

Foreign Workers in the Russian Labour Market: Location Choice and Earnings

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JEL codes: J61 J15 J31

Research Problem

Labour supply is extremely heterogeneous: workers differ in their socio-demographic characteristics and skills, and thus in their position in the labour market. One such special group is foreign workers¹. They stand out for several reasons. First, their productive characteristics – the level and quality of their education, language skills, culture and many other factors – may differ significantly from the characteristics of a country's native workers². These differences affect both the supply of and demand for foreign workers' labour. Second, the behaviours and positions of foreign workers in the labour market are affected by a number of specific factors that are not relevant to native workers: the presence of others from their ethnic group, length of stay in the host country and age at entry. Third, most countries have special regulations that control the access of such workers to their labour markets.

Foreign workers attract a great deal of academic and public interest, which can be explained by influence these workers can have on a host country. On one hand, the influx of labour from abroad makes it possible to solve demographic problems associated with the decline and aging of a local population and fill the professional niches that remain vacant due to the preferences of the local workers. On the other hand, host countries' citizens often blame migration for various economic and social problems, which makes the inflow of foreign workers a political issue. Among the main concerns related to migration are the adverse effect foreign workers may have on wages and the employment of native workers, crime, adverse effects on the housing market and intercultural conflicts.

This dissertation investigates several aspects of the position of foreign workers, namely, labour migrants from Tajikistan, in the Russian labour market. First, we address the determinants of

¹ In this study, the terms 'foreign worker', 'migrant worker' and 'labour migrant' are used as synonyms to mean a 'person who is to be engaged, is engaged or has been engaged in a remunerated activity in a State of which he or she is not a national' (UN Convention on the Rights of Migrants).

² By 'native workers', I mean both employed and unemployed country nationals.

migrants' choice of Russian regions. In particular, various characteristics of the regions and the workers' previous migration experiences are considered. Second, we analyse differences in wages between foreign and native workers, and their sources. Both of these aspects are important for developing optimal migration policies.

Understanding the size and sources of migrant–native wage differences is important for several reasons. First, the impact of foreign workers on the labour market of the host country depends on their placement in the skills distribution and occupational structure of the labour force and, as a result, on their place in the wage distribution. This place depends on migrants' stock of human and social capital and on the presence of various cultural and regulatory barriers for foreign workers. Second, differences in earnings can serve as an indicator of migrants' adaptation to the labour market of the receiving country. Third, the presence of an unexplained wage gap may be an indicator of discrimination in the labour market.

The effect of foreign workers on a host country also depends on their geographical concentration. Even with a low overall share of foreigners in a country's labour force, their presence can be significant in certain local markets. Geographical concentration also has a significant impact on migrants' labour market outcomes, namely, their wages, employment and assimilation rate. It is in the interest of the host country for foreign workers to settle in regions with the greatest demand for their labour. However, workers' choices can be also determined by the presence of co-ethnics and their own previous experiences in the host country. Thus, it is important to assess the contributions to migrants' location choice of factors such as regional economic situations and the presence of co-ethnics and personal migration experiences.

The issue of labour migration is extremely relevant for today's Russian labour market. Russia became attractive to foreign workers in the early 2000s, when its recovering economy began to demand additional labour³. Only officially registered part of largely undocumented foreign labour force constituted approximately 3.1% of the total number of employed workers in Russia in 2009–2010, but the share was much higher in some industries; for example, construction, attracted almost 40% of all foreign workers in 2009–2010, accounting for 16% of all those employed in the industry.

This study focuses on workers from Tajikistan, who accounted for 16% of all registered foreign workers in Russia (second among all sending countries after Uzbekistan) during the period of 2007–2011. Despite country-specific background, they can be viewed as quite typical representatives of mostly low-skilled migrants from the Commonwealth of Independent States

³ According to the Federal Migration Service of Russia, the number of registered labour migrants increased by 11 times between 2003 and 2008, from 213,000 to 2.426,000.

(CIS) countries to Russia (for example, from the point of view of demographic characteristics or occupational choice).

Literature Review

Economic literature studies several aspects of migrants' behaviours and outcomes in the labour markets of their host countries: choice of location, employment outcomes, job characteristics (e.g., occupational choice), wages, and so on. Empirical literature typically compares foreign workers to local employees, or contrasts different groups of foreign workers. This dissertation focuses on the choice of the local labour markets by foreign workers and their wages.

Many studies are devoted to migrants' location choice in the host country [see Bartel, 1989; Kritiz, Nogle, 1994; Zavodny, 1999; Gurak, Kritiz, 2000; Jaeger, 2000; Jaeger, 2008; Kaushal, Kaestner, 2010]. These works highlight the presence of co-ethnics and labour market opportunities as the main factors influencing migrants' location decisions. However, other studies have shown that the relative importance of these factors varies for different groups of migrants. For example, the conditions in the labour market are more important for more educated and legal foreign workers, while the presence of co-ethnics is more important for low-skilled and illegal ones.

The empirical literature to date has rarely considered the choice of location in cases of workers' short-term and repetitive trips, and the impact of such trips on workers' subsequent location choices. One noteworthy exception is the series of works by Bauer and colleagues [Bauer, Epstein, Gang, 2002, 2005, 2007], who studied cases of migration from Mexico to the United States. In the case of Russia, previous literature considered only the demand side of migrants' distribution between regions [Vakulenko, Leukhin, 2015].

A partial list of works that have made significant contributions to the analyses of the migrants' earnings include [Chiswick, 1978; Borjas, 1985; Borjas, 1989; LaLonde, Topel, 1991; Butcher, DiNardo, 2002; Chiswick, Miller, 2002]. Usually, foreign workers' wages are analysed in comparison with the wages of native workers, and in most cases, migrants lose out to native workers in this regard. This result can be explained by differences in human and social capital, as well as discrimination against foreign workers.

While for many countries there exists an extensive body of literature documenting and explaining the differences in earnings of various groups of foreign and native workers, for Russia, such studies are rather limited. Some studies [Commander, Denisova, 2012; Vakulenko, Leukhin 2016] used

administrative data to analyse the differences in wages between foreign and native workers in Russia, while [Grigorieva, Mukomel, 2014] have addressed the relative wages of foreign workers in their analysis of a survey of migrant and native workers who contact at the workplace. Studies [Lazareva, 2015; Polyakova, Smirnykh, 2015] analysed the dynamics of workers' relative earnings with migration experiences using data from the Russia Longitudinal Monitoring Survey of Higher School of Economics (RLMS-HSE).

A number of researchers have studied the position of foreign workers in the Russian labour market, including: Andrienko, Chudinovskikh, Denisenko, Guriev, Iontsev, Ivakhnyuk, Mkrtchyan and Ryazantsev. In addition, scholars examining labour migration in the context of demography and sociology include Florinskaya, Karachurina, Mukomel, Poletaev, Tyuryukanova, Varshaver, Varshavskaya, Vitkovskaya and Zaiionchkovskaya. Nevertheless, studies of labour migrants in Russia that are based on economic theory and using modern econometric methodology are rare.

The relevance of the chosen topic, as well as the small number of studies devoted to the empirical analysis of the position of labour migrants in Russia, inspired the decision to examine this topic.

Objectives of the Research

The aim of the dissertation is to analyse the position of foreign workers in the Russian labour market.

The study includes the following steps:

1. Systematisation of the main theoretical and empirical approaches to explaining foreign workers' positions in the labour market of the host country;
2. Analysis of foreign workers' migration decisions and their resulting socio-demographic profiles in the economic and political contexts of Tajikistan as a sending country and Russia as a receiving country;
3. Identifying the determinants of Tajik workers' choices of regions as their location in Russia; and
4. Estimating the scale, dynamics and sources of wage differentials between native and migrant workers in the Russian labour market.

Methodology

The research methodology is based on the modern theory of labour economics: the concepts of human capital, the supply and demand of labour, discrimination in the labour market and various migration concepts. The empirical part of the study uses econometric methods (in particular, regression analysis and decomposition methods).

The theoretical basis for modelling workers' location decisions is the neoclassical approach to the formation of benefits and costs of migration, as pioneered by [Sjaastad, 1962]. To identify factors that explain the distribution of migrants from Tajikistan among Russian regions, the decision is modelled as a comparison of benefits and costs from various directions depending on characteristics of these directions (e.g., the situation of the local labour market, the presence of co-ethnics in the region, regional migration quotas and other factors) and migrants' own characteristics (such as level of education, legal status or past experience in the host country). This theoretical model serves as a justification for using conditional logistic regression (McFadden's model of choice) for empirical analysis. We performed an analysis of destination choice for migration episodes in 2008 and 2009, taking into account migration experiences of households in 2007.

Empirical analysis of the differences in earnings between native and foreign workers was carried out by combining two sources of data: household surveys from the sending country (the Tajik Living Standards Surveys of 2007 and 2009 and the Tajikistan Household Panel Survey 2011⁴) and a household survey from the host country, the RLMS-HSE for 2007, 2009 and 2011⁵. To analyse the sources of existing differences in average earnings, we applied decomposition methods, including the parametric method of three-part decomposition, which is a version of the classical Oaxaca-Blinder decomposition first applied by [Winsborough, Dickenson, 1971], and the nonparametric decomposition method, proposed by [Nopo, 2008].

⁴ The three surveys constitute a nationally representative panel data. The 2007 and 2009 rounds of the Tajikistan Living Standard Survey (TLSS) were prepared by the World Bank, together with UNICEF, and carried out by the National Committee for Statistics (Goskomstat). The Tajikistan Household Panel Survey 2011 was initiated by the Institute for East- and Southeast European Studies, in Regensburg, Germany, and was implemented in cooperation with the SHARQ Research Center in Dushanbe, Tajikistan.

⁵ This survey data are representative for Russia and contain information on the employment and wages of respondents, which makes it possible to use the data to analyse the migrant-native wage gap.

Main Results

1. Both the situation in the regional labour markets (namely, the unemployment rate) and presence of co-ethnics were important determinants of location choice for Tajik labour migrants. Policy regulations, that is, regional migration quotas, were important as well.
2. The main difference between new and experienced migrants' behaviours in their reaction to changes in regions' economic situations were as follows. Repeated migrants, unlike first-time ones, remain in regions with falling average wages. New migrants are more sensitive to the decline in the construction sector.
3. The estimated differential between average natives' and migrants' wages was 48% of average migrant wage in 2007, 39% in 2009 and 15% in 2011. The wage gap conditional on workers' productive characteristics was even higher: 73% in 2007, 57% in 2009 and 44% in 2011. Wage differences that could be explained by observable characteristics had a modest contribution to the overall native–migrant wage differential. Nonparametric analyses revealed that this gap is no smaller if only comparable migrants and natives are considered, and little of the wage differential can be attributed to segregation.
4. The native–migrant wage gap varies among different categories of foreign workers. The size of the wage gap depends on experience in the host country, legal status and language proficiency in a predictable direction, but not statistically significantly in most cases. By contrast, in Moscow, the wage gap was significantly higher and decreased more slowly than in the rest of the regions examined in the study.

Contribution

This dissertation contributes to the empirical migration literature. Despite the importance of this group in the Russian labour force, empirical studies on this topic that use modern econometric methods are rare. This dissertation complements the existing literature by studying the determinants of migrants' choices regarding local labour markets and estimating the size, dynamics and sources of earnings differentials between foreign and native workers in Russia. Individual-level data from sending and receiving countries are used in the empirical analysis.

The obtained results contribute to the literature on location choice. Previous studies rarely considered the location choices of short-term labour migrants who make repeated work trips and the impact that the experience of such trips has on their choices. This study fills this gap in the literature. To our knowledge, this is the first study to obtain any estimates on labour migrants in Russia.

The analysis of wage differentials between foreign and local workers also contributes to the literature on the Russian labour market. Previous estimates of the migrant–native wage gap either considered different groups of migrants or can be considered biased because of a lack of representative data. The use of unique household survey data from Tajikistan made it possible to estimate the gap more accurately. In addition, the study tested the use of a non-parametric approach to evaluate the migrant–native wage differential.

Results obtained in this dissertation can be used in developing optimal policies towards migrants. Results of this study show that selecting foreign workers based on observable characteristics will not eliminate differences in earnings, since the observables do not contribute significantly to the position of employees. Even in absence of active policies helping migrants to obtain country-specific knowledge labour migrants from Tajikistan as a group seem to adapt to the Russian labour market quite well. Still, some policies can be considered for equalizing labour market conditions for native and migrant workers and possibly eliminating potential discrimination towards migrants.

Publications

Journal publications:

1. Denisenko, M., Chernina, E. Labor migration and migrant earnings in Russia // *Voprosy Ekonomiki*. 2017. № 3. Pp. 40-57.
2. Chernina, E. Migrants' location choice: the role of migration experience // *Higher School of Economics Economic Journal*. 2016. Vol. 20. № 1. Pp. 100-128. – 1,8 п.л.
3. Lokshin M., Chernina E. Migrants on the Russian Labor Market: Profile and Earnings // *Higher School of Economics Economic Journal*. 2013. Vol. 17. № 1. Pp. 41-74.

Other publications

1. Denisenko, M., Chernina, E. «People are sent by business, people go for money...» // *In Mobility and stability in the Russian labour market* // Eds. V. Gimpelson and R. Kapeliushnikov; National Research University Higher School of Economics. — Moscow: HSE Publishing House, 2017. — 529, [7] p
2. Chernina E. Migrants' location choice: the role of migration experience / Maastricht School of Management. Series MSM "MSM WORKING PAPER SERIES". 2016. No. 2016/3.