

## The Effects of Afghan Immigrants on the Iranian Labour Market

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### Abstract

In 2005 Afghanistan has been the origin country of the largest refugees, by about a quarter of the global refugee population, who were mainly living in Pakistan and Iran. Almost all Afghan labourers are working illegally in Iran and have not work permission. They are unskilled and cheap workers, accepting any low payed job they are offered.

Afghan refugees increased the supply of labour force in Iran for more than 2 decades. So wage increase for low skill workers has been very slow, specially in construction work, where Afghan workers have a large share. The results of our research show that Afghan workers have been attracted to the prosperous provinces where the unskilled workers were most wanted. As the workers can move easily in the country, the presence of Afghan workers in Tehran, Isfahan and Khorasan, has not caused higher unemployment rate neither in cities nor in villages of these provinces, however unemployment rate in the country has been raised. If Afghan immigrants leave Iran, unemployment rate will be lower and the wage rate for unskilled workers will rise considerably.

**Key Words:** Iran's Labour Market, Afghan Immigrants, Wage Rate, Employment

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## **1- Introduction**

There is about 8.5 million refugees in the world (UNHCR 2006). Small parts of these refugees live in developed countries and the rest are in developing countries. The poor countries are tolerating the main burden of hosting refugees. Afghans' emigration in past 2 decades is one of the largest emigration post world war II. They consist about a quarter of total refugees all around the world. By receiving a huge number of Afghan refugees for a long period (since 1980 till now), Iran has become the second major refugee hosting country (after Pakistan). The emigration of 30 percent of Afghanistan's population since 1979 was due to war and drought that forced them to leave their own country (UNHCR 2002).

Afghanistan civil war was ended on 2001, but long lasted war and drought that have devastated the economy, not only are discouraging the refugees from returning home, but also are creating hundreds of thousands of new refugees.

The voluntary repatriation programs that were governed by UNHCR were not successful. It was expected that repatriation of Afghans to be ended by March 2005. At present UNHCR is discussing with government of Iran, to find comprehensive regional solutions for Afghans who may choose not to repatriate.

Afghanistan government insists that Afghan immigrants should not be displaced by force; and their return should be voluntary (Rahimi, 2005). It seems that despite Iranian government announcement for obligatory repatriation, the presence of hundreds of thousands Afghan workers in Iran labour market can be continued for relatively long time.

Afghan immigrants are generally illiterate and unskilled and are working illegally in Iran; they have to accept hard and dirty jobs with low wages. They can not complain about poor conditions of work place or long working hours. So employers prefer Afghan workers to native ones. Afghan immigrants, by raising the supply of labour force, have declined the real wage rate. Iranian employers gain of lower labour cost and Iranian unskilled workers are suffering from slow pace of increase in the nominal wage rate.

This article is mainly examining the effects of Afghan workers on wages and unemployment rates in Iran. In part II we will review the previous researches about the impacts of immigration in the labour market of the host

countries and will introduce Borjas model (1995) and its implications. In part III the situation of Afghan refugees in Iran's labour market is studied. Part IV is dedicated to the effects of Afghan immigrants on wage rates and part V is about their effects on unemployment rates. In part VI, Afghans repatriation programme is studied. The last part provides concluding remarks.

## **2- The impacts of immigrant workers on host countries' labour market**

Economic incentives along with the efforts to survive are the most important causes of immigration and numerous studies testify to that fact (Weinstein 2002; Altonji and Card 1991; Green and Green 1993; Dunlevy and Saba 1992) These researches have found that immigrants escaping from war systematically migrate towards neighboring countries borders. At first stage they settle in "ports" of entry and in areas with a large stock of previous immigrants and then from the border ports to cities and states with relatively higher probability to find job with "good" earning.

Increase in the number of immigrant workers can entail benefits as well as costs. Immigrant workers can have positive effects on the economy of both migrant and host countries such as: Increase productivity, decrease costs to consumers, increase corporate profits, facilitate foreign investment, and better the lives of workers from less fortunate economies. Despite the positive potential of migrant workers, however, such workers are often more resented than loved by national of the receiving countries because it seems that the costs of immigrants are much higher than their benefits (Teitelbaum et al. 1998)

The immigrant workers are placed on the lowest step of job ladder. It is difficult for them to be accepted completely in the host country. They have no social and political right, and comparing to the native labourers, are working with lower wages.

### **A- The effects of immigrants on wages**

One of the most important effects of immigration is wage decrease of native born workers. The increase in labour supply brought by immigration

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should reduce the earning of unskilled workers that are close substitutes for immigrants.

It is argued that if immigrants push down the earnings of native labour, then earning should be lower in localities where there are a higher proportion of immigrants. Surveys which have evaluated the results of such estimates have concluded that the effects are insignificant (Greenwood and McDowell 1986; Borjas 1994). A number of studies however, have found modest negative effects. Altonji and Card (1990) found that changes in the share of immigrants across metropolitan areas in the United States between 1970 and 1980 had a negative impact on the wage of low skilled natives.

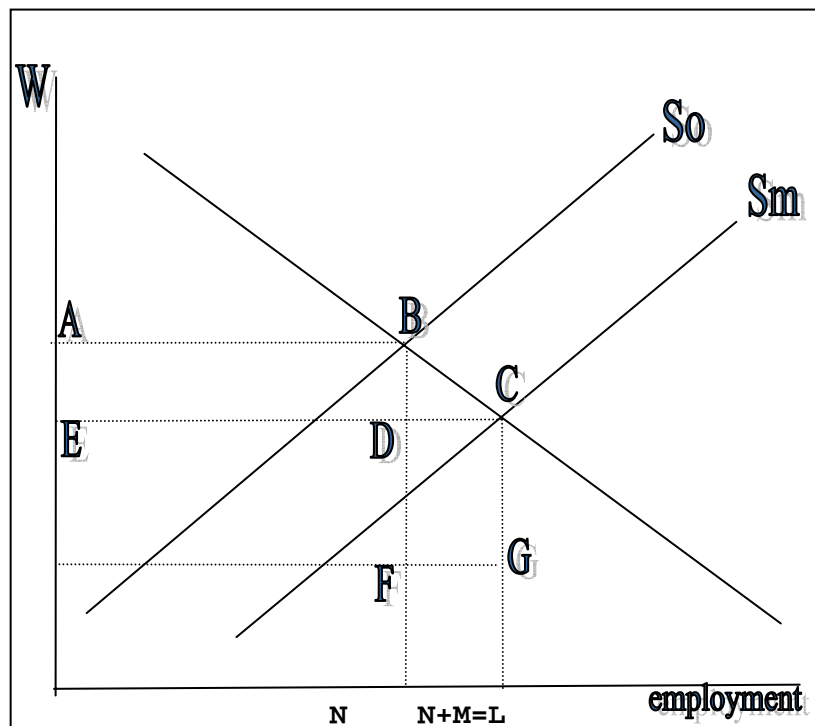
Markets, generally, do respond to the impacts of immigrants and that the impacts are mitigated in the immigrant receiving areas and are disseminated throughout the economy. The trend of price equalization among factors of production, would prevent observing a relationship between immigration and wages and prices in cross-sectional data (Chiswick 2001).

Wage depression in some occupations can set up a positive feedback loop. As more migrants move in particular fields which are failing to attract native workers, wages will fall increasingly because of competitive offerings, causing an acceleration of native flight towards other fields.

Migrant workers are employed for particular jobs where employers complain of difficulties in attracting sufficient number of natives. Such occupations will become even less attractive to native workers, as wage growth is depressed relative to other occupations that are not recruiting migrant workers.

Immigrant labourforce may have positive effect on output and expand it as well. Therefore the long-run impact of labour force growth will be less than what is expected. Estimation in the United States shows that 1 percentage increase in the labourforce due to immigration would have reduced the real wage in the long run by 0.5 percent (Card 1990). Borjas Model(1995) exhibits this effect. The model is a two-country, single sector model, without transaction costs. Due to this model, labour is assumed to be uniform. Labour is partitioned into M units of labour supplied by migrants and N units supplied by natives. Figure 1 shows two supply curves "SO" and "SM" that would exist for labour in the host economy in the absence and

presence of M migrants. "E" (wage rate in the presence of immigrants) should be expected to lie below the level of "A" (Wage Rate in the absence of immigrants) and above the level of "F" (the wage rate in the origin country of the migrants).



**Figure1: Migration for the benefit of some: Gains and transfers in the presence of Migration**

There are three basic effects from migrant workers presence: gain to migrating workers, net changes in native income, transfer the income from native workers to native providers of capital. These effects are summarized in Table 1.

**Table 1: Migration for benefit of some: Borjas's model of migration**

Economic effect present in model	Geometric representation
Net gain to native economy	Triangle BCD
Loss experienced by native workers	Rectangle ABDE
Gain experienced by native capitalists	Rectangle ABDE + triangle BCD
Gain experienced by migrant workers	Rectangle DCGF

### **B- Impact on unemployment**

When migrant and native workers of comparable value to an employer are asked to compete, it is to be expected that the employer will take the applicant who costs him less. Borjas indicated that:

"the economic benefits from immigration arise only when immigrants do lower the wage of native workers." (Borjas 1995:10-11)

The benefit to the host society stems from the ability to lower wages while simultaneously increasing output and the number of workers employed. But native workers experience none of the economic benefits of the presence of migrant workers. Many studies show that the unemployment rate has not raised in the areas where immigrants are concentrated. For example Card (1990) found that the influx of 45000 Cubans into Miami (equivalent to 7 percent of Miami labourforce) had almost no long-run effect on the size of the city's labourforce or on wages of competing groups of whites, blacks and other Hispanic, because of the mobility response of the native born and previous immigrants. So increase of labour supply in certain region of the host countries, due to immigration, does not increase the unemployment rate in the same region. But the rise or fall of overall unemployment will depend on the effect of lower wages on the growth of employment and production. If by lowering the wage rate and decreasing the cost of production, the growth rate can be accelerated, perhaps unemployment does not rise, while the supply of labour is increased.

### **3- Afghan Refugees in the Iran Labour Market**

Differences in the levels of economic development between Iran and Afghanistan have long contributed to significant levels of labour migration

from Afghanistan to Iran. This has been made easier by the fact that large numbers of Afghans share a language (Dari) and religion (Shia Islam) with the Iranians. The migration has mostly been seasonal in the 1960s and 1970s.

After the first oil shock in 1973, construction works and the demand of unskilled cheap labour increased considerably. For preventing wage- price spiral, the government encouraged the presence of foreign cheap workers in Iran's labour market. Afghan workers, as well as Pakistanis, Indian, Korean and Philipinoes entered Iran.

During 1973-1979, Afghans worked in construction and services, food industries especially in poultry and dairy farms. They lived in work places and saved a great part of their income and traveled back to their home country with their saved money. It has been estimated that in 1978 there was about 400,000 Afghan workers in Iran (Hedayat 1983).

After Islamic revolution in 1979, these migrant workers generally left Iran. But a few months later, Afghan coup d'état, the Soviet invasion and the escalating war in Afghanistan created the new and now very mixed flow of Afghan refugees and labour migrants into Iran. Millions of Afghan entered, mostly illegally, into the Iranian borders and started to work in Iran permanently. A huge number of Afghan refugees entered Pakistan too, but Pakistani government controlled their entrance much more carefully than Iran. Majority of Afghans were settled in camps in Pakistan.<sup>1</sup> Due to unspecific strategy of accepting Afghan refugees in Iran, during the first years of Islamic revolution and the sense of necessity to help "Afghan Moslem brothers" who are under the pressure of Soviet army, and also uncontrollable 930 KM border between Iran and Afghanistan, more than 95 percent of Afghan refugees entered into Iranian cities and villages. During 1979-1989 (the period of fighting with Soviet army) about 2 million Afghans entered into Iran (Nazari 1988).

The Soviet withdrawal from Afghanistan led to a large-scale process of repatriation in 1992 and 1993. This period of return, facilitated through a tripartite agreement between Iran, Afghanistan and UNHCR, came to a halt

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1- About 80 percent of Afghan refugees in Pakistan are living in special camps and Pakistani government receive financial support from UN for all refugees who live in these camps.

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in the face of renewed warfare among the various mujahedin<sup>1</sup> groups and the gradual takeover by the Taliban from 1994 onwards. A new outflow of Afghans sought safety and work in Iran in the period 1994–2001 (Makhmalbaf 2001)

Some of the Afghan immigrants came to Iran with their family, yet most of them were single men, who came to Iran for finding job, and many of them arranged to bring their family when they found relatively stable job and residence. Beside the war and political unrest, the economic stagnation in Afghanistan was a major reason for Afghan workers immigration to Iran. They knew that wage rate in Iran is much higher than Afghanistan.

In Nov. 2001, the government of Taliban collapsed. But this time, the Afghan refugees are not willing to return to their country. They are skeptic about the foreseeable future of Afghanistan. They do not want to accept the risk and again face a new crisis. More than 2 decades of civil war has destroyed the infrastructure of the country, and there are other dangers such as hundreds of thousands of land mines (UNHCR 2003).

In 2001 the average wages received by casual labourers in the main cities of Afghanistan declined, by between 4 and 49 percent compared to one year ago. The monthly salary of Herat's governor was USD 15 per month. That's 50 cents a day or 4000 Iranian rials (UNHCR 2003) while the average wage of Afghan workers in Iran was more than USD 100.

There are not reliable data about the number of Afghan workers in different occupations. Even in the census years, 1986, 1996 and 2006. Afghan refugees refused to give correct information about their works, because they are afraid of losing their jobs. Many of them can introduce themselves as Iranians, specially the families who have been successful enough to buy Iranian identity cards from smugglers. Many of them can speak Farsi fluently and without Afghan's special accent.

In The year 2001, with the help of UNHCR, Iran deployed “Afghan Identification Program” (AIP). Due to AIP, in 2001, about 1,200,000 Afghan families, with the total population of 2,350,000 persons lived in Iran; and about 850,000 Afghans were active in the labour market (Ministry of Interior

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1- Fighters for Islamic values.



Affairs 2001). During 2001-2003 more than 500,000 Afghans have returned to their country from Iran. This figure for Pakistan is about 2 million persons. In mid-2003, Afghan immigrants in Iran were asked to re-register with the authorities. Those with refugee documents were obliged to hand in their refugee cards and received in return temporary residence permits, with no time for staying or leaving specified. The number of registered Afghans at that time (Mid 2003) totaled 2.3 million. The newly re-registered Afghan was about 1,500,000 persons (Strand et al. 2004).<sup>1</sup>

**a- The effects of Afghan workers on wages**

A small proportion of Afghan refugees in Iran (less than 5 percent) live in refugee's camps. They receive financial assistant from Iranian government and UNHCR; but those who live out of the camps must cover their living expenditure by working.

Afghan refugees, generally, have to accept any hard, dirty and low paying job. They can not ask for insurance or any form of social security. They live in Iran by the fear of being fired of work and deport to Afghanistan. So they prefer the work places that are far from the city centers that can hide them from the eyes of labour and social security supervisors. They usually live in work places or live in small rooms with unsuitable conditions. Not paying high rent charges, they can live with low wages in Iran. But accepting similar wages for Iranian workers who have to cover a normal family's expenses is not possible. So in the competition for capturing unskilled job opportunities, Afghan workers in many cases are the winners.

Afghan workers have monopolized some special jobs, because of hard working and accepting low wages. For example more than 80 percent of unskilled construction workers in Karadj (30 km from Tehran) are Afghans and digging wells that was done by native workers previously, at present is in the monopoly of Afghans. Iranian employers, who are willing to employ cheap and hard working Afghan workers, are not exclusively in private sector. During reconstruction period (1989-2002), the number of Afghan illegal workers has increased in government institutions such as

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1- On July 2005, an Afghan worker told the author in Tehran that he is going to Afghanistan to bring her mother to Iran.

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municipalities; and the private contractors of government projects such as gas pipe lines, sewage system construction, metro ... use Afghan workers( Kar-va-Kargar, 2002) <sup>1</sup>.

There is not separate data for wages in Iran's provinces, but the changes of wage rates in unskilled construction works during the past 2 decades show that the rise of wage rate in construction works is suppressed by the presence of Afghan workers. In other words, due to the increase of labour force supply, the income of native labourers in construction sector has been decreased and the benefit from lower labour cost is absorbed by employers. Iranian construction workers have not powerful and genuine trade union to be able to protest to low wages.

As Table 2 and Figure 1 and Figure 2 show, the wage rates in construction sector, during 1978-2000 were much lower than the average wage rates of the large industries. In 1990s the wages in construction sector were even lower than the formal minimum wage (Figure 2). Unskilled workers in the construction sector can not benefit the labour laws and regulations and are facing the real wage fall. During 2001-2004 the wage increase for unskilled workers in the construction sector accelerated and in 2004, after about 15 years, the average wage of unskilled workers in the construction sector exceeded the legal minimum wage. It can be justified by two different reasons: repatriation of Afghan workers and the boom in construction sector. But as can be seen clearly in Figure 2, the gap between the average wage of construction workers and the workers in the large industries has been widening continuously.

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1- "Labour and Labourer".

**Table 2: Legal Min wages & Average wages in construction sector and large industries (Constant price 1982)**

year	Min. wage	Construction	large Industries
1978	464	794	917
1979	1029	627	912
1980	931	627	742
1981	758	540	731
1982	635	546	839
1983	553	741	867
1984	501	700	847
1985	531	610	886
1986	429	528	818
1987	355	449	825
1988	300	356	795
1989	256	339	802
1990	283	337	858
1991	391	328	864
1992	427	352	896
1993	459	354	933
1994	442	388	928
1995	405	396	936
1996	426	419	942
1997	471	443	961
1998	479	428	982
1999	478	399	1047
2000	554	374	1202
2001	617	414	1509
2002	652	512	1874
2003	690	689	2240
2004	748	890	2641
<b>1978-1988</b>	-35.29	-55.16	-13.30
<b>Annual growth</b>	-4.26	-7.71	-1.42
<b>1989-2000</b>	116.34	10.39	49.93
<b>annual growth</b>	7.27	0.90	3.75
<b>1978-2000</b>	19.25	-52.87	31.13
<b>annual growth</b>	0.80	-3.36	1.24
<b>2001-2004</b>	21.22	115.11	74.99
<b>annual growth</b>	6.63	29.09	20.50

Source: Extracted by author, using Iran's Central Bank, "Economic Report and the Balance sheet", different years.

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The trend of changes in construction wages and large industries wages  
1382 constant prices

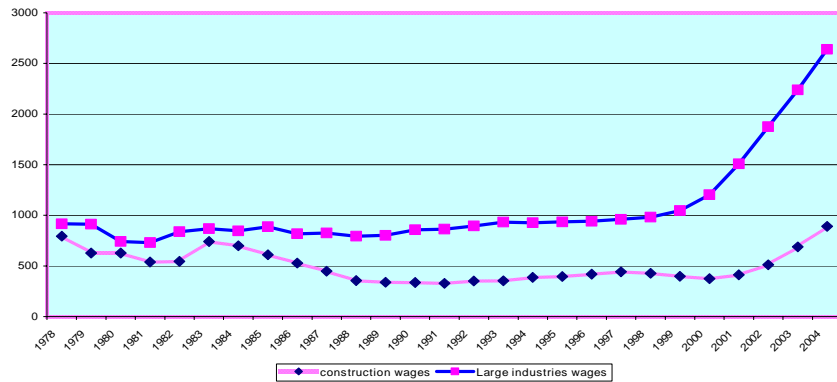


Figure 1

Source: Iran's Central Bank, different years

The result of Borjas Model (1995) is observable in Iran's labour market: Afghan workers get better wages in Iran (8 to 10 times more than the wages in Afghanistan). Iranian employers are happy to employ low-paid workers, without any social insurance cost. So they also gain from the presence of Afghan workers in Iran. Only native workers are net losers. In other words, Iranian economy is stimulating by the expense of the poorest people in the country. As there are not genuine trade unions in Iran, there are not organized demonstration or workers protest in this regard.

The trend of changes in Min. wage and construction wage (1976-2004)  
1982 constant prices

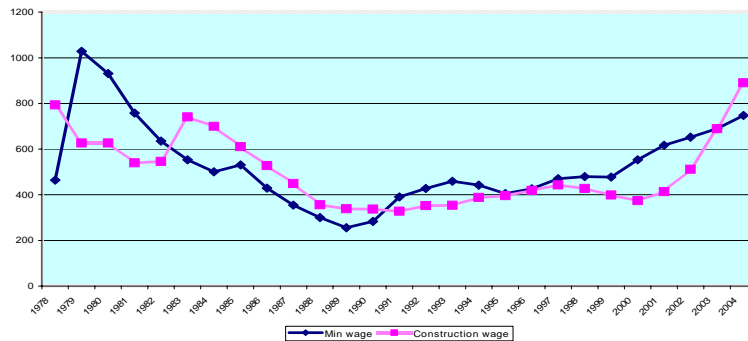


Figure 2

Source: Iran's Central Bank, different years

### **b- The Effects of Afghan workers on Unemployment Rate**

Iran has a huge number of unskilled workers, and suffers from high unemployment and underemployment. Due to unemployment problem and differences in wage rates, many Iranians try to immigrate to Kuwait and UAE for higher earning jobs. Similar to Iranian immigrants, Afghans also are searching for higher wage and better living conditions in Iran.

In 2001, Afghan refugees were less than 4 percent of Iran's population, but they consisted about 6 percent of the labour force in the country. Most Afghans enter to labour market in young ages. Majority of Afghan children could not go to school until the year 2000<sup>1</sup> and had not other option than working. Some boys study in the morning and work long hours in the afternoon. Many Afghan women work with their fathers and husbands in workshops, such as dairy farms and traditional brick making factories or weave carpets (Karimi 2007). Therefore the participation rate among Afghan refugees is high.

It is not possible to calculate the effects of Afghans immigrants on unemployment rate in Iran, because there is not time series data indicating the number of Afghan workers. However, by using the result of Afghan's Identification Project (2001), this effect in different provinces can be studied.

In 2001, about 850,000 Afghans worked in different parts of Iran, but close to 70 percent of them were concentrated in 5 provinces (Iran has 30 provinces). Native and Afghan workers can easily move in the country and settle in the areas that demand for labour is relatively high. Tehran has the highest rate of Afghan immigrants. About 18 percent of Afghan workers live in Iran. Tehran is producing about 25 percent of the country's GDP, so is an attractive destination. After Tehran, Isfahan, Khorasan and Fars provinces have the highest rates of Afghan workers. These 4 provinces have 40 percent of Iran's population, have attracted 43.5 Iranian workers and produce 42 percent of GDP. Afghan immigrants come to these provinces because of the higher probability to find jobs with reasonable wages (Table 3).

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1- In 2000, the government of President Khatami announced that Afghan children, without identity cards must be accepted in schools.

**Table 3: Distribution of GDP, Population and Afghan workers in Iran's Provinces (2001)**

Provinces	Share in Population	Share in GDP	Share in total employment	Share in Afghan workers
Tehran	17.66	24.55	19.7	17.6
Isfahan	6.56	6.49	7.1	14.7
Khorasan	9.55	6.28	10.6	10.9
Fars	6.33	4.28	6.1	10.12
<b>Total (4 provinces)</b>	40.1	41.6	43.5	53.32
<b>Sistan &amp; Baluchestan</b>	3.08	1.07	2.1	13.88
<b>Total (5 Provinces)</b>	43.18	42.67	45.6	67.2

Source: Iran Statistics Center for Population, Employment and GDP data and "Afghan Identification Project" The Ministry of Interior Affairs for Afghan workers.

The exception is Sistan & Baluchestan province, where is in the border with Afghanistan. About 15 percent of Afghan workers are living in Sistan & Baluchestan province in the border line of Iran and Afghanistan. The main reason for concentration in this province is easy travel between two countries. Many Afghan refugees in Sistan & Baluchestan are active in smuggling drugs from Afghanistan to Iran, thanks to the vast, uncontrollable borderline. Some of the refugees are living in the special camps but most part of them is living in cities and villages of this province.

The causes of unemployment have been explained over the past century as a function of many different factors. Such a cause is governed by two major maxims. The first is the law of demand for factor inputs, which states that the number of persons employed will change as the GDP, productivity of labour, wages, and demand and price of the product change (Phelps 1995). The second maxim is the law of supply: The level of employment in society is believed to be dependent on such factors as population growth, changes in the number of immigrant workers, technological and educational sophistication and intensity (Mortensen et al. 1994).

Some economists believe that immigrant workers have positive effects on production and employment. They state that European countries' slow growth is due to their immigration restriction, which has caused the countries lag in output due to the dynamic changes in the demand. Empirical researches also indicate that the United States and some European countries benefited from immigration of scientists and artists and other professionals who worked at minimal jobs and pay, known as “underemployed” (Borjas 1995; Trebler 1997; Teitelbaum et al. 1998).

While several factors have been attributed to unemployment, never has any single cause been specifically found to be the main cause of unemployment. Kooros and Halpet (2000) provided an analysis of unemployment with the objective of empirically validating the long held unemployment theories. Their research led to the determination in considering GDP, discount rate, labourforce, inflation, and hourly wage rates through their correlation matrix. They showed that unemployment is inversely related to GNP, discount rate and inflation; and is directly related to the wage rate and the number of labourforce (Equation 1).

$$U=1.187-0.035 Y-0.146 i+1.35L+2.162(G-T) - 0.13 \Pi+2.69 w. \quad (1)$$

For testing the effects of Afghan immigrants on unemployment in different provinces of Iran, Kooros and Halpet model (2000) was used, but some important modifications were inevitable. In our model unemployment is related to GNP, but we can not use the inflation and wage rates as variables, due to the lack of related data for provinces. Instead of budget deficit, total government expenditure is used. We added the number of Afghan workers in each province to evaluate the effect of Afghan workers presence on unemployment rates. The regression equations were estimated using OLS method. The variables of our model are:

Y	Unemployment rate in provinces
Y1	Unemployment rate in rural areas
X1	Share of value added
X2	Share of active populations
X3	Proportion of Afghan workers
X4	Share of Value added for construction sector
X5	Share of Total Government Expenditure

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All the variables are in percentage forms that show the share of each province in related items. Observations are from 25 provinces, Sistan & Baluchestan is not included because of its exceptional situation, and other provinces are excluded because of data problems.

As equation 2 shows there is a weak negative relationship between the presence of Afghan workers and unemployment rates in different provinces (t statistic is near 2). We can justify this negative relation to the tendency of immigrant workers to be settled in the areas with low unemployment rate. (R square is very low).

$$Y = 10.061 + 0.292*X1 - 0.701*X2 - 0.450*X3 + 0.759*X5 \quad (2)$$

7.508	1.232	-1.632	-1.934	1.380
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$$R^2 = 0.323$$

D-W 1.69

Afghan workers compete with Iranian illiterate or less educated migrant workers from rural areas. Some may believe that Afghans low-paid workers got the job of Iranian migrants and therefore the unemployment rate in rural areas raised by the increase in the number of Afghan immigrants. For testing this hypothesis equation 3 is estimated which does not approve the hypothesis (t statistics are less than 2).

$$Y1 = 10.036 + 0.302*X1 - 0.914*X2 - 0.500*X3 + 1.032*X5 \quad (3)$$

6.030	1.028	-1.713	-1.729	1.511
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$$R^2 = 0.303$$

D-W= 1.761

As equation 3 shows, there are weak negative relations between active population and Afghan workers with unemployment rates in rural areas that indicate in the provinces with higher labour supply and more Afghan workers, the unemployment rates in villages are lower. Iranian rural migrants are able to move to different parts of the country. They have access to information about the possibility of finding jobs in different cities. So they migrate to the best possible destinations, just similar to the Afghan



immigrants that are attracted to the places with higher probability for employment.

In addition to testing the effects of Afghan workers on unemployment rate, the following equations show the reasons of concentration of Afghans in different provinces.

$$\begin{aligned}
 X3 &= 2.356 - 0.349*Y + 0.074*X1 + 0.209*X2 + 0.814*X54 \\
 &\quad 1.048 \quad -1.934 \quad 0.343 \quad 0.522 \quad 1.721 \qquad (4) \\
 R^2 &= 0.667 \\
 D-W &= 1.503
 \end{aligned}$$

Equation 4 shows that there is relatively strong negative relationship between the number of Afghan workers and unemployment rates in different provinces. It also indicates that in provinces with higher government expenditure, there are more probability for Afghans to get jobs. This equation clearly confirms that Afghan workers do not work in provinces with high unemployment rates (that means greater probability to find job).

The lack of relationship between the amount of value added and the number of Afghan workers in provinces is reasonable. In some provinces high value added is related to the extraction of oil and gas that is generally capital intensive and does not create considerable job opportunities, especially for unskilled workers.

For solving the problem of insignificance relation between value added and Afghan workers in different provinces, we used the value added of construction sector (where there is high demand for Afghan workers) instead of the total value added of each province. So in Equation 5 , X4 (value added of construction sector) is substituted for X1 ( total value added) :

$$\begin{aligned}
 X3 &= 3.475 - 0.326*Y - 0.263*X2 + 0.563*X4 + 0.502*X5 \\
 &\quad 1.795 \quad -2.089 \quad -0.666 \quad 2.271 \quad 1.152 \qquad (5) \\
 R^2 &= 0.734 \\
 D-W &= 1.846
 \end{aligned}$$

Equation 5 shows significant direct relation between the value added of construction sector and the number of Afghan workers in different provinces and strong negative relation with unemployment rate; yet the relationship

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between the number of Afghan workers and Iranian labourforce is insignificant, as there is a strong correlation between value added in construction sector (labour intensive sector) and the number of labourforce in provinces. So equation 5 can explain the presence of Afghan workers in low-paid construction works (For output data and variables of regression equations see the appendix).

Table 4, shows the numbers of Afghan and Iranian workers who can be substituted for each other. In 2001, about 157,000 Afghan refugees worked in Tehran and 130,000 worked in Isfahan (Iran's Ministry of Interior Affairs 2001), while the total number of illiterate and less educated unemployed Iranians in this province were 107,000 and 60,000 persons respectively.

**Table 4: Iranian Illiterate and Less Educated Labourers and Afghan Workers in Selected Provinces (2001)**

	Provinces	Illiterate and less educated unemployed	Afghan workers	
			Numbers	Percentage
1	Isfahan	57,705	130,963	14.7
2	Tehran	106,256	156,791	17.6
3	Khorasan	77,002	97,100	10.9
4	Semnan	3,820	26,952	3.03
5	Ghom	8,723	41,531	4.66
6	Kerman	27,750	68,064	7.64
7	Markazi	16,123	22,197	2.49
8	Hormozgan	16,936	27,494	3.09
9	Yazd	7,390	28,969	3.25
	<b>Total(9 provinces)</b>	321,705	600,061	67.36

Source: Unemployment data from Iran Statistics Center(2001), for Afghan worker “Iran's Ministry of Interior Affairs 2001”

More than 67 percent of Afghan workers were settled in 9 provinces in which the number of illiterate and less educated unemployed was relatively low. It is noteworthy that some of the mentioned unemployed are unwilling to do hard and dirty jobs such as digging wells and porting heavy loads by hands and shoulder. Many of them are older than 40 years and are not able to

accept various construction and other hard works. Therefore, it seems that repatriation of Afghans will cause shortage of unskilled workers in many provinces in Iran.

Some of the officials and experts argue that if Afghan workers leave Iran, unemployed workers will obtain their jobs. In the year 2006, the unemployment rate in Iran was 12.75 percent. In other words Iran has about 3 million unemployed. If Afghan workers leave Iran, unemployment rate will fall to below 10 percent. Iran has more than 1,000,000 illiterate and less educated unemployed. If Afghans return to their own country and wages for unskilled workers begin to rise in Iran, many unemployed Iranian will migrate to the provinces where there is high demand for such workers.

Many economists and employers' organizations are opposed to this view point. They believe that by substituting native workers for Afghans, production costs will be much higher and output will fall in all economic activities. They believe that that exit of Afghan workers will create shortage of unskilled workers in the Iranian labour market. They insist that the number of illiterate and less educated unemployed workers, who can be substitute for Afghan workers are not enough. So wage of unskilled workers will be increased, and the cost of production in construction sector and other sectors that use unskilled workers will rise. If wage raise limits the demand for labour, the result of Afghans repatriation will not be the fall of unemployment rate. It is possible that by exiting Afghan immigrants, unemployment rate to remain unchanged, or even increase in the case of drastic output decline.

As the profit margin for many activities, especially in production of non-tradable goods, has been very high in recent years, it does not seem that increasing labour cost will be followed by decrease in output, especially in construction sector. In this case, which is more likely, exit of Afghan refugees will decrease the unemployment rate for unskilled native workers.

#### **4- Will Afghan refugees return to their own country?**

Afghan workers who have been successful enough to cover the expenses of their living in Iran, even the Afghans who are not working regularly but hope to have more stable jobs in the future do not want to come back to Afghanistan. Ethnic and factional violence, lack of job and economic

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turmoil in most parts of Afghanistan, prevent the refugee to return to their own country. Besides there are hundreds of thousands displaced persons in Afghanistan, who have left their homes due mainly to the sever drought. Many Afghans immigrants do not believe that peace and stability will be sustainable in Afghanistan. They are informed about the conflicts, hunger, poverty and unemployment inside the country and do not want to risk to get back (UNHCR 2004).

Most Afghans refugees in Iran have had returned to Afghanistan at least once; and almost all of them have contact with their relatives in Afghanistan via telephone, letters and news from friends and relatives traveling from Afghanistan to Iran. Most Afghans have unfavorable assessment of the situation in their country and want to remain in Iran indefinitely (Abbasi Shavazi et al 2005). In 2005, about one million documented Afghans stayed in Iran. Beside formal refugees, there are hundreds of thousands undocumented labour migrants who may cross the borders between Afghanistan, Pakistan and Iran repeatedly (US Committee for Refugees 2004).

The number of Afghan returnees from Pakistan has been much higher than from Iran. It shows that Afghan immigrants in Iran have better living conditions. In 2005, GDP per capita (PPP US\$) were 6995 and 2097; and HDI values were 0.736 and 0.527 for Iran and Pakistan respectively (UNDP 2005). Due to economic and political turmoil in Afghanistan, there is not any assessment of human development index of the country. Certainly livelihood opportunities in Pakistan are greater than Afghanistan. As Figure 3 shows the repatriation rate from Iran has been much lower than Pakistan in the past 15 years. It is a clear indicator of higher probability of finding "good" job in Iran for Afghan workers.

In 2004, more than 940,000 Afghans returned home, but there is not any statistics regarding the new Afghan immigrants who enter Iran illegally. The Movement from Afghanistan to Iran has accelerated by the help of smugglers and trafficking network (Stigter, 2005). Herat, close to the Iranian border, has a high degree of security and economic growth, but there has been a limited rate of return. Many from the Herat region still migrate to seek work in Iran (Strand et al. 2004).

Semi-government labour organization “Khaneh Kargar”<sup>\*\*</sup> and The Ministry of Labour and Social Affairs are asking for the forced return of Afghan workers and fierce action against employers who are using foreign workers<sup>1</sup>. Iran's Ministry of Labour and Social Affairs is the most influential opponent of the presence of Afghan workers in Iran. The 3<sup>rd</sup> and 4<sup>th</sup> Development Plans insisted on substitution of Iranian unemployed workers for Afghans to lower unemployment rate (Iran's Management and Planning Organization 2000 and 2004).

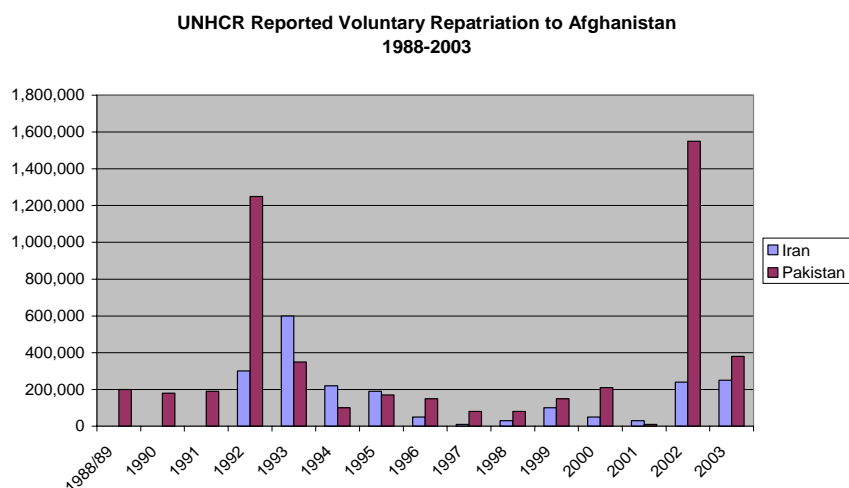


Figure 3

Source : Strand et al. 2004.

Many experts criticize the policy of forced repatriation of Afghans. They believe that many of less educated unemployed Iranians are not interested to accept the hard jobs. So in the absence of Afghan cheap workers, many activities will face shortage in unskilled labourers. Therefore,

<sup>\*\*</sup>The Workers' House

1- For example during September and October 2001, 17,222 employers were fined because of employing Afghan workers. But such measures had not changed significantly the number of Afghan workers in Iran.

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repatriation of Afghans will have inflationary effects on Iranian economy (Abbasi Sharvazi et al. 2005).

Humanitarian activists also are trying to prolong the presence of Afghans in Iran.<sup>1</sup> UNHCR is also insisting that Iran does not force refugees to return to their country. At present there is not sign of pressure on refugees for repatriation. It seems that the combination of humanitarian, political and economic considerations convinced the Iranian government to accept the refugees for longer period. It seems that in foreseeable future Afghan workers will not leave Iran and most temporary immigrants are becoming constant residents in Iran.

### **5- Concluding remarks**

Iran is among the countries that have the highest number of refugees in the world. Since the first oil shock in 1973, Iran has been the host of Afghan workers. They worked in Iran temporarily and returned to their country. Since 1979 coup in Afghanistan, a huge number of refugees came to Iran. At present there are hundreds of thousands Afghan immigrants who have lived in Iran for more than 2 decades. Despite all the measures persuading Afghans to repatriate, UNHCR assistance, government incentives and crackdowns on illegal workers, many Afghan immigrants still want to stay in Iran.

Almost all Afghans work illegally in Iran. They, generally, are employed in low-paid, hard and dirty jobs. Iranian employers find Afghan workers more economically efficient than their Iranian counterparts, and do believe that if they substitute Iranian workers for Afghans, the cost of production will increase considerably.

As Iran is facing a high rate of unemployment, it has been difficult for many Iranians to accept that limited employment opportunities are occupied by Afghan workers. But slow pace of reconstruction, and unstable political climate in Afghanistan, a huge developmental gap between Iran and

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1- One of the most famous persons in this circle is M. Makhmalbaf, film director, who is insisting that forced return will mean dead for millions of people in drought stricken country.

Afghanistan, and much higher standards of living in Iran, are the challenges that prevent Afghans immigrants from returning to their own country.

The presence of Afghan immigrants in cities and villages of different provinces has not affected the unemployment rates in these areas. The result of our survey shows that Afghan workers are absorbed into provinces where the demand for labour is high and unemployment rate is relatively low, and if native unskilled workers in these provinces have found it difficult to compete with Afghans, they may migrate to other areas.

The findings of this research confirm the result of Borjas model which shows that immigrant workers and the employers of the host country gain from the process of immigration, but in the absence of compensation for native workers, they are net losers; as the wage rate for unskilled construction workers, where Afghan immigrants are largely concentrated, has had very low pace of growth, and in the most part of the past decade the average wage of construction unskilled workers has been below the official minimum wage. As construction workers have not genuine and strong trade union, they have not possibility to protest against the low wages and poor work conditions.

UNHCR is insisting that due to the critical economic and social situation in Afghanistan, the Iranian government do not force the Afghan refugees to return to their country. There is also humanitarian consideration in the top government authority to not force refugees to leave Iran into a country that can not provide food, shelter and work for their own residents. So it is foreseeable that the number of Afghan workers in the Iranian labour market may not decrease considerably in the near future.

There are two different reactions to Afghan refugees in Iran. Some of the officials and experts are against the presence of Afghan workers in the Iranian labour market and are insisting that the repatriation of Afghans is the best way for solving the unemployment problem in Iran. Other group believes that the exit of Afghan workers will increase the wage rates and labour costs drastically and this will result the fall in output. So it is probable by the repatriation of Afghans, the unemployment rate remain unchanged or even higher.

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### Appendix Variables of Regression Equations

	Provinces	Y	Y1	X1	X2	X3	X4	X5
		Unemp. Rate in Province	Unemp Rate in Rural Areas	Share of Value added All Sectors	Share of Labour force	Share of Afghan workers	Share of value added in construction sector	Share of Total Gov. Expenditure in Provinces
1	East Azerbaijan	6.21	5.23	4.05	6.13	00.08	2.63	5.0
2	West Azerbaijan	9.4	7.84	2.16	4.42	0	2.71	3.9
3	Ardebil	10.55	10.58	1.03	1.89	0	0.94	2.2
4	Isfahan	7.99	6.61	6.46	7.09	14.7	10.55	6.3
5	Ilam	17.19	19.29	0.6	0.71	0	0.49	1.5
6	Boushehr	7.27	8.42	1.01	1.09	1.39	1.01	1.9
7	Tehran	6.02	5.34	28.28	19.26	17.6	30.07	13.6
8	Chahar Mahal	7.82	7.09	0.62	1.26	0.04	1.01	1.7
9	Khorasan	6.92	7.24	6.28	10.43	00.9	9.9	10.1
10	Khuzestan	16.15	16.77	13.83	5.47	1.19	5.2	6.2
11	Zanjan	6.54	5.95	2.61	1.68	2.74	2.85	1.7
12	Semnan	4.72	5.27	0.73	0.86	3.03	1.3	2.4
13	Fars	10.31	10.92	4.28	6.24	10.12	5.72	6.9
14	Ghom	5.75	3.15	1.04	1.3	4.66	1.72	1.3
15	Kordestan	9	7.89	0.97	2.26	00.01	1.11	2.7
16	Kerman	8.5	9.44	3.25	3.11	7.64	2.99	4.5
17	Krmanshah	18.51	19.62	1.38	3	0.01	2.27	3.4
18	Kohkilooyeh	14.74	14.8	5.06	0.72	0.15	0.72	1.6
19	Guilan	13.36	13.84	2.53	4.6	0.27	4.52	4.0
20	Lorestan	15	18.1	1.35	2.28	0.06	0.95	3.1
21	Mazandaran	9.69	9.63	4.88	5.34	2.52	4.4	7.5
22	Markazi	7.5	5.7	2.26	6.13	2.49	2.79	2.2
23	Hormozgan	8.5	10.76	1.68	4.42	3.09	0.88	2.0
24	Hamadan	8.6	8.21	1.48	1.89	0.17	1.36	2.7
25	Yazd	5.23	4.15	1.13	7.09	3.25	1.92	1.8

Source: Extracted by author, using data from Iran Statistic Center (2001) and Iran Ministry of Interior Affairs (2001).

**Equ. 1**

Dependent Variable: Y  
 Method: Least Squares  
 Date: 12/14/07 Time: 13:36  
 Sample: 1 25  
 Included observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.06136	1.33993	7.508875	0
X1	0.292058	0.237039	1.23211	0.2322
X2	-0.701541	0.429705	-1.63261	0.1182
X3	-0.450523	0.232866	-1.93469	0.0673
X5	0.759159	0.549878	1.380595	0.1826
R-squared	0.323694	Mean dependent var		9.6588
Adjusted R-squared	0.188433	S.D. dependent var		3.920841
S.E. of regression	3.532169	Akaike info criterion		5.538558
Sum squared resid	249.5244	Schwarz criterion		5.782333
Log likelihood	-64.23197	F-statistic		2.393102
Durbin-Watson stat	1.691616	Prob(F-statistic)		0.084817

**Equ. 2**

Method: Least Squares  
 Date: 12/14/07 Time: 13:43  
 Sample: 1 25  
 Included observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.03646	1.664156	6.030963	0
X1	0.30271	0.294396	1.028241	0.3161
X2	-0.914619	0.533682	-1.71379	0.102
X3	-0.500318	0.289213	-1.72993	0.099
X5	1.032428	0.682934	1.511754	0.1462
R-squared	0.303869	Mean dependent var		9.6736
Adjusted R-squared	0.164643	S.D. dependent var		4.799737
S.E. of regression	4.386858	Akaike info criterion		5.97196
Sum squared resid	384.8905	Schwarz criterion		6.215735
Log likelihood	-69.6495	F-statistic		2.182554
Durbin-Watson stat	1.761308	Prob(F-statistic)		0.107932

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### Equ. 3

Dependent Variable: X3

Method: Least Squares

Date: 12/14/07 Time: 13:45

Sample: 1 25

Included observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.356142	2.246823	1.048655	0.3068
Y	-0.34992	0.180866	-1.93469	0.0673
X1	0.074202	0.216051	0.343449	0.7348
X2	0.209173	0.400425	0.522378	0.6071
X5	0.814655	0.473334	1.721099	0.1007
R-squared	0.667799	Mean dependent var		3.4444
Adjusted R-squared	0.601359	S.D. dependent var		4.930332
S.E. of regression	3.112915	Akaike info criterion		5.285853
Sum squared resid	193.8048	Schwarz criterion		5.529628
Log likelihood	-61.07316	F-statistic		10.05113
Durbin-Watson stat	1.503967	Prob(F-statistic)		0.000126

### Equ. 4

Dependent Variable: X3

Method: Least Squares

Date: 12/14/07 Time: 13:46

Sample: 1 25

Included observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.475077	1.935547	1.795398	0.0877
Y	-0.326657	0.156337	-2.08944	0.0497
X2	-0.26302	0.394684	-0.66641	0.5128
X4	0.563179	0.247973	2.271133	0.0343
X5	0.502693	0.436364	1.152003	0.2629
R-squared	0.734351	Mean dependent var		3.4444
Adjusted R-squared	0.681221	S.D. dependent var		4.930332
S.E. of regression	2.783689	Akaike info criterion		5.062288
Sum squared resid	154.9785	Schwarz criterion		5.306063
Log likelihood	-58.2786	F-statistic		13.82184
Durbin-Watson stat	1.846476	Prob(F-statistic)		0.000015