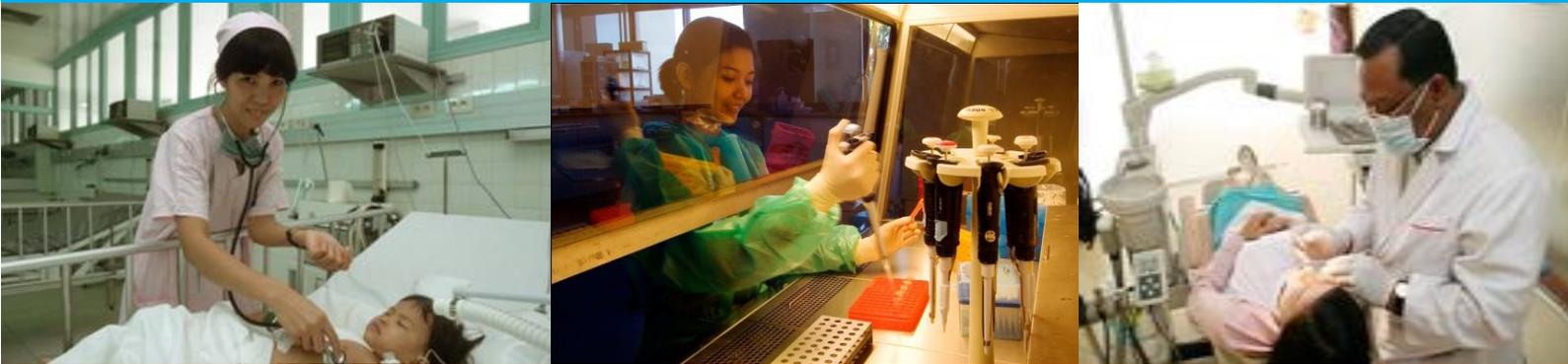


## ILO Decent Work Across Borders Migration Notes



### Labour Markets and the Recruitment Industry: Trends, Challenges and Opportunities

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<b>SUMMARY</b> .....	<b>3</b>
<b>GLOBAL MIGRATION PATTERNS</b> .....	<b>6</b>
<i>Table 1. International Migrants in 2010 (mils)</i> .....	6
<b>GLOBAL LABOR MARKETS</b> .....	<b>10</b>
GLOBAL LABOR TRENDS: 1980, 2010, 2030 .....	11
CHANGES BETWEEN 1980 AND 2010 .....	13
PROJECTIONS: 2010 TO 2030.....	14
<i>Figure 2. Labor Force Growth, 2010-30, in Developing equals Advanced Labor Force, 2010.....</i>	15
<b>THE RECRUITMENT INDUSTRY</b> .....	<b>16</b>
PUBLIC EMPLOYMENT SERVICES .....	17
RECRUITERS AND ILO CONVENTIONS .....	19
<b>RECRUITERS AND MIGRANTS</b> .....	<b>20</b>
RECRUITER ISSUES.....	21
THE RECRUITMENT PROCESS .....	22
CONTINUITY, INFORMATION, AND COSTS.....	23
<i>Table 2. BAIRA: Costs of Migration to Selected Countries, 2008</i> .....	26
<b>HEALTH CARE MIGRATION AND ETHICAL RECRUITMENT CODES</b> .....	<b>27</b>
EFFECTS OF HEALTH CARE MIGRATION.....	28
<i>Figure 4. Foreign-born US Health Care Workers by Region of Birth, 2010</i> .....	30
ETHICAL RECRUITMENT CODES .....	31
<b>CONCLUSIONS: FROM AGENTS TO PARTNERS</b> .....	<b>32</b>
<b>BIBLIOGRAPHY</b> .....	<b>34</b>

## Summary

This paper reviews trends in global labor markets and their implications for the international recruitment industry. The global labor market is undergoing three major changes, including (1) shrinking and aging workforces in the 30 richer countries that account for a sixth of the world's workers and two-thirds of global economic output, (2) rapid labor force growth in many of the 170 developing countries, where youth bulges and workers leaving agriculture strain the capacity of urban labor markets to create sufficient decent jobs, and (3) more complex international labor migration patterns as more workers move from one developing or industrial country to another and from developing to industrial countries.

Recruiters match workers with jobs rather than serve as the employer of the workers they place. The primary asset of recruiters is information, both about jobs that employers want to fill and about workers seeking jobs. Recruiters are paid for their services by employers, workers, or both. Governments in both migrant-sending and migrant-receiving countries usually regulate the activities of recruiters.

This paper has five sections. The first reviews global and regional labor force trends that affect the recruitment industry, including the demographic and economic inequalities that combine with revolutions in communications, transportation, and rights to set the stage for more international labor migration. The second section reviews the regulation of the recruitment industry, including the norms laid out in ILO Convention 181, the Private Employment Agencies (PEAs) Convention (1997). Recruiters or PEAs encompass three major types of entities, viz, (1) labor brokers who match workers with jobs, (2) temporary help agencies such as Adecco and Manpower that place their employees in workplaces and are the sole employer of the worker, and (3) professional employer organizations that recruit workers and administer wage and benefit programs in the workplace and are often co-employers of workers.

The third section focuses on recruiters who move workers over national borders. International labor brokers became more important in Asia in the 1970s and 1980s with the spending of oil money in the Gulf states and the need for the often multinational businesses that won contracts there to build infrastructure to find workers to do the work. As the demand for labor shifted from construction to services, the dominant sector of employment in most migrant-receiving countries, PEAs evolved to recruit a wide range of service workers for employers, from domestic and other household workers to hotel and restaurant and retail staff to health care and educational personnel.

The fourth section turns to ethical codes that guide recruiter behavior, especially in health care, and assesses WHO and other ethical guidelines that serve as a reference for the recruitment of health care professionals in developing countries by health care organizations in richer countries. The major concern of ethical recruitment codes is to avoid a brain drain of health care professionals from developing countries that could adversely affect health care systems, especially in African countries that maintained colonial-era health-care training systems that facilitate the emigration of their graduates.

The conclusion emphasizes five points:

1. The global labor market is evolving to open new opportunities for international labor mobility, as with the growing demand for care workers in aging industrial countries and increasing supplies of potential service workers in many developing countries. There is also a rising demand for workers from poorer developing countries in their richer neighbors, as with low-skilled Burmese workers employed in Thai agriculture and fisheries. Path dependence, as when some employers and sectors make investments that assume migrant workers will continue to be available, promise more recruitment activities in an ever more mobile and globalizing world.

2. The recruitment industry is large and growing, reflecting the outsourcing of more functions by many businesses and the growing diversity of workers, including migrant workers, that recruiters can match with jobs more easily than employers or workers who search for jobs on their own. In evolving global labor markets such as IT, where there are fewer certificates and licenses, employers often use recruiters to find workers. Recruiters also match workers with jobs in regulated professions, where migrants sometimes work in jobs below their skill levels if their credentials are not recognized where they are employed, as when persons licensed as doctors in one country work as nurses in another.

3. Regulation of the recruitment industry has a catch-up quality, with governments reacting to problems and complaints. Regulation of recruiters occurs in three major ways. First, recruiters are often required to identify themselves by securing licenses, which often requires passing tests and posting bonds. Second, governments often set maximum recruitment fees and performance standards to protect workers, such as specifying how worker-paid funds are to be treated by recruiters until migrants get promised foreign jobs or requiring recruiters to send at least a minimum number of workers abroad each year to retain their licenses. Third, governments typically rely on worker complaints to learn of recruiter violations, and some add the positive step of recognizing good recruiters with awards.

Effective regulation of recruiters is difficult because some violations of recruitment regulations resemble “victimless crimes,” as when workers pay excessive fees to get the foreign jobs they seek. Violations are most common when recruiter and worker incentives are not aligned regulatory goals, as when workers are willing to pay more than government-specified maximum fees for foreign jobs. If there are more workers who want to go abroad than there are jobs, and if recruiters compete with one another for foreign job offers, employers and recruiters in migrant-receiving countries can charge recruiters for job offers, and these receiving-country charges can be passed on to migrant workers.

4. Ethical recruitment codes encourage recruiters to abide by regulations that require workers to have contracts they understand, establish maximum fees, and include other provisions to make the recruitment process transparent and protective of workers. Recruiters are most likely to abide by such codes if lawful behavior increases their revenues and profits, as when “good recruiters” are rewarded with more foreign jobs to fill and lower government fees or faster processing times, that is, when there are financial rewards for compliance in addition to the threat of penalties for violations.

Ethical recruitment codes in the health care sector usually seek to avoid the exit of so many health care professionals that health care in the sending country deteriorates. Some subsidize the training of replacements at home for health care professionals recruited to fill jobs in government-related facilities abroad. European countries, especially the British National Health Service that expanded after 1997, seem most concerned about adverse effects of recruiting health care workers for employment in public hospitals and care facilities. The US, which had a quarter of the residents in OECD countries in 2000 and half of the foreign-born health care professionals, has expressed less concern about ethical recruitment of health care workers.



5. Improving the recruitment industry requires turning recruiters from agents or brokers into partners of employers and workers. Agents often have short-term interests in completing transactions to earn their fees, so their incentives may differ from the longer-term interests of those they bring together in a transaction. Recruitment partners, by contrast, understand the interests of the employers and workers they bring together and, in the expectation of repeat business, have an incentive to satisfy both.

Private recruiters can and often are partners to employers and workers at the higher rungs of the labor market, understanding the needs of both and expecting long-term relationships. However, at the bottom of the labor market, both employers and recruiters may see low-skilled workers as interchangeable, as evidenced by guarantees of replacement domestic workers if the first one is unsatisfactory. In this way, recruiters may become agents interested in maximizing the number of fee-generating transactions rather than partners with long-term incentives to satisfy both employers and workers.

Can government agencies replace private recruiters and become effective partners? In some cases, the inability of private recruiters to avoid overcharging migrant workers led to government-to-government agreements that eliminated private recruiters, as with Bangladesh and Malaysia. In other cases, government agencies act as recruiters, maintaining lists of workers whom employers can recruit and supervising both the arrival and employment of migrants, as under Korea's Employment Permit System. There is discussion of having government agencies act as sponsors or recruiters in some Gulf countries.

## Global Migration Patterns

The number of international migrants, defined as persons outside their country of birth at least a year, more than doubled between 1980 and 2010, from 103 million to 214 million.<sup>1</sup> Migration increased faster than the global population, which rose 57 percent from 4.4 billion to 6.9 billion. The number of international migrants is projected to continue rising faster than population, doubling to over 400 million in 2050, while the global population increases 40 percent to 9.6 billion.

Each international migrant is unique, and each migration corridor has unique features, but there are four major migration flows, often summarized as S-S, S-N, N-N, and N-S (Table 1):<sup>2</sup>

- **South-South:** The largest flow of migrants, 74 million or 34 percent in 2010, moved from one developing country to another, as from the Indonesia to Saudi Arabia or Nicaragua to Costa Rica.
- **South-North:** The second-largest flow, 73 million or 34 percent, moved from a developing to an industrial or more-developed country, as from Morocco to Spain, Mexico to the US, or the Philippines to Japan, that is, a third of international migration involves south-north movement.
- **North-North:** Some 55 million people or 26 percent of international migrants moved from one industrial country to another, as from Canada or the UK to the US.
- **North-South:** Over 13 million people or six percent of migrants moved from industrial to developing countries, as with Japanese who work or retire in Thailand.

Most of the world's countries participate in the international migration system as countries of origin, transit, or destination, and many participate in all three phases of international migration.

**Table 1. International Migrants in 2010 (mils)**

Origin	Destination		Total
	Industrial	Developing	
Industrial	55	13	68
Developing	73	74	147
<b>Total</b>	<b>128</b>	<b>87</b>	<b>215</b>
Industrial	26%	6%	32%
Developing	34%	34%	68%
<b>Total</b>	<b>60%</b>	<b>40%</b>	<b>100%</b>

Source: UN Population Division. 2010. International Migration Report.  
<http://esa.un.org/migration/>

<sup>1</sup> UN data on migrant stocks are at: <http://esa.un.org/migration/>

<sup>2</sup> There is no agreement on which countries are in the North and which are in the South. UN's DESA includes Canada and the US, Europe (including Russia, Moldova, and Ukraine), Japan, and Australia and New Zealand as countries in the North. High-income countries in the South, under the DESA system, including Korea, Hong Kong, and Singapore as well as Gulf Cooperation Council countries such as the United Arab Emirates. The World Bank's definition of high-income countries, by contrast, includes Korea, Hong Kong, Singapore, and GCC countries.

The IMF classifies countries as advanced or emerging based on per capita income and integration into the global financial system while the OECD has a four-tier classification: affluent, converging, struggling to reach middle-income levels, and poor.



Migration is the movement of people from one place to another. Migration is as old as humankind wandering in search of food, but international migration across defined and policed national borders is a relatively recent development. It was only in the early 20th century that nation-states developed passports and visas to regulate the flow of people across their borders (Torpey, 1999).

International migration is the exception, not the rule. The number one form of migration control is inertia—most people do not want to move away from family and friends. Second, governments have significant capacity to regulate migration, and they do, as evidenced by long lines of people outside consulates seeking visas and ever larger agencies that patrol borders and search for unauthorized foreigners inside countries. One item considered by many governments when deciding whether to recognize a new entity that declares itself a nation state is whether it is able to regulate who crosses and remains within its borders.

International migration is likely to increase with globalization. There are also more national borders to cross. There were 193 generally recognized nation-states in 2000, four times more than the 43 in 1900 (Lemert, 2005).<sup>3</sup> Each nation-state distinguishes citizens and foreigners, has border controls to inspect those seeking entry and deter unauthorized entries, and determines what foreigners can do while inside the country, whether they are tourists, students, guest workers, or immigrants.

The major reasons to expect ever more international migration over the next several decades are two inequalities coupled with three revolutions. The demographic inequality is simple: almost all population growth occurs in the world's 170 poorer countries, while the population of the 30 richer countries is expected to remain at about 1.2 billion. The world is expected to add almost 2.5 billion people by 2050, and almost all will be born in today's developing countries.

The economic inequality is also straightforward. Worldwide GDP was \$62 trillion in 2010, an average \$9,000 per person a year. The 30 high-income countries had a sixth of the world's people but two-thirds of the world's economic output, an average \$39,000 per person per year, 12 times more than the \$3,300 average in the poorer 170 countries (World Bank. 2012). Especially young people are motivated to cross national borders to earn wages that are 12 times higher than they can earn at home.

Demographic and economic inequalities are like battery poles, providing the potential for migration but not necessarily laying out a path for people to cross borders. Connecting the demand-pull factors that attract migrants with the supply-push factors that motivate people to cross national borders in search of economic opportunity requires bridges over borders. The migration bridges between poorer and richer countries have been enlarged by revolutions in communications, transportation, and rights over the past half century in ways that give governments few quick-acting tools to manage migration.

The communications revolution highlights the ease with which information flows over national borders compared to the previous age of mass migration in the 19<sup>th</sup> and early 20<sup>th</sup> centuries. In the 19<sup>th</sup> century, when literacy rates in rural areas were often low, immigrants in the

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<sup>3</sup> Lemert reports fewer than 50 nation states in 1900 (p176).



US would write so-called American letters to friends and relatives at home that described the opportunities available. These letters were sent on a weeks- or months-long trip to Europe, where recipients would have to find someone literate to read them and then draft a response, which took more weeks to return to the sender. Today, mobile phones and the internet allow information to travel much faster and cheaper over national borders. Indeed, some studies suggest that workers a thousand miles away in Mexico may learn about job vacancies in Los Angeles workplaces sooner than nearby residents who do not have friends or relatives already employed in workplaces seeking additional workers (Waldinger and Lichter, 2003).

The transportation revolution refers to the ever-lower cost and ease of travel. In the mid-18<sup>th</sup> century, many European migrants to what became the US could not afford the one-way fare, so they signed indentured-servant contracts that obliged them to work from four to six years for whoever met the ship in Philadelphia or New York and paid the captain. Today, the one-way cost of traveling legally to almost anywhere in the world is less than \$3,000, and even migrants who pay smugglers \$20,000 or more to get into higher wage countries can usually repay this cost in less than two years (Kwong, 1999).

The rights revolution refers to the post-WWII international human rights conventions and the expansion of political, social, and economic rights in most countries. The Universal Declaration of Human Rights adopted in 1948 granted basic civic rights to all persons, ILO conventions call for all workers to be treated equally in the workplace, including migrant workers, and national laws grant at least some political, social, and other rights to all residents, including non-citizens. One consequence of this expansion of individual rights is that, once inside a country, foreigners may resist government efforts to remove them.

Policy makers grappling with unwanted migration can do little in the short-term to reduce the demographic and economic inequalities that motivate migration, and they do not want to roll back communications and transportation revolutions that have the side effect of making it easier to learn about opportunities in other countries and travel to take advantage of them. The instrument that is most readily available to policy makers to alter migration flows quickly is rights, and reducing migrant rights is often the policy tool used to deal with migration crises.

For example, when European states received a flood of asylum seekers as a result of the break-up of the ex-Yugoslavia, unrest in Turkey, and the fall of Communism in the early 1990s, policy makers restricted the access of foreigners to generous asylum and welfare systems. Because some people perished when other countries would not grant them asylum from Nazi persecution during the 1930s and 1940s, most European constitutions have liberal asylum clauses, including offering housing and food to foreigners who apply for asylum. Germany, which received over 1,000 asylum applications a day in 1992, required local communities to support asylum seekers with local taxes, prompting a backlash against foreigners who were perceived as taking advantage of German generosity, since over 90 percent of asylum applicants were found not to be genuine refugees (Martin, 2004).

The debate over how to respond to the European “asylum crisis” pitted those who believed that the highest priority was an asylum system that never sent a true refugee home versus those who believed that it was too costly to treat economic migrants who applied for asylum as potential refugees. Germany and most European states settled on a compromise that preserved the



constitutional right to asylum, but made it more difficult to foreigners to apply. For example, foreigners from countries that were sources of many “unfounded” or rejected asylum seekers were required to obtain visas to board planes and boats for Europe, and sanctions were imposed on airlines and others that brought foreigners without proper documentation

Foreigners were required to seek asylum in the first safe country they reached, and a list of “safe countries” to which asylum seekers could be returned while their cases were pending was established (Hailbronner, 2010).

Restricting the access of immigrants to welfare benefits provides a second example of adjusting the rights of migrants to manage migration. As US welfare rolls climbed at a time of concern for federal budget deficits, President Bill Clinton in 1992 pledged to “end welfare as we know it.” Immigrants loomed large in the welfare reform debate as a result of well-publicized cases of wealthy immigrants sponsoring their elderly parents for immigrant visas and then enrolling them in programs that provide cash assistance and health care to poor residents. Similarly, children born to unauthorized foreigners in the US are US citizens, and their parents enrolled them in cash assistance and health-care programs for which they were not eligible. These activities made immigrants a special target of welfare reformers seeking to reduce federal spending.

There were several options to reduce federal spending on poor immigrants. The Commission on Immigration Reform recommended that needy immigrants remain eligible for welfare benefits under the theory that they are intending US citizens, and urged changes in US immigration policy to admit fewer needy immigrants and require US residents who seek immigrant visas for their relatives to make binding commitments to support the new arrivals. However, Congress rejected this advice and did not change the immigration admissions system. Instead, welfare reform denied federal welfare benefits to most immigrants who arrived after August 22, 1996 until they became naturalized US citizens or worked in the US 10 years (Migration News, 1996). In this way, about 45 percent of the expected savings from welfare reforms came from denying benefits to immigrants, who were 11 percent of US residents at the time.<sup>4</sup>

Adjusting migrant rights to manage migration draws protests from those who advocate a rights-based approach to migration. Under the human rights approach, all persons in a country have fundamental rights by their presence, and those employed have the right to equal wages and benefits and the other entitlements granted to local workers. Many advocates of a rights-based approach to managing migration want both lower barriers to international migration and more rights for migrants, and do not acknowledge any trade off between migrant numbers and rights. However, rights often have economic costs, which can lead to a trade off between the number of migrants and the rights of migrant workers (Ruhs and Martin, 2008). For example, if migrant workers must be paid the same wages as local workers, and if employers must pay the same payroll taxes for migrants as for local workers, they will have less of an economic incentive to hire migrants.

There are several other reasons for migration that raise similar issues about how migrant-receiving governments should respond, including fleeing political persecution and being displaced

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<sup>4</sup> About \$24 billion or 45 percent of the projected \$54 billion over six years in savings from welfare reform came from making immigrants ineligible for benefits. During the late 1990s economic boom, some of the restrictions on immigrant access to welfare were removed, especially for immigrant children and the elderly (Migration News, 1999)

by natural disasters, including climate change

In 1948, the UN General Assembly approved the Universal Declaration of Human Rights. Article 14 declares that: "Everyone has the right to seek and enjoy in other countries asylum from persecution." In 1951, UNHCR was established to assist the one million persons who remained displaced by World War II, and a Convention relating to the Status of Refugees was adopted, but limited its protection to those who were refugees before 1951. The 1951 Geneva Convention defined a refugee is a person who has fled his or her country and is unable or unwilling to return because of a "well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group or political opinion."

In 1967, a protocol was added to the 1951 Convention that extended protection to all refugees. In 2013, 144 countries have signed the 1951 Convention and 145 the 1967 protocol; 142 are parties to both the convention and the protocol. Some regional organizations offer more protections to more people, including the Organization of African Unity, which in 1969 adopted a broader protection definition of refugee. Latin American governments adopted the Cartagena Declaration in 1984, which similarly offered broad protections to refugees.

Climate change is a significant change in temperature or precipitation that persists for several decades. The major current trend is warming, and the Intergovernmental Panel on Climate Change in 2007 concluded that the "warming of the climate system is unequivocal" and that human activities, primarily the burning of fossil fuels, contributes to global warming.

The three major responses to global warming: prevention, adaptation and migration. Prevention aims to stop or reduce greenhouse gas emissions to slow global warming, using policies such as carbon taxes and cap-and-trade policies. Adaptation involves countering the effects of climate change, such as constructing more defenses against severe storms and sea water surges. Migration, sometimes considered a failure of adaptation, involves moving from places made less viable by climate change to places that are more livable and offer more opportunity.

## **Global Labor Markets**

The global labor force of 3.3 billion in 2012 included about 600 million workers in industrial or developed countries and 2.7 billion in developing countries. About 35 percent of the world's workers, almost 1.2 billion, were employed in agriculture, 20 percent or 660 million in industry and construction, and almost 1.3 billion were employed in services. There were over 200 million unemployed workers in 2012.

The distribution of workers across sectors is significantly different in industrial and developing countries. In industrial countries, less than five percent of workers are employed in agriculture, 15 percent in industry and construction, and over 80 percent in services. In developing countries, 45 percent of workers are employed in agriculture, over 20 percent in industry and construction, and 35 percent in services, with significant differences in sectoral distribution between developing countries that reflect their different stages of development.



Migrant workers who move from developing to industrial countries to work are distributed in a third way. Over 10 percent of such migrant workers are employed in agriculture, 30 percent are employed in industry and construction, and 60 percent are employed in services, that is, migrant workers in industrial countries are mostly employed in service jobs that range from care giving to cleaning to hospitality, but a higher share of migrants than natives are employed in the agricultural and industrial sectors that have a shrinking number of jobs in most industrial countries. Most of the migrant workers who are employed in agricultural and industrial jobs abroad, and many of migrants who fill service jobs in industrial countries, are low-skilled, but migrant workers who fill service jobs in health care, IT and similar sectors are highly skilled.

Less than two percent of all workers in developing countries, versus 11 percent of workers in industrial countries, are migrants born abroad. There is a wider range in the migrant or foreign-born share of the labor force in developing than in industrial countries. In developing countries, the migrant share of workers is very small in China and Vietnam, but is over 85 percent in some Gulf oil exporters. Among industrial countries, Korea and Japan have less than two percent migrant workers, while Australia and Switzerland have 25 percent migrant workers.

Globalization and technology are integrating the world's labor markets. The consequences, including more labor churning as jobs are created and destroyed at a faster pace and more inequality as returns to capital increase and labor's share of national income falls, reflects the fact that capital is more mobile than labor. Capital moves quickly around the world to take advantage of opportunities to earn higher returns, while labor tends to be more sticky because of family and cultural ties and restrictions on international labor mobility.

The job insecurity and income inequality associated with globalization have fueled resentment, pitting workers in many countries against economists and world leaders who see freer trade and investment regimes as tools to speed economic growth. Most economists believe that the gainers from more globalization can compensate the losers and still be better off, but policies to compensate losers often leave those adversely affected worse off, provoking opposition to free-trade agreements. For example, workers displaced from factory or industrial jobs and forced to find new jobs in the service sector usually have lower wages and benefits.

### Global Labor Trends: 1980, 2010, 2030

Between 1980 and 2010, the world added 1.1 billion nonfarm jobs, including 900 million in developing countries. There was growth in the number of both well-educated and low-educated workers. For example, there were almost 250 million more college graduates in 2010 than in 1980 around the world, while global farm employment increased by 200 million between 1980 and 2010.

Three major trends shape the global labor market. First, farming is still the world's major occupation, employing 35 percent of the world's workers in 2010, down from 45 percent in 1980, and the *share* of workers employed in agriculture continues to fall. The share of workers employed in urban areas is rising in lockstep with per capita income, reinforcing the aphorism that countries with more than 50 percent of their workers employed in agriculture are poor, while those with less than five percent of their workers employed in agriculture are rich. For example, the share of



workers employed in farming is falling faster in China than in India, reflecting faster per capita income in China. About 35 percent of Chinese workers were employed in agriculture in 2010, compared with 50 percent of Indian workers.

Second, an eighth of the world's 15 to 64 year olds in 2010 had college degrees, and there are projected shortages of workers with tertiary education in 2030 if the demand for highly educated workers continues to expand rapidly. China is expected to become a major supplier of college graduates to its own economy and to employers abroad, suggesting a shift in China from a *demographic dividend* of rural-urban migrants providing low-cost workers to manufacturers and construction firms to a *skill dividend* for the Chinese economy as millions of college graduates help to transform the Chinese economy from one based on producing goods to a knowledge and innovation economy. Some of the growing number of college graduates in China and elsewhere may migrate to work in other countries.

Third, almost 40 percent of the world's 15 to 64 year olds in 2010 did not complete secondary school. Most projections foresee a surplus of low-skilled workers over the next two decades that puts downward pressure on their wages in both industrial and developing countries. Routine assembly line jobs and simple transaction jobs such as answering customer questions over the telephone are expected to be automated or outsourced to lower-wage locations.

By contrast, so-called interaction jobs that require face-to-face encounters between workers and customers are expected to remain inside the borders of countries. These interaction jobs are concentrated at the top of the job ladder, as in health care and finance, and at the bottom, as in restaurants and in-home care. In many interaction jobs, wages are a high share of production costs, encouraging employers to hold down wages by hiring migrant workers.

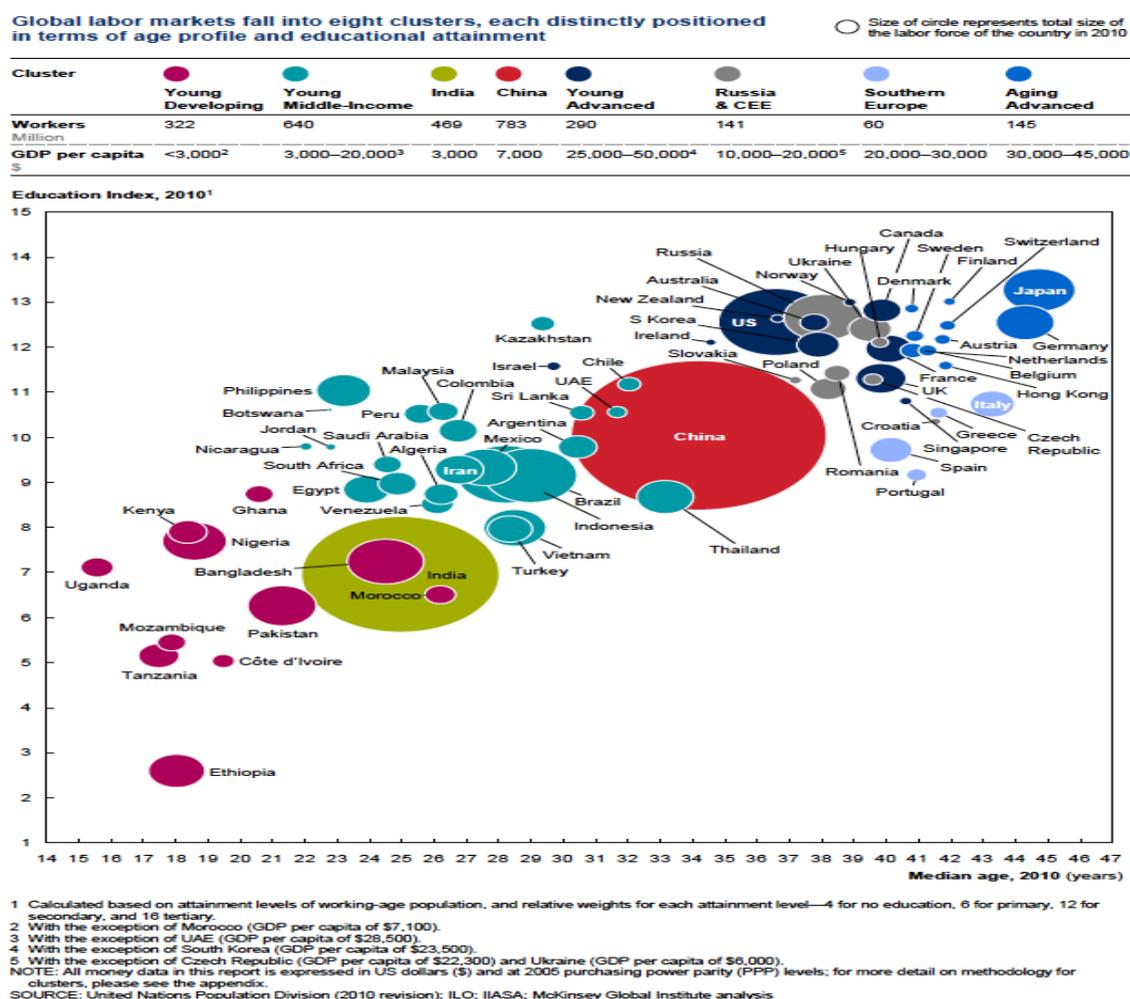
A McKinsey analysis (2012) focused on labor force developments in 25 advanced economies and 45 developing economies that had 87 percent of the world's people and accounted for 96 percent of global GDP in 2010. These 70 countries had 4.5 billion working-age persons in 2010, including 18 percent in 25 advanced economies. Some 565 million or 12 percent of the working-age people in the 70 countries had a tertiary education, 2.2 billion or half had a secondary-school education, and 1.7 billion or 38 percent had less than a secondary-school education. The share of working age persons aged 15 to 64 with at least a secondary-school education rose from 40 percent in 1980 to 50 percent in 2010 in these countries.

Of the 565 million working-age persons with a tertiary education in the 70 study countries, two-thirds were in developing countries. There were 2.2 billion working-age persons with a secondary school education in 2010, and over three-fourths were in developing countries. Finally, of the 1.7 billion working-age persons with less than a secondary school education, over 95 percent were in developing countries (Fig 1).

In the 25 advanced economies, 25 percent of the 810 million working-age residents had tertiary education in 2010 (194 million), 65 percent had a secondary-school education (525 million), and 10 percent had less than secondary educations (89 million). In the 45 developing economies, 10 percent of the 3.7 billion working-age residents had tertiary education in 2010 (370 million), 45 percent had a secondary school education (1.7 billion), and almost 45 percent had less

than secondary educations (1.6 billion).

**Figure 1. 70 Countries grouped by Median Age and Schooling, 2010**



McKinsey projected “shortages” of about 40 million college-educated workers in 2030, including half in industrial countries and equivalent to an eighth of the projected global demand for 300 million college-educated workers in 2030. McKinsey also projected shortages of 45 million medium-skilled workers with secondary-school educations, equivalent to a sixth of the 300 million secondary school educated workers expected in 2030. By contrast, McKinsey projected a “surplus” of 95 million low-skilled workers who did not complete secondary school, about 10 percent of the 950 million such workers expected in 2030.

### Changes between 1980 and 2010

The major employment change over the past three decades was the shift from farm to factory and service jobs. McKinsey estimated that the share of workers employed in agriculture in the 70 study countries fell from 45 percent in 1980 to 30 percent in 2010, and asserted that most ex-farmers and their children found nonfarm jobs that paid higher wages than they earned in agriculture



In 1980, there were 1.2 billion workers in the 45 developing economies in the McKinsey study, including 60 percent in farming, and 500 million workers in what McKinsey calls advanced economies, the 25 countries with per capita GDP more than \$20,000 in 2005 at PPP, where 15 percent were employed in farming. In 2010, there were 2.2 billion workers in developing countries, including 40 percent in farming, and 635 million in advanced economies, including five percent in farming.

McKinsey divided countries into eight major groups based on the median age of residents and per capita income in 2010. Advanced or high-income economies were further sub-divided into four groups: young advanced economies such as the US and Canada had 290 million workers and low median ages and high levels of education,

Aging advanced economies such as Japan and Germany had 145 million workers and high median ages and high levels of education,

Russia and Central and Eastern Europe had 140 million workers and high median ages and high levels of education, and

Southern European economies had 60 million workers with a relatively high median age and low levels of education.

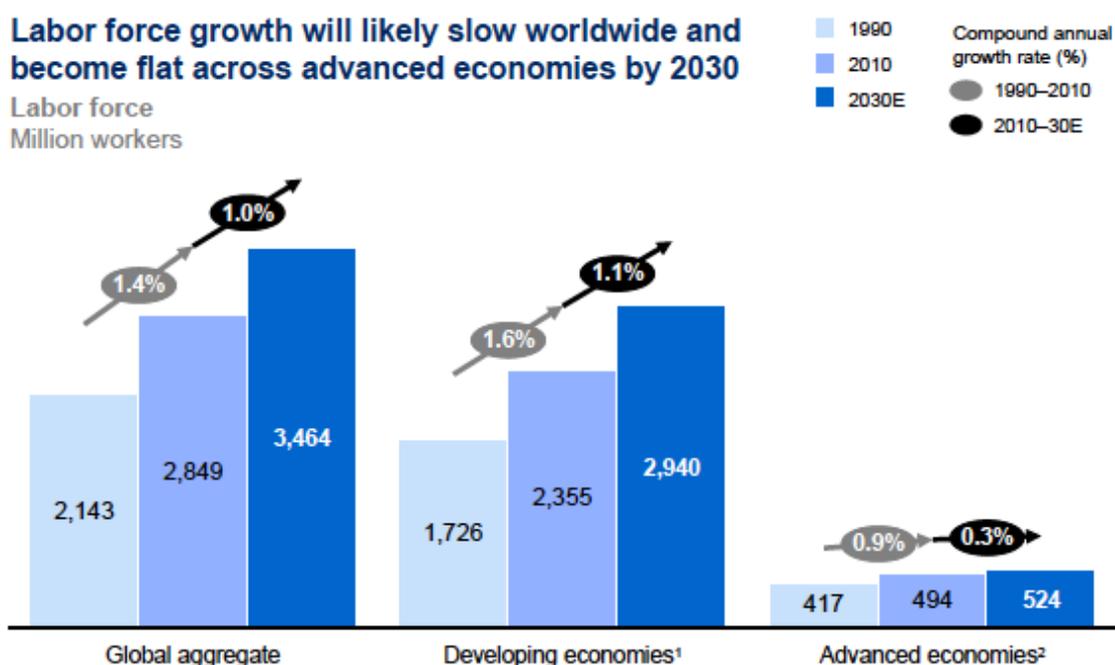
Developing economies were also divided into four groups, led by China with 785 million workers, India with 470 million, young middle-income countries such as Brazil and Mexico with 640 million, and young developing countries such as Bangladesh and Ethiopia with 320 million. Compared with China, where 60 percent of residents are in the labor force, only 40 percent of Indians are in the labor force, and India's farm work force of 240 million has been stable rather than declining. Labor force participation rates are low for Indian women.

### Projections: 2010 to 2030

Most of the major trends observed over the past three decades are expected to persist, including the shift of routine production and simple transaction jobs from higher to lower-wage locations. However, the number of "interaction jobs" that require face to face contact is projected to increase in all countries. Half of interaction jobs require a tertiary education, such as in health care, and half do not, such as food preparation and child and elder care.

The major labor force trend is expected to be slower growth in advanced economies and aging workers. In 2010, the share of the 2.9 billion strong global labor force that was 15 to 24 years old was 16 percent, the share aged 25 to 64 was 69 percent, and the share 55 and older was 14 percent. By 2030, these shares of the expected 3.5 billion workers are projected to be 11, 66, and 22 percent, that is, a lower share of youth workers, a smaller share of prime-age workers, and a higher share of over-55 workers.

Figure 2. Labor Force Growth, 2010-30, in Developing equals Advanced Labor Force, 2010



1 Includes 45 countries from the Young Middle-Income, China, India, Young Developing, and Russia & CEE clusters.

2 Includes 25 countries from the Young Advanced, Aging Advanced, and Southern Europe clusters.

SOURCE: United Nations Population Division (2010 revision); ILO; local statistics for China and India; McKinsey Global Institute analysis

China supplied many of the world's new nonfarm workers over the past three decades, and that role is expected to shift to India and young-developing countries over the next two decades. McKinsey projected that China and India would provide about 60 percent of the net new workers with tertiary educations to the global labor force over the next 20 years. This means that in most of today's advanced economies, new domestic college graduates will simply replace older workers who retire.

McKinsey expects shortages of college- and secondary-school educated workers and surpluses of low-skilled workers in both advanced and developing countries. To allow more of the world's workers to receive more education, McKinsey urges internet-based college courses and more business involvement in education so that graduates have the requisite skills.

Over the past three decades, the share of national income going to labor has dropped to about 50 percent in the US and 60 percent in Europe, while the return to capital rose with the shift to knowledge-based industries. As a result, inequality rose, since income from capital tends to accrue to the already wealthy and the wages of tertiary-educated workers increased faster than wages for less-educated workers (Fig 3).

Those most adversely affected by rising returns to education and inequality are low-skilled youth who cannot find career type jobs in formal labor markets. In many countries, low-skilled youth must accept part-time or short-term jobs. Many are unable to find even such non-career

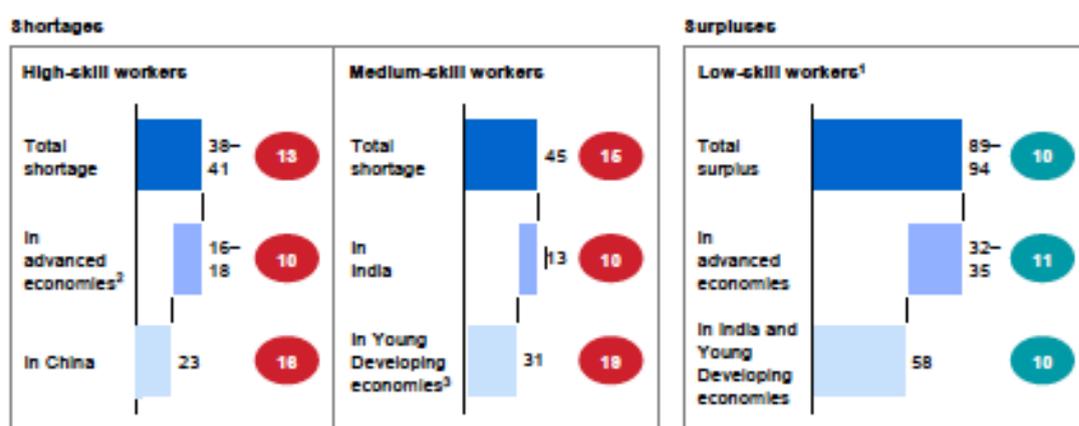
jobs, helping to explain high youth unemployment rates in many countries.

**Figure 3. 2030: Projected Shortages of Skilled Workers, Surpluses of Low-Skilled**

**In the “momentum” case, the world is likely to have too few high-skill workers and not enough jobs for low-skill workers**

Gap between demand and supply of workers by educational attainment, 2020E  
Million workers

● % of supply of skill cohort  
● % of demand for skill cohort



- 1 Low-skill defined in advanced economies as no post-secondary education; in developing, low skill is primary education or less.
- 2 25 countries from the analyzed set of 70 countries, that have GDP per capita greater than US\$ 20,000 at 2005 purchasing power parity (PPP) levels in 2010.
- 3 11 countries from the analyzed set of 70 countries, from South Asia and sub-Saharan Africa, with GDP per capita less than \$3,000 at 2005 PPP levels in 2010.

SOURCE: McKinsey Global Institute analysis

## The Recruitment Industry

Labor recruitment matches workers with jobs. Job matching is a difficult and often costly challenge within borders (Barron et al, 1985) because of information asymmetries, since employers know more about job requirements and workers know more about their abilities. As a result, there can be market failures that require government intervention, since “when one party to a transaction has more information pertinent to the transaction than does the other party... the better informed party [may] exploit the less-informed party.”

In the example of information asymmetry used by Nobel economist George Akerlof, buyers do not know which used cars are good “cherries” and which are bad or “lemons.” As a result, they assume all used cars are lemons, reduce the price they will offer for a used car, and help to ensure that only bad used cars offered for sale (Akerlof, 1970). Solutions to information asymmetries in the used car market include independent evaluators of used cars and car sellers to offering quality guarantees. In health care, information asymmetries make it difficult for patients to evaluate the quality of health care providers, prompting governments to establish standards and issue licenses to health care professionals who satisfy them.

Information asymmetries in the labor market can be complicated by national borders, since employers and workers may not share experience with a common education and training system and may have different understandings of the skills required to perform as a carpenter, driver, or receptionist. The government intervention for such market failures in the international labor market would be cooperation and agreement on education and training standards as well as certificates and licensing of workers who satisfy these standards.

There are Mutual Recognition Agreements between some countries with similar education and training systems, but few between the poorer and richer countries that are often involved in international labor migration.

There are three major ways employers transmit information about job vacancies that affect recruitment patterns. First, employers may place ads for workers and workers can contact employers directly to inquire about jobs. Second, employers can post jobs at public employment services, and workers can turn to PES for help in finding jobs. Third, employers can ask private recruiters to find workers for them, and workers can contact recruiters to seek jobs.

Employers fill most jobs directly, meaning they advertise for workers online or in newspapers, hold or participate in job fairs that attract workers seeking jobs, and post job openings in the work place and ask current workers to refer friends and relatives, so called network recruiting. Workers seeking jobs often ask their employed friends and relatives about job openings and apply directly to the employer. Direct employer-worker recruitment generates less information about job matching than recruitment via the PES and private recruiters.

It should be noted that the internet is rapidly changing the recruitment process. Information brokers such as Monster, Eurojobs, and Naukri post job vacancies and applicant resumes, allowing employers and workers to find each other cheaply. The enormous number of job postings and worker responses, in turn, has generated a new type of firm such as Bright, which develops algorithms to sift through resumes and find “best fits” for particular jobs by using data from the experience of human resource managers.

## Public Employment Services

Employers seeking workers and workers seeking jobs may use public employment services (PES). Almost all Ministries of Labor have PES supported by general tax revenues that receive job vacancies from employers and refer workers seeking jobs to these employers.

Many PES were created at the end of the 19<sup>th</sup> century, as social reformers highlighted the “need-less unemployment” that arose when workers could not find jobs and employers could not find workers. William Beveridge called attention to the separate queues of job seekers at each London wharf, and lamented the fact that excess workers at one wharf could not be employed at another. Beveridge became the first director of the newly created British PES in 1910,<sup>5</sup> and the ILO supported the establishment of a PES in each member state in 1919 with the Unemployment (No

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<sup>5</sup> Beveridge is best known for the Report of the Inter-Departmental Committee on Social Insurance and Allied Services (the Beveridge Report) that laid the foundation for the post WWII British welfare state.

2) and subsequent Conventions including C34 (1933) and C96 (1949).

Economic theory justifies using general tax revenues to support PES because more efficient job matching promotes full employment and increases economic output. In the past, many countries gave the PES a monopoly on job matching, especially for low-skilled workers, by restricting the activities of private fee-charging recruiters, who were often limited to matching managers and professionals with jobs. However, the ILO in the 1990s ended 70+ years of opposition to private recruiters with Convention 181 in 1997, the Private Employment Agencies Convention

Thuy, Hansen and Price (1999, 27) note that PES increasingly serve disadvantaged workers in most countries. The traditional four functions of PES, viz, *matching workers and jobs (job broking), monitoring labor market information, administering unemployment insurance benefits and providing training and related services*, is increasing augmented by a fifth challenge, dealing with regulatory issues. These regulatory issues range from determining whether foreign workers are needed to dealing with plant closures and the employment problems of special groups of workers, including women, minorities, and veterans of the armed forces. Thuy, Hansen and Price note that these PES regulatory duties can interfere with the employer cooperation that PES need to promote voluntary job-broking services, as when employers resent PES offices that send them local workers in response to the required posting of vacant jobs when they really want to employ foreign workers.

PES have not fared well domestically or in the international labor market.<sup>6</sup> Two major reasons are often cited. First, the rise of the internet, more labor brokers and temp agencies, and what some researchers call a “black hole” of PES serving mostly “bad” employers and “bad” workers has reduced the role of the PES in matching workers with jobs (Larsen and Vesan, 2011).<sup>7</sup> The workers most likely to use PES are those who are required to show that they are seeking jobs in order to collect unemployment insurance benefits and those who have received job training and other assistance that PES agencies provide (Giloith, 2004).

An ILO review identified several “unresolved dilemmas” facing PES in developed countries, including how to balance efforts between providing services to employers and workers versus policing the receipt of unemployment benefits and other regulatory activities (Thuy, Hansen and Price (1999, xxi). In developing countries, they noted that widespread self-employment and informal employment made the original function of PES, job-broking, less important, and that many PES in developing countries focused most of their job-matching services on sending workers abroad (Thuy, Hansen and Price, 1999, 37). Thuy, Hansen and Price emphasized that, if developing countries have little labor market information and no unemployment insurance system, there is less for the PES to do.

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<sup>6</sup> The ILO helped to create WAPES, the World Association of Public Employment Services, in 1988-89. WAPES in 2013 had 94 member ES networks with over 500,000 employees, and noted that member challenges were those identified by the ILO in 1999, viz, new demands to partner with other organizations to provide services to disadvantaged workers with decreasing resources ([www.wapes.org](http://www.wapes.org)). Priorities for 2012-15 include dealing with youth unemployment and life-long learning.

<sup>7</sup> The Larsen and Vesan study was based on interviews with, inter alia, 40 private employers in six European countries. They emphasize that ES offices are generally required to help all employers and all workers.

Second, many employers who post job vacancies at PES are not really looking for local workers. In some countries, employers are required to post job vacancies at PES to show that local workers are not available to fill the jobs that the employer wants to fill with foreign workers. These employers often engage in go-through-the-motions recruitment efforts for local workers, and some use consultants who provide advice on how to “try-to-recruit” local workers in ways that are not likely to generate local worker interest.<sup>8</sup> Since most employers have identified the foreign workers they want to hire before seeking local workers via the PES, required local recruitment efforts via the PES rarely result in local hires.

## Recruiters and ILO Conventions

There are several definitions of the recruitment industry. ILO C181, the Private Employment Agencies Convention (1997), distinguished two major types of private employment agencies (PEAs). Some PEAs match workers with jobs but do not become their employers, as with a recruiter who sends workers from the Philippines to the UAE. Others act as the employers of the workers they provide to a “user enterprise,” as with Adecco or Manpower sending workers to a manufacturer or service firm.

C181, which excludes seafarers, allows ILO member states to prohibit PEAs from dealing with certain categories of workers or operating in particular sectors. C181 obliges governments to ensure that workers sent to firms by PEAs or employed by PEAs have fundamental labor rights, are protected from discrimination, and have their personal data safeguarded.

C181 Article 7 begins with a prohibition on worker-paid fees: “Private employment agencies shall not charge directly or indirectly, in whole or in part, any fees or costs to workers.” However, Article 7 allows “exceptions” that member states are obliged to report to the ILO. Article 8 calls for regulation of PEAs that move workers over national borders, and recommends “bilateral agreements to prevent abuses and fraudulent practices in recruitment, placement and employment.” Article 13 calls for cooperation between public and private employment services. C181 entered into force May 10, 2000, and was ratified by 27 countries by 2013.

R188, the Private Employment Agencies Recommendation (1997), includes recommendations to implement C181, such as codes of ethics and self-regulatory mechanisms. Most of R188 is devoted to protecting workers, including a recommendation that PEAs not publish false, misleading or discriminatory recruitment ads, that recruited workers have written contracts, and that PEAs not send workers to firms where workers are on strike. R188 calls on PEAs to allow the business to whom a worker is sent to hire the worker as a regular employee, and to refrain from imposing penalties on workers who accept “regular” job offers from the businesses to which they are assigned temporarily.

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<sup>8</sup> For an example, see <http://www.programmersguild.org/docs/cohen.html>

National systems distinguish between types of recruiters. For example, the North American Industry Classification System (NAICS) distinguishes Employment Placement Agencies (561311) that list job vacancies and refer workers to fill them (but the individuals referred do not become employees of the agency) from Temporary Help Services (561320) such as Adecco that send agency employees to supplement the workforce of the client. The third major type of recruiter in the NAICS is a Professional Employer Organization (561330) that recruits workers and acts as a co-employer of workers in the workplace. PEOs often provide both workers and payroll services such as administering health and work-related benefits.<sup>9</sup>

There is often specialization among Employment Placement Agencies. Some specialize in matching actors and athletes with jobs, others domestic workers, and still others maritime workers and nurses or teachers. In North America, all share NAICS code 561311,<sup>10</sup> but agencies that search for business executives (561312) have a separate code, as do those who represent athletes and entertainers (711410), since these recruiters both find jobs for their clients and negotiate wages and benefits for them.

## Recruiters and Migrants

Most histories trace the recruitment industry to ancient Egypt, Greece, and Rome, when recruiters were used to find soldiers. The modern recruitment industry in Canada and the US is often traced to World War II, when so-called employment agencies were established to find workers who did not have to serve in the military, including housewives, to fill manufacturing and other jobs vacated by men called into military service. These employment agencies switched to matching returned soldiers with jobs in the late 1940s and 1950s, and some helped ex-soldiers who had learned new skills during their military service to find civilian jobs that took advantage of their newly acquired skills.

As labor law and tax regulations tightened in the 1970s and 1980s, employment agencies that provided “independent contractors” to employers were transformed into recruiters of new employees for employers or employers in their own right, so that there is now a basic distinction between private recruiters that recruit workers to fill jobs, but do not act as the employers of the workers that they place, and labor contractors or gangmasters and temp agencies that recruit workers, send them to a workplace, and act as their employer.

Many discussions focus on recruiters who are job brokers, that is, businesses that advertise and screen applicants for the employer, provide them with contracts and orient them about the employer and job, but not supervise the workers they recruit in the workplace or pay their wages or benefits. Recruiters may operate within a country or send workers from one country to fill jobs in another.

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<sup>9</sup> The complete description is at: [www.census.gov/cgi-bin/sssd/naics/naicsrch?code=561311&search=2012](http://www.census.gov/cgi-bin/sssd/naics/naicsrch?code=561311&search=2012)

<sup>10</sup> A list of specializations is at: [www.census.gov/cgi-bin/sssd/naics/naicsrch?code=561311&search=2012%20NAICS%20Search](http://www.census.gov/cgi-bin/sssd/naics/naicsrch?code=561311&search=2012%20NAICS%20Search)



Private recruiters can supplement or substitute for the PES. Recruiters play many roles between employers and workers, from information brokers to supervising the workers they bring into workplaces. When a private firm recruits, deploys, and supervises workers at a work place, it is normally considered a temporary help or employment staffing agency. Under some countries' labor laws, an employment agency can be the sole employer of the workers it brings into and supervises in the workplace, while in others, the temp agency is a joint employer alongside the firm benefiting from the workers' work. In still other situations, the recruiter's job is finished when the worker is hired by the employer.

## Recruiter Issues

Private and for-profit recruiters are often blamed for labor market problems, especially the recruiters that move low-skilled migrant workers over national borders. Recruiters are charged with a variety of offenses, from making unfulfilled promises to executing poor matches between workers and jobs. Recruiter actions that harm migrant workers include overcharging and sending workers to inappropriate jobs abroad, so that an indebted worker already abroad may face termination.

These recruiter abuses are not new. Sargent (1912, 36) listed the "common deceitful practices" of private recruiters a century ago, when the US was accepting a million immigrants a year and many newcomers relied on private recruiters to find jobs. Recruiter abuses included (1) charging workers fees and not finding them jobs or sending them to distant areas where there are no or only poor jobs, but where the high fees discourage a quick return to the recruiter; (2) charging workers fees and then colluding with employers so that the workers are quickly laid off and charged new fees for another or a better job; and (3) giving preference to workers who pay "extra fees." These well-documented private recruiter abuses were a major reason for the establishment of PES.

A century later, many of the same over- and multiple-charges are levied against recruiters. One reason for poor worker job matches are information asymmetries and different training and education systems, but the absence of generally recognized job descriptions and systems to verify the credentials of workers contributes to the personalization of international worker-job matches that can increase mis-matches and migration costs.<sup>11</sup> This means that some worker-job mismatches can be expected because of differences between countries, but they may be higher than necessary because the incentives of recruiters may not align with those of employers, workers and governments.

Governments could help to reduce worker-job mismatches. For example, even when there is limited variation in job requirements and worker abilities, as with low-skilled workers filling laborer or domestic worker jobs abroad, the process through which workers are informed about foreign jobs, offered contracts, and cleared to go abroad is often fragmented among several government agencies rather than unified in a one-stop center. Such fragmentation can increase

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<sup>11</sup> There is an effort to standardize education in some fields, including accounting, IT, and health care, and to speed the assessment and recognition of credentials earned outside the country of employment, but this nascent training and job standardization is mostly confined to professionals arriving in some industrial countries.

migration costs that are passed on to workers.

## The Recruitment Process

Most recruitment challenges arise in the effort to match large numbers of low-skilled workers with jobs abroad. There are many challenges involved in matching high-skilled workers with foreign jobs, but employers are often willing to invest more to ensure good worker-to-job fits because of potential costly consequences of poor matches, so that they often visit or interview potential new employees before hiring them. Because most labor recruitment for higher-skilled workers proceeds without incident, there is less research on recruitment of professionals.

Recruiting lower-skilled workers, on the other hand, often involves larger numbers and several transitions, as from rural to urban jobs and from one country to another. The problems begin with information: most job offers arrive in major cities where recruiters and government agencies are located, while many low-skilled workers are in rural areas. There are subagents between urban recruiters and rural workers.

The sub-agents who link city-based recruiters and rural workers to foreign jobs are often better educated than the workers being recruited; some are returned migrants.<sup>12</sup> Sub-agents are usually paid directly by workers and/or by recruiters based on the number of workers they deliver who sign contracts to fill foreign jobs. Agents who receive payments from both workers and recruiters may not have incentives to respond to the best interests of foreign employers or local workers. Many subagents allegedly favor quantity over quality in job matches, sometimes convincing a worker to accept a foreign job that the worker is not qualified to fill.

Subagent incentives that favor recruiting more rather than better workers can lead to problems. For example, job offers that offer slightly higher wages in exchange for more skills may prompt recruiters and their subagents to charge higher recruitment fees to workers wanting a higher-wage job abroad. A worker with the requisite skills may shun a foreign job offer that (1) requires his skills but offers only a slightly higher wage than is paid to a low-skilled worker and (2) has significant recruitment fees.

However, a low-skilled worker without the necessary skills may be willing to pay the high recruitment fee in exchange for the higher foreign wages. Once abroad, this worker may disappoint the employer, who may respond by reducing the wage (contract substitution) or terminating the worker. If the contract worker has incurred debt to pay recruitment fees, he may take a second job to offset the reduced wage or try to stay abroad illegally if fired, posing problems for himself as

There are two major government responses to regulating private recruiters with the goal of reducing migration costs: promote competition between recruiters who abide by regulations at one end of the spectrum, and monopoly public recruitment agencies at the other. The competition-between-recruiters model usually involves governments requiring private recruiters to

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<sup>12</sup> Some migrant-sending governments prohibit licensed recruiters from establishing branch agencies, which can perhaps unintentionally encourage the use of subagents.

identify themselves by obtaining licenses, passing tests, and posting bonds, and then allows recruiters to compete with each other to obtain foreign job offers and find local workers to fill them.<sup>13</sup> well as the governments of both countries. Governments may suspend or cancel licenses and fine recruiters who violate recruitment regulations.

Governments could favor the best private recruiters by establishing ABC rating systems and giving privileges to A-rated recruiters that make them more attractive to employers and migrants, such as lower charges or faster processing. Over time, both employers and workers should gravitate to A-rated recruiters who achieve reputational recognition. If economies of scale help A-rated recruiters to hold down their costs, they can win market share at the expense of other recruiters.<sup>14</sup>

Alternatively, government agencies can be granted a monopoly on recruiting workers in particular migration corridors. The Bangladesh Overseas Employment and Services agency (BOESL), for example, has a monopoly sending workers to Korea under the Employment Permit System ([www.eps.go.kr](http://www.eps.go.kr)), and Pakistan and India have similar government recruitment agencies. Government agencies generally charge lower fees, but may not be as efficient at finding workers to fill foreign jobs as private recruiters

### Continuity, Information, and Costs

Three policies could help to improve recruiter behavior and lower migration costs: continuity, information, and cost-reducing policies. Creating incentives for honest recruitment is difficult in migrant labor systems that lack incentives to develop long-term relationships between employers and recruiters. If employers sell job offers or work visas to recruiters or receive fees from them, the recruiter winning the bid may not have a long-term interest in providing the best workers because he/she may not receive subsequent job offers from this employer. Employers who pay recruiters rather than charge for job offers can specify selection procedures to be followed that encourage only the recruitment of qualified workers.

Creating longer-term relationships between employers and recruiters that foster honest exchanges is easiest when more skilled workers are involved, in part because the consequences of poor placements can be economically costly. Governments could favor longer term employer-recruiter relationships in the lower-skilled labor market by cooperating to monitor the outcome of recruitment between particular employers and recruiters and then give priority to the processing of requests from long-standing employer-recruiter pairs and/or allow them to skip certain steps in the job-offer and recruitment process. The goal of such bilateral cooperation would be to foster “natural” incentives and extend long-term employer-recruiter relations from the top of the job ladder to lower rungs. In exchange for priority processing, employers and recruiters could agree to be more transparent and open to random audits.

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<sup>13</sup> In some countries recruitment without a license is treated as a criminal offense/

<sup>14</sup> If A-rated recruiters cannot lower costs and provide better services, competition between recruiters with different ratings could lead to higher cost A-rated recruiters offer better services and low-cost C recruiters offering cut-rate services.



A second recruitment issue involves full information, including the procedures to go abroad. Workers moving from poorer rural areas of their own countries to cities abroad undergo multiple transitions, including obtaining passports and undergoing medical tests, perhaps first airplane flights, and their first glimpses of high-rise buildings and shopping centers. It is very hard to prepare rural residents who have never been abroad for foreign jobs in richer countries. Many of those considering work abroad think about high foreign wages but not higher living costs abroad, and incentives in the recruitment system may work against full disclosure if more information would make workers less willing to pay recruitment-related fees. However, full disclosure would make workers more aware that high projected net savings from work abroad can be lowered by higher living costs.

Since lack of full information can help recruiters to extract higher fees from contract workers, recruiters may not support full-information campaigns that educate workers. For this reason, most governments assume the primary responsibility to educate and inform potential workers about jobs abroad, but their information programs are seldom adequately funded and often take the form of short briefings for workers just before they depart. Government education efforts could be aided by cooperation with destination governments to produce informative materials, including videos of workers abroad that show work places and living quarters, explain the experience of working abroad, and warn potential migrants of the dangers and pitfalls of the recruitment process. Workers abroad can also inform their countrymen in their own language of the cost of living abroad and realistic savings rates.

A related information issue involves the timing of information and education acquired by workers, who need information about work abroad *early* in the recruitment process. If disclosures and information come only *after* the worker has assumed debts and made commitments to work abroad, it may be very hard for even educated workers to back out of their commitments, prompting some to ignore or downplay new information from government agencies that they receive just before departure, especially if recruiters convince workers that pre-departure checks and orientation are merely a formality to go abroad.

Differences in occupational definitions and standards may also complicate recruitment. An employer's job offer for a carpenter or mason may attract applicants who are considered carpenters or masons at home but do not have the skills expected to fill these jobs abroad. Employers who recruit workers directly can test them, and those paying recruiters can insist that any workers recruited have the required skills, but recruiters who pay employers for jobs may not bother to find the appropriate workers.

A survey of Indian workers in the UAE found that 40 percent of those performing production, transport, and related jobs believed the job they were asked to do was different from that called for in their contracts (Zachariah, et al). Overall, almost 80 percent of Indian workers in the UAE believed that their foreign jobs were similar to those described in their contracts, but the survey makes clear that many contract workers, despite having contracts, did not fully understand what they were expected to do abroad.

Particular migration corridors may be able to develop more accurate occupational guidelines and certification systems. The ILO modified the International Standard Classification of Occupations (ISCO) 88 occupations ([www.ilo.org/public/english/bureau/stat/isco](http://www.ilo.org/public/english/bureau/stat/isco)) to make them more useful to workers and employers, specifying sub-occupational specialties in the construction trades to improve job matching. The POEA is using this modified classification of occupations.

The third issue involves migration-related costs, including recruitment fees, charges for government services such as passports and visas, and the cost of items that range from health and criminal checks to mandatory insurance, pre-departure orientation and travel abroad. Regulating recruitment fees is primarily the task of migrant-sending governments, which often set maximum fees that government agencies and private recruiters can charge.

However, maximum recruitment-fee regulations are often flouted. First, there are often layers or actors between government regulatory agencies and workers. Government regulatory agencies may deal regularly with recruiters who understand recruitment rules and fees, but rarely with other intermediaries such as sub-agents who act as scouts for recruiters. These sub-agents can be independent businesses, working for several recruiters, which can make it hard to police their activities.

Government efforts to police sub-agents and the fees they charge are very similar to their efforts to regulate recruiters, viz, identification, regulation, and enforcement. The first step is to require sub-agents to identify themselves and obtain licenses, a procedure implemented by Sri Lanka in 2011. Licensing requirements can be coupled with background checks, recommendations, and passing tests of regulations as well as requirements to post bonds that can be tapped in the event of violations.<sup>15</sup>

The second step is to regulate sub-agent fees and establish penalties that provide incentives for compliance with regulations. Fee regulation raises several issues, including how to prove that workers made particular payments if receipts are not issued routinely. In the event of disputes, the lack of a paper trail can make enforcement difficult, which is one reason why requiring the issuance of receipts for monies paid related to overseas deployment is a common recommendation of recruitment-cost studies. Receipts may not help if, for example, subagents in villages collect money for what they assert are non-migration-related activities.

The third fee-related issue is how to encourage compliance with maximum fee regulations if workers are willing to pay more than government-set maximum fees. Some countries, including the Philippines, try to make recruiters careful about the foreign employers to whom they send workers by making them jointly liable with foreign employers for violations of the approved contracts of departing workers. Joint liability could also be applied within migrant-sending countries, making the recruiter with whom the worker signs a contract jointly liable for violations committed by subagents and others in the recruitment process.

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<sup>15</sup> Indonesia banned sub-agents known as kalos in 2007, but sub-agents continue to act as the glue between contract workers in rural areas and city-based recruiters.

Joint-liability combined with class-action lawsuits can encourage recruiters to monitor both the employers to whom they send workers and the subagents who recruit workers on their behalf. Individual migrant workers may suffer small losses, making complaint-driven enforcement and resolution costly. Being able to combine small losses suffered by individual workers, and adding penalties to deter future violations, is more likely to result in such significant fines for widespread violations of laws that recruiters whose business model is based on violating regulations will be squeezed out of business unless recruiters are able to disclaim any connection to the employer or the subagent, as when they say that workers “independently” found the recruiter without the involvement of intermediary subagents.

The Bangladeshi recruiters association, BAIRA, estimated average migration costs for workers deployed to Libya, Saudi Arabia, and UAE at \$1,700 to \$2,000 for each Bangladeshi worker leaving for these countries in 2008.

The data in Table 1 make three points about migration costs. First, migration costs to all three destinations are well above the Bangladeshi government’s maximum recruitment fee of 84,000 taka (\$1,095). Second, most worker-paid migration costs arise in Bangladesh, with visa fees accounting for half of the cost to send workers to the UAE and a quarter to a third of the cost to send workers to Libya and Saudi Arabia. BAIRA asserts that its member recruiters must pay these fees in order to secure job offers, and wants migrant-receiving governments to crack down on employers who expect or accept payments for demand letters (job offers). On the other hand, some say that BAIRA recruiters offer to pay employers for job offers so that BAIRA recruiters rather than other recruiters have the opportunity to recruit workers to fill the jobs.<sup>16</sup>

**Table 2. BAIRA: Costs of Migration to Selected Countries, 2008**

Costs (US\$)	Libya	Saudi Arabia	UAE
COD Costs			
Visa fees	741	533	953
Work & Medical		453	
Intermediaries	82	133	136
Subtotal	823	1,119	1,089
COO Costs			
Airfare	572	464	341
Recruiter fee	204	204	204
Other fees	41	68	68
Medical check	29	40	20
Visa fees	78	38	
Income tax	14	14	14
Welfare fund	4	4	4
Local subagent	136		
Subtotal	1,078	832	651
<b>Total</b>	<b>1,901</b>	<b>1,951</b>	<b>1,740</b>
COO share	57%	43%	37%
Source: Siddiqui, 2011, data from BAIRA			

<sup>16</sup> Dealing with the rents that arise when demand exceeds supply, prompting recruiters pay for job offers, raises the question of whether the most efficient and equitable way to reduce rents is to focus on the COD employers who receive the payments or the COO recruiters who make the payments.

Third, the largest cost is airfare, suggesting that governments could urge national airlines to offer low or discounted tickets to contract workers. Cooperation between migrant-sending and -receiving governments could relax requirements that contract workers possess round-trip tickets for a return in two or three years, which often means a higher fare.<sup>17</sup>

BAIRA has used these data to urge the Bangladeshi government to raise the maximum recruitment charge that recruiters are allowed to charge migrant workers. The Bangladeshi government, on the other hand, points to the need to reduce fees abroad that are passed onto workers. The government says that if visa fees were eliminated and intermediary charges reduced, worker-paid migration costs would be close to the government-set maximum recruitment fee.

Establishing realistic maximum recruitment fee and making it easily understood can be very effective. The maximum recruitment fee in the Philippines is a month's foreign earnings, and the government campaigns actively to educate workers about this fee and to detect and punish those who charge more. Moreover, a month's earnings is the average service charge frequently levied in many countries, including OECD countries, for recruitment services.

## Health Care Migration and Ethical Recruitment Codes

The health care industry may be in the vanguard of recruiting migrant workers because it is large and labor intensive, absorbing 10 to 15 percent of GDP and having labor costs that are 60 to 80 percent of total costs in child and elderly care and other subsectors. Demand for health care is increasing rapidly in richer developed countries, reflecting both aging populations and affluence, and governments often finance a significant share of health care costs directly or via tax preferences.

Health care is different from many other service industries. Like education but unlike recreational services, health care is often considered a basic human right, prompting many governments to intervene in the health care market and influence the demand for health care services, as via the provision of hospitals and other health care facilities and charges that affect patient demand for health-care services. Governments also influence the supply of health care professionals available to provide health care services by subsidizing education and training systems and establishing criteria for licensing and via migration policies.

The demand for health care services often outstrips the supply of health care facilities and the professionals that supply them, leading to "shortages" of health care services and workers. The normal response to shortages in markets for goods is rising prices and in labor markets rising wages; in each case, more expensive goods and workers have the effect of reducing demand and increasing supply. Such "normal" labor market adjustments are more difficult in health care because:

- Demand may not reflect the cost of the services being provided if patients do not pay (full) costs and
- Supply can respond to higher wages only with a lag because of required training.

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<sup>17</sup> Employers are usually required to pay the worker's round-trip transportation, but workers are often charged for transportation, and often at higher rates than they could have purchased the tickets themselves.

In many health care systems, queues of patients waiting for services have replaced the usual role of prices in bringing supply and demand into balance.

Overcoming shortages of health care workers requires an understanding of how they develop. Labor shortage discussions are often framed in terms of minimum or ideal ratios developed by organizations of doctors and nurses that set doctor-to-population and nurse-to-patient ratios.<sup>18</sup> When there are too few providers relative to the general population or the number of patients, there is a “shortage.” For example, the World Health Organization released a report that ranked countries by the number of skilled health professionals per 10,000 residents, noting that 100 countries had fewer than 35 skilled health professionals per 10,000 residents (WHO, 2013). WHO projected a current shortage of over seven million skilled health professionals, and a near doubling of this shortage to 13 million by 2035.

Government responses to shortages of health-care professionals often differ from responses to labor shortages in non-health-care sectors. In some countries, there are simply too few facilities to train health-care professionals, as with the 168 medical schools in the 47 sub-Saharan countries, including 11 countries that have no medical school. However, in industrial countries with sufficient medical schools, there can also be shortages of health-care workers because of unique labor market conditions.

For example, there is often significant monopsony power in local health care labor markets in industrial countries, meaning that hospital employers have a positively sloped supply of labor curve and a marginal cost curve above the labor supply. Under monopsony, in order to expand employment, the hospital must pay higher wages to attract new workers as well as raise the wages of workers who are currently employed (Sullivan, 1989), making it rational to pay extra to recruit outsiders and leave the “regular” salary structure unchanged in order to avoid raising wages for current workers. Monopsony hospitals may hire traveling nurses at higher-than-current wages or pay recruitment fees for migrant health care professionals so that they can leave the regular salary structure unchanged. By creating two labor supply curves, one for “regular” nurses and another for travelers or migrants, monopsony employers save on labor costs. Traveling nurses and especially migrants may have inelastic supply curves, meaning that they must satisfy the employer in order to stay in the area or country, and they often fill less-desirable jobs with unsocial hours or in remote locations.

## Effects of Health Care Migration

While there is some migration of health-care professionals from richer to poorer countries, as with organizations such as Doctors without Borders, most health-care professionals move in the reverse direction, from poorer to richer countries. Traditional countries of immigration, including Australia, Canada, New Zealand, and the UK and US, admit health care professionals as immigrants via regular or family migration channels as well as via employment channels. These countries, as

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<sup>18</sup> For example, California approved a law mandating nurse-to-patient ratios in state hospitals effective in 2004, becoming the first state to do so ([www.cdph.ca.gov/services/DPOPP/regs/Pages/N2PRegulations.aspx](http://www.cdph.ca.gov/services/DPOPP/regs/Pages/N2PRegulations.aspx)). The American Nursing Association is campaigning for more such laws ([www.nursingworld.org/MainMenuCategories/Policy-Advocacy/State/Legislative-Agenda-Reports/State-StaffingPlansRatios](http://www.nursingworld.org/MainMenuCategories/Policy-Advocacy/State/Legislative-Agenda-Reports/State-StaffingPlansRatios))



well as many European countries and Gulf oil exporters, also admit health care professionals as temporary migrant workers, sometimes under special programs that allow health care workers to obtain an immigrant or long residence status.

There is limited discussion of the impacts of migrant health care professionals on health-care delivery systems in traditional immigration countries, and limited concern for the impacts of the out-migration of health care professionals on sending countries. Indeed, in the J-1 visitor exchange program that normally requires overseas visitors who are in the US for educational purposes to return to their countries of origin after one or more years in the US, there is a special exemption for foreign doctors who agree to serve in rural or other medically underserved areas of the US after completing their training. By providing services in these medically underserved areas, foreign doctors who came to the US for training can receive immigrant visas (<http://j1visa.state.gov/programs/physician>).<sup>19</sup>

The US looms large in global health-care worker migration. Half of the foreign-born doctors and nurses in the OECD countries in 2000 were in the US, a country that accounts for a quarter of the 1.2 billion residents in OECD countries. A sixth of those employed in health care occupations in the US in 2010 were born outside the US, the same as the 16 percent share of all US workers who were born outside the US, but the share of foreign born was higher in particular health-care occupations. For example, 27 percent of US physicians and surgeons in 2010 were foreign born, and 22 percent of those working in health care support jobs including nursing and home health aides were born outside the US. Health-care occupations that had the lowest shares of foreign-born workers in 2010 include registered nurses, 10 percent, and technicians, 12 percent.

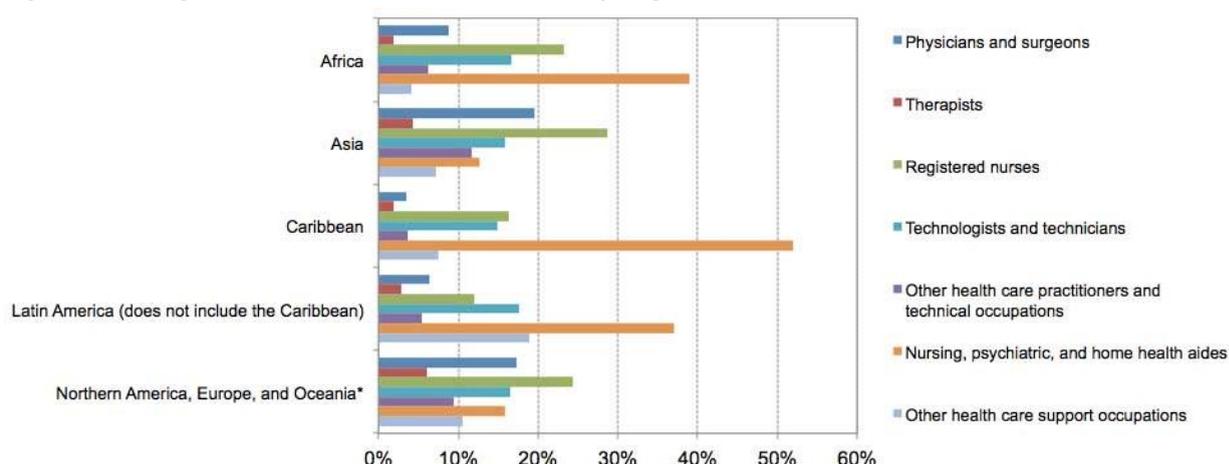
By region of origin, the highest shares of doctors among health-care workers who were born abroad were from Asia, and almost 30 percent of all health-care workers in the US in 2010 who were born in Asia were doctors, followed by Africa and OECD countries, about 25 percent each. The highest share of less-skilled health care aides among foreign-born health care workers were from the Caribbean, over 50 percent, followed by almost 40 percent of health care workers born in Africa and Latin America.

The US spends more on health care services than any other country, about 16 percent of GDP, and admits more immigrants than any other country, about 1.1 million a year. Foreign health care professionals enter the US as immigrants under family unification and employer sponsorship, and as temporary workers under a variety of programs. In recent years, almost 10 percent of the 150,000 persons taking the National Council Licensure Examination for Registered Nurses (NCLEX-RN) were educated outside the US (Lowell, 2013, 4). However, the difficulty getting into the US and being licensed as a health-care professional means that those with the most training, doctors, are more likely to make the investment to move than nurses with less education.

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<sup>19</sup> The J-1 visa holders must serve at least three years in a Health Professional Shortage Area or a Medically Underserved Area to receive a waiver of the return-to-country-of-origin-for-two-years rule. Many US hospitals prefer to hire foreign doctors under the J-1 visa program because it has no prevailing wage requirement (hospitals and foreign doctors negotiate the wage), fees are low, and there is less employer liability than under regular guest worker programs such as the H-1B program.

**Figure 4. Foreign-born US Health Care Workers by Region of Birth, 2010**



At the other end of the health-care worker spectrum, a large but unknown share of in-home caregivers are foreign-born, including many who are unauthorized in the US. There were an estimated 12 million unauthorized foreigners in the US in 2012, including eight million who are in the labor force. Many of those who care for children and the elderly in private homes are foreign born, and many are not authorized to work in the US.

European countries have expressed more concern about the effects of the emigration of health care professionals on migrant countries of origin, some of which are former colonies. Some of this concern reflected a decision to expand employment in the UK National Health Service between 1997 and 2004, and to do so in part by recruiting health care professionals in former British colonies that retained British-style health-care education. Many of the countries in which the NHS recruited health care workers complained that the richer UK was benefiting from the investments of poorer countries in health care training, leading to codes of conduct to govern such recruitment.

Between 1998 and 2004, over 12,000 African-born nurses registered to work in Britain. The NHS in 2001 promised not to engage in "aggressive recruitment" of nurses in Africa, but this promise applied only to NHS, not to the private British hospitals where African nurses often get their first jobs. Some later applied for NHS jobs, where starting pay for nurses was \$31,000 a year in 2005. The results are apparent in countries such as Malawi, where in 2005 public sector nurses earned an average \$1,900 a year, two-thirds of nursing jobs in the public health system were vacant because of emigration as well as nurses staying in the country but switching to private hospitals and foreign-financed nonprofit groups that paid higher wages (Migration News, 2004).

In 2011, about 30 percent of doctors in the UK were born abroad, as were almost 20 percent of nurses. Unlike the US, where most health care workers are employed in the private sector, most health care workers in the UK are employed by the NHS, a public sector employer. Mullan (2005) estimated that about a quarter of the doctors in Australia, Canada, the UK and the US were born abroad in 2000, and that 40 (Australia and Canada) to 80 (UK) percent of these foreign-born doctors were from developing countries.

## Ethical Recruitment Codes

Ethical codes of recruiter conduct are more developed for health care than many other types of workers, in part because many health care professionals in developing countries are recruited to work in government-funded or -affiliated health care institutions in richer countries. Ethical recruitment guidelines call for bilateral agreements with provisions to train replacement health care professionals and for encouraging circular migration, so that health care professionals are not “lost” to migrant-sending countries.

However, recruitment guidelines also call for respecting the rights of individual health-care professionals to move in order to satisfy their personal and professional aspirations. Physicians for Human Rights, winner of the Nobel Peace Prize in 1997 for its work to ban land mines, in July 2004 called on industrial nations to reimburse African countries for the loss of health professionals educated at African expense and to try harder to meet their own worker shortages by training more people domestically rather than recruiting abroad. PHR acknowledged the trade off between the rights of African health professionals to seek a better life abroad and the rights of people in their home countries to decent health care, and advised against African governments try to prevent the emigration of health care workers.

The WHO Global Code of Practice on the International Recruitment of Health Personnel ([www.who.int/hrh/migration/code/practice/en](http://www.who.int/hrh/migration/code/practice/en)) aims to establish voluntary principles for the ethical international recruitment of health personnel that facilitate the strengthening of health systems, especially in developing countries facing critical shortages of health workers. The code, adopted in May 2010, includes a user guide and 15-question reporting form for countries to report their recruitment activities, with the first reports due in 2012 that includes questions on whether migrant health care workers have the same legal rights and responsibilities as other health care workers, whether the reporting country has agreements dealing with the international recruitment of health personnel, and whether the country has taken steps to implement the WHO code.

Relatively few health care professionals move under the terms of the WHO or other codes. There are several reasons, including the fact that many health-care workers seek to move abroad, that is, their desire to move abroad may reduce the need for active recruitment. Second, ethical codes are most likely to be followed by agencies linked directly to government, and in many countries most migrant health workers are employed in non-governmental facilities. Third, the trigger for much of the concern, the recruitment of health-care workers in sub-Saharan Africa by the British NHS, has eased as Britain and most other European countries seek additional health care workers from lower-wage EU countries or in countries such as India and the Philippines that actively seek to send health-care workers abroad.

## Conclusions: From Agents to Partners

This paper reviewed trends in global labor markets and their implications for recruiters who move workers over national borders to fill jobs. The purpose of the paper is to help those interested in strengthening ethical and professional recruitment to understand looming challenges and suggest actions to deal with them.

The recruitment industry is likely to grow. Shrinking and aging workforces in the 30 richer countries that account for a sixth of the world's workers and two-thirds of global economic output are likely to accept workers from the 170 developing countries that have rapid labor force growth, including youth bulges and workers leaving agriculture who cannot find decent jobs at home. Within developing countries, demographic and economic inequalities, coupled with revolutions in communications and transportation, set the stage for more labor migration from one developing country to another, from developing to industrial countries, and from one industrial country to another.

This paper highlighted trends in the global labor market that create new opportunities for international labor mobility at the extremes of the job ladder, as with health care professionals and low-skilled migrants. There are many reasons, including persisting demographic and economic inequalities coupled with ongoing globalization, to support projections of increased international labor mobility.

For-profit recruiters are the agents or “glue” that link workers in one country to jobs in another. The primary asset of recruiters is information about jobs that employers want to fill and about workers seeking jobs. Recruiters are paid for their services by employers, workers, or both. When recruiters match workers with jobs in other countries, governments in both migrant-sending and migrant-receiving countries usually regulate their activities.

Governments regulate their recruitment industries, most often in catch-up fashion as they respond to problems and complaints. Regulating recruiters involves requiring them to identify themselves by securing licenses, setting maximum recruitment fees to protect workers, and responding to worker complaints to detect violations of regulations. However, effective regulation of recruiters is difficult because many recruitment violations resemble “victimless crimes,” as when workers pay excessive fees to get the foreign jobs they seek.

Violations of recruitment regulations are most common when recruiter and worker incentives are not aligned regulatory goals, as when workers are willing to pay more than government-specified maximum fees for foreign jobs. If there are more workers who want to go abroad than jobs, and if recruiters compete with one another to receive job offers from foreign employers, workers can wind up paying excessive fees for foreign jobs.

Ethical recruitment codes aim to encourage recruiters to abide by regulations with the carrot of a seal of approval. Recruitment codes are most likely to improve recruiter behavior over time if abiding by the code also increases their revenues and profits. Governments can reward “good recruiters” with more foreign jobs to fill, charge them lower government fees, or provide them with faster processing times. In health care, ethical recruitment codes seek to avoid the exit



of so many health care professionals that health care in the sending country deteriorates, and are most effective where health-care workers are recruited to work in public health facilities in industrial countries where governments have more control over hiring practices.

The best hope for improved recruiter behavior over time are incentives that turn recruiters from agents into partners. An agent, as when buying a house, is an intermediary who receives a fee for bringing buyers and sellers together. If the transaction is not likely to be repeated, the incentives of the agent to make a deal may differ from the longer-term best interests of buyers and sellers.

Partners, on the other hand, understand the interests of the employers and workers they bring together and, in the expectation of repeat business, have an incentive to satisfy both. In international labor migration, recruitment partners perceive a long-term economic benefit from a long-term business relationship, giving them incentives to provide the best workers to fill jobs and to ensure that workers are satisfied and protected.

The recruitment industry is in flux, attracting more interest because of its growing importance in global labor markets and sometimes high worker-paid fees. Regulation aims to guide behavior by punishing recruiters who violate laws and regulations, and may be complemented by positive incentives for recruiter compliance such as faster processing or lower fees. Transforming recruiters from agents into partners, and encouraging self-policing by forming associations whose members agree to abide by a code of conduct, may be the best way to lift the recruitment industry to the high road of ethical conduct.

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