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Ethnic firms, diasporas and international trade*

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Abstract

Generally, the link between migration and exports is rationalized using the concept of *business and social network effect à la Rauch (2001)*. In this paper, we highlight a new complementary channel through which immigrants can foster exports, from the spatial unit where they locate to their country of origin: *ethnic firms* (a.k.a. firms in the host country owned by foreign-born entrepreneurs).

Using data on immigrants' location at a very detailed level (NUTS-3), on the local presence of ethnic firms in the Manufacturing sector, and on trade flows between Italian provinces and more than 200 foreign countries, we assess, through an instrumental variables strategy, the causal relationship going from diasporas and ethnic firms toward export flows. While endogeneity of the stock of migrants is addressed using the popular instrument based on migrant *enclaves*, we propose a novel instrument for ethnic firms. Both variables, the stock of immigrants and their entrepreneurship, have a positive, significant and economically meaningful effect on exports. In particular, we find that increasing the stock of (non-entrepreneur) migrants by 1% would lead to a 0.11% increase in exports, while increasing entrepreneurship by 1% (keeping the stock of migrants fixed) would raise exports by about 0.07%.

Keywords: Migration, Trade, Entrepreneurship.

JEL Classification: F10, F14, F22, R10.

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