Local effects of immigrants and immigrant entrepreneurs on international trade, with a special focus on Italy

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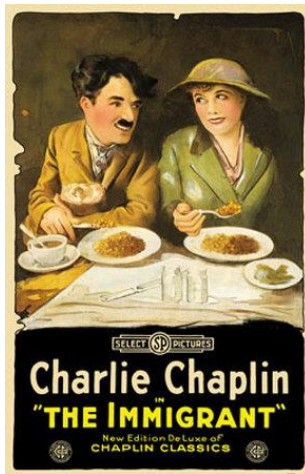
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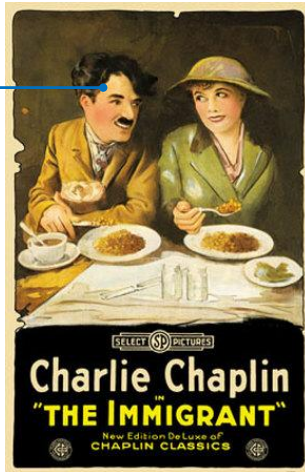
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Knowledge

Knowledge

Taste

Immigrants foster trade: Mecanisms
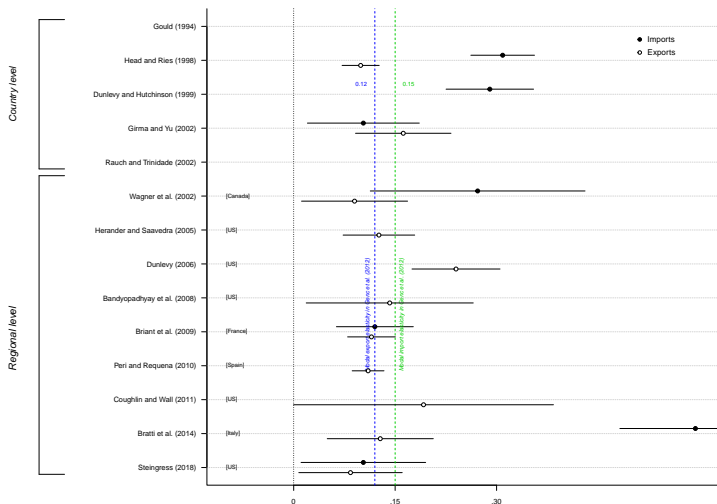
The effects:

- *business and social network effect* of immigrants on trade
  - Idea originally developed in Rauch (2001) and Rauch and Trinidade (2002)
  - information costs plays a major role in the fixed cost that firms have to pay to enter foreign markets
  - ethnic networks are likely to reduce some of these information costs
  - cross-border networks of people sharing the same country of origin can substitute or integrate organized markets in matching international demand and supply.
  - moreover, "immigrant networks may provide contract enforcement through sanctions and exclusions, which substitutes for weak institutional rules and reduces trade costs." (Briant et al. 2009)
  - the effect is both on exports and on imports.

- *transplanted home-bias effect* of immigrants on trade
  - immigrants are characterized by different habits in consumption with respect to natives
  - they slowly modify their original home-biased demand (Bronnenberg et al. 2010; Atkin 2010)
  - the effect is on imports

$$\ln(X_{ijt}) = \delta_{ij} + \theta_{jt} + \phi_{it} + \alpha \ln(Y_{it-1}\ Y_{jt-1}) + \beta\ \ln(MIG_{ijt}) + \gamma \ln(dist_{ij}) + \epsilon_{ijt}$$

Genoa - Liguria ⟺ Poland

Polish immigrants in Genoa (Liguria)

Trade from Genoa (Liguria) to Poland

Literature review - II

- On average, a 10% increase in immigrants is associated with a 1.2% increase in exports and a 1.5% increase in imports (meta-analysis by Genc et al 2011).

- The contribution by Wagner, Head and Ries (2002) sets the standard of the empirical methodology:
  - country-fixed effects and country-pair fixed effects play an essential role to control for omitted variable bias,
  - the cross-sectional information on trade and immigration using provincial data allows us to mitigate the endogeneity problem coming from omitted common determinants (colonial linkages, language or cultural proximity) or reverse causality (immigrants migrate to countries where economic or diplomatic relations were already well established).

Literature review - III: heterogeneous effects

Is the effect heterogeneous by immigrants' characteristics?

- The effect should be larger the larger the amount of trade-related information that immigrants bring with them.

- The role of **education**:
  - Felbermayr and Jung (2009): effect of low and high skilled migrants, but not of medium skilled;
  - Felbermayr and Toubal (2010), Muller and Tai (2012), Sangita (2013): larger effect of high skilled;

- The role of **occupation**:
  - Herander and Saavedra (2005): larger effect of immigrants in skilled occupations;
  - Aleksynska and Peri (2013): higher effect of highly educated immigrants in managerial and sales jobs

- The role of immigrant workforce **at the firm level**:
  - Hatzigeorgiou and Lodefalk (2016) find positive effects of immigrants on exports for Swedish firms, but only on small firms, and migrants need to be skilled and recently arrived
  - Parrotta et al. (2016) find a positive effect of workforce diversity of Danish firms' export performance

- Problem: Immigrants may located where there is a higher trading potential (endogeneity)
- Solution: 1) immigrant enclaves; 2) quasi-natural experiments (e.g. refugee dispersal policies)
- Intuition: 1) decisions were made a long time ago, probably not taking into account expectations about growth in trade; 2) refugees cannot decide their location
  - Comment: Both may have issues. 1) serial correlation over time in trade; 2) refugees may be different from economic immigrants (generalisability of results)
- Parsons and Vezina (2018) examine the case of Vietnamise boat people and estimate an elasticity of US exports towards Vietnam of 1.381. Large effect consistent with trade embargo with Vietnam.
- Steigress (2018) use refugees' locations and estimate smaller elasticities: 0.08 for exports and 0.10 for imports.

Knowledge

Entrepreneurship

Taste
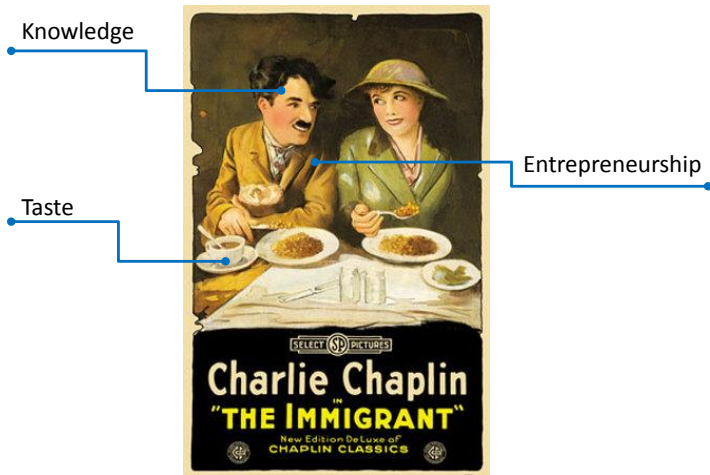
- In a recent paper Bratti, De Benedictis and Santoni (2017) put forward that immigrant entrepreneurs (IE) may have positive effect on exports over and above non-entrepreneur migrants (M)

- On top of knowledge spillovers, immigrants may directly exploit the superior knowledge of their home country by becoming entrepeneurs

- The paper investigates
    - bilateral effects: e.g. better knowledge of country context (IE and M), lower transaction costs (IE and M), etc.
    - overall province effects: e.g. knowledge spillovers between immigrant entrepreneurs or immigrant and native entrepreneurs (IE), longer working hours (M), lower wages (M), etc.

Figure 5.9. **Self-employment rate by place of birth**
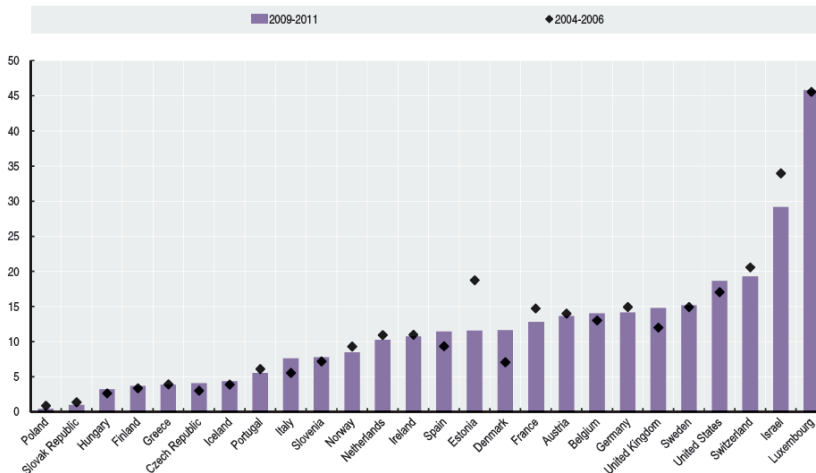
Percentage, average 2009-11
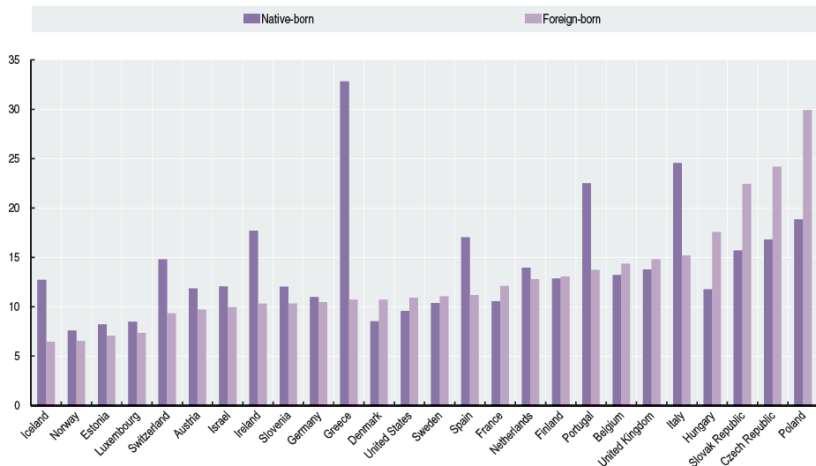
Immigrants in many OECD countries exhibit higher rates of self-employment than natives.
Italy is an exception.
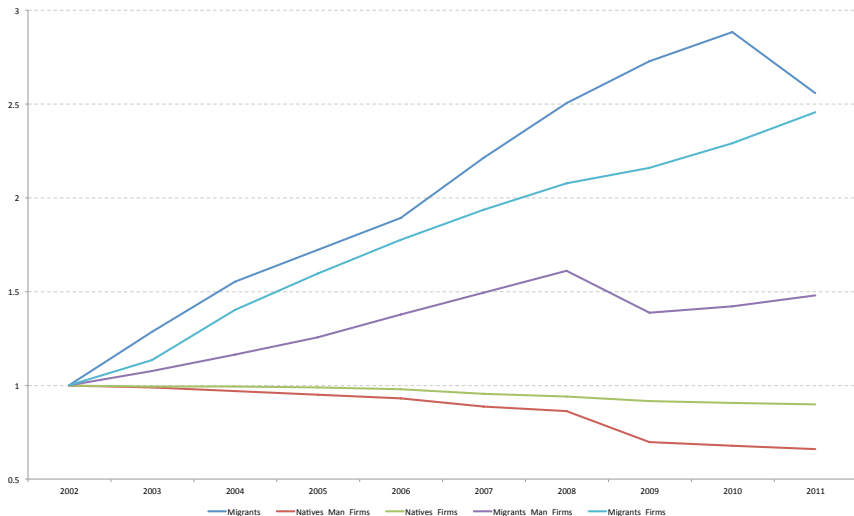
Self-employed who are foreign born

Figure 5.10. **Self-employed who are foreign-born**
Percentage

Source: OECD

Table: Top 20 ethnic entrepreneurs origin countries in 2011

iso3	$IE_{\#}$	IE^{pp}_{Share}	ΔIE^{pp}	$M_{\#}$	M^{pp}_{Share}	ΔM^{pp}	IE/M_{000}
CHN	14733	47.33	12.35	192867	4.87	7.60	76.39
ROU	1873	6.02	30.63	815197	20.60	19.43	2.30
CHE	1499	4.82	-2.09	7720	0.20	-1.32	194.17
MAR	1418	4.56	7.32	397448	10.05	9.34	3.57
DEU	1119	3.59	0.70	34075	0.86	-1.40	32.84
ALB	1076	3.46	8.53	440365	11.13	11.29	2.44
TUN	682	2.19	4.13	81611	2.06	3.10	8.36
FRA	646	2.08	-0.18	23366	0.59	-3.64	27.65
ARG	522	1.68	-1.98	7647	0.19	-2.26	68.26
SRB	515	1.65	5.24	85306	2.16	-0.52	6.04
EGY	440	1.41	8.61	64751	1.64	4.38	6.80
SEN	428	1.38	7.91	71688	1.81	3.46	5.97
BGD	403	1.29	16.64	79722	2.01	9.64	5.06
PAK	327	1.05	13.47	67206	1.70	8.86	4.87
VEN	308	0.99	4.10	4645	0.12	-1.27	66.31
BRA	283	0.91	8.30	36484	0.92	1.12	7.76
BEL	268	0.86	0.40	4708	0.12	-3.20	56.92
GBR	228	0.73	1.99	22105	0.56	-2.37	10.31
NGA	221	0.71	9.97	47725	1.21	3.20	4.63
UKR	200	0.64	53.88	175383	4.43	17.78	1.14
Top 20	27189	87.35	9.50	2660019	67.23	4.16	10.2
Total	31127	100.00	10.27	3956454	100.00	0.78	7.9

Source: Bratti, De Benedictis and Santoni (2018), Immigrant entrepreneurs, diaspora and exports, IZA

Bilateral effects:

- both immigrants and immigrant entrepreneurs have a positive effect on exports. Estimated elasticities are 0.174 and 0.059, for immigrant entrepreneurs and NE-migrants, respectively.

- A 1 % increase in NE-immigrants increases exports by US$1,644 , while a 1 % increase in IE increases exports by US$ 557 (at the median export flows)

- According to these estimates, transforming a (non-entrepreneur) migrant into an entrepreneur would raise yearly exports by US$ 5,496

Province-level effects:

- raising by 1% the total amount of immigrant entrepreneurs in a province raises that province exports towards the average destination by 0.24 %. A similar effect is not found for the stock of immigrant workers

- Robust positive associations between stock of immigrants and trade (import and exports)
- Many studies now qualify these associations as causal relations, using immigrant enclaves or quasi-natural experiments
- These effects vary according to immigrants' characteristics (e.g., education, skills, etc.)
- Recent research shows that not only immigrant workers but also immigrant entrepreneurs stimulate international trade, both bilaterally and towards all destinations

<div align="center">THANKS</div>