

<https://doi.org/10.5281/zenodo.7125854>

A Note on Economic Impact of Refugees in Host Countries

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Received: 2022-07-10

Accepted: 2022-09-05

Published online: 2022-09-08

Abstract

Refugee issue has been debated mostly in the political and humanitarian arena and less in the economic impact in the host countries. Furthermore, even if refugee issues were discussed from economic perspectives, most studies use macro-emotionally charged tools rather than economic theory-based argument. In addition, discussions have been limited to short-term economic impact on host countries and ignore a long-term economic implication. Although inflation and labor displacement in host countries by the refugees are expected, this study reveals that the host countries benefit greatly from refugees in the long-run in almost every aspect of life. If refugees decide to settle permanently in the host countries, a structural change in economic area occurs in the host countries.

Keywords: Structural change, economic multiplier, semi-skilled labor, labor substitution effect, real income.

Introduction

According to the recent information on global refugees by United Nations High Commission for Refugees (UNHCR), almost 21 million people were displaced in 2021 and the numbers will certainly increase in 2022 due mainly to the war in Ukraine. According to the recent information from UNHCR, more than 6 million people from Ukraine alone have been displaced to other countries in 2022.

Status of refugees are different from that of migrants in that the former (refugees) involuntarily left their home countries due many reasons beyond their controls such as political prosecutions, social unrest, economic hardship, etc., while the later (migrants) mainly seeking seasonal employments in other countries (Chambers, 1986).

Accordingly, refugees' future is highly uncertain whereas migrants usually return to their home countries when employment contracts expire. In addition, refugees are political issue whereas migrants are economic issue. While migrants have specific timeline in staying host countries, timeline for refugees is highly uncertain at the best. Prolong stay in host countries; therefore, would create political, social and economic uneasiness for the local population in host countries.

Most refugees are settled in neighboring countries where life style is similar to those of hosting countries. In addition, host countries in most cases are underdeveloped countries (Kabir and Olosky, 2019). It is rare to see refugees are relocated thousand miles away from their home countries. Exception includes humanitarian and political reasons, such cases as refugees brought into the United States from Vietnam in late 1970, from Afghanistan in 2021 and a few from Ukraine in 2022. Debates have been focused on merits of refugees in host countries especially in economic area (Cali, 2015; Cassidy, 2015; Cortes, 2004). Unusually large influx of refugees on a steady basis as shown in many refugees from Africa to Southern European countries such as Spain, Greece, Italy created a serious national conversation.

However, debates have been in most cases centered on political areas and less on economics and social fields. The purpose of this note is to review the existing literature on economic impact of refugees in host countries using economic theory. In order to better understand the long-term impact, this study also addresses briefly the short-term economic impact by refugees on the host countries. This paper uses economic theory-based arguments. Discussions in the political and social impact by refugees on host countries, therefore, are intentionally avoided in this paper.

Short-term Economic Impact

Influx of refugees into host counties tends to suppress the local wages as many unskilled refugees seek for almost any employment for survival, competing with less skilled local labor forces. Situation becomes politically untenable and unsustainable if the local economy is already experiencing a high unemployment rate as the cases in many host countries. With shortage of most of the essential goods and services, potentially explosive inflation become reality when the refugees start to spend cash received from numerous charity organizations including the United Nations High Commission for Refugees. Limited production capacity with increased purchasing power results in inflationary pressure that in turn would create uneasy social tension in the host countries. Lozi's study (2013) on Syrian refugee case in Jordan shows that local food price increased as a result of influx of Syrian refugees. Moreover, it is claimed that Syrian refugees have negatively impacted the Jordanian economy in general and labor

market in particular (Alshoubaki and Harris, 2018). Refugees with cash eventually forces a high rent and additional demand for public services thereby creating not only economics but also social discontentment for the local population. Public safety also becomes an issue along with economic and political issues. However, while consumers in the host countries face economic hardship due to influx of refugees, this new landscape may provide the local entrepreneurs with window of opportunities to improve in creating working capital for future growth based on abundance of cheap workforces. Cash and cheap labor from refugees provide an ideal opportunity for local entrepreneurs to expand their businesses in the future.

Long-Term Economic Impact

Majority refugees return to their countries once situations become "normal". However, if situations call for longer stay, different scenarios emerge. Refugees will replace local unskilled labors in host countries as refugees take almost any jobs to survive regardless types of job and wages. As a result, there will be a downward pressure on local wage and it is more likely that workers in the host countries will be forced out of the labor market. Research indicates that those replaced labors eventually looking for and eventually landed semi-skilled jobs after a short period of vocational training, called "labor substitution effect". When semi-skilled labors return to market, they command higher wages than before. Higher earnings from returned semi-skilled labor combined with wage earned by refugees would create a high economic multiplier effect further creating healthy local economy. Additional income/spending brought about by semi-skilled local labors and refugees generate additional rounds of spending impacts on the local economy. Increase in food supply brought into the market by refugees put slightly downward pressure on prices. This adversely affects local producers, who must compete with cheap food assistance donated by charity organizations. Economic theory suggests that the potential multiplier effect to the host economy is, therefore, largely offset by the downward push on prices.

Yet, a study by Taylora et al (2015) shows that, "cash aid to refugees creates significant positive income spillovers to host country businesses and households. An additional adult refugee receiving cash aid increases annual real income in the local economy by \$205 to \$253, significantly more than the \$120-\$126 in aid each refugee receives. Trade between the local economy and the rest of Rwanda, for example, increases by \$49 to \$55." (p. 7450). The same study argues that the income multiplier ranges from 1.14 to 1.51 implying that \$1 spending by refugees contributes to the local economy by \$1.14 to \$1.51 ($p < 0.01$). Another study further argues that refugees have little to no effect on local unemployment in the long-run, and it may result in a slight decrease in unemployment due to the income multipliers it creates (Glitz, 2012).

A similar result was also reported on Syrian refugees in Lebanon and in Turkey. It is reported that refugees have been an important source of demand for locally produced services in Lebanon, funded from own savings and labor income, from remittances of relatives abroad and from international aid with a multiplier effect greater than 1, e.g., 1 percent increase in Syrian refugees increases Lebanese service exports by 1.5 percent (Cali and Sekkarie, 2015).

In Turkey, Syrian refugees displaced unskilled local workers, however, refugees indirectly forced to train non-agricultural jobs for better wages thereby increasing average wages for overall Turkish workers. In addition, many of the displaced workers have gone back to school and may well increase their earning potential once they return to the labor market. A similar report is published in Jordan where unemployment has NOT increased in areas where Syrians refugees have resettled, since Syrian workers tended to find employment in low-skill sectors where Jordanians typically avoid. (Carpio and Wagner, 2015)

Summary and Conclusion

Influxes of refugees especially into neighboring counties add economic pressures on local labor market and tend to increase price in the local markets. Situations become unmanageable as the hosting countries are lacking infrastructure to integrate refugees into their societies. Local labors in many cases are replaced by refugees who are willing to work substance wage just for survival. Situation becomes even worse when refugees spend cash in the market resulting in a short-term surge of inflation.

Although many refugees return to their countries when situation becomes "normal", some of them tend to settle in the host countries especially if the host countries provide better opportunities. If that happens, a structural change occurs in the host countries. Displaced local labor forces may go back to "schools" to improve skills and earn higher wages when they return to the labor market. Refugees provide a steady labor supply in the areas where local workforces were displaced. With improved productivity by local labor forces and steady supply of "cheap" labors by refugees, production capacity will increase and price pressure will be moderated. Economic benefits should be measurable in the long-run for people both in host countries as well as refugees.

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