

# Wage Responses in Imperfect Labor Markets to a Huge-Scale Forced Migration Inflow in African Agricultural Economies\*

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## Abstract

This paper investigates the mechanism of the long-term effects of a huge-scale forced migration inflow on market interactions and wages of agricultural households in rural Africa exploiting the natural experiment Tanzania faced when it experienced a refugee inflow from Burundi and Rwanda in the early 1990s. We analyze the possible channels of the effects of refugee inflow, which distinguish the refugee context from the general migration context; in terms of food aid and the decrease in transaction costs owing to infrastructure development around refugee camps. Based on the theoretical predictions from the non-separable household model incorporating transaction costs and market participation decisions, the empirical results indicate that the refugee inflow has positive effects on the transformation from bean subsistence households into net seller households, while there are no effects on maize producers. This result is consistent with the situation that the food aid is occupied with maize and thus the consumption demand of maize produced by local farmers would be relatively lower. This transformation of bean market interaction caused by the refugee inflow has positive effects on female agricultural shadow wages and no effects on male shadow wages, reflecting the nature of labor allocation pattern in African food crop production. However, the empirical results do not support the theoretical prediction that the decrease in the transaction cost would mitigate the wage gap between shadow and market wages.

*JEL Classification:* O12, O15, O17, Q12

*Keywords:* Forced Migration, Conflicts, Agricultural Household Models, Shadow Wages, Transaction Costs, Market Interactions

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