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**THE CONTRIBUTION OF MIGRANTS IN ENHANCING FOREIGN TRADE**

**ENTREPRENEURSHIP AND EMPLOYMENT CREATION OF IMMIGRANTS IN OECD  
COUNTRIES**

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## THE CONTRIBUTION OF MIGRANTS IN ENHANCING FOREIGN TRADE

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### 1. Background

1. Globalisation has linked countries more closely together. New technology makes transport within and between countries easier. Multilateral and regional trade agreements have further lowered or eliminated trade barriers. However, despite globalisation and liberalisation, foreign trade still involves considerable costs. To trade with other countries, firms need to acquire general import and export skills. Firms also need to acquire substantial specific information about the relevant foreign market. Such information can range from specific economic, social and political conditions to legislation and regulations, norms of business behaviour, culture and language. A lack of relevant information therefore creates thresholds that may hurt international trade.

2. Immigrants have a good knowledge of the business culture, politics, religion and language of their former home countries. Their contact networks put them in a particularly good position to personally stimulate trade with their countries of origin. Moreover, they can serve to show the way for other firms that want to engage in trade with the former home countries of people born abroad. This applies in particular to markets in countries with weak institutions, where information demanded by foreign trading companies maybe in short supply.

3. The purpose of this paper is to summarise previous research and findings on the role of migrants as facilitators of foreign trade. The paper is organised as follows: First, the paper describes the theory of why migration across countries may lower trade-transaction costs and thus spur trade. Second, it covers some of the most important empirical evidence on migrants' trade facilitating capabilities. Finally, the paper briefly discusses some implications for policy and explains how Sweden, a small and economically open country with a relatively large foreign-born population, has set out to utilise these findings to spur foreign trade.

### 2. Conceptual Framework

4. There has been impressive progress in lowering and eliminating trade barriers since World War II. The average tariff level applied to industrial goods in the world's most developed countries is now barely 5%. It is even lower in the rich OECD countries, where the average applied tariff rate for industrial goods is 2.8%. The developing countries have slightly higher tariffs, averaging around 10% for industrial goods, which is a low level in historical terms. Despite this, international trade still involves considerable costs (e.g. Melitz 2003; Anderson and van Wincoop 2004; Hummels and Klenow 2005). Firms that want to import or export goods or services face substantial fixed costs. Apart from transport costs, they need to

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obtain general trade skills and specific knowledge of the foreign market. Many of these trade costs are driven by a lack of information *ex ante*.

5. The information required to engage in foreign trade is expensive to obtain. It is difficult to obtain reliable information about unfamiliar foreign markets whose business culture, language, regulatory system and institutions differ from those of the home country. Information barriers drive up the costs of importing and exporting. Knowledge about distribution chains is one example of this kind of barrier. Burstein et al. (2003) demonstrated that half the net prices of selected goods in the United States corresponded to distribution costs. Bradford and Lawrence (2003) derived a large proportion of the net price differentials in different countries from differences in distribution costs.

6. Foreign-born residents possess a unique knowledge of their countries of birth. This comprises knowledge of people in the country, their preferences, culture, price awareness and inclination to follow trends. They also have a unique sense of norms, politics and history. Migrants can bridge cultural divides and pass on information that noticeably reduces costs of distribution, marketing and other such matters to which firms are otherwise obliged to allocate resources. People born abroad often know how business contracts are drawn up in their countries of birth, and how negotiating processes should be designed to achieve the desired result.

7. Information barriers can be exacerbated by weak institutions. Anderson and Marcellier (2002) showed that institutional quality influences the efficiency of trade transactions. Weak institutions influence trade costs and, indirectly, business profits. Bandyopadhyay and Roy (2007) showed that corruption and a lack of compliance with business contracts generally lead to higher levels of protectionism and poorer economic openness. This hinders foreign trade. Here, too, people born abroad can play an important role as they are often aware of ways of circumventing corruption.

### 3. Previous Research

8. There is evidence suggesting that migrants increase trade between their present countries of residence and their countries of birth. Gould (1994) found a statistically significant link between immigrants to the United States and US trade with their countries of origin. Head and Ries (1998) found a similar link for Canada, estimating an import elasticity at 0.3% and export elasticity at 0.1%. Girma and Yu (2002) demonstrated a positive link between exports and immigration from countries outside the former British Empire, although no significant link could be demonstrated for migration within the former Empire. Further evidence of a positive migrant impact on trade was provided by Herander and Saavedra (2005), Bandyopadhyay et al. (2006), Dunlevy (2006) and Jansen and Piermartini (2009), as well as Peri and Requena (2009).

9. These studies all find a positive and significant link between migration and trade, but the estimated effect varies quite considerably: from around 0.1% to 3.5% increased trade as a result of a 10% increase in the total migrant stock in the country concerned.

10. There are no broad data for individual developing countries. However, Ehrlich and Canavire Bacareza (2006) found a positive and significant correlation for Bolivia.

11. Rauch (2001) focused on migrants' abilities to lower information barriers and foster trust relationships between sellers and buyers across national borders. Rauch and Trindade (2002) examined the importance of ethnic Chinese networks in a large set of countries and their meaning for trade ties with China. They concluded that the concentration of ethnic Chinese populations promotes trade with China through fostering trust relationships and the lowering of information frictions.

12. A recent study by Hatzigeorgiou (2010a) provides further evidence of a positive and statistically significant link between immigration to Sweden and bilateral trade with immigrant source countries. This study builds on previous research of assessing the aggregate effect of immigration on bilateral trade between migrant host and source countries, as well as the network view of why migration may facilitate trade. Trade and migration data for Sweden and 180 partner countries between 2002 and 2007 are used to estimate an augmented gravity model. Results suggest that a ten percent increase in the immigrant stock of Sweden is associated with a six percent increase in exports and a nine percent increase in imports on average.

13. Furthermore, Hatzigeorgiou (2010a) distinguishes trade in differentiated goods from trade in homogenous goods in order to test whether the effect is derived to the ability of migrants to foster trust relationships between sellers and buyers in their country of residence and their country of birth, as postulated by theory. It turns out that the estimated migrant trade effect is stronger for differentiated goods, whose success in foreign markets is highly dependent on information about the specific qualities of the goods. This strengthens the argument that the positive migrant effect on trade is due to foreign-born people improving trust relationships between Sweden and their former home countries.

14. A number of recent studies have attempted to estimate a more general correlation. Using OECD statistics, Lewer (2006) found that immigration stimulates bilateral trade between a cross-section of industrial countries and immigrant source countries. Felbermayr and Toubal (2008) and Lewer and Berg (2009) used a similar sample of countries, but expands the analysis to dismantle the channels through which migration may affect trade. Both confirm a positive impact of migrants on trade. Lewer and Berg conclude, *inter alia*, that migrants facilitate trade by creating and participating in networks that span across destination and native countries. Bettin and Lo Turco (2008) used a similar selection of countries and also investigated the effect in different sectors. They found that the migrant trade effect is ambiguous across sectors.

15. Due to limitations in international data on migrant stocks in developing countries, evidence based on a geographically comprehensive sample has until recently constituted a serious gap in the existing literature. To address this issue, Hatzigeorgiou (2010b) evaluated the link globally based on a large number of industrialised and developing countries. This study confirms the positive effect migrants have on trade on the global level. Furthermore, the results suggest that both immigrants and emigrants act as trade facilitators.

#### **4. Discussion**

16. Trade economist and policy makers are increasingly recognising that informal barriers to trade are becoming more important determinants to trade flows between countries. As formal barriers to trade continue to diminish in importance, more attention must be put on informal trade barriers. International migration is highly relevant in this context, since migrants are likely to reduce information frictions across countries.

17. It is clear that migrants have a good knowledge of the business culture, politics, religion and language of their former home countries. Their contact networks put them in a particularly good position to facilitate trade with their countries of origin. Moreover, they can serve to show the way for other firms that want to engage in trade with the former home countries of people born abroad. This is particularly true of closed markets in countries with weak institutions, where information demanded by foreign trading companies is in short supply. Thus, by strengthening business networks and disseminating insider knowledge about markets in migrants' country of birth, migrants can lower trade transaction costs.

18. To date, numerous studies have found evidence that migrants increase trade between their countries of residence and their countries of birth.

19. Implications for policy are significant. Although migration in recent years has gained increasing focus, policymakers seldom go beyond discussing migration from a labour market perspective. Nevertheless, as discussed by this paper, the economic benefits of migration go beyond labour markets and demography. Migration can be used as an instrument for increased foreign trade.

20. This finding is especially important in light of the financial and economic crisis. Global trade contracted dramatically during 2008 and 2009, and although trade is estimated to recuperate in 2010 – the WTO estimates world trade to increase by 9.5% during 2010 – specific measures to lower trade barriers will most likely be necessary to bring global trade back to pre-crisis levels.

21. How can policymakers utilise the positive link between migration and trade? The most obvious conclusion would be to implement more open migration policies with the aim of increasing bilateral trade with immigrant source countries. A complementary, or alternative approach, would be to enhance the channels through which migrants facilitate trade. For instance, policymakers can set out to improve the channels through which immigrants can help to reduce information frictions and improve trust relationships between their countries of residence and source countries.

22. In this regard, the Swedish government has initiated a project which sets out to, *inter alia*, establish networks where foreign-born entrepreneurs can meet, exchange experience and support each other. Members of these networks are given special support from the nationally based Trade Council. The Minister for Trade has also established an Advisory Board, which consists of entrepreneurs with foreign backgrounds, with the aim of improving trade policy as to maximise migrants' contribution in enhancing foreign trade.

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