Migration Industries
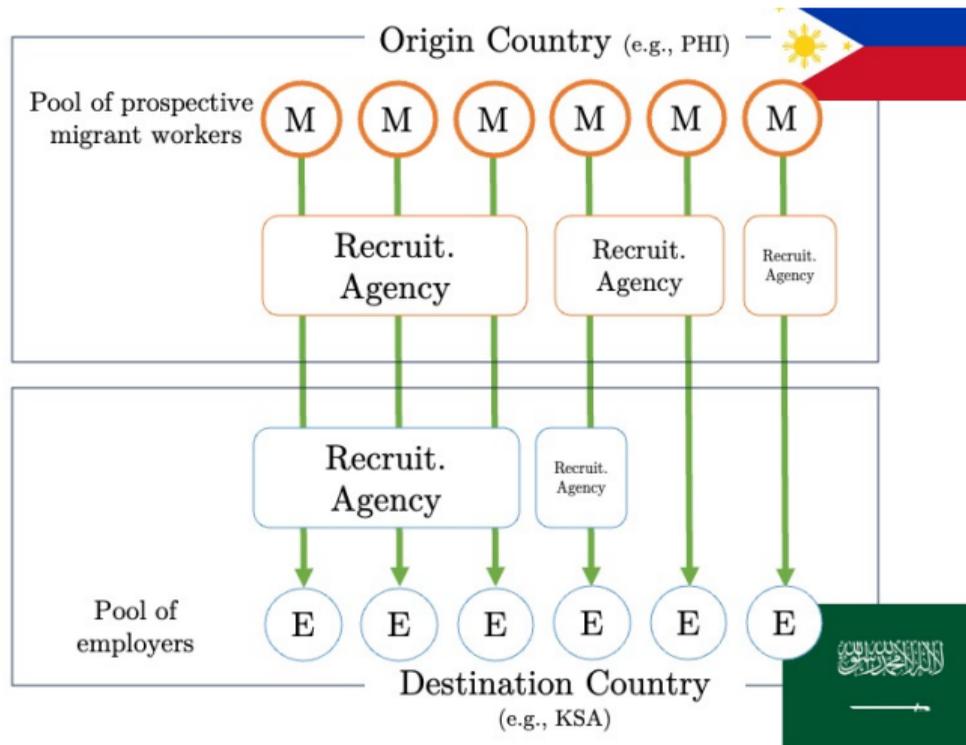### and the
Making of an International Labor Market

Harufumi Nakazawa (J-PAL / MIT)

April 2025

MIT-Harvard Predoc Workshop
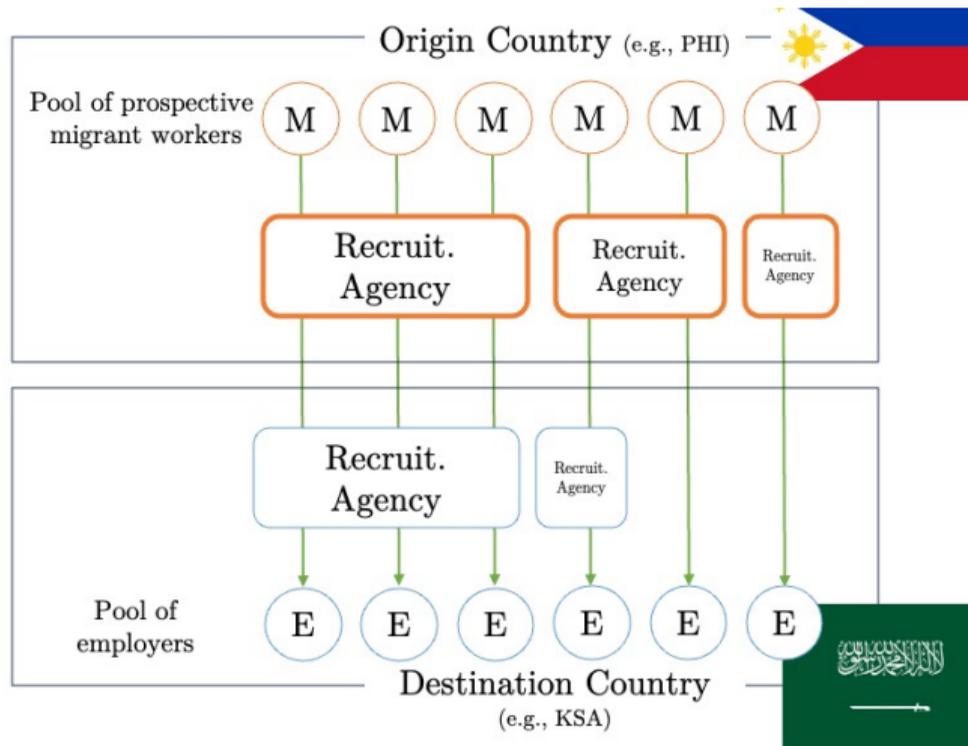
Project in One Slide: The Supply Chain of Migrant Workers

▶ International temporary labor migration is a common path for upward mobility.

Project in One Slide: The Supply Chain of Migrant Workers

▶ International temporary labor migration is a common path for upward mobility.

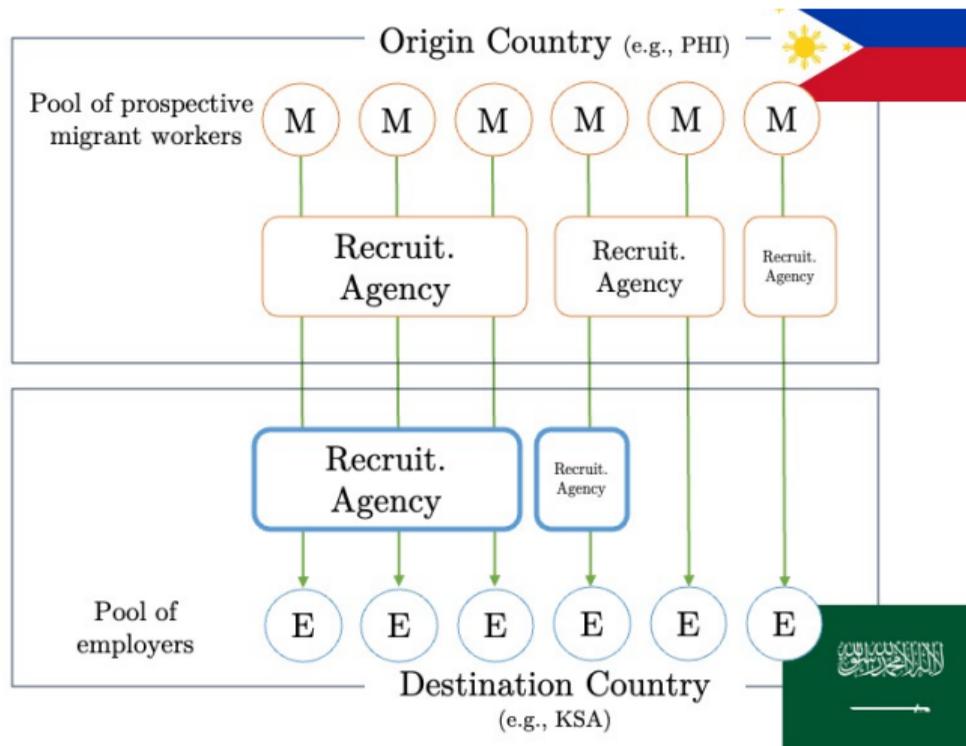▶ Migrant workers use intermediaries in their home country to find jobs overseas.

Project in One Slide: The Supply Chain of Migrant Workers

▶ International temporary labor migration is a common path for upward mobility.

▶ Migrant workers use intermediaries in their home country to find jobs overseas.

▶ Employers of migrants in the destination country also often search through intermediaries. Some hire directly.

Project in One Slide: The Supply Chain of Migrant Workers

▶ International temporary labor migration is a common path for upward mobility.

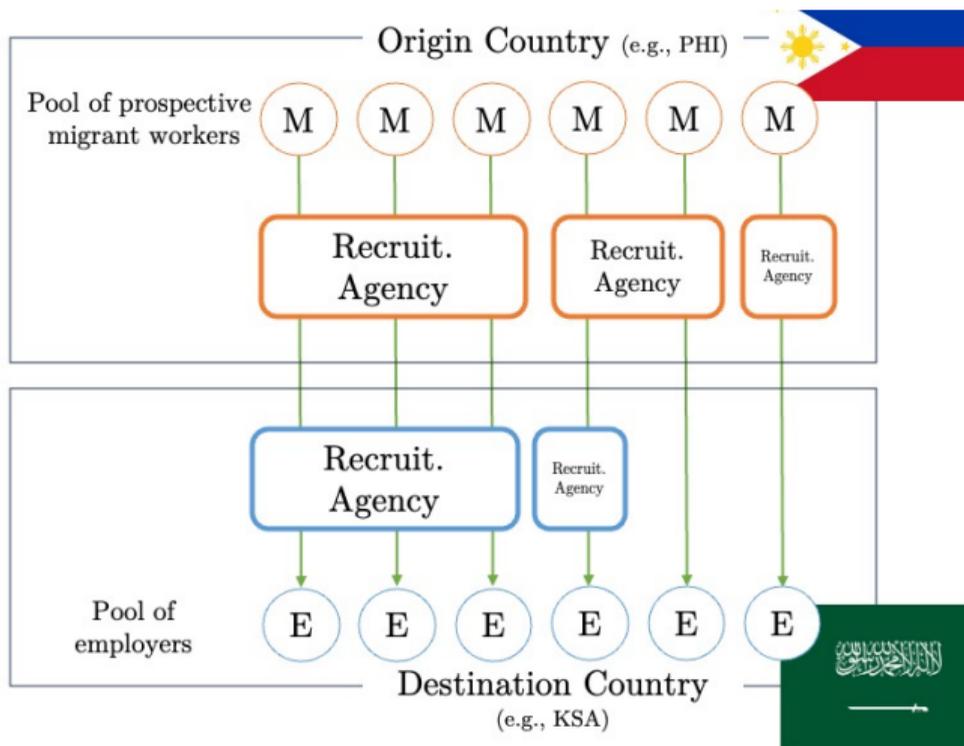▶ Migrant workers use intermediaries in their home country to find jobs overseas.

▶ Employers of migrants in the destination country also often search through intermediaries. Some hire directly.

→ How do these intermediaries affect the migrant labor market? How can we make the journey better?

Motivation: The Age of Migration and its Discontents

▶ International migration grew 50% over the last 20 years alone (World Bank, 2023)
  - 70% (172M) is lower-skilled ($\leq$ high school educated) migrants

Motivation: The Age of Migration and its Discontents

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▶ Low-skilled migration has "triple-win" potential (e.g., Bauböck and Ruhs, 2022):
  - Migrants get higher income (e.g., Clemens et al., 2019; Naidu et al., 2024)
  - Origin countries get 'development' (e.g., Mobarak et al., 2023; Khanna et al., 2022)
  - Destination countries get 'workers' (e.g., Clemens et al., 2018; Grabowski et al., 2023)

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▶ But undocumented migration is dangerous
  - Migrants become extremely vulnerable (no citation needed!)

  - Origin countries may remain instable (e.g., Hirschman, 1970; Anelli and Peri, 2017)

  - Destination countries suffer political backlash (e.g., Mayda et al., 2022; Pevnick, 2024)
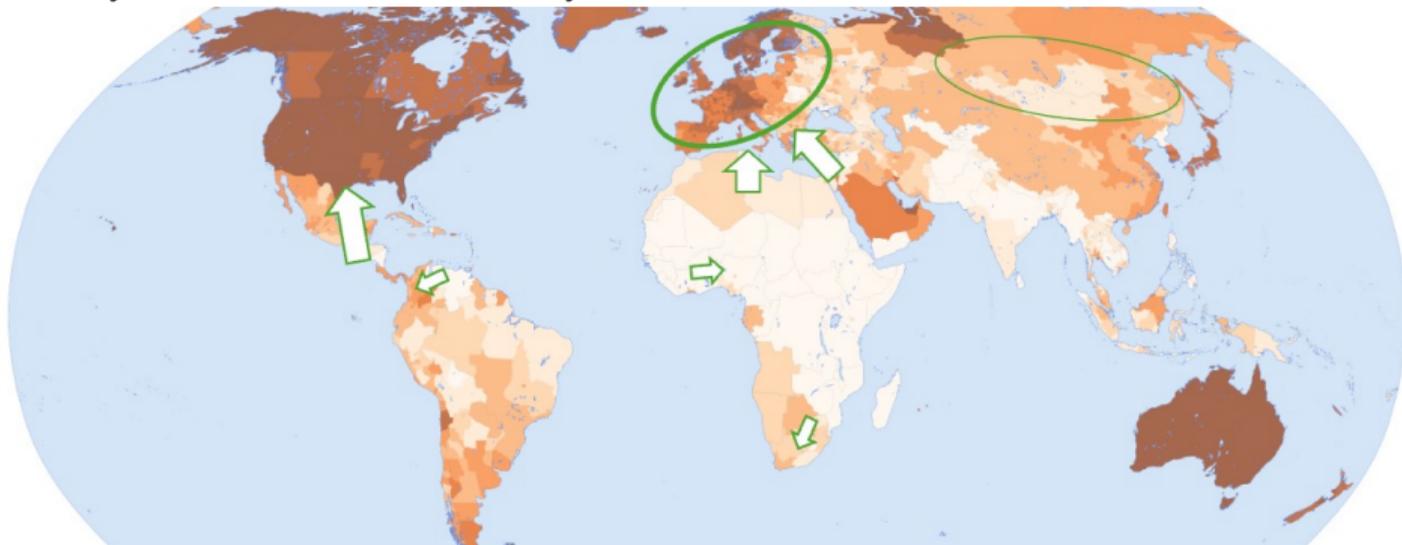
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▶ But undocumented migration is dangerous
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  - Origin countries may remain instable (e.g., Hirschman, 1970; Anelli and Peri, 2017)
  - Destination countries suffer political backlash (e.g., Mayda et al., 2022; Pevnick, 2024)

$\rightarrow$ Policymakers want to create legal pathways (e.g., Dempster et al., 2022)

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Industrialization
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International Migration Around the World

▶ Most migration systems are largely informal, indefinite, and unilateral
  - asylum, undocumented, family reunification, etc.

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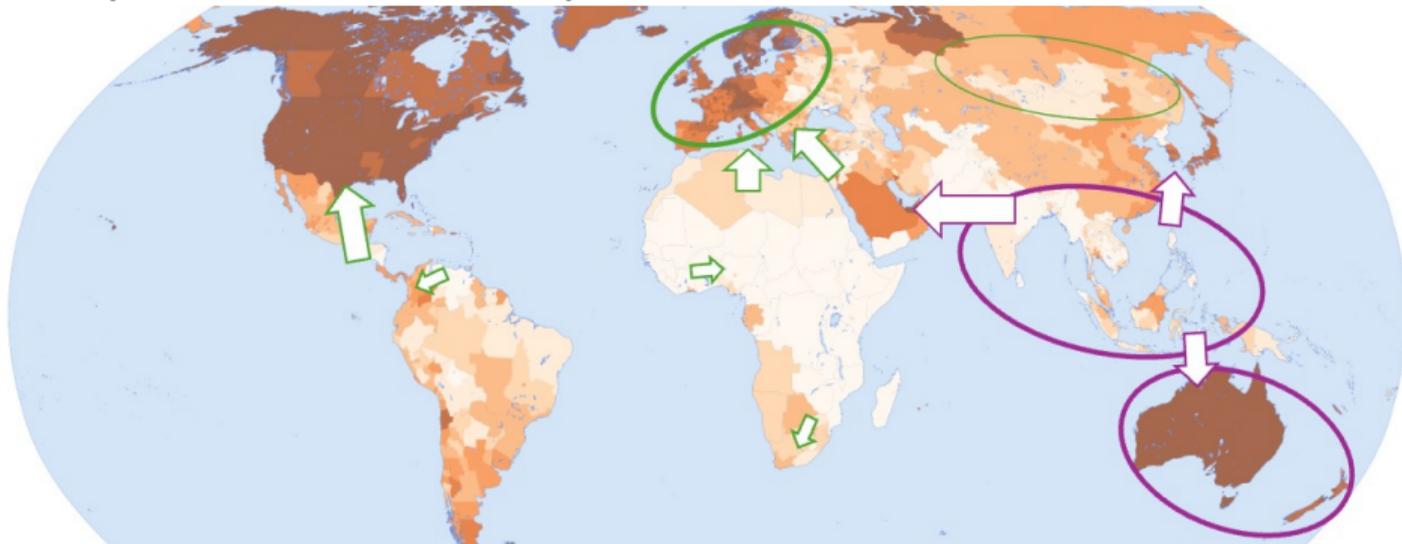
Intermediary Market Power
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Conclusion
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International Migration Around the World

▶ Most migration systems are largely informal, indefinite, and unilateral
  - asylum, undocumented, family reunification, etc.

▶ Greater Asia: formal migration of enormous scale
  - Millions of workers and employers match (anonymously) *before* migration
  - Many destination and occupation choices

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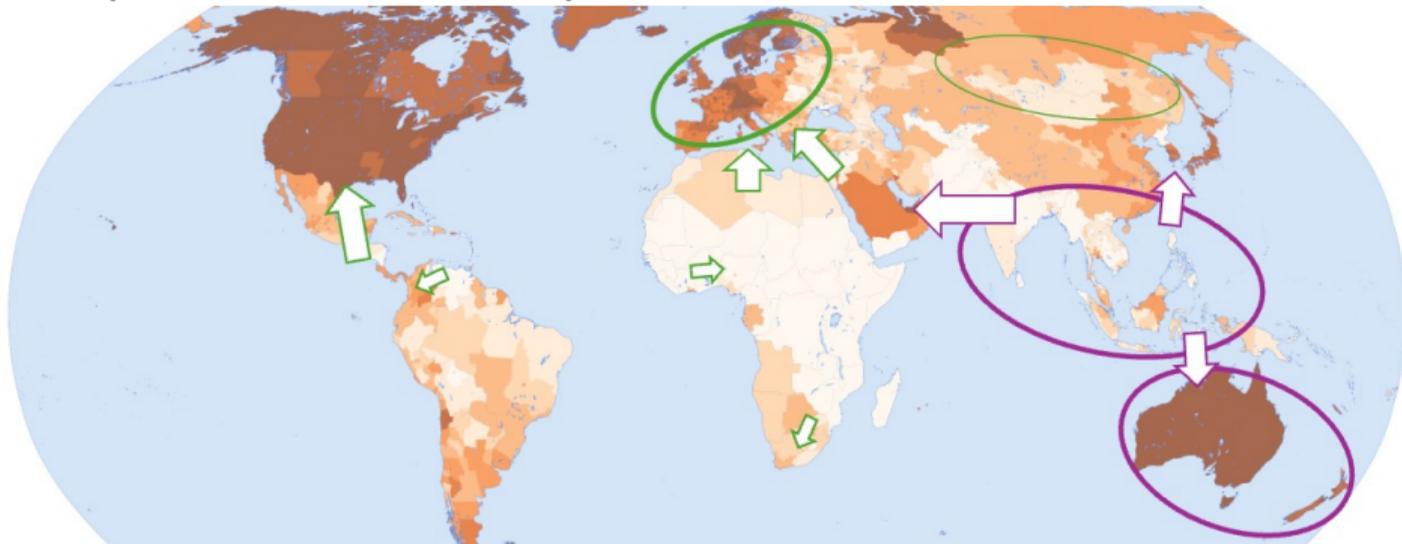Conclusion
○○

International Migration Around the World

▶ Most migration systems are largely informal, indefinite, and unilateral
   - asylum, undocumented, family reunification, etc.

▶ Greater Asia: formal migration of enormous scale
   - Millions of workers and employers match (anonymously) *before* migration
   - Many destination and occupation choices
→ Lessons? Unintended consequences?

Preview of Results

1 How did formal migration scale?

Preview of Results

1. How did formal migration scale?
   → This project: migration industries (MI) ⇒ (formal) migration ↑

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Preview of Results

1 How did formal migration scale?
  → This project: migration industries (MI) ⇒ (formal) migration ↑

▶ Two consequent labor issues
  2 Market power of employers

  3 Market power of intermediaries

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Preview of Results

1 How did formal migration scale?
  → This project: migration industries (MI) $\Rightarrow$ (formal) migration ↑

▶ Two consequent labor issues
  2 Market power of employers
    → This project: migration industries $\Rightarrow$ elasticity of demand for migrant labor ↑

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    → This project: migration industries $\Rightarrow$ (illegal) exploitation of migrants ↑

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Preview of Results

1 How did formal migration scale?
  → This project: migration industries (MI) $\Rightarrow$ (formal) migration $\uparrow$

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  3 Market power of intermediaries
   → This project: migration industries $\Rightarrow$ (illegal) exploitation of migrants $\uparrow$

▶ Three common themes

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Preview of Results

1 How did formal migration scale?
→ This project: migration industries (MI) ⇒ (formal) migration ↑

▶ Two consequent labor issues
2 Market power of employers
→ This project: migration industries ⇒ elasticity of demand for migrant labor ↑

3 Market power of intermediaries
→ This project: migration industries ⇒ (illegal) exploitation of migrants ↑

▶ Three common themes
- MI as exploiting economies of scale (Grant and Startz, 2024)

- MI as social network (Fernando and Singh, forthcominga; Bazzi et al., 2024a)

- MI as (imperfect) government contractor (Hart et al., 1997)

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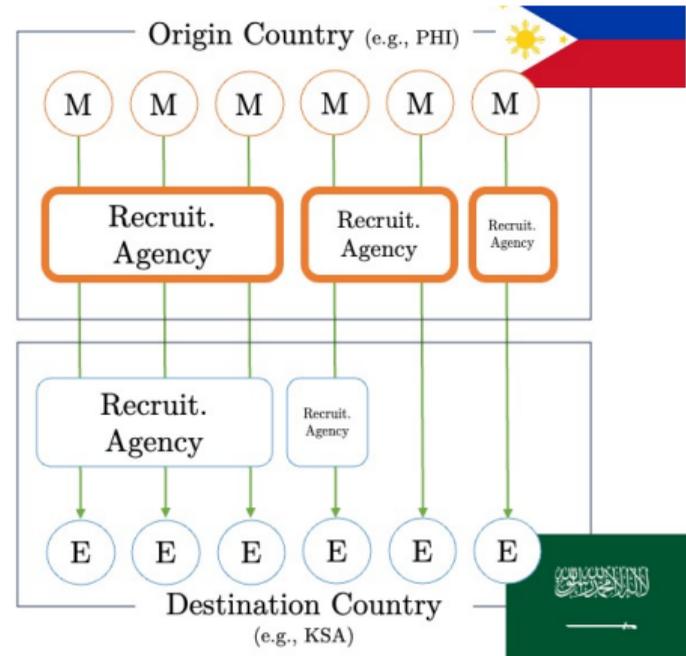Intermediary Market Power
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Data

▶ Universe of newly hired land-based migrant workers
from the Philippines (1992-2009): (Theoharides, Yang)

- demographics, dest. country, occupation, wage,
departure timing

- recruitment agency in the Philippines and *immediate*
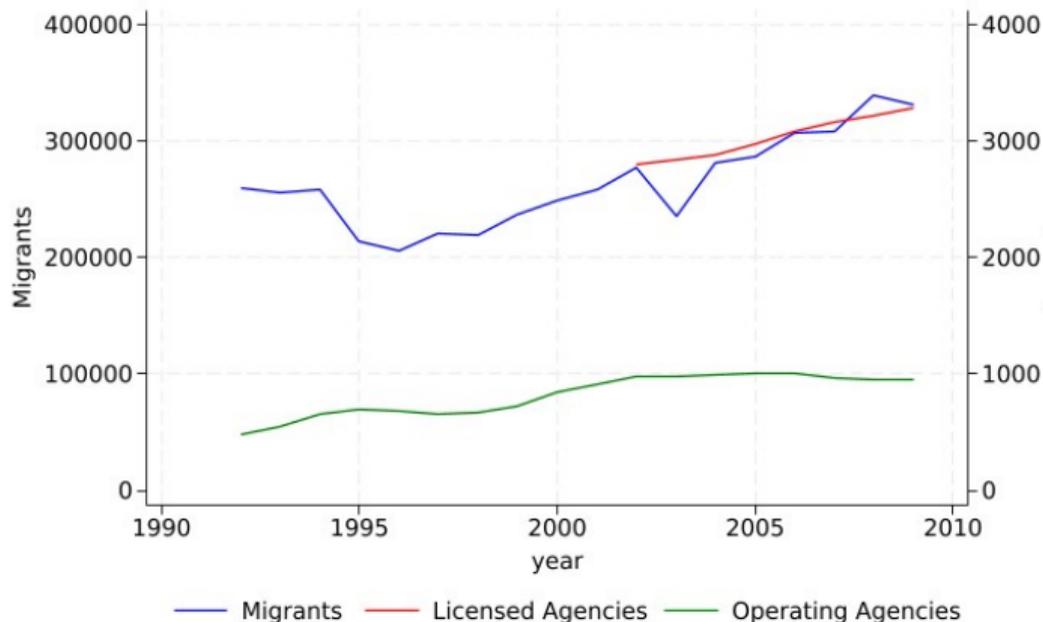employers in the destination country
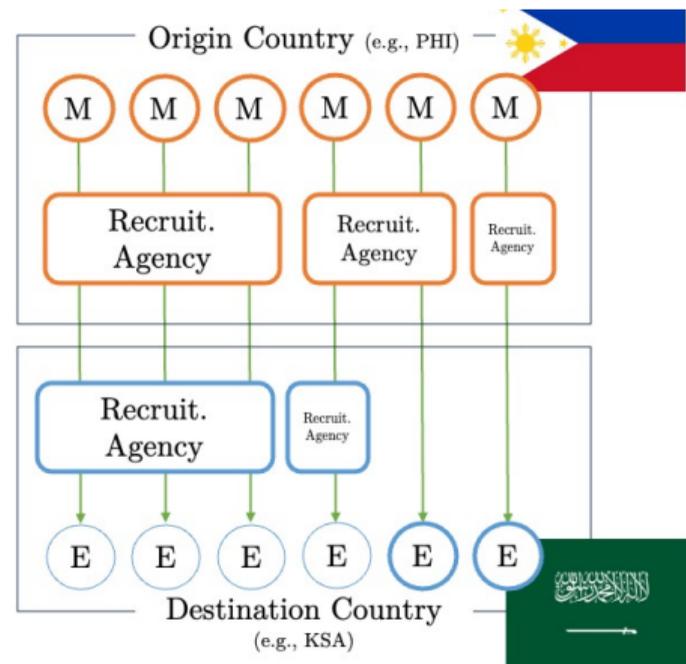
Data

▶ Universe of newly hired land-based migrant workers from the Philippines (1992-2009): (Theoharides, Yang)

  - demographics, dest. country, occupation, wage, departure timing

  - recruitment agency in the Philippines and *immediate* employers in the destination country

▶ Merge with the official list of recruitment agencies in the Philippines (2002-2009)

  - license validity of each agency (proxy for fraud)
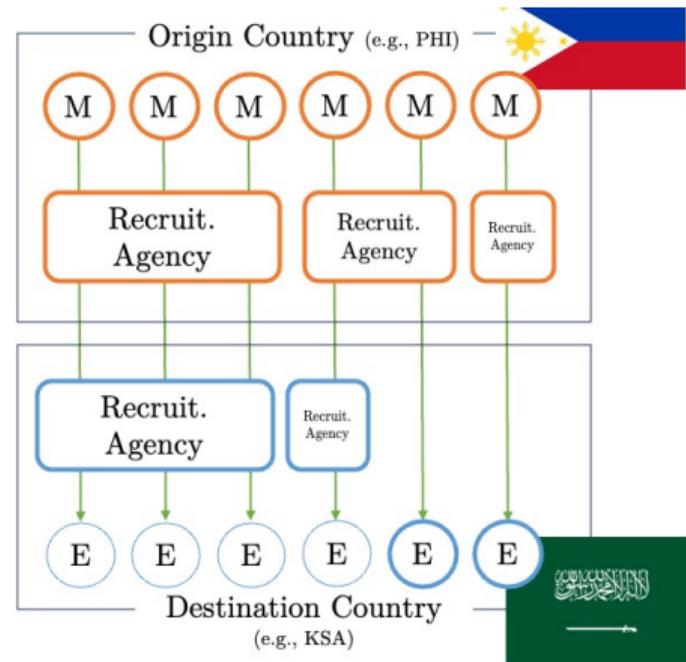
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▶ Industrialization

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Industrialization of Migration - Origin Side

▶ Prima facie evidence: concurrent increase in migration and recruitment agencies

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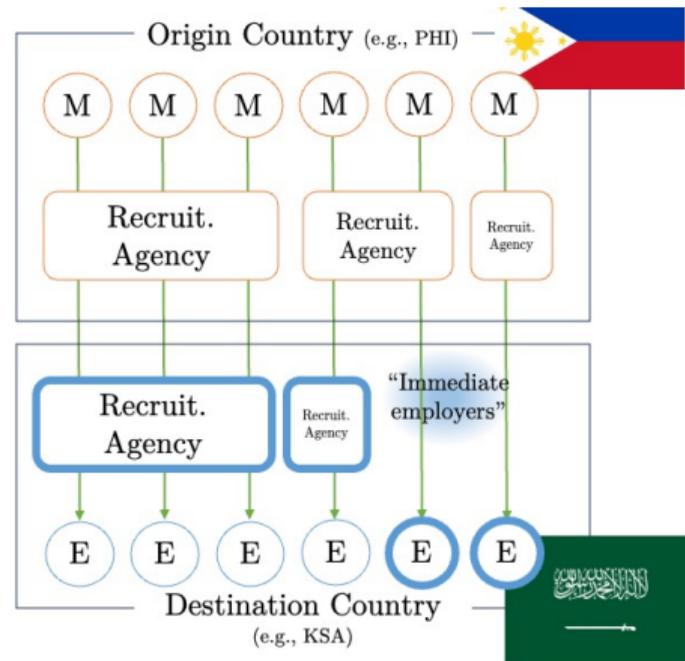00000

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Industrialization of Migration - Destination Side

▶ Prima facie evidence: migration increases but number of *immediate* employers fall

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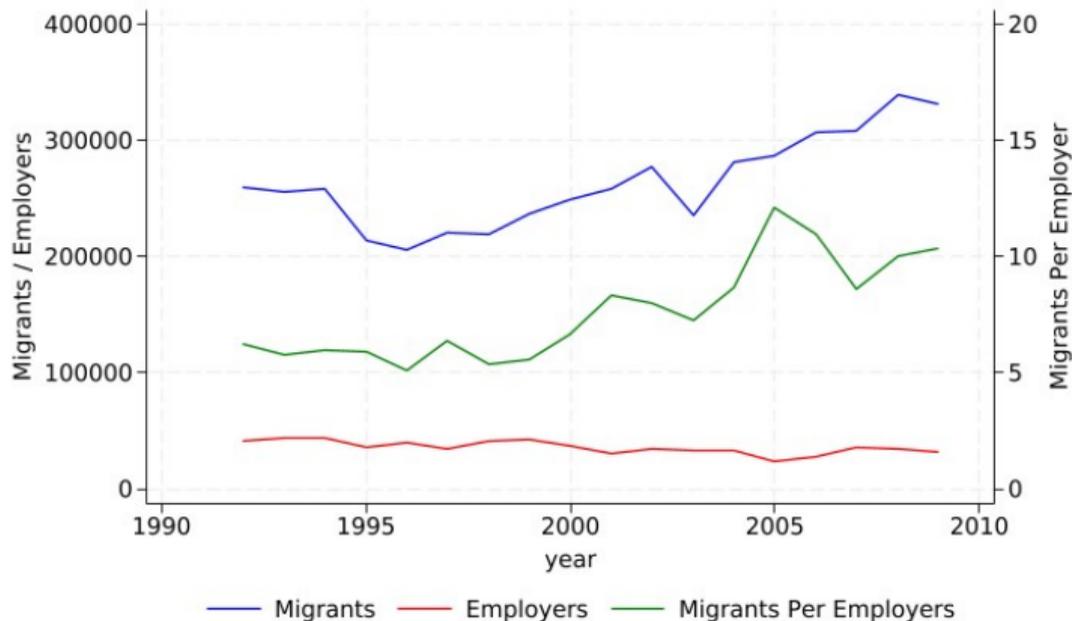00000

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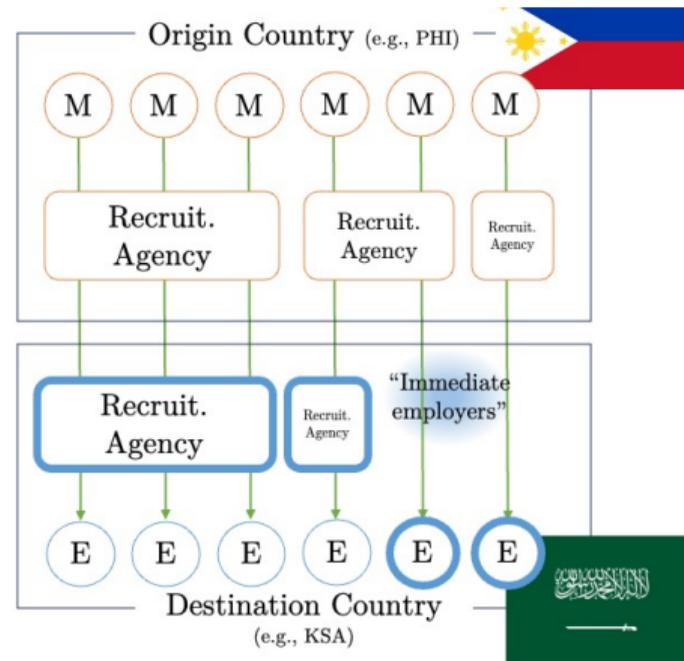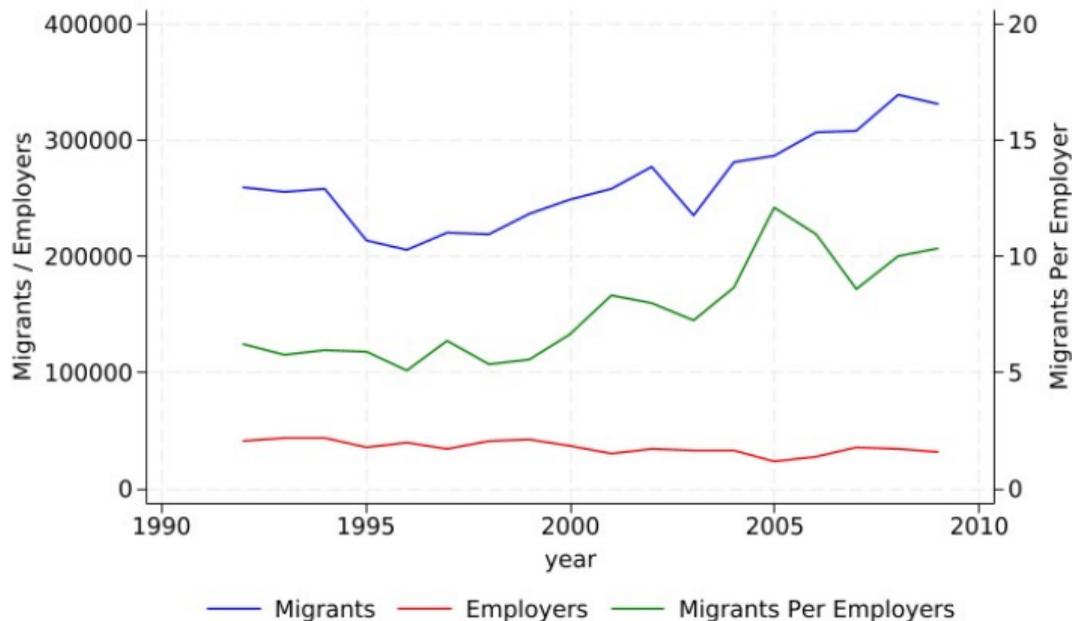
Industrialization of Migration - Destination Side

▶ Prima facie evidence: migration increases but number of *immediate* employers fall

→ migration is more **aggregated**

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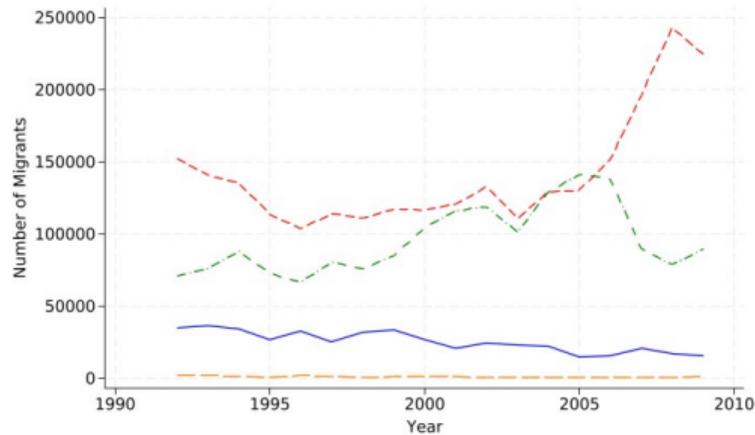
Industrialization of Migration - Destination Side (2) ▸ X-section

Figure: Number of Migrants
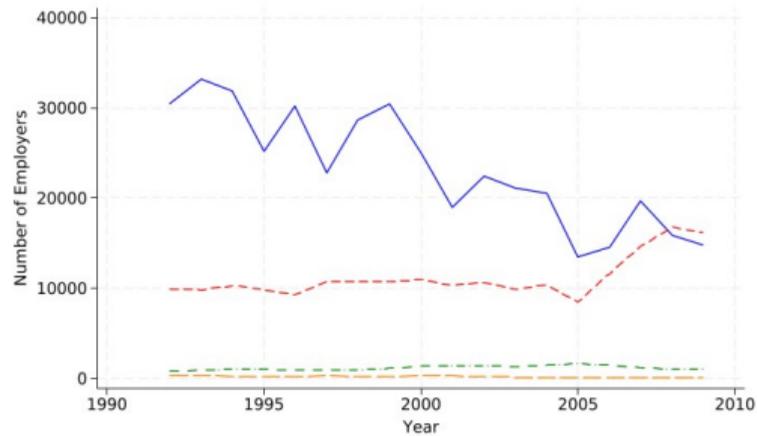
Figure: Number of Employers

——— Households   - - - Firms   — - · Dest. Agencies   ——— Governments

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Industrialization of Migration - Destination Side (2) ▸ X-section
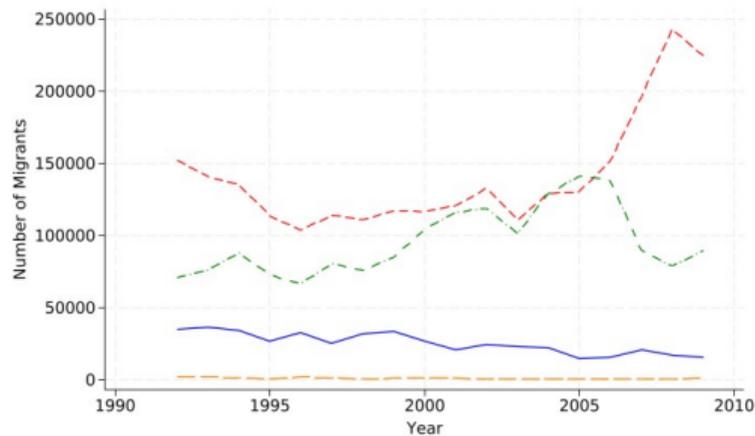
Figure: Number of Migrants
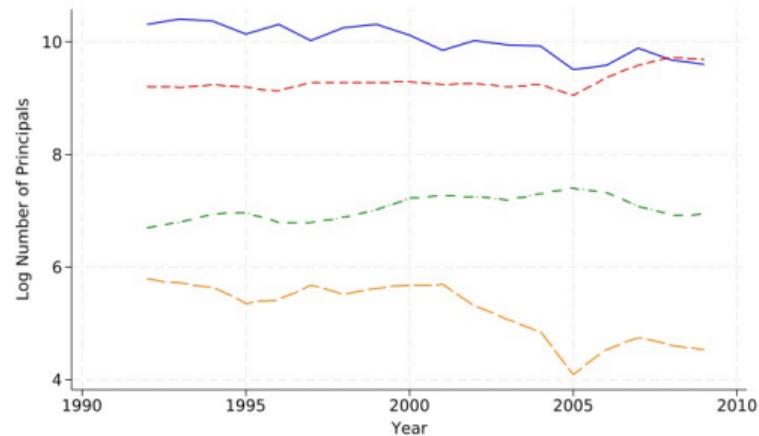
Figure: <u>Log</u> Number of Employers

——— Households   - - - Firms   — - Dest. Agencies   —— Governments

$\rightarrow$ large firms and destination intermediaries drive the migration $\uparrow$

Event Studies

▶ Isolate the first entry of intermediaries to the destination labor market

$$Y_{m,t} = \beta_0 + \sum_{j=-8, j\neq-1}^{6} \beta_{1,j}\mathsf{Entered}_{m,t+j} + \lambda_m + \mu_t + \epsilon_{m,t}$$

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Event Studies

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▶ Estimate this for:

- Markets m defined at country c OR both country c and occupation o levels

- Private intermediaries in both destination and origin countries

- Standard DD and Borusyak et al. (2024) imputation estimator

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Event Studies

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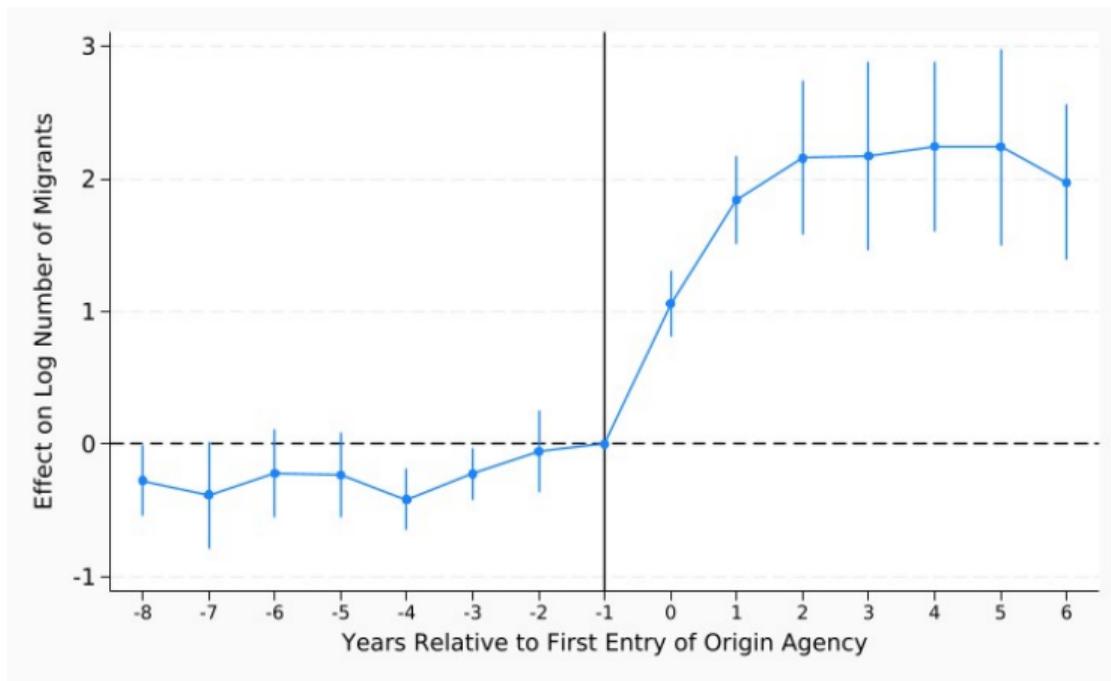- Standard DD and Borusyak et al. (2024) imputation estimator

▶ Identifying assumption: timing/market of intermediary entry as if random
- Intermediaries anticipate demand $\uparrow$ and enter (lack of pre-trends addresses this somewhat)

- Policy change simultaneously increases migration and induces intermediaries to enter

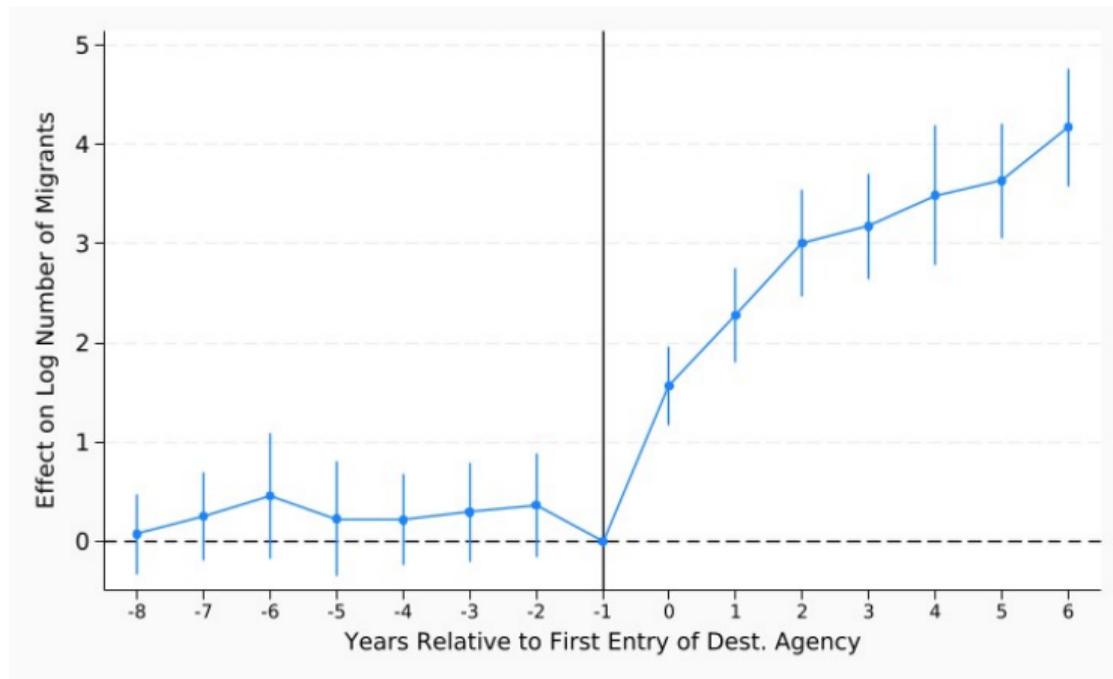$\rightarrow$ My stance: need not be interpreted causally, but effects are large and clear

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Origin Agency Entry on Log Migrants (Standard DD) ▸ Imputation

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Dest. Agency Entry on Log Migrants (Standard DD) ▸ Country Level ▸ Imputation

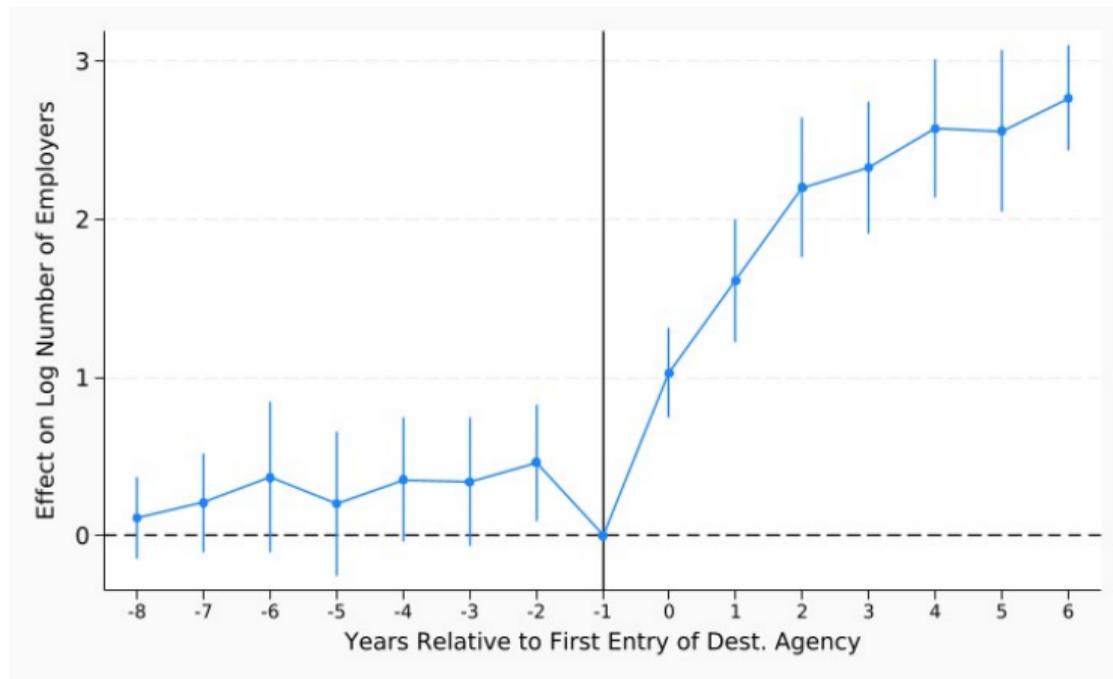*Note:* Borusyak et al. (2024) imputation shows small anticipation effect

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Origin Agency Entry on Log Employers (Standard DD) ▸ Imputation

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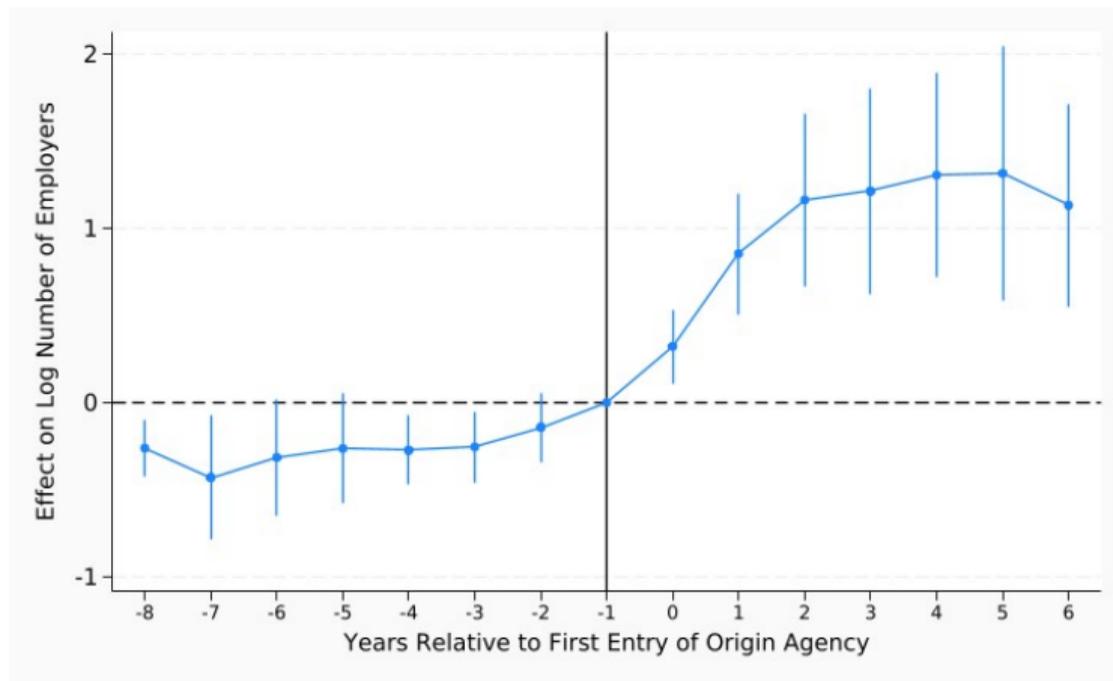
# Dest. Agency Entry on Log Employers (Standard DD) ▸ Country Level ▸ Imputation

Note: ↑ in direct hires suggests confounders (e.g., policy change) or some feedback
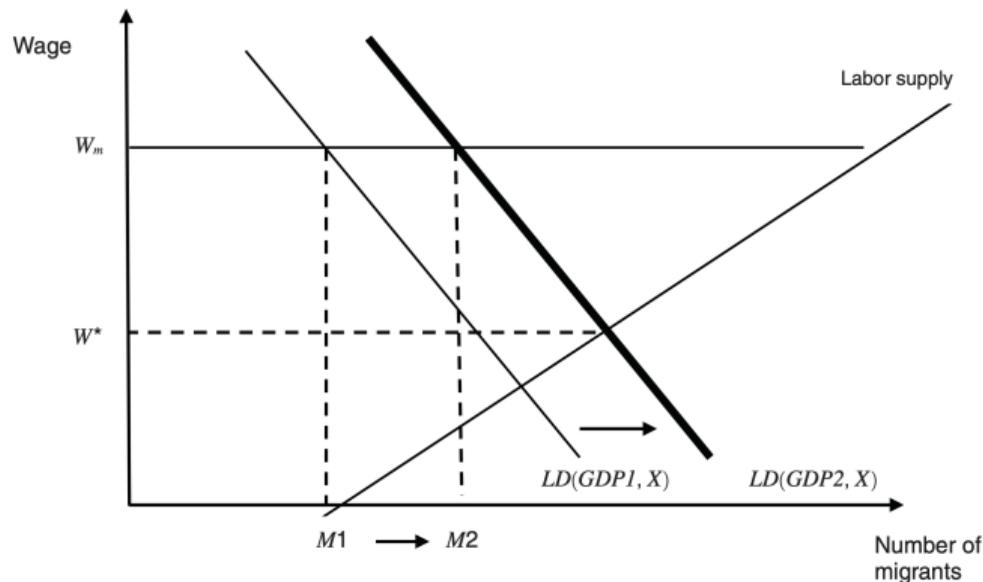
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Intermediary Market Power
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▶ Industrialization

▶ Employer Market Power

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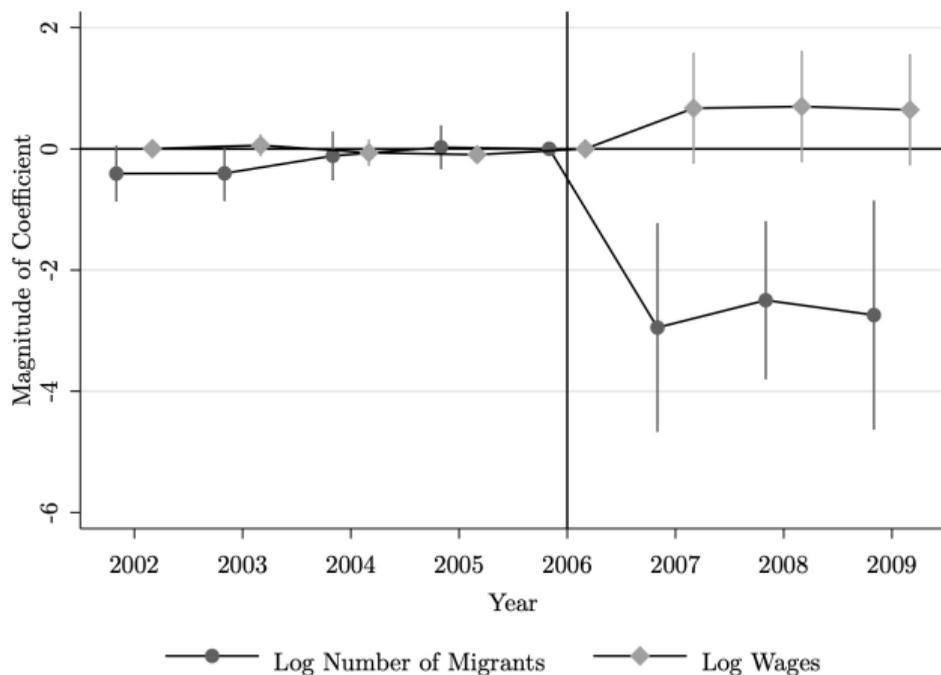
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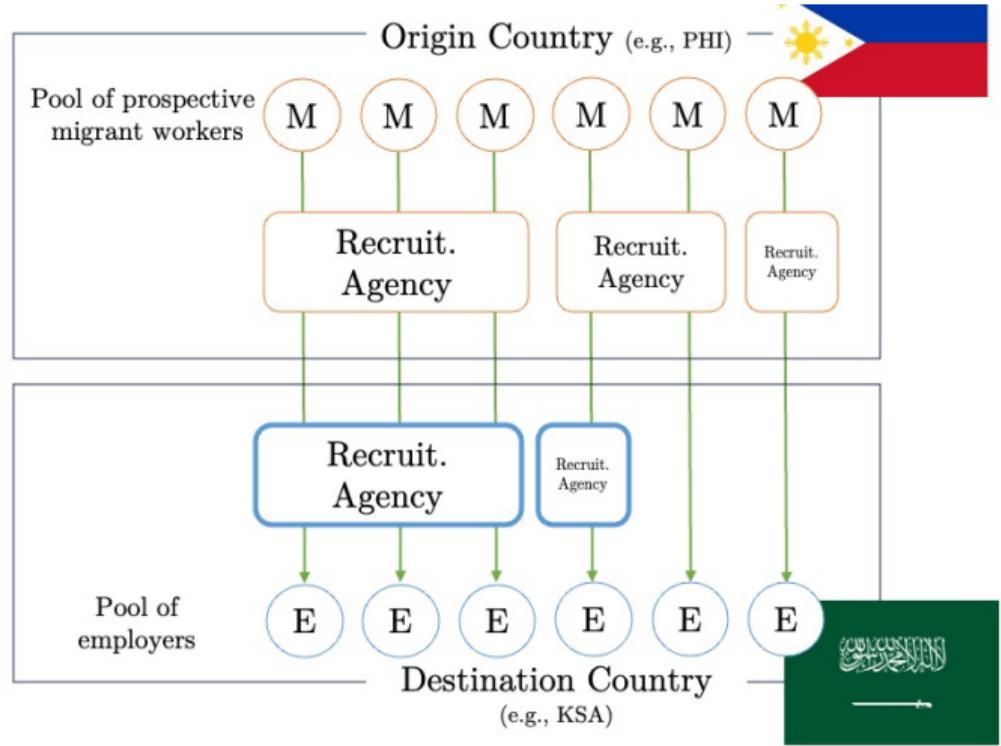
Labor Market Model: Binding Minium Wage

▶ Destination demand shocks only affect quantity and not wage (McKenzie et al., 2014)

$$\log Y_{c,t} = \alpha_0 + \alpha_1 \ln GDP_{c,t} + \lambda_c + \mu_t + \epsilon_{c,t} \text{ where } Y \text{ is migrants or wages}$$

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Employer Market Power

▶ Prima facie evidence: large employment ↓ from min. wage ↑ (McKenzie et al., 2014)
  - PHI increased min. wage for domestic workers from \$200 to \$400 in 2006
  - DD setup between affected vs unaffected markets:

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Heterogeneity by Employer Type

▶ Estimate demand elasticity
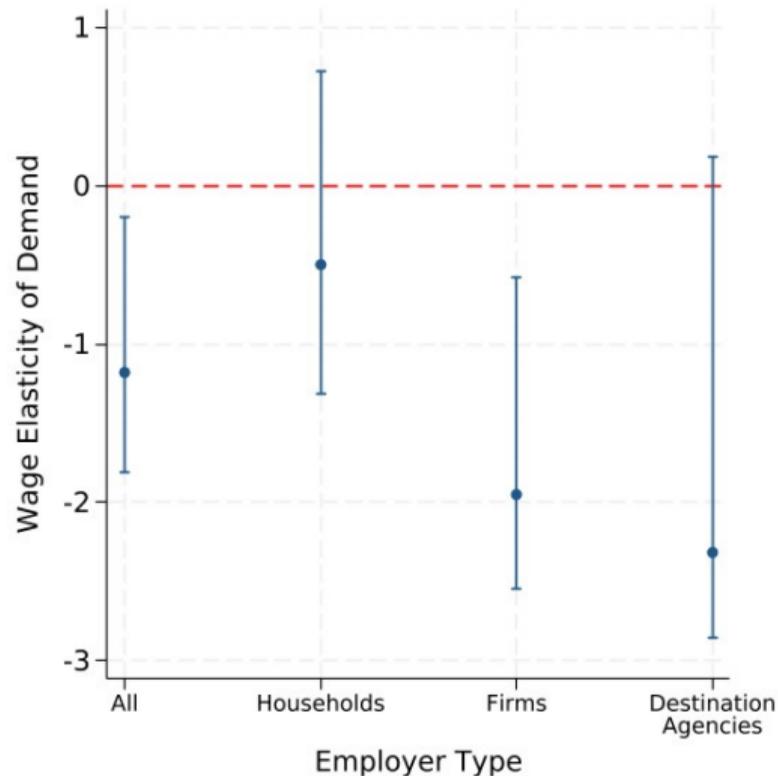 - Angrist (1996): -1.1 ∼ -2.2
  - All employers: -1.18
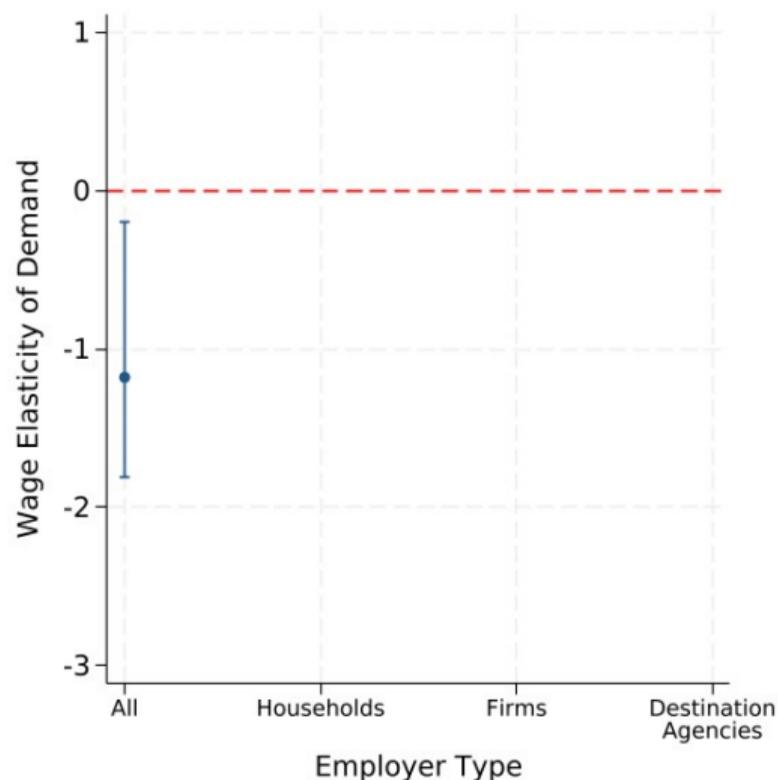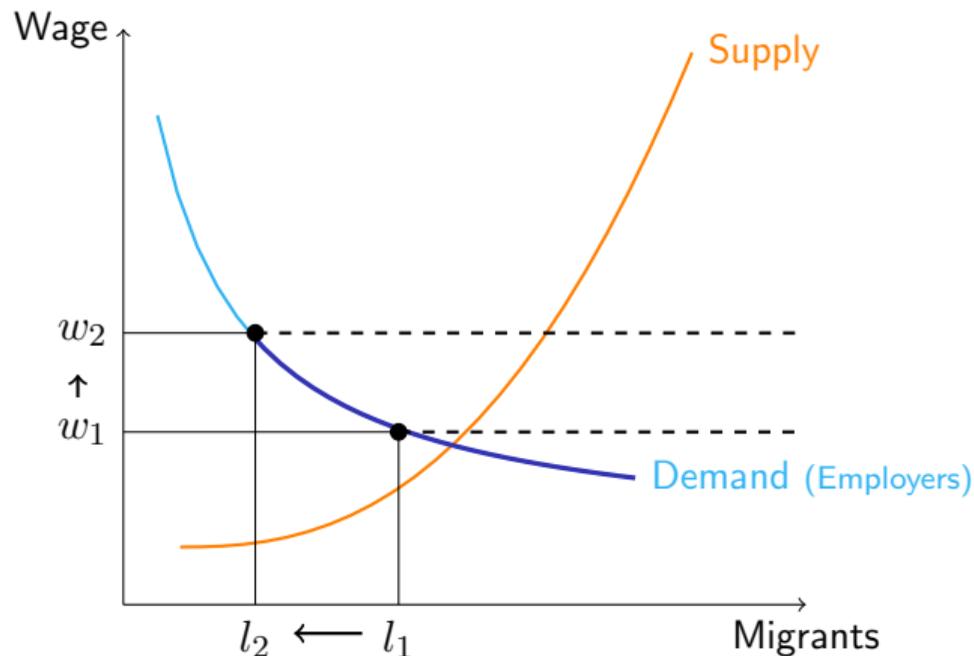
Heterogeneity by Employer Type

▶ Estimate demand elasticity
- Angrist (1996): -1.1 ∼ -2.2

- All employers: -1.18

- Households: -0.50

- Firms: -1.95

- Dest. Agencies: -2.32

→ Large employers and intermediaries are more elastic

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Labor Market Model: Extensions

▶ Claim: Industrialization $\Rightarrow$ both *scale* and *volatility* of migration $\uparrow$

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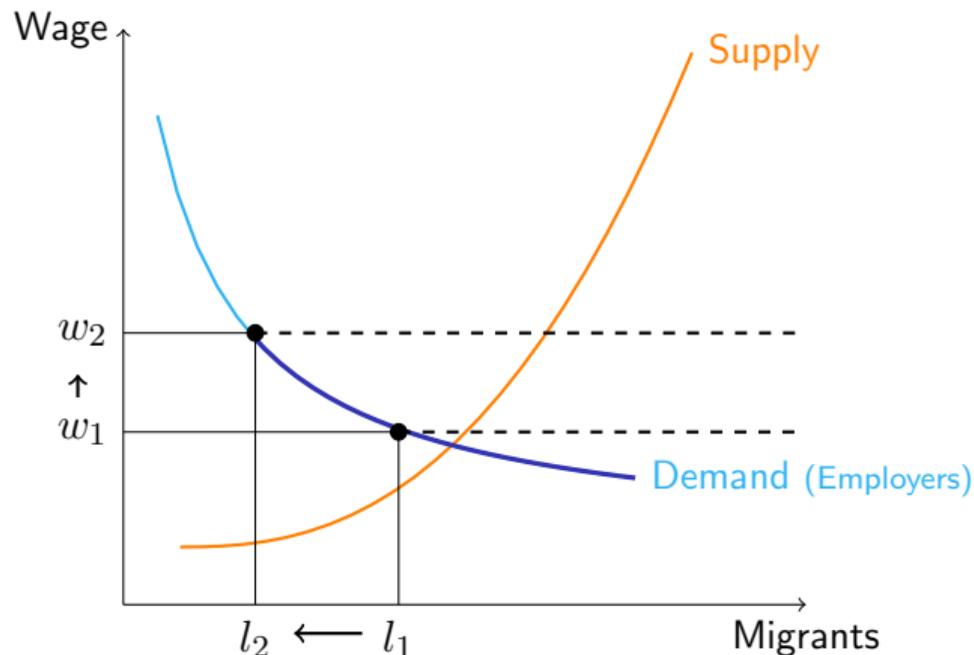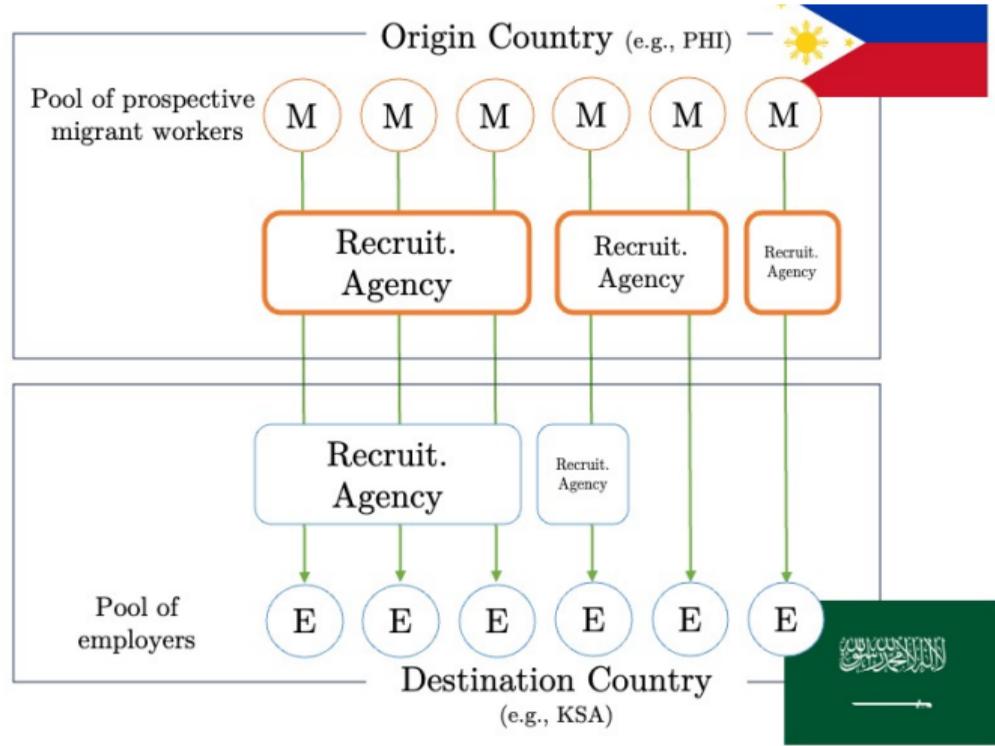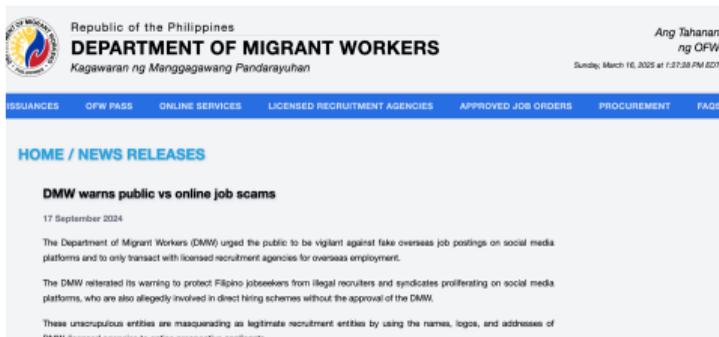
Labor Market Model: Extensions

▶ Claim: Industrialization $\Rightarrow$ both *scale* and *volatility* of migration $\uparrow$

▶ Intuition (à la Grant and Startz, 2024)
  - Employers can hire migrants directly (FC), through intermediary (MC), or hire domestically

  - Entry of migration industries enables employers with high FC to hire migrants via paying marked-up MC. This increases scale

  - These marginal employers are more likely to pull out in a negative shock. This increases volatility

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▶ Industrialization

▶ Employer Market Power

▶ Intermediary Market Power

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Migration: A Shady Business

Republic of the Philippines
DEPARTMENT OF MIGRANT WORKERS
Kagawaran ng Manggagawang Pandarayuhan

Ang Tahanan ng OFW
Sunday, March 16, 2025 at 1:57:39 PM EDT

ISSUANCES | OFW PASS | ONLINE SERVICES | LICENSED RECRUITMENT AGENCIES | APPROVED JOB ORDERS | PROCUREMENT | FAQS

HOME / NEWS RELEASES

DMW warns public vs online job scams

17 September 2024

The Department of Migrant Workers (DMW) urged the public to be vigilant against fake overseas job postings on social media platforms and to only transact with licensed recruitment agencies for overseas employment.

The DMW reiterated its warning to protect Filipino jobseekers from illegal recruiters and syndicates proliferating on social media platforms, who are also allegedly involved in direct hiring schemes without the approval of the DMW.

These unscrupulous entities are masquerading as legitimate recruitment entities by using the names, logos, and addresses of DMW-licensed agencies to entice prospective applicants.

News · **CBC Investigates**

This recruiter has allegedly scammed 'hundreds' of Filipino migrant workers. Some are now homeless

Despite 35 labour violations over the last decade, Jeanett Moskito and her companies continue to operate

Aloysius Wong, Valerie Ouellet, Rachel Houlihan · CBC News ·
Posted: Jan 14, 2025 4:00 AM EST | Last Updated: February 3

Job Placement
• Local Staffing all over Canada in different field of expertise

NEW LINES MAGAZINE

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/Spotlight India | 15 MIN READ

A Network of Agents in India Is Driving Job Scams and Illegal Migration

As the country's unemployment rises, brokers are exploiting people's desperation and seizing on the burgeoning desire to migrate abroad

Neha Mehrotra
Neha Mehrotra is a freelance journalist based in Delhi

March 5, 2025

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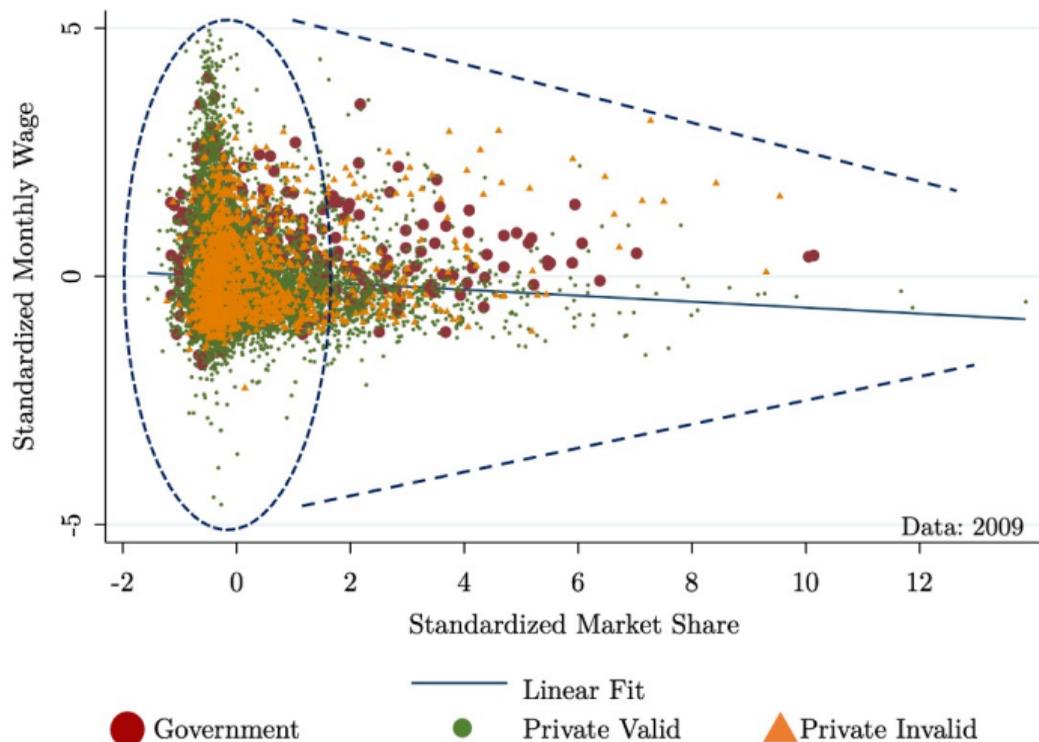
Intermediary Market Power
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Fraud Mechanisms

▶ Highly varying quality and lack of info
  ▶ Fernando and Singh (forthcomingb); Bazzi et al. (2024b): quality info induces
    intermediaries to invest in quality, migration through bad intermediaries ↓

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Fraud Mechanisms

- Highly varying quality and lack of info
  - Fernando and Singh (forthcomingb); Bazzi et al. (2024b): quality info induces intermediaries to invest in quality, migration through bad intermediaries ↓

- Competition for employer demand
  - Fraudsters are newer entrants, accept lower wages for migrants from employers

  Competition, to a certain degree, is necessary, especially in a private-sector-driven industry. But ==too much competition can increase the likelihood of worker abuse==. Policymakers, both then and now, fear that ==in an overcrowded market, some agencies will not make enough profits and, instead of closing shop, will recoup their losses by cutting corners and breaking the rules== (i.e., charging exorbitant recruitment fees or colluding with employers). (Agunias, 2008)

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Fraud Mechanisms

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→ Employer demand ↓ ⇒ Competition ↑ ⇒ Exit and fraud ↑

Fringe and Fraud

▶ Prima facie evidence: recruiter fraud concentrated among the fringe

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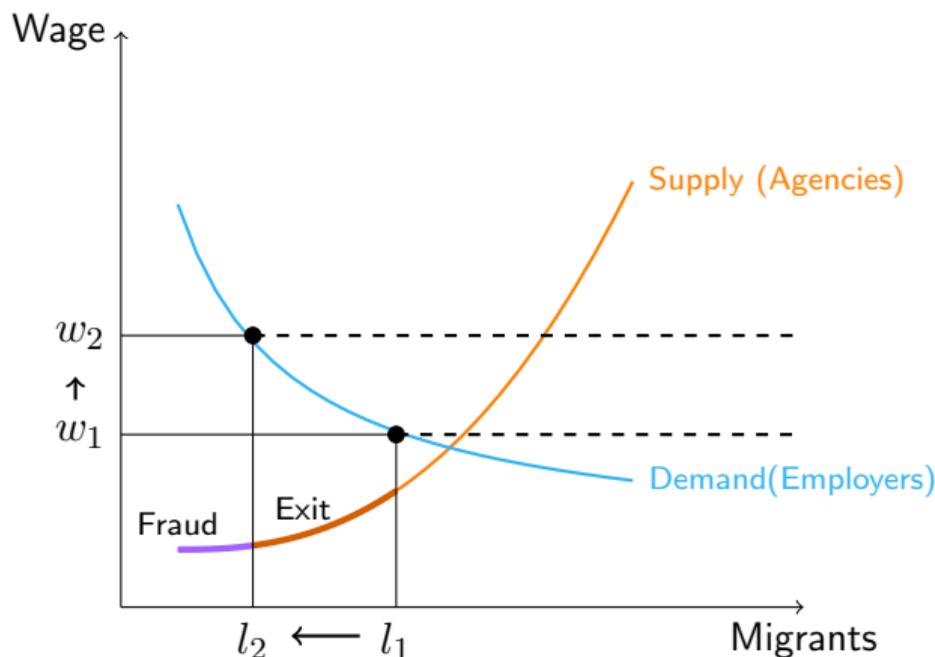○○○○○

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Labor Market Model: Extensions

- ▶ Claim: Competition $\Rightarrow$ intermediaries' likelihood of both fraud and exit ↑

- ▶ Intuition:
  - ▶ Intermediaries supply migrant workers. Fringe agencies (low market share) exit from min. wage shock
  - ▶ Previously inframarginal agencies become fringe and more likely to fraud.

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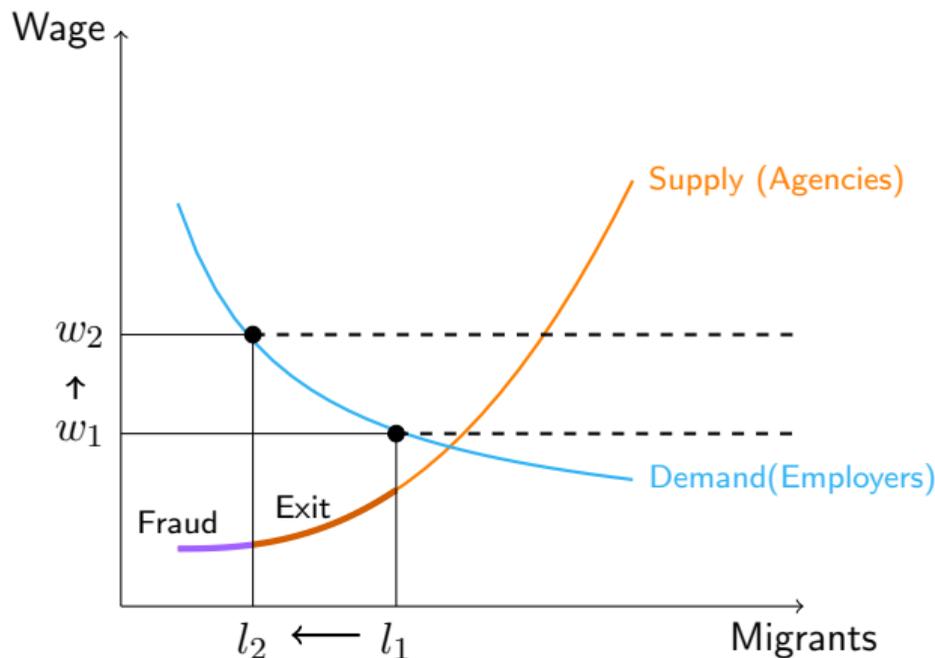
Labor Market Model: Extensions

▶ Claim: Competition $\Rightarrow$ intermediaries' likelihood of both fraud and exit $\uparrow$

▶ Intuition:

  ▶ Intermediaries supply migrant workers. Fringe agencies (low market share) exit from min. wage shock

  ▶ Previously inframarginal agencies become fringe and more likely to fraud.

$\rightarrow$ Net prevalence of fraud in market:

$P(\mathsf{Fraud}_t \mid \mathsf{not\ Fraud}_{t-1}) + P(\mathsf{Stay}_t \mid \mathsf{Fraud}_{t-1})$
$= P(\mathsf{Fraud}_t \mid \mathsf{not\ Fraud}_{t-1}) - P(\mathsf{Exit}_t \mid \mathsf{Fraud}_{t-1})$

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Competition on Exit and Fraud: Empirical Strategy

- ▶ Ideal experiment: randomize employer demand shock or number of competitors

- ▶ Exploit minimum wage shock again. Compare the likelihood of exit and fraud between more vs less affected agencies.

Competition on Exit and Fraud: Empirical Strategy

▶ Ideal experiment: randomize employer demand shock or number of competitors

▶ Exploit minimum wage shock again. Compare the likelihood of exit and fraud between more vs less affected agencies.

  - Code exposure as share of workers deployed who are affected:

$$Exposure_{k,t} = \frac{\text{(Domestic Workers) \& } (< \text{Min Wage})}{\text{Total Deployed}}_{k,t}$$

  - If min. wages are binding, migrants' wage ↑ only affects agencies through competition for *employer* demand. Think of this as the reduced form

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Competition on Exit and Fraud: Empirical Strategy

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▶ Problem: exit and fraud are one-off variables for each agency; no within variation before it happens. Repeated cross-sections w/o agency FE:

$$P(Y_{k,t}) = \beta_0 + \sum_{j \neq 2006}^{2009} \beta_{1,j} Exposure_{k,j} \times \mathbb{1}(t = j) + \mu_t + \epsilon_{k,t}$$

where $Y_{k,t}$ is exit or fraud for agency k in year t. Also logit.
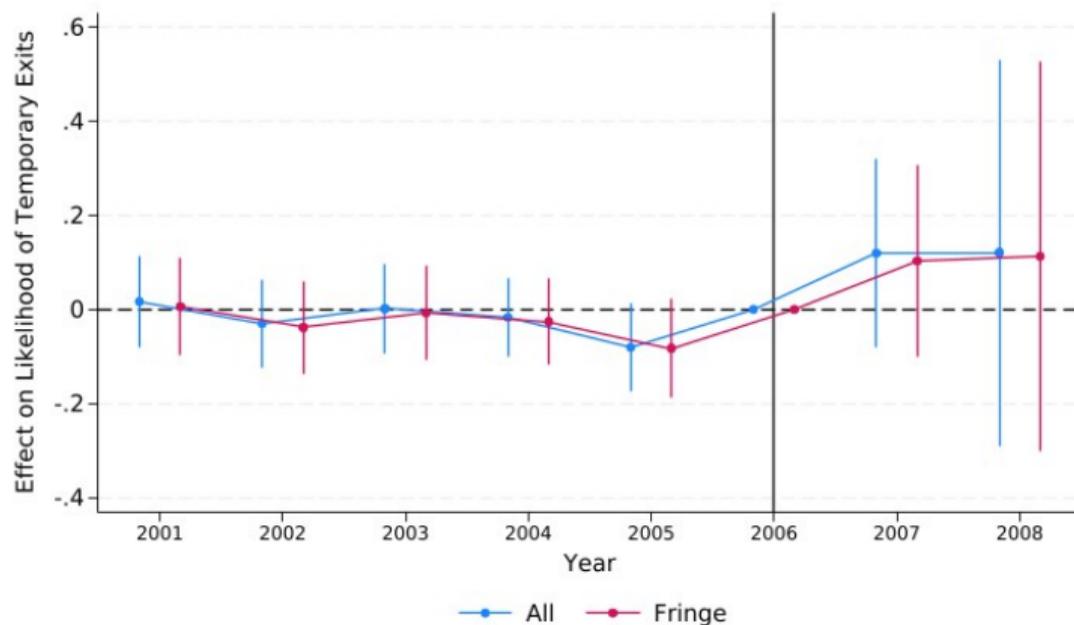
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Competition on Exit (LPM) ▸ Logit   ▸ Permanent Exits

$\rightarrow$ Effect weak, but exit $\uparrow$ driven by 'fringe' agencies

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Competition on Exit (LPM) ▸ Logit ▸ Permanent Exits

$\rightarrow$ Effect weak, but exit ↑ driven by 'fringe' agencies

$\rightarrow$ Stronger effects for fraudulent agencies

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Competition on Fraud (LPM) ▸ Logit
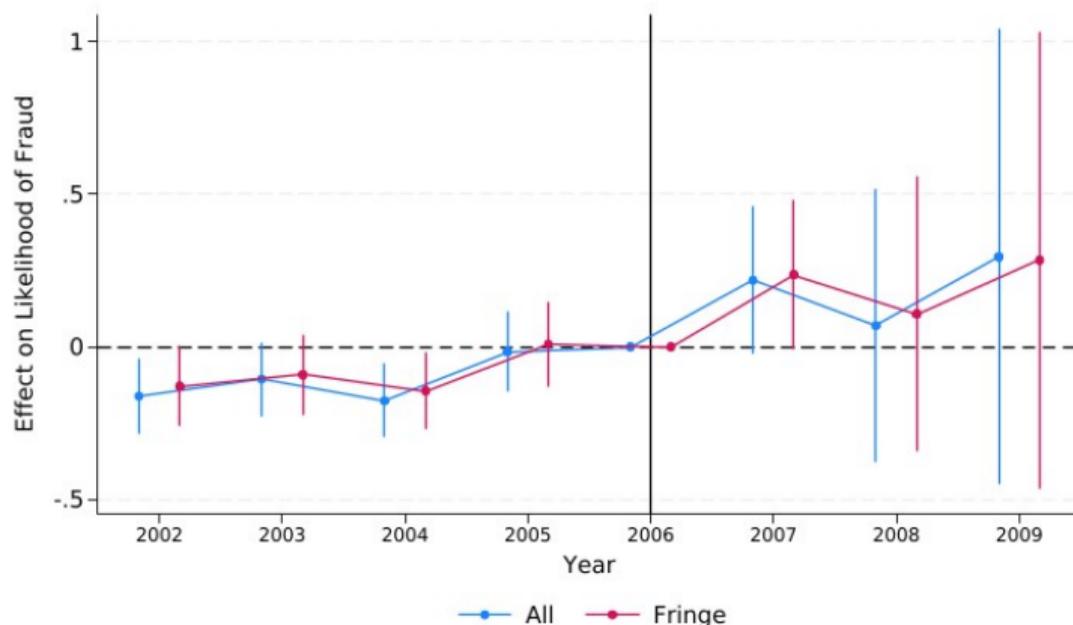
$\rightarrow$ Again weak, but $p < 0.01$ when pooling pre-post. Fraud $\uparrow$ driven by 'fringe'

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Competition on Fraud (Net Effect) (Standard DD) ▸ w/ Linear Trends

▶ Aggregate to market level again: exit effect seems to dominate

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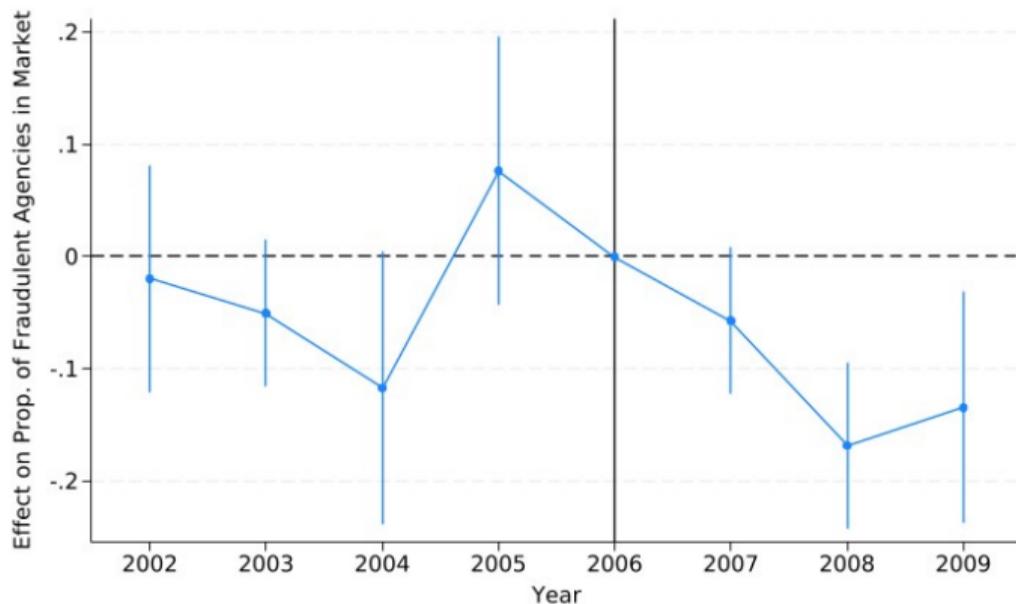
Competition on Fraud (Net Effect) (Standard DD) ► w/ Linear Trends

▶ Aggregate to market level again: exit effect seems to dominate
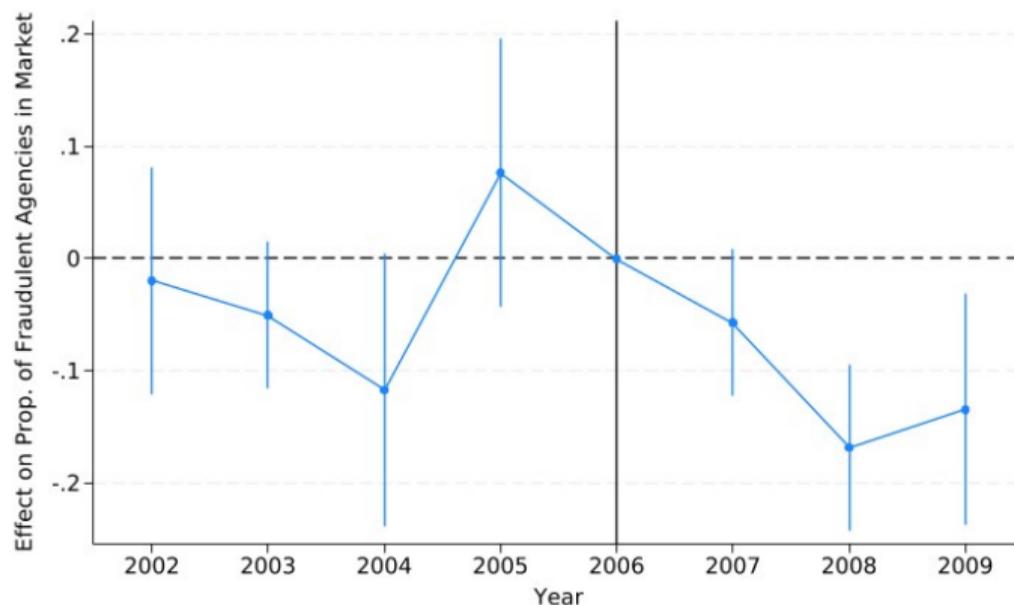
→ Fraud ↓ ... but w/ large migration ↓ as already shown
  - Fraudulent agencies tend to offer lower wage; likely priced out

Idea: Licensing

▶ Min. deployment requirements can cut the fringe (exists but not enforced in PHI!)

▶ Good if employers subst. towards PHI larger intermediaries – less fraud

▶ Strategy:
  1. Estimate employers' choice model of intermediaries, calibrate with demand elasticity, and recover preference parameters.
  2. Take out the fringe from their choice set and predict counterfactual market share.
  * Need data on employers' outside option (i.e., not hiring from PHI)

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Idea: Licensing

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   2. Take out the fringe from their choice set and predict counterfactual market share.
   * Need data on employers' outside option (i.e., not hiring from PHI)

$\rightarrow$ Open question: how much will employers substitute toward other origin countries?

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Work in Progress: Migrants' Jobs

- ▶ Largest origin countries (IDN, IND, LKA, NPL, PAK, PHI) have centralized job posting sites

- ▶ Observe employer, intermediary, wage, amenities, size of job order (demand)

- ▶ With frequent scraping, can also proxy takeup (supply in equilibrium; migration)

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Work in Progress: Migrants' Jobs

▶ Largest origin countries (IDN, IND, LKA, NPL, PAK, PHI) have centralized job posting sites

▶ Observe employer, intermediary, wage, amenities, size of job order (demand)

▶ With frequent scraping, can also proxy takeup (supply in equilibirum; migration)

→ Directly estimate substitution of migrants and employers

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▶ Conclusion

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Conclusion: Dominant and the Fringe

▶ Two 'pipelines' make the market work
  - Dominant pipeline: aggregated, intermediated, elastic

  - Fringe pipeline: small, direct, social and often fraudulent

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Conclusion: Dominant and the Fringe

▶ Two 'pipelines' make the market work
  - Dominant pipeline: aggregated, intermediated, elastic

  - Fringe pipeline: small, direct, social and often fraudulent

▶ The development of large legal pathways now creates standard labor problems...
  at an international scale
  - "Unionization" among origin countries

  - Building safety nets internationally

  - Auditing of fraudulent intermediaries

Thank You!

Please send questions and feedback to: hnakazawa@povertyactionlab.org

Appendix

Cross-sectional Evidence ▸ Back

▶ Number and share of intermediaries positively associated with scale of migration
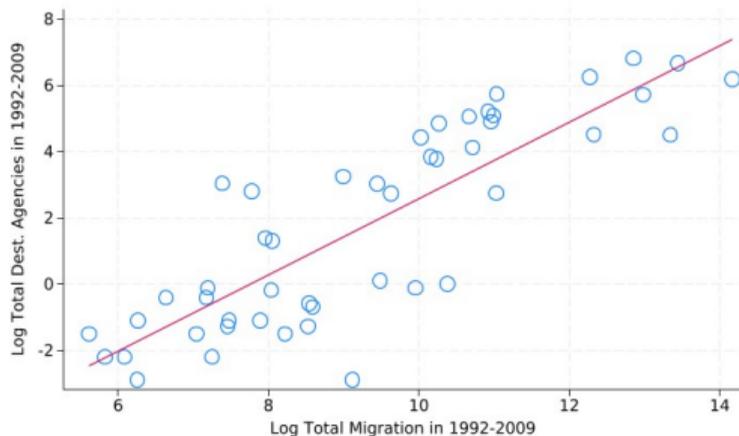
Figure: By Destination Country

Figure: By Occupation

Descriptives

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Agency Exit and Fraud
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Dest. Agency Entry on Log Migrants (Country Level, Standard DD) ▸Back

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Agency Exit and Fraud
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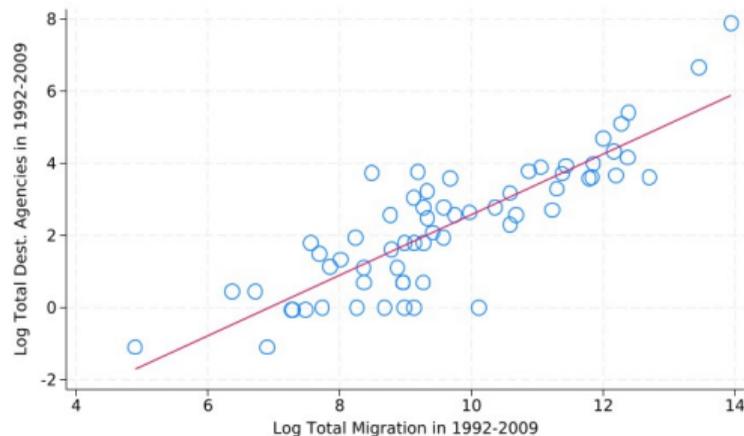
Dest. Agency Entry on Log Migrants (Country Level, Imputation) ▸ Back

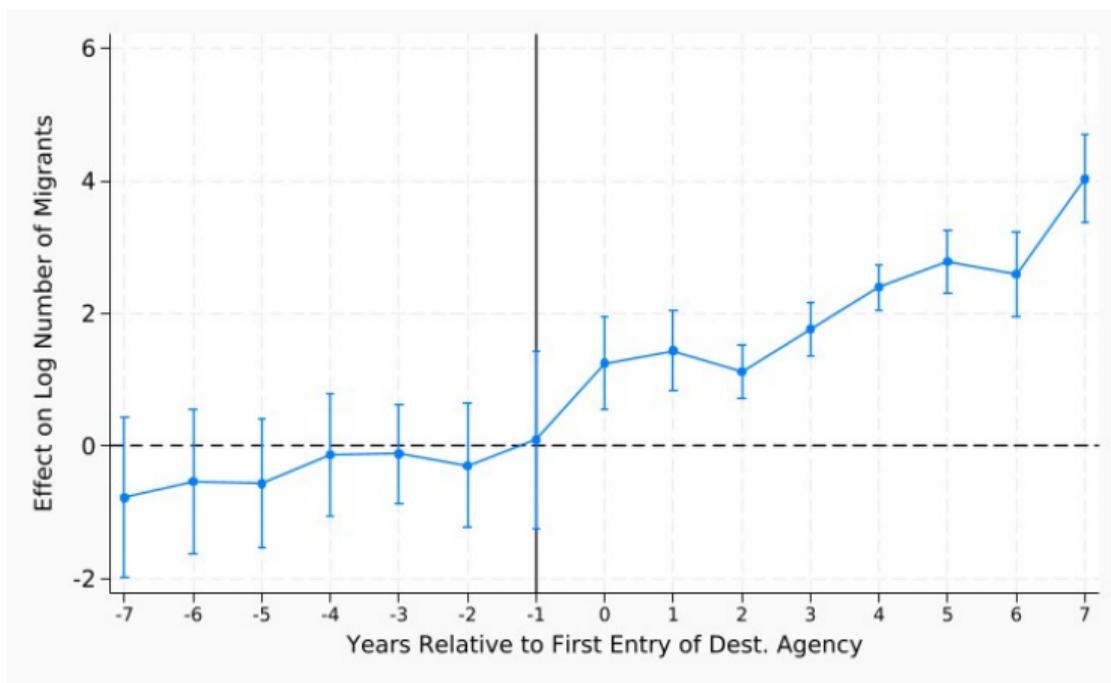# Dest. Agency Entry on Log Migrants (Imputation) ▸ Back

Origin Agency Entry on Log Migrants (Imputation) ▸ Back

Descriptives
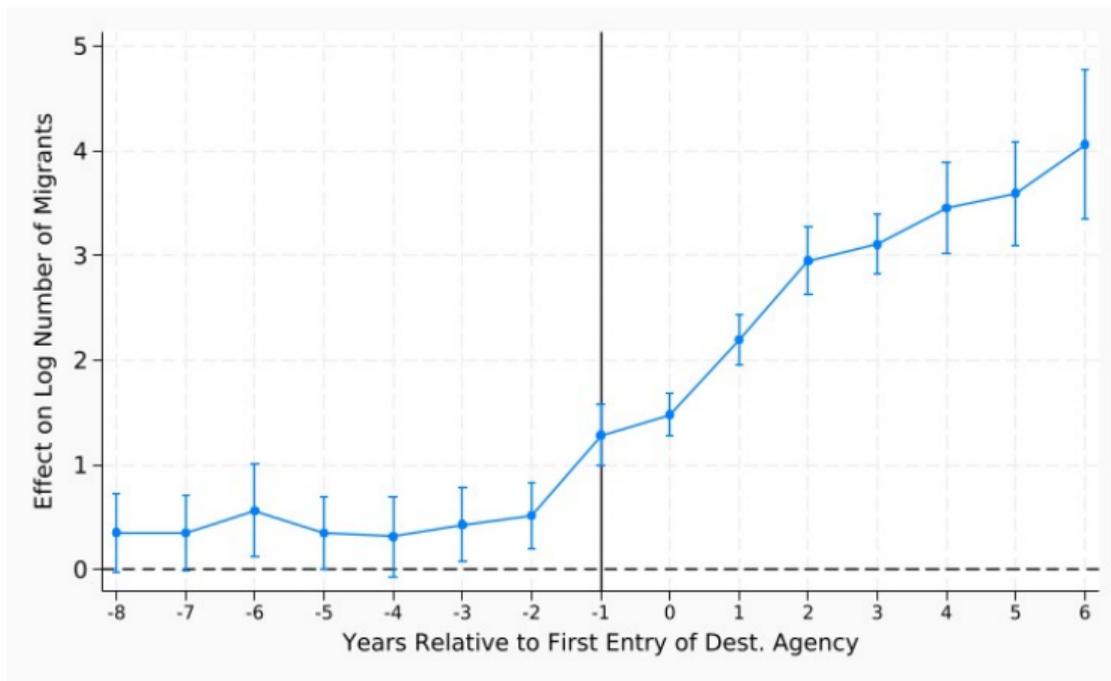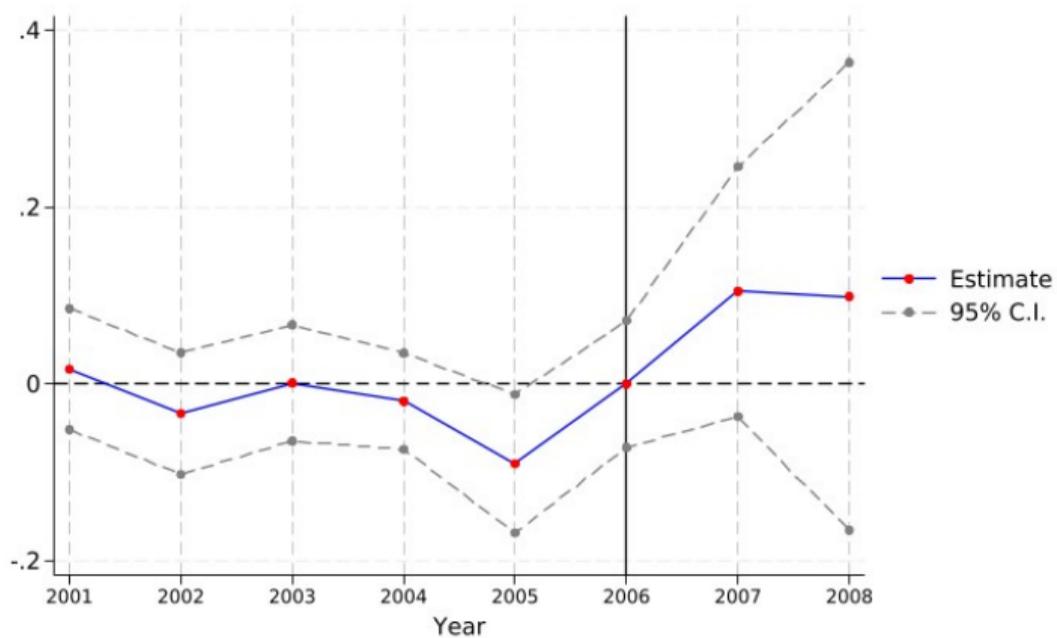○

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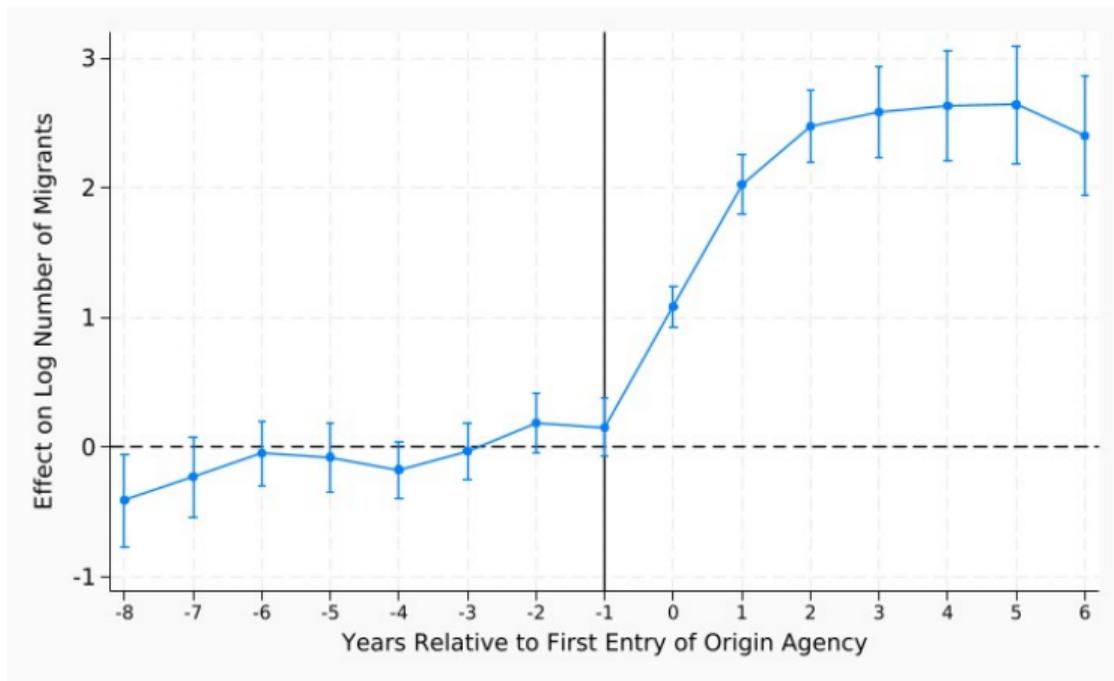
Dest. Agency Entry on Log Migrants (Country Level, Standard DD) ▸ Back

Dest. Agency Entry on Log Migrants (Country Level, Imputation) ► Back

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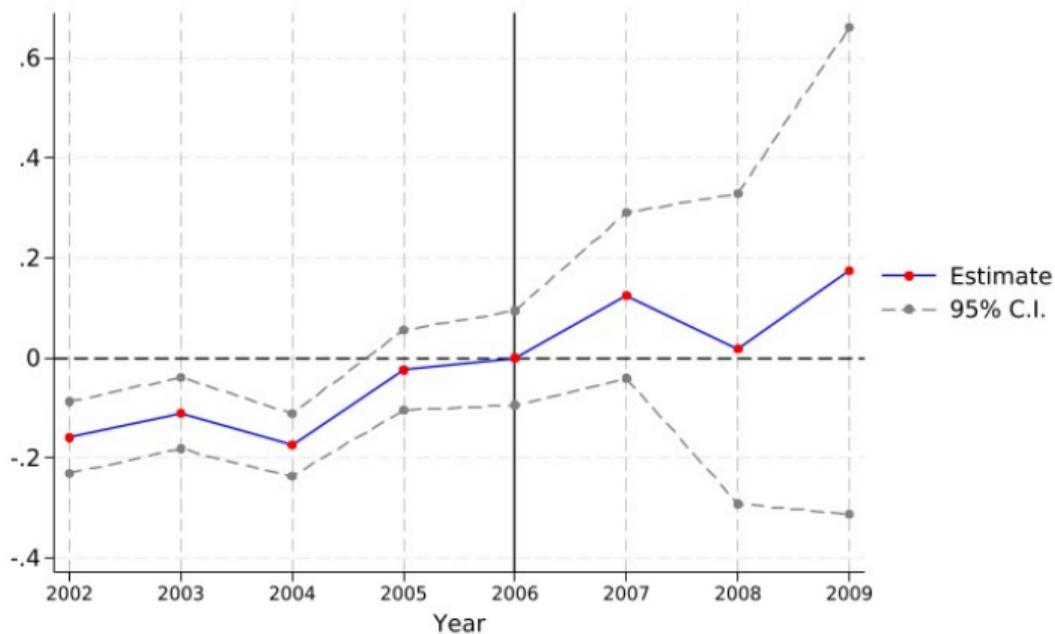
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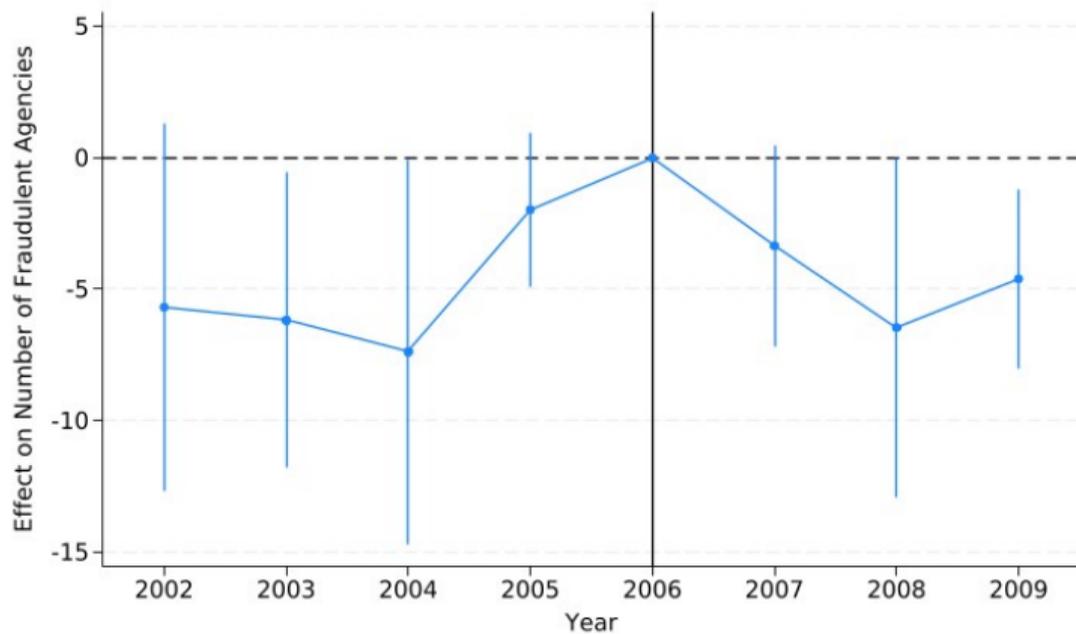
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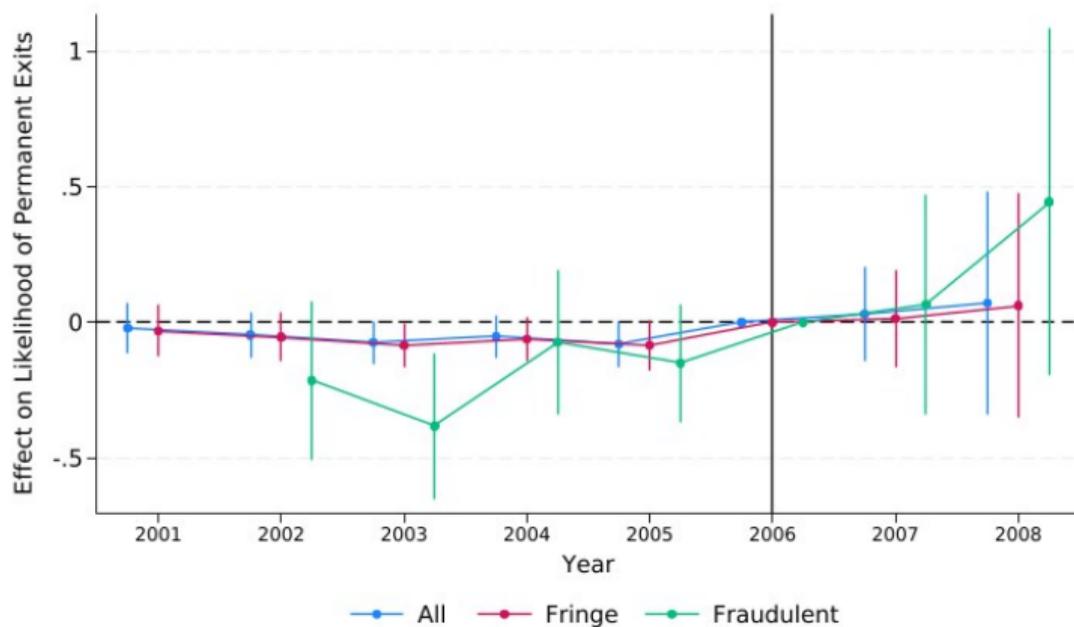
Competition on Permanent Exits (Repeated Logit) ▶ Back
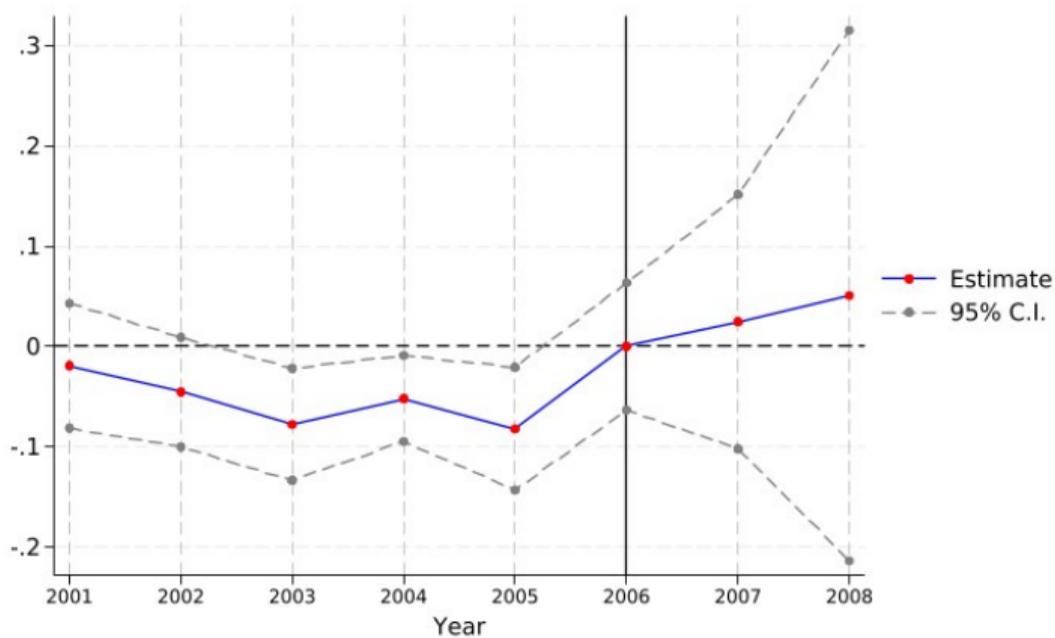
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