

Lecture 5b:

Migration and FDI – Facts

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C181 – International Trade

Spring 2018

2- Migration and FDI – data and facts

In the data

- 1) Some facts on migration
- 2) Some facts on FDI

2- Migration and FDI – data and facts

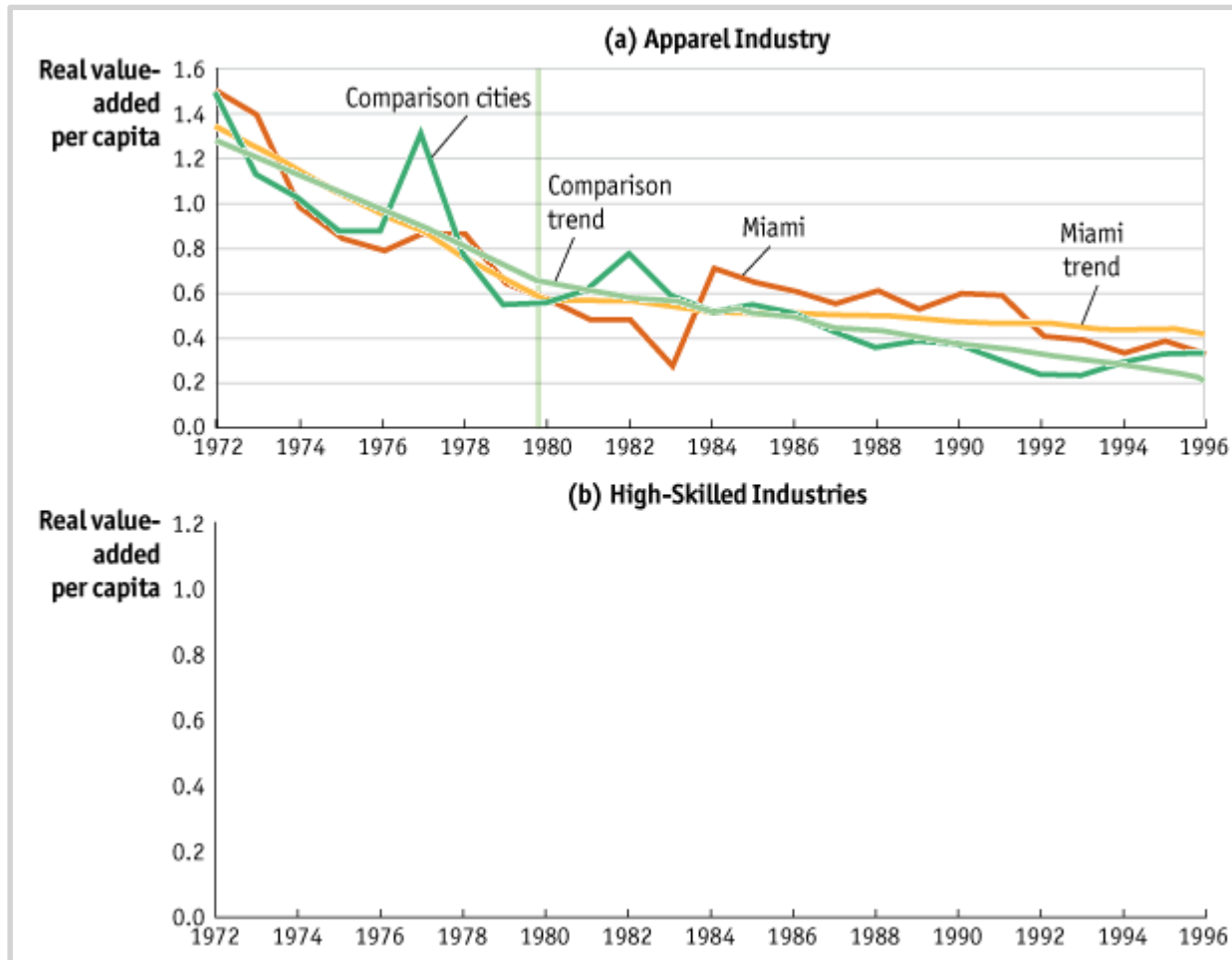
In the data

- Facts on migration
 - 1. Example: Mariel Boat lift and implications**
 2. Composition by skill
 3. Effect on wages

APPLICATION

The Effects of the Mariel Boat Lift on Industry Output in Miami

FIGURE 5-10 (1 of 2) Industry Value-Added in Miami

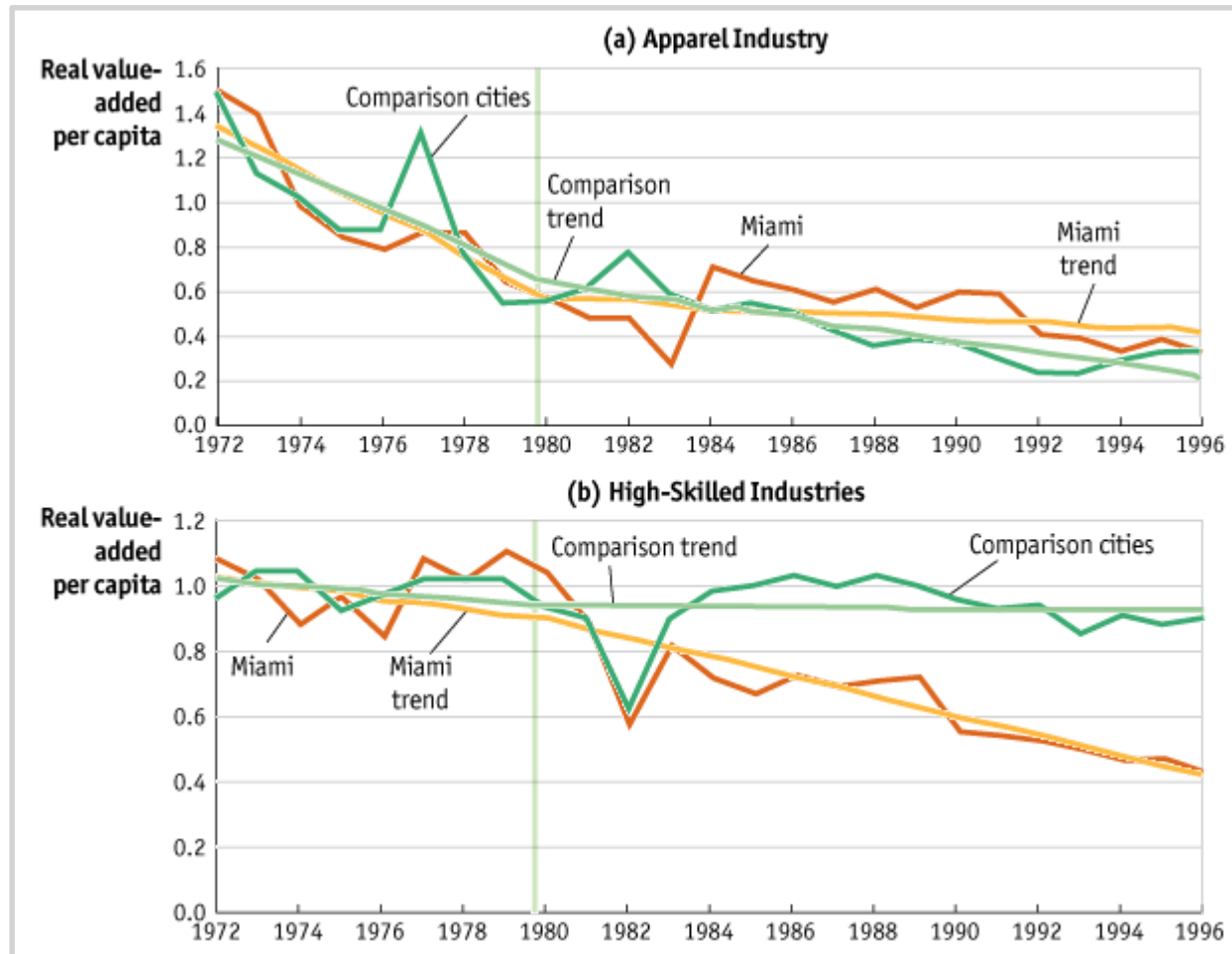


In panel (a), with the inflow of refugees from Cuba in 1980, real value-added in the apparel industry in Miami rose from 1983 to 1984, and the trend decline of this industry was slower than in the comparison cities.

APPLICATION

The Effects of the Mariel Boat Lift on Industry Output in Miami

FIGURE 5-10 (2 of 2) Industry Value-Added in Miami (continued)



In panel (b), real value-added in Miami in high-skilled industries fell faster after 1980 than in the comparison cities.

➔ **consistent with Rybczynski Theorem.**

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Maribel Boat Lift

- A great source for the Maribel Boatlift event is **Planet Money podcast #654 “When the Boats Arrive”**
- They interview David Card (UC Berkeley), who explains why the boatlift had a negligible effect on unskilled wages:
 - Miami’s industry structure, in particular textile and apparel industries, was able to absorb additional unskilled labor.
 - High concentration of Hispanics in Miami implied that lack of English-speaking ability among immigrants was not as big an obstacle.

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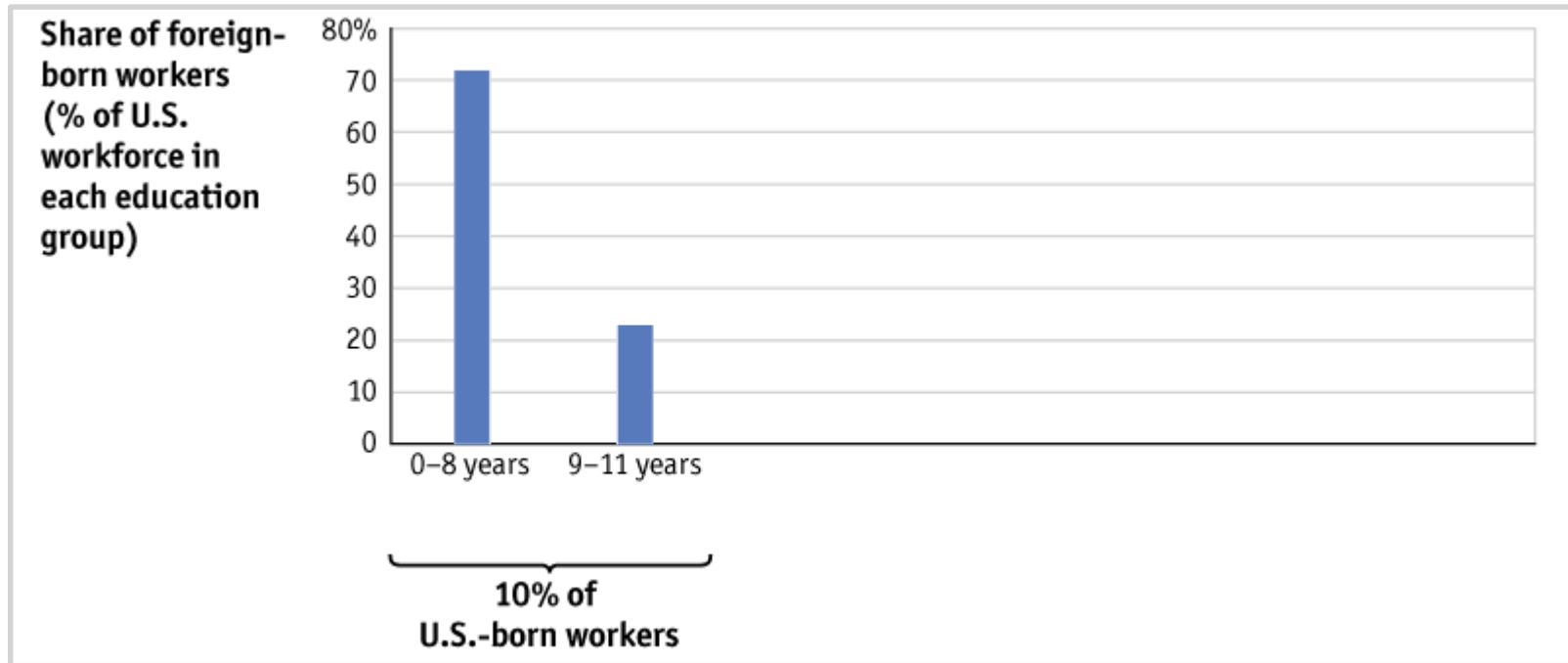
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Migration in the data

- Share of foreign-born people in the US:
6.2% in 1980
12.9% in 2005
- Composition?
 - origin: see map
 - skills

Immigration to the United States Today

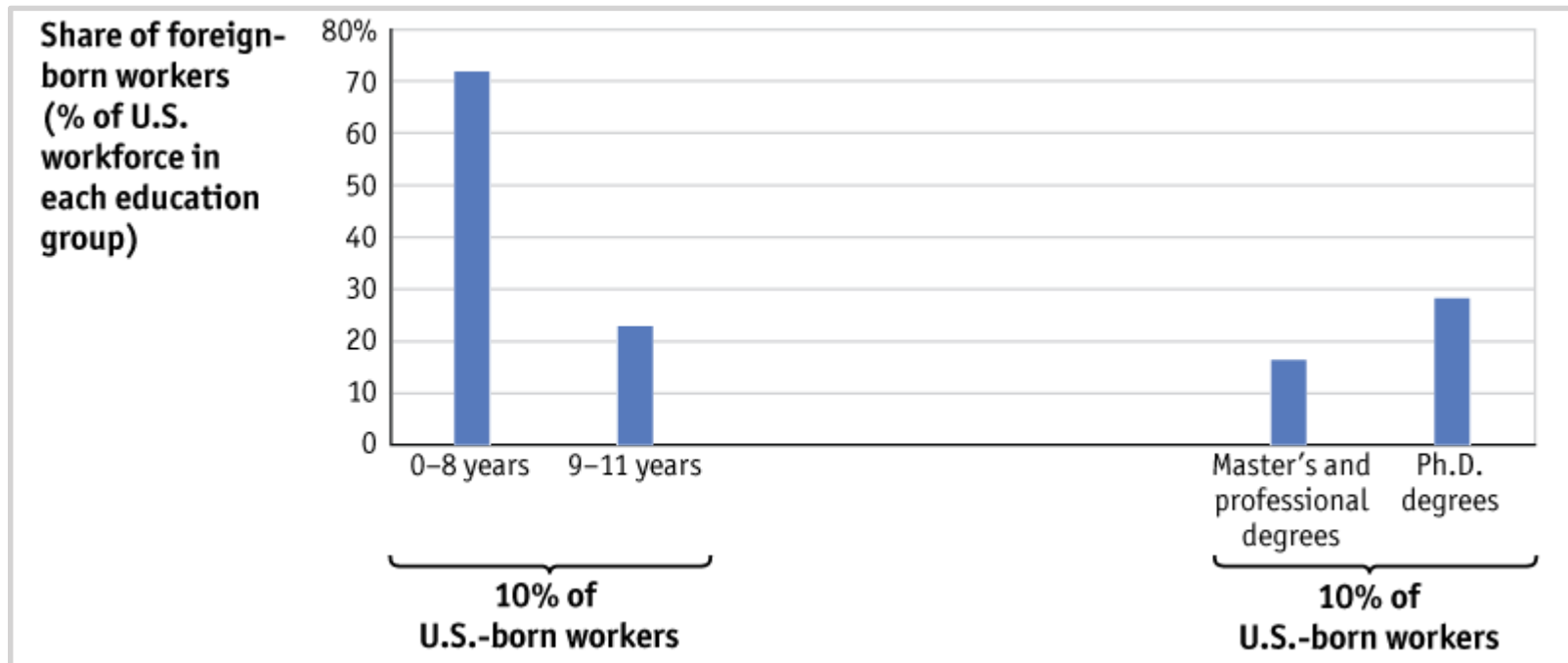
Share of Foreign-Born Workers in U.S. Workforce, 2008



Among workers with only 0 to 8 years of education, more than 70% were foreign born; for those with 9 to 11 years of education, more than 20% were foreign born.

Immigration to the United States Today

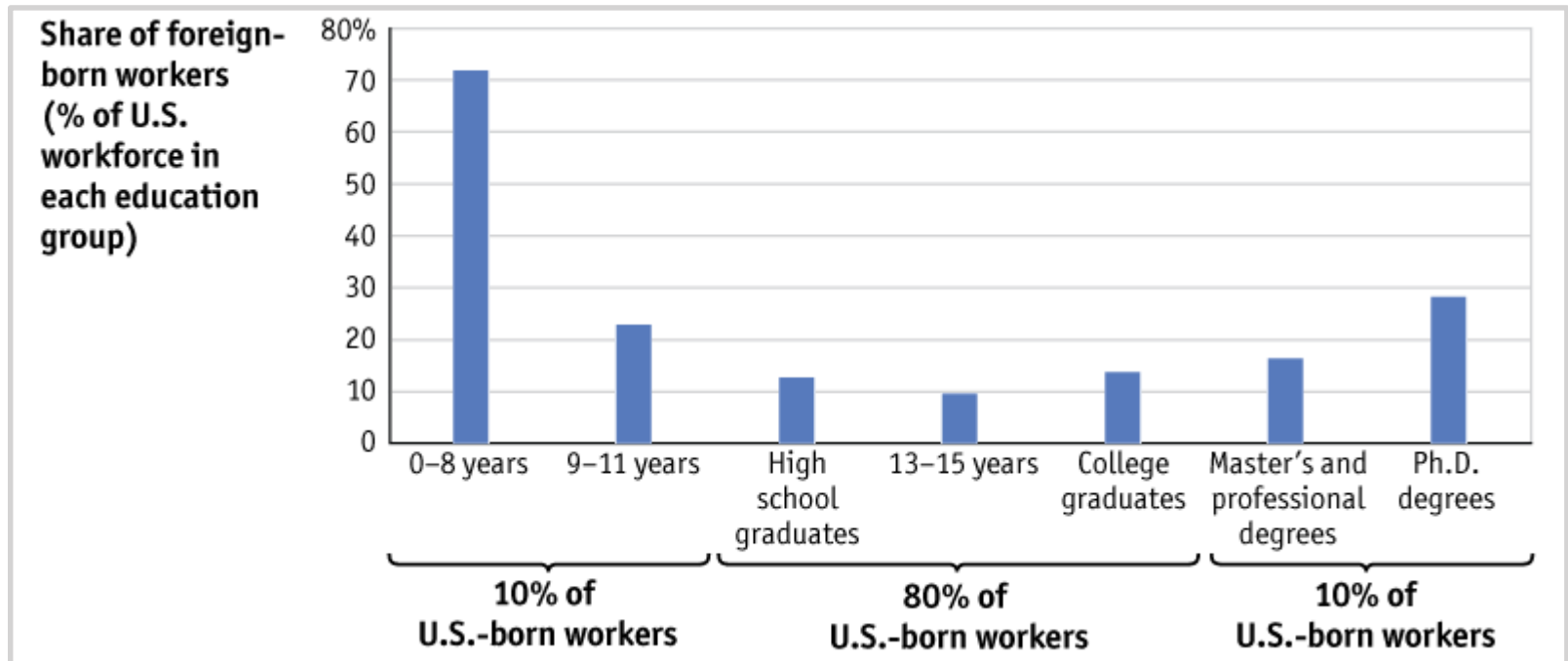
Share of Foreign-Born Workers in U.S. Workforce, 2008



At the other end of the spectrum, the foreign born make up 16% of workers with master's and professional degrees and almost 30% of those with PhD's.

Immigration to the United States Today

Share of Foreign-Born Workers in U.S. Workforce, 2008



In the middle educational levels (high school and college graduates), there are much smaller shares of foreign-born workers, ranging from 10% to 15%. In contrast, only about 10% of U.S.-born workers are categorized in each of the low-education and high-education groups; most U.S.-born workers are either high school graduates or college graduates.

Illustration: Faculty

Agricultural and Resource Economics Department:

Among 19 Faculty members:

- 3 French
- 2 Australian
- 1 Mexican
- 1 British
- 1 German
- 1 Portuguese
- 1 Israeli
- 1 Indian

Similar pattern in the Economics Department:

- 4 French, 4 German, etc...

And similar pattern in many other universities

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2- Migration and FDI – data and facts

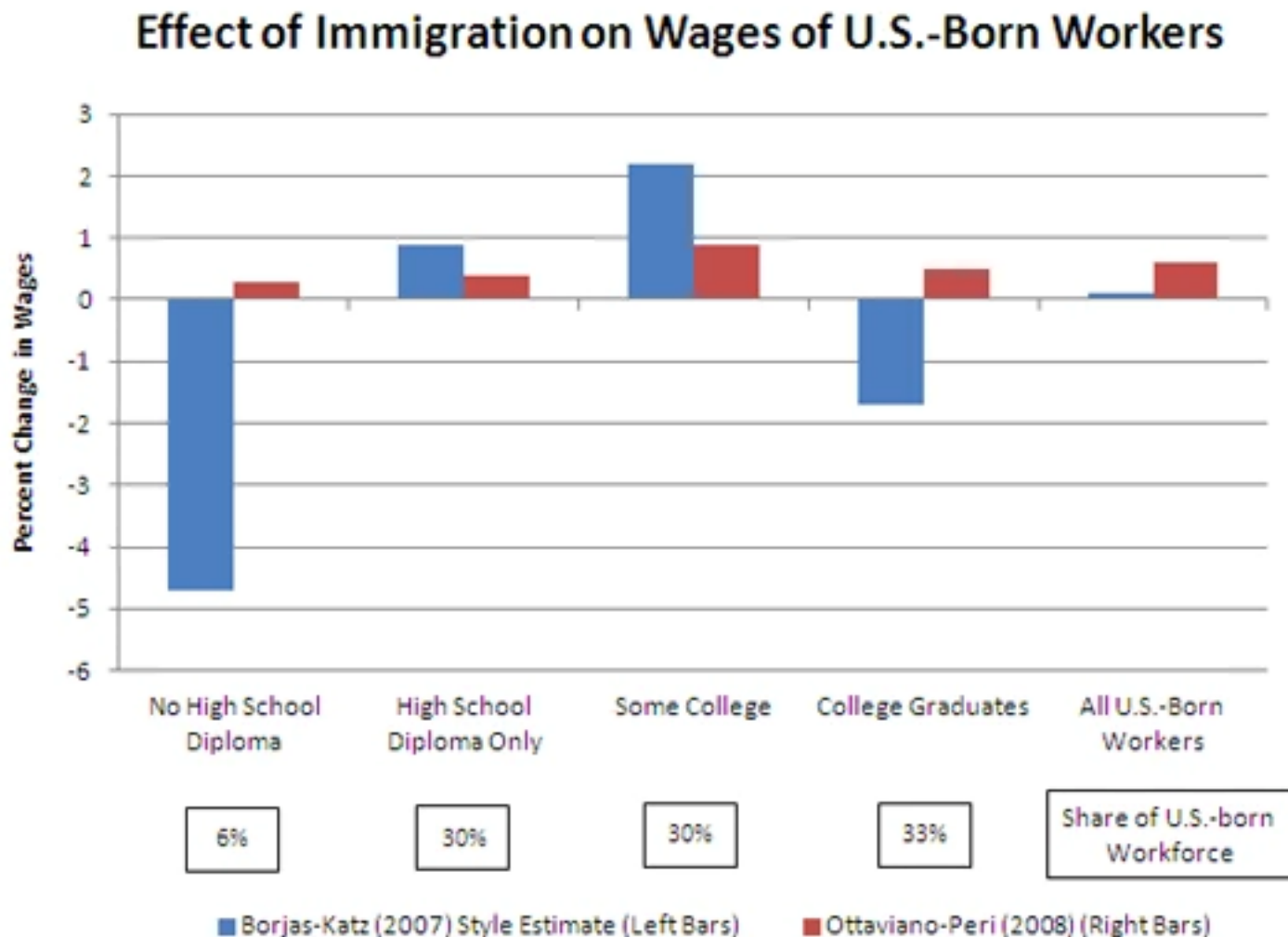
Immigration and U.S. Wages, 1990–2004

Immigration and Wages in the United States This table shows the estimated effect of immigration on the wages of workers, depending on their educational level.

	PERCENTAGE CHANGE IN THE WAGE OF WORKERS WITH EDUCATIONAL LEVEL:				
	Less Than 12 Years	12 Years	13–15 Years	16 Years or More	Overall Average
Part A: Effect of Total Immigration, 1990–2004					
<i>Method:</i>					
Capital and land fixed	–9.0%	–2.4%	–0.8%	–5.0%	–3.2%
Real return to capital fixed	–4.4	1.0	2.2	–0.2	0.3
Part B: Effect of Illegal Immigration, 1990–2004					
<i>Method:</i>					
Real return to capital fixed	–7.9	0.8	0.8	0.8	0.1

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Effect of migration on wages



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Other effects of Immigration:

- Higher productivity growth (Peri 2012) thanks to scientists and engineers under H1B visas.
 - Contributed to 10-20% higher growth during in 1990-2010
 - This allowed the GDP per capita to be 4% higher than it would have been without them—that's an aggregate increase of output of \$615 billion as of 2010.
- More firm creation and entrepreneurship

Further readings: e.g. from the Washington Post

<http://www.washingtonpost.com/blogs/wonkblog/wp/2013/01/29/five-things-economists-know-about-immigration/>

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FDI in the data

- **Definitions**
- Example: Four Asian Tigers

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FDI in the data

- Definition:
- “Foreign direct investment”: when a company in one country acquires and owns at least 10% of the capital of a firm in another country

Note: this definition varies sometimes: the threshold is often put at 15%.

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FDI flows

- Definition:
- “FDI flows”: movement of capital from the parent company to its affiliate.
- example:

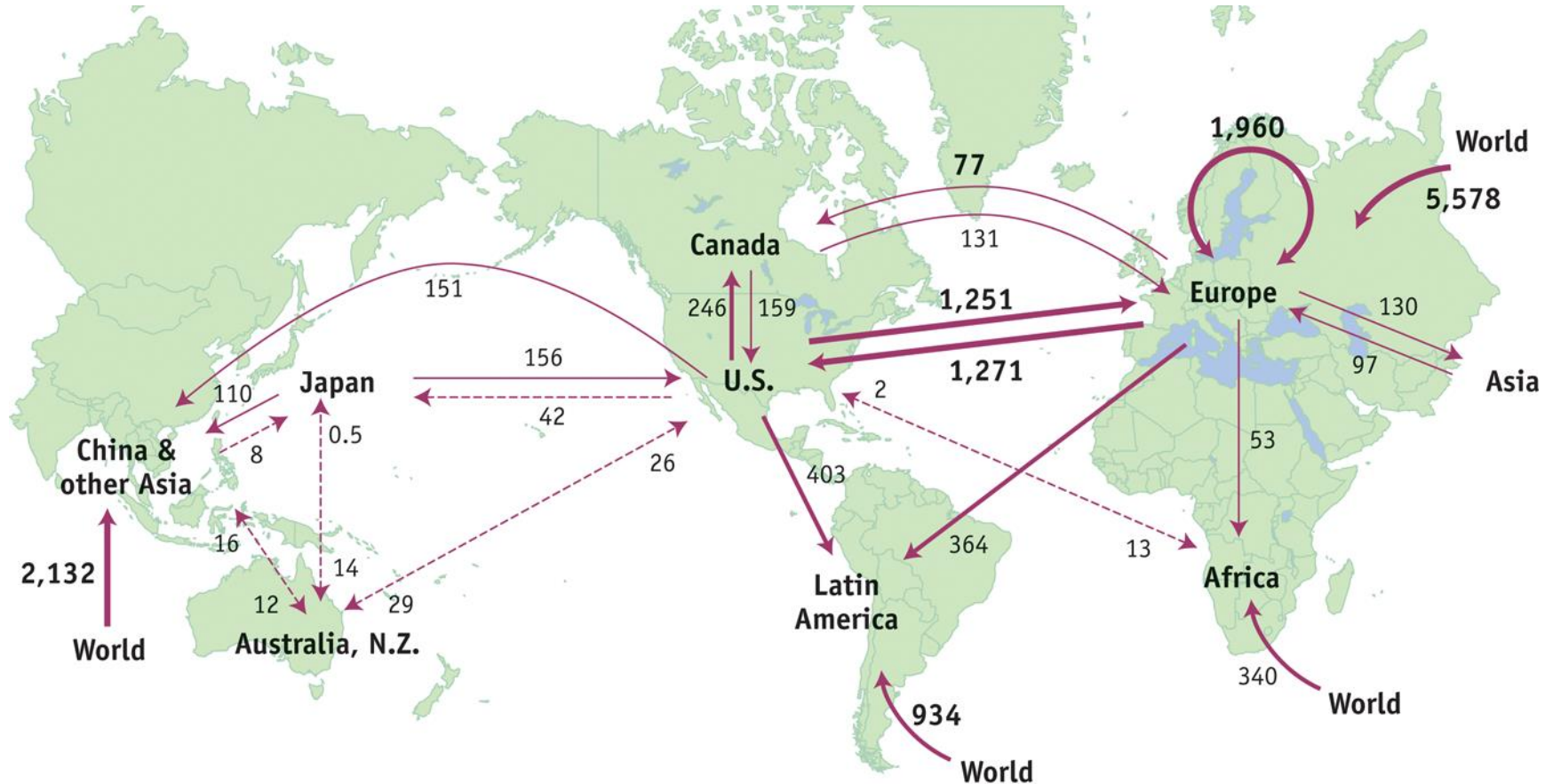
General Motors invest in Mexico:

= outward FDI flow for the US

= inward FDI flow for Mexico.

- “FDI stock”: discounted sum of inward FDI flows.

Most FDI to and from US,Japan,Europe,Canada



Total world FDI in 2006: \$12,400 billion

World FDI Stocks

- < \$50 billion
 ————— \$50–200 billion
 ————— \$200–1,000 billion
 ————— > \$1,000 billion

Common point between these brands?



All belong to Tata Motors, Indian company
→ We now start to see FDI from emerging countries

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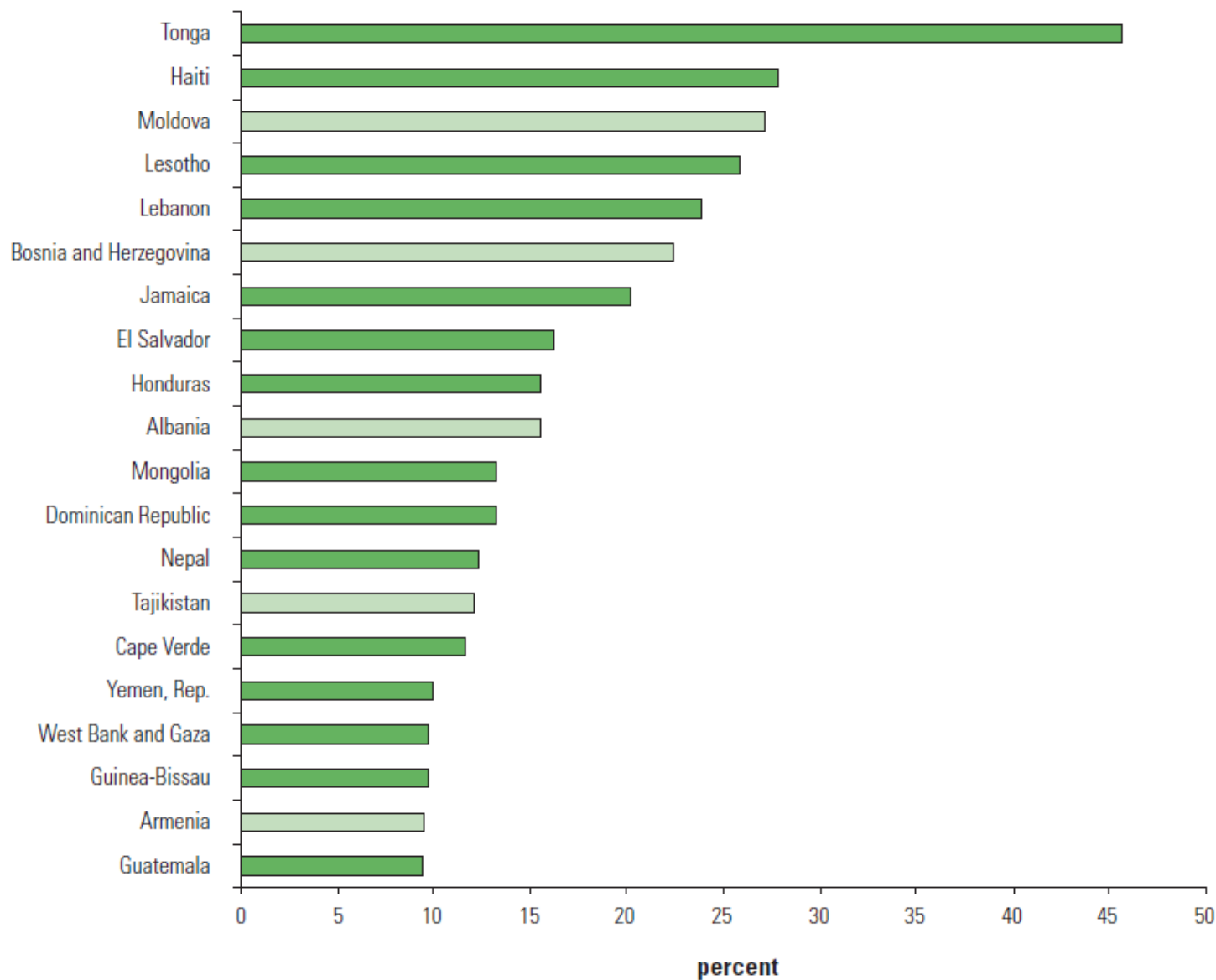
Also related to capital flows:

Remittances: Migration causing Capital flows

- Immigrants often send money back home.
- While small for the “host” country, these flows can be large for “home” country

Leading 20 Remittance-Receiving Countries in the World

(percentage of GDP in 2004)



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Migration causing Capital flows: Remittances

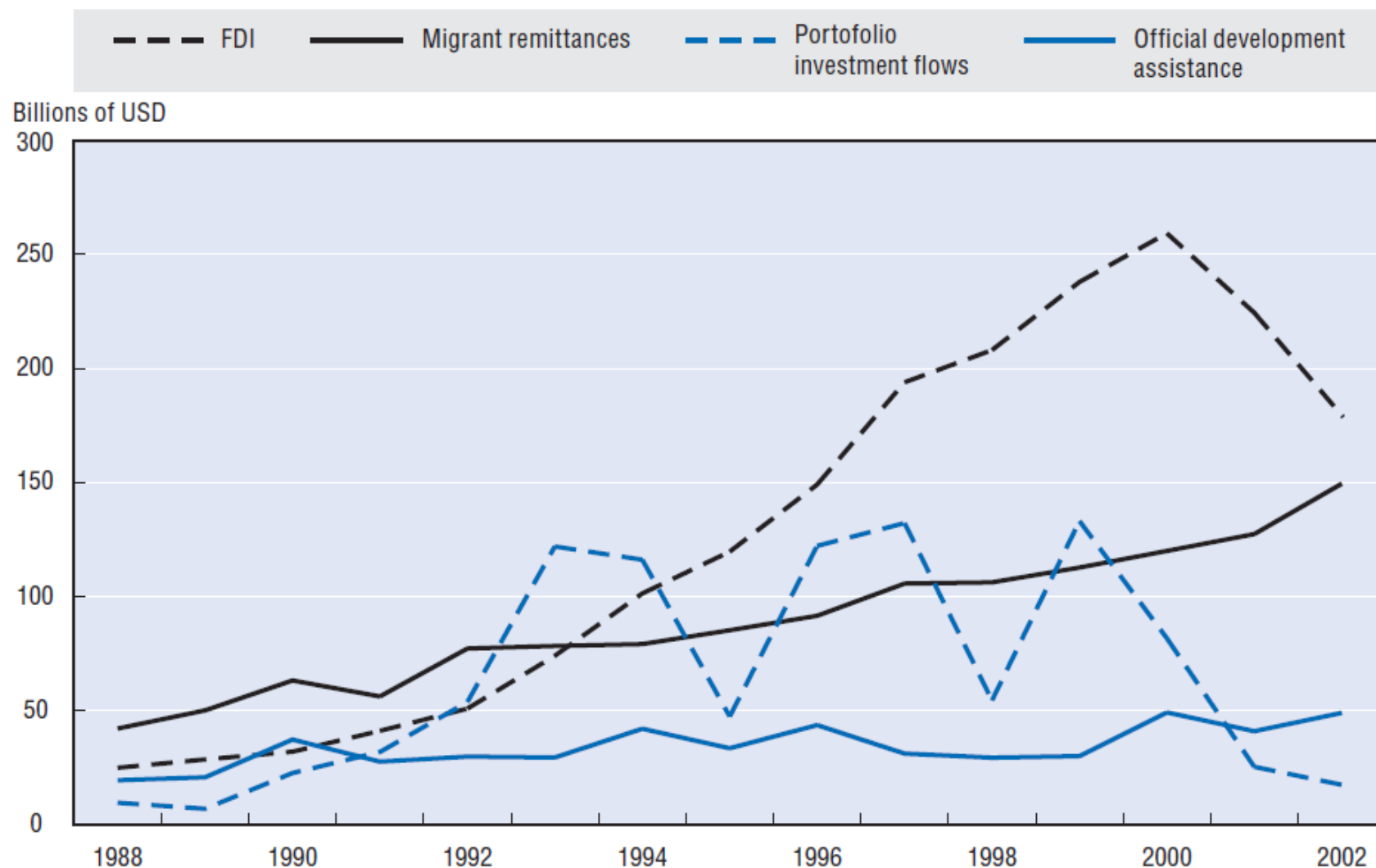
- Immigrants often send money back home.
- While small for the “host” country, these flows can be large for “home” country

→ Not larger than FDI

→ But larger than aid

Chart III.1. **Migrants' remittances and other capital flows to developing countries, 1988-2002**

Billions of US dollars



Note: "Remittances" refer to the sum of the "compensation of employees", "worker's remittances" and "other current transfers in other sectors"; "Official flows" include general government transfers both current and capital.

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FDI in the data

- Definitions
- **Example: Four Asian Tigers**

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Rybczynski in Action: FDI in Asia

- The capital stock in Asia has grown particularly fast over the past decades; FDI as a major source (e.g. “Asian Tigers”, especially Singapore)
- Factor price insensitivity? (skipped / see book)
- Rybczynski: Expansion of K-intensive sectors?

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Rybczynski in Action: FDI in Asia

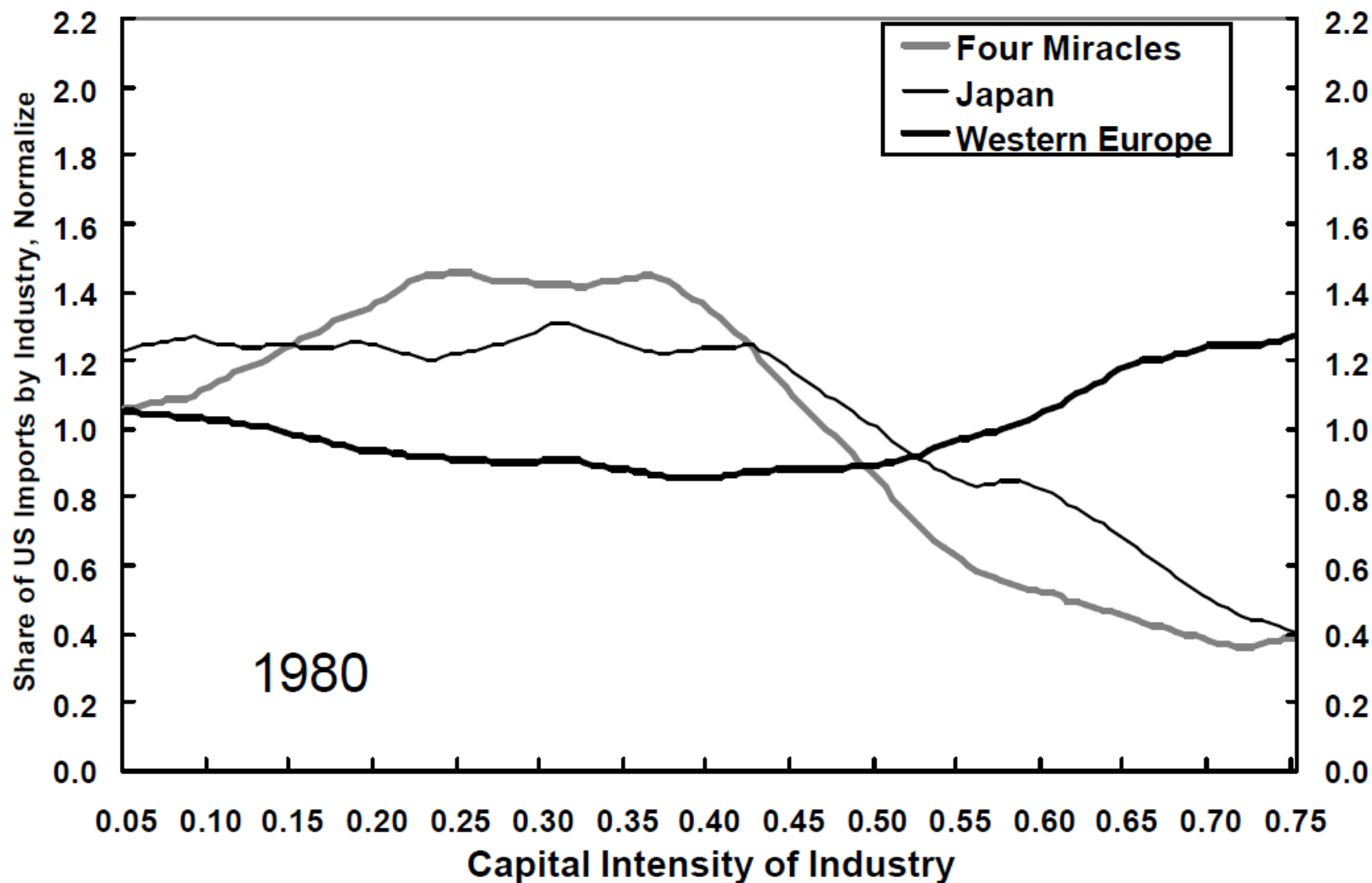
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Data:

Big increases in exports in capital intensive industries (comparing 1980 and 1998)

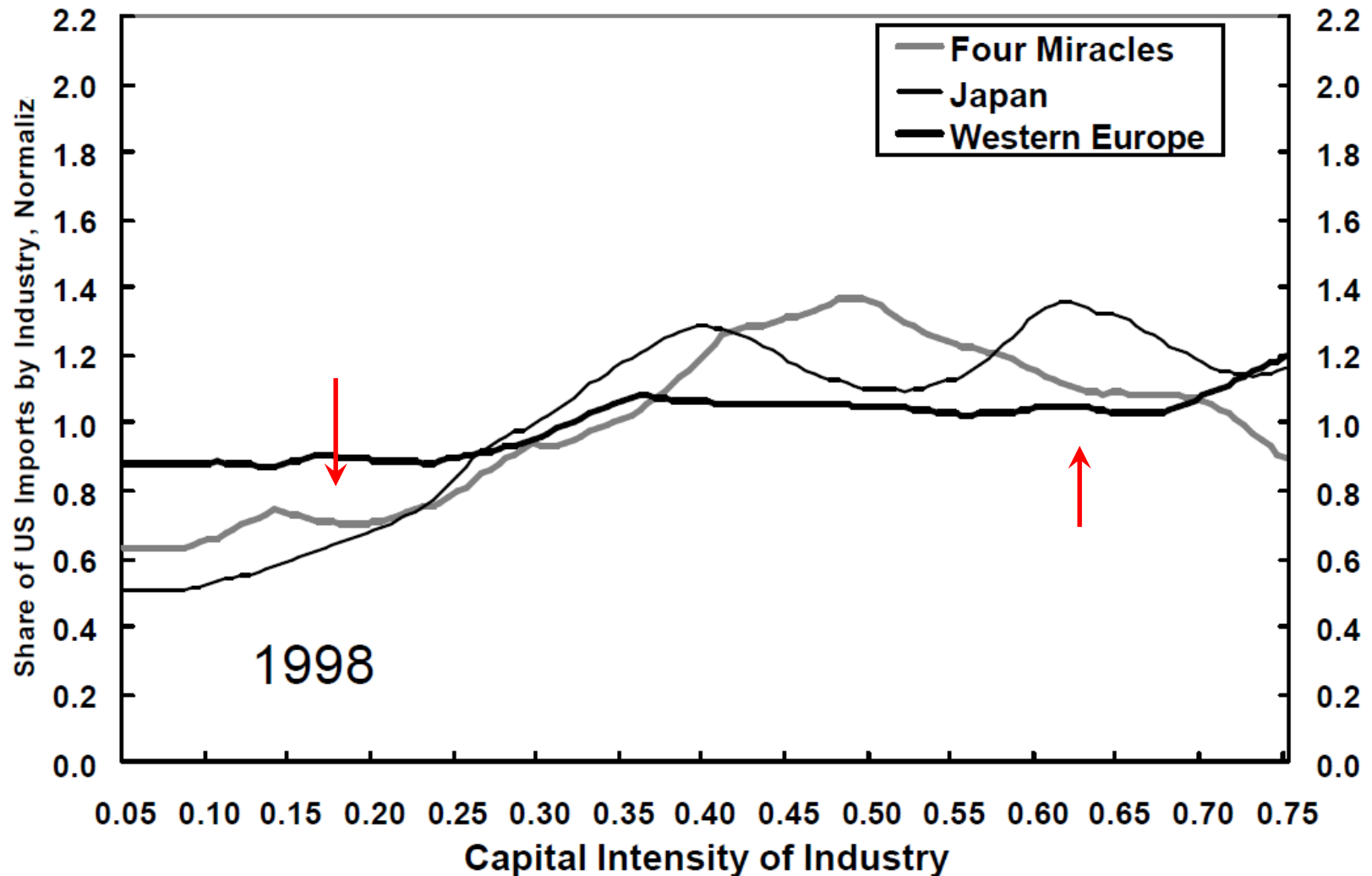
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US imports from Asia depending on K intensity:



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US imports from Asia depending on K intensity:



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- Patterns of trade in 4 Asian tigers:
 - Asia gained a comparative advantage in capital-intensive industries
 - Evidence of effects as in Heckscher-Ohlin model (comparative advantage + Rybczynski theorem)

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Summary of Evidence

1) Effect of migration:

- Effect on wages fairly consistent with factor price insensitivity (no large effect on native wages)
- Important to consider the skill composition of immigration

2) Effect of FDI:

- Asia example: Consistent with Rybczynski theorem

What's next?

- Why fragment production? Offshoring?
 - Model of offshoring and implications for wages (CH 7)
 - Some predictions are the same as in HO; some are new.
- What explains trade between similar countries?
 - Increasing returns to scale (CHAPTER 6)
 - Gains from trade when countries are similar
- Why not all firms export?
 - Firm heterogeneity: exporters vs. non-exporters
- Trade policy (CH 8 to 12)
 - Trade policy tools, in particular: Tariffs
 - Free trade agreements