20) that

\[
\hat{M} = -\beta \frac{1}{1 + \mu} \frac{\alpha}{1 - \alpha} \hat{L}
\]

Inserting in (22) we get

\[
\hat{v}_i = \left[ \frac{\alpha\beta\mu}{1 + \mu} + \frac{\alpha\beta}{(1 - \alpha)(1 + \mu)} \frac{z_i}{y_i} - \frac{w_i}{y_i} \right] \hat{L}
\]

Individual \(i\) will gain from max remitting migrants \((\hat{v}_i > 0)\), if the bracket above is

\(^6\)We could easily generalize this by allowing migrants to remit only a fraction \(\gamma\) of their income, so that \(R = \gamma wL_m\). The qualitative results would still remain.
Figure 5: Preferences for remitting migrant workers

positive. This holds for:

$$\frac{w_i}{y_i} \leq \alpha \beta \left( \frac{\mu}{1 + \mu} + \frac{1}{(1 - \alpha)(1 + \mu) y_i} \right)$$

(28)

The shaded area in Figure 5 captures income combinations where the condition above is satisfied. Hence, it captures individuals who will support migration policies that attract workers who remit their entire income. In particular, pure capitalists support these remitting migrants.\(^7\) As long as a sufficient political weight is found within the shaded area the king can use agenda setting power to implement his first best choice of policy.

A second best alternative for the king would be to propose attracting migrant workers who do not remit. In that case he could count on the support from the entire \((m^+/r^-)\) region. This would be the preferred alternative in a country with a strong bourgeois middle class, who does not receive a large part of the oil rents.

\(^7\)When the mark-up, \(\mu\), is positive they benefit, while they are indifferent when \(\mu = 0\).
In such an economy important segments of society would be distributed along the $w-p$ line, and competition could drive down $\mu$. Then opening up for non-remitting permanent migrants would get support that remitting migrants would not get. The bourgeoisie would benefit from cheap labor in combination with increased product demand. In fact any individual with wage constituting less than a share $\alpha\beta$ would support migrants that do not remit.

### 4.2 Distributing oil rents ownership

In a situation with limited support, the king could also compensate the citizens with cash handouts. This would only work, however, to the extent that the citizens accept that these handouts are an integral part of a package that also includes them welcoming remitting migrants. This would however contain a time inconsistency problem. One problem is that the king might renege on promised handouts as soon as the migrants has arrived. However, the king can make his promise credible by distributing rents in a manner that to a greater extent binds his hands. For example, offering citizens well-paid public jobs could serve as a credible compensation.

The second time inconsistency problem is that citizens might oppose the migration reform once they have received their compensation. In this case, a more robust option for the king would be to distribute sufficient oil rents (e.g. by offering public employment) such that it actually becomes in the interest of the citizens to support a proposal of remitting migrants. And such redistribution, though costly, may prove to pay off as the king after redistribution can rely on backing by individuals who genuinely share the king’s preferences for policies.\(^8\)

The effect of redistribution is illustrated by the arrow in Figure 5. Here a citizen located at point $j$ is given oil rents that shrinks the relative importance of wage income and profit income, and by the transfer he is moved into the region of those supporting remitting migrants. As we saw in section 3.1 the movement is linear towards point $o$.

How much oil rents would the king be willing to hand out in order to secure

\(^8\)This argument for credible and robust support is discussed in much more detail in Acemoglu and Robinson (2001) and in Robinson and Torvik (2005)
support for his preferred policy? Assuming that the king’s sole source of income is oil rents, and denoting the king’s oil rent income by $Z_k$, from (10) his utility can be written as

$$v_k = Z_k p^{-\alpha}$$  \tag{29}$$

Hence, the king’s utility is proportional to income. Therefore the relative increase in $v_k$ resulting from changes in $p$ gives the willingness to transfer resource rent rights to secure support for his preferred policy of maximum remitting migrants. Using (27) and inserting for $w_k/y_k = 0$ and $z_k/y_k = 1$ we get

$$\hat{v}_k = \alpha \beta \left[ \mu + \frac{1}{(1 - \alpha)(1 + \mu)} \right] \hat{L}$$  \tag{30}$$

The right hand side of expression (30) gives the maximum willingness to transfer. We see that the king is willing to transfer more rights the more migrants he thinks he will be able to attract.

How much the king has to transfer in order to secure support for his preferred policy depends on the initial income sources of the targeted citizens. The least expensive ones are those who have modest income at the outset, and who are close to the shaded region. Citizen $j$ is quite far away and the movement of citizen $j$ represents an additional oil rents income equal to the original income, $\Delta z_j = y_j$. The general rule is the following

**Lemma 1** If a citizen $i$ gets additional oil rents of an amount equal to $k$ times the initial income $\Delta z_i = ky_i$, then citizen $i$’s distance from $o$ is reduced along a straight ray by the factor $(1 + k)$.

**Proof.** The position of citizen $i$ is given by $\frac{z_i}{y_i}$ in the horizontal direction and by $\frac{w_i}{y_i}$ in the vertical direction. The horizontal distance from the point $o$ is $\frac{w_i + \pi_i}{y_i}$ while the vertical distance is $\frac{w_i}{y_i}$. An increase in $z_i$ by $\Delta z_i = ky_i$ increases the denominator in each expression by the factor $(1 + k)$. Hence both the vertical and the horizontal distance from $o$ is reduced by the factor $(1 + k)$.

Calculating the cost of securing his preferred policy we also need to take into
account the political weight of the citizen to which he considers distributing oil wealth. One the one hand, the relatively poor are cheap to buy. If their political weight is low, however, they do not contribute much in terms of influence. Benabou (2000) considers the case where political weight is positively correlated to wealth. Regarding the Gulf autocracies, we think it is reasonable to assume that the rich have more political influence. A special case, of course, is the case where political weight is proportional to income. When that is the case, there is no reason for the king to focus on the poor. The political weight of two individuals with income \( y' \) is equal to that of one individual with income \( 2y' \). In order to secure support for remitting migrants the king will have to transfer resource rents to citizens close to the border \( ab \) of the support region in Figure 5. His cost saving strategy will be to target citizens in a region parallel to the border and give them transfers so that they just move inside the support region. This is illustrated in Figure 6 as the shaded region above the solid line through \( b \).

**Proposition 3** When political weight is proportional to income, the king will target transfers of oil rents to individuals in increasing distance from the support region until he has gotten sufficient support for his remitting migrants policy.

**Proof.** Consider two individuals \( i \) and \( j \) exactly at the border \( ab \). From Lemma 1 it follows that a negative transfer of \( \Delta z_i = -hy_i \) to individual \( i \) and a negative transfer of \( \Delta z_j = -hy_j \) to individual \( j \) will bring \( i \) and \( j \) to \( i' \) and \( j' \) at a line parallel to the border but further away from \( o \) by the factor \( 1/(1-h) \). Conversely, individuals initially at \( i' \) and \( j' \) will need a positive transfer of \( \Delta z = [h/(1-h)]y \) in order to get to the border. In order to minimize the redistribution he will bring new citizens just inside the support region. \( \blacksquare \)

### 4.3 The cost and benefits of redistribution

How expensive is this strategy in terms of distributed resource rents? The answer depends on the needed support \( \bar{\Omega} \). It also depends on the distance from citizens to the support region. The further away the citizens are the more expensive the redistribution becomes. Consider the case of a polarized society where at the outset
there are only pure capitalists (located in \( p \)) and pure wage earners (located in \( w \)) in addition to the king. We assume as above that economic influence determines political influence. In addition, we assume that fifty percent of the political influence is needed in order to implement a policy, i.e. \( \bar{\Omega} = 1/2 \). As the capitalists are already in the support region, the king has to target a fraction of the workers with oil rents.

The political weight of capitalists, already supporting the king, is equal to their share of non-oil income \( \left(1 - \frac{\beta}{1+\mu}\right) \), while the total political weight of workers is the residual \( \left(\frac{\beta}{1+\mu}\right) \). The fraction of workers that have to receive a transfer to support the king’s policy is therefore given by

\[
\gamma = 1 - \frac{1}{2} \frac{(1 + \mu)}{\beta}
\]

(31)

This fraction is positive when the wage share of production is larger than one half. That is when \( \beta \) is not too low and \( \mu \) is not too high.

Inserting from equation (20) in (28) and setting \( L_m = 0 \), we find the necessary
transfer to make to a pure wage earner, in order for him to gain from accepting the first migrant:

\[ z^b = \frac{1 + \mu(1 - \alpha \beta)}{(1 + \mu)(1 + \mu(1 - \alpha))} Z_L c \]  

(32)

When this amount is to be transferred to a fraction \( \gamma \) of citizen workers we get that the total transfer is

\[ Z^b = \left(1 - \frac{1}{2} \frac{(1 + \mu)}{\beta}\right) \frac{1 + \mu(1 - \alpha \beta)}{(1 + \mu)(1 + \mu(1 - \alpha))} Z \]  

(33)

A transfer equal to \( Z^b \) will move a sufficient number of workers from \( w \) to a point just past \( b \) in Figure 5.

The king will evaluate the costs and benefits of such a transfer. On the cost side is the loss of oil rents from distributing \( Z^b \). On the benefits side is the drop in \( p \) as labour supply increases. By inserting for typical values like \( \mu = 0, \beta = 2/3 \) and \( \alpha = 1/2 \) in (33) we find that the necessary transfer is \( Z^b = 1/4Z \). This number can be compared with the benefits from (30). Using the same parameter values in this expression it follows that the king increases his welfare by 2/3 percent when labor supply increases by one percent. By log approximation of equation (30) it follows that the king would be willing to depart with the needed \( Z^b = 1/4Z \) of his rents if the resulting migration inflow is \( L_m = \left( (1 - 1/4)^{-3/2} - 1 \right) L_c = 0.54L_c \).\(^9\) We know from above that for all the countries we consider the number of migrants exceeds this number by a far margin.

This numerical result depends on the exact parameters. If the mark-up \( \mu \) increases, more political weight is located in \( p \), meaning that less workers must be paid to secure support. Also, we see from equation (32) that the necessary transfer paid to each worker will be smaller. Hence, the king could see it as beneficial that competition is somewhat limited and that capitalists is allowed to keep a certain mark-up.

\(^9\)This number is only a first order approximation as it follows from a log extrapolation of derivatives.
5 Discussion

We have seen from the above analysis that there will be conflicts of interests between different groups with regard to migration policy. While workers would wish to stop labor migration, capitalists and oil rent earners would want as many migrant workers as possible. Another coalition of interest forms with regard to remittances. While oil rent earners would want to encourage migrant workers to send large amounts of remittances, workers and capitalists would like the migrant workers to spend their income domestically (e.g. granting the migrants permanent residence permits). In the following we argue that these conflicts of interest are instrumental in understanding the development of the segregated societies that we see in the Gulf countries today.

5.1 Migrant workers in the Gulf countries

In the first face of labor migration to the Gulf region migrant workers came mainly from neighboring labor abundant Arab countries. Workers from these countries could provide the necessary skills to take advantage of the oil discoveries and build the modern economies of today. The Arab migrants integrated easily as they often shared language, culture and religion, and they settled down in the Gulf countries with their families.

In the last decades there has been a shift towards fewer Arab and more Asian migrants. The Asians normally stay for shorter periods and send money to their families that they leave behind. A range of new policies creating a very segregated society has accompanied the increase in the number of Asian migrants. Gaining citizenship or bringing along family has become nearly impossible. Residence permits are short-term, normally with duration of two or three years, but can be renewed. The scope of this policy is presumably to bring labor into the country during economic booms that is easily expelled during slumps.

According to Kapiszewski (2006) the shift towards Asian migrants and the restrictive policies are due mainly to security, social and cultural threats. In particular, he points out that the Gulf authorities became worried about Arab migrants bringing and spreading radical social and political ideas such as a calling for the abolition
of monarchies in the Gulf. Our analysis suggests another possible explanation. The shift towards Asian migrants accompanied by the new restrictive short-term foreign worker programs may also have contributed to the substantial increase in remittances over the period. Asian migrants have weaker cultural ties to the Gulf countries than the Arab migrants, and are more likely to maintain strong relationships with their countries of origin and thus remit most of their income. According to our analysis, an increase in remittances benefits the oil rent earning elite in the Gulf. The shift to Asian migrants is therefore perfectly understandable given the elite’s economic interests.

As we have already pointed out in section 4, it is important to remember that also in the Gulf countries with their strong oil-rich elites the dictatorship of a king depends on the support of the people. Moreover, some groups have more political influence than others. This means that the conflicts of interest between different income groups will have an impact on the policy followed by the king. Their impact will depend on how dependent the king is on their support. In the following we will look a little closer at some examples of political struggles in light of the predictions of our model.

5.2 Political struggles

While all the Gulf countries are autocracies, there are some differences in their political environment. Kuwait stands out as the only Gulf country with a relatively well-functioning parliament, holding generally free and fair elections. However autocratic, rulers also need to content the people to some extent in order to avoid rage. This is of current interest in the aftermath of the Arab spring, where autocratic regimes have been overthrown one after the other. In this connection, it is relevant that citizens are content with migration policies, as migrant workers are an integrated part of society. Without any intervention from the government, migrant workers represent a threat for citizen workers as they compete for jobs and drive down wages, in line with our analysis. In the Gulf countries, the government intervenes by giving citizens precedence in public employment and certain privileged
positions in the private sector, where they receive high wages. In addition, citizens are provided with a range of subsidies and transfers. With such intervention, migrant workers generate convenience rather than being a threat, as they provide cheap services. The contributions given to the citizens are in effect transfers of oil rents. We have seen from our analysis that distributing enough oil rents to workers ensures that they benefit from migration and remittances, as non-traded goods become cheaper.

Herb (2009) discusses the political participation in the fast-growing and economically diversified United Arab Emirates (UAE), compared to Kuwait that remains highly oil-dependent. He points out that the ruling families in the UAE not only control the substantial oil wealth but are also the main shareholders in the private economy. While Kuwait’s parliament represents citizens, who are mainly public sector workers, policy in the UAE reflects the interests of the oil-rich and capitalist ruling families. In the UAE, the government rather satisfies capitalist interests in spending on e.g. major infrastructure projects. This means that regular citizen workers are largely left out from the national oil wealth. Also, while migrant workers are not a point of contention in Kuwait, in the UAE there seems to be more discontent over the issue. Obviously, the very authoritarian rule in the UAE limits the freedom of speech, however, surveys witness a widespread concern with the large numbers of migrant workers (Herb 2009). This pattern fits well with our model, which predicts that citizen workers who are not given a share in the oil wealth will oppose labor migration.

The political cleavages may manifest in differences in the regulations of migrant workers. Although the Gulf countries are very similar in these regulations, there are a few exceptions. During the last years some of the Gulf countries have altered the regulations on change of employment. Until 2007 migrant workers in all Gulf countries who wished to change employment had to obtain a No Objection Certificate (NOC) from the employer, giving consent to the worker being hired by another firm. If a migrant worker wishes to end his employment he must leave the country. By abolishing this requirement, migrant workers are enabled to move freely between
employers. This also means that they more easily can renew their work permit and stay for longer periods. With a longer horizon, it is likely that the migrant workers will be more inclined to invest in a life in the Gulf rather than sending money to their countries of origin.

While Bahrain and Oman have fully abolished the NOC, Kuwait announced it would do the same before January 2011, however, the requirement is still fully enforced. In Saudi Arabia the NOC is not required if the previous employer were below required targets for nationalization of the workforce (firms are encouraged to hire national rather than foreign workers). The UAE removed the NOC requirement fully for free zones and for high-skilled workers, while it is not required for semi-skilled and low-skilled workers after completing two years of employment (Gulf-Talent 2012). Qatar is now the only Gulf country that has no plans of abolishing the NOC requirement. The explanation for this might be that Qatar is both a very oil-dependent and very autocratic country. The members of the ruling elite are rentiers and have no interest in having the migrants spend their income domestically.

The recent changes in regulation in the GCC countries (except Qatar) have been given grounds for by human rights concerns. However, the predictions of our model suggest that the changes might be due to political pressure from groups who are not given a sufficiently large share of oil rents and see their common interest in having migrant workers integrate and stimulate domestic markets. According to AlHasan (2012) labor unions and workers supported the labor market reform in Bahrain that removed the NOC. The workers’ support of the labor market reform is in line with the predictions of our model: Wage earners oppose migration, however, given the presence of migrant labor, citizen workers would like them to spend their income in the domestic economy. The reform gives migrants more freedom that incentivizes them to invest their income domestically rather than sending it abroad.

6 Conclusion

In this paper we have explored the effect of labor migration on the Gulf economies, and how migration policies depends on the functional income distribution and the
political influence of various groups. We have seen that labor migration leads to a drop in the wage, hence citizens depending solely on wage income lose. In contrast, capitalists and oil rent earners will benefit as the price of non-traded goods drops. The effect of migrant workers’ remittances is that the value of a rent given in foreign exchange increases when foreign exchange is remitted out of the economy. This is to the benefit of oil rent earners. Capitalists and workers, however, lose from more remittances. These conflicts of interest between the various groups have several implications. The migration policy will stimulate migrant workers with strong ties to their country of origin (high remittances) if the oil rent earners dominate the policy. The policy will stimulate a large number of migrant workers with weak ties (low remittances) if the profit earners dominate. Finally, if citizen workers dominate policymaking, migrants will not be allowed into the country.

These results may help explain the differences in migration policy between different Gulf countries, in particular depending on the sharing of oil rents and on the political influence of the working class. The results also contain predictions with regard to expected policy changes if and when the Gulf countries go in more democratic directions. The democratization of the Gulf countries may take several forms. a) If democratization implies that citizen workers get to decide, migrants may be expelled, however b) if democratization also implies that all citizens gets a share of the oil rents, short term migrants, who remit, may be invited in even larger numbers. Lastly, c) if democratization implies that the capitalist middle class gets to decide then the policy may swing in the direction of permanent migrants, who remit less and who stimulate the domestic non-traded economy. With such diverging interests it is not at all obvious what consequences far reaching democratization will have. What is clear, however, is that the capitalist middle class and oil sheiks have good reasons to fear alternative a). The capitalist middle class may therefore be reluctant to push for democratization, particularly in the more unequal of the Gulf countries.
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References


