



The Immigration Case for Exports

The 2010 Global Detroit study documented the remarkably powerful economic contribution that Southeast Michigan's foreign-born population has made to the region's economic growth and prosperity, and presented eleven strategies to maximize the untapped economic potential of Greater Detroit's immigrant population. Central to the report is evidence that immigrants have been *drivers* of the region's transition from a declining manufacturing-based economy to an emerging global player in a variety of high-tech New Economy industries. The creation of a more international regional environment in Detroit will accelerate the region's transition to the New Economy, providing job creation and prosperity for all residents of the region.

President Obama's 2010 State of the Union address included an ambitious call to double the nation's exports over the next five years—a call that has not fallen on deaf ears. In November 2010, the National Export Initiative and the National Foreign Trade Council hosted an Innovation Forum in Southeast Michigan (one of only three such forums held nationally) to help connect national policymakers with local export experiences. Moreover, the Brookings Institution has developed white papers arguing that, while national export and trade promotion remain important, state and metropolitan export policies are critical to meeting the President's goals.

This supplemental white paper to the Global Detroit study seeks to demonstrate the capacity of the eleven strategy recommendations already made by Global Detroit to, even without additional programs, expand the region's export economy. In short, while traditional national and state efforts to promote trade and exports will continue to play an important role, local export strategies can harness tremendous untapped opportunity to grow southeast Michigan's export economy and create thousands of good-paying jobs within our region. The eleven strategy recommendations outlined in the Global Detroit report actually present significant opportunity in themselves to increase our region's exports and grow the economy.

Recent research on Sweden's vast export growth from 2002-2007 (a five-year period that saw that nation's exports double, much as President Obama hopes to see in the U.S.) suggests that for every 10 percent increase in the number of immigrants to Sweden from a specific country, Swedish exports increased to that country by 6 percent.¹ Along with a host of other academic research, evidence like this suggests that a robust and thriving region of immigrants will expand exports—even with no additional programmatic support. Increasing the number of immigrants within a metro region creates a variety of international connections that help reduce information and relationship barriers to increasing exports. The personal relationships and connections immigrants provide to their home countries matriculate into the businesses and economic sectors where they work, diminishing the transaction costs and providing valuable knowledge about the markets in their home countries.

¹ David Landes, "Immigration Increases Foreign Trade Study," *The Local*, September 17, 2009.

Global Detroit's strategic initiatives tackle these opportunities in a manner that is largely missing from existing export efforts and initiatives. It seeks to create a more international culture and expand international networks within metro Detroit to organically foster the relationships necessary for exporting. Moreover, while traditional export promotion programs, including southeast Michigan's robust network of foreign trade missions, are helpful for large- and medium-sized firms (or firms who can afford to invest significant time, energy, and money into export promotion), Global Detroit's work will most assist small businesses, the fastest growing segment of both the American economy, and the U.S. and international export markets.

The Empirical Case that Immigrants Grow Exports

Economists are increasingly recognizing immigration as an important factor in promoting exports. For instance, economist David Gould chronicled the concurrent trends of increasing immigration and trade between the U.S. and Latin American and Asian countries, and decreasing trade and immigration between the U.S. and Europe, during the 1970s and 80s.² Gould asserts that host nations' exports directly benefit from the simple presence of immigrants. His research quantifies the added financial benefit *per immigrant* to America's exports.³ For each country of origin, the export growth multiplier varies greatly, based on the number of immigrants in the U.S., and the potential for trade with the home country from where they emigrated.

Building upon Gould's efforts, Professors Giovanni Peri and Francisco Requena have provided an in-depth examination of the impact immigrants have had on Spain's exports. Peri and Requena's research concluded that doubling the number of immigrants from a particular nation translated into a 10 percent increase in exports to the parent country.⁴ They also found that the immigrants tend to settle with peers in the same province, concentrating the benefits of increased exports in those provinces, while other areas of Spain failed to experience a similar increase. This suggests that metro areas and states that successfully implement immigrant attraction and retention initiatives stand to see the greatest export growth.

Even stronger impacts were found in Sweden over the last decade. As noted, research in Sweden demonstrates that **a 10 percent increase in immigrant population was linked to a 6 percent increase in bilateral trade with the immigrants' home countries.**⁵ Furthermore, the study found for every additional 12,000 immigrants, Swedish exports increased by approximately \$1 billion dollars.⁶ Given the greater similarities—including technological advancement, nature of goods produced, and nature of exports—between the U.S. and Swedish economies than those of the U.S. and Spain, the Swedish example likely provides a more apt comparison.

² Gould, David, "Immigrant Links to the Home Country: Empirical Implications for U.S. Bilateral Trade Flows," *The Review of Economics and Statistics* (1994) 76(2): 302-316.

³ Ibid.

⁴ Giovanni Peri and Francisco Requena, "The Trade Creation Effect of Immigrants: Evidence from the Remarkable Case of Spain", NBER Working Paper # 15625, November 2009.

⁵ Landes.

⁶ Swedish Government Press Release dated September 17, 2009 found at <http://www.sweden.gov.se/sb/d/11427/nocache/true/a/131775/dictionary/true>

Decreasing Transaction Costs

One likely explanation for the growth in exports caused by the presence of immigrants is immigrants' capacity to decrease the transaction costs of trade. Communication barriers, a lack of knowledge about local customs, and a lack of information on the markets and networks of the importing countries usually provide significant barriers to international trade.⁷ These transaction costs are minimized by the presence of immigrant populations who have established relationships in their home countries, in addition to knowledge of language, customs, and business networks. Multiple studies show strong correlation between the home-country information brought by immigrants, and increases in exports to those home countries.⁸

The need to grow export networks is becoming ever more apparent in today's competitive global economy. **The International Monetary Fund predicts that 87 percent of the world's economic growth over the next five years will occur outside of the U.S.⁹ Much of this growth will occur in developing countries, as the percent of global GDP coming from traditionally developed countries continues to decline.¹⁰** Since many developing countries lack the formal trade institutions seen in traditionally developed countries, the home-country links that immigrants provide is vitally important to trading with them.¹¹

Small Businesses: The Future of Global Export

Small businesses, in particular, are poised to take advantage of growth in international markets. According to Francisco Sanchez, the U.S. Undersecretary of Commerce for International Trade, small and medium sized enterprises (SMEs) are responsible for 80 percent of private sector employment; startlingly, only one percent of American SMEs are engaged in exporting.¹² But due to today's lower trade barriers and inexpensive, fast communication, many small firms now have the potential to be "born global," and compete with large firms from their inception.¹³ In today's economy, researchers have suggested that the largest barrier affecting a firm's potential to export is the absence of trusted partners in the importing countries. Immigrants can help bridge this divide by providing a local connection to the SME exporter, while offering intimate knowledge of the importing country's customs, laws, culture, language, and communities.

Unfortunately, many traditional export support and cultivation strategies are not designed to work with or for SMEs. Foreign trade missions designed to foster trusted relationships with potential export partners can take valuable days, if not weeks, and costs thousands of dollars—time and resources that SMEs are less able to part with than large corporations. Similarly, attending workshops and seminars to learn export rules, customs practices, and the intricacies of export-import finance can also require a significant investment of time, energy, and resources in short supply.

⁷ Head and Ries.

⁸ David Gould, "Immigrant Links to the Home Country: Empirical Implications for U.S. Bilateral Trade Flows," *The Review of Economics and Statistics*. Vol 76, No. 2 (May, 1994) p. 302-216. MIT Press.

⁹ Leigh Miller-Villegas, "Commerce Officials: U.S. Should Boost Small Business Exports." *Global Atlanta*. November 23, 2010.

¹⁰ Karen Klein, "Small Business Should Focus on Exports." *Business Week*. December 21, 2010.

¹¹ Gould.

¹² Miller-Villegas.

¹³ S. Andersson, J. Gabrielsson, and I. Victor. "International Activities in Small Firms: Examining Factors Influencing the Internationalization and Export Growth of Small Firms." *Canadian Journal of Administrative Sciences*.

The networks immigrants create to their home countries allow companies to gain information they would otherwise have to pay to obtain. And not only do immigrants expand exports—they also help increase the number of firms that are exporting products. Scholars estimate that “80-100 percent of the export increase [from immigration] is due to new exporting firms rather than to larger volume exported by existing firms.”¹⁴ This supports the premise that foreign-born networks reduce the cost of setting up an exporting business.

Immigrant networks, as well as local international trade networks (i.e., the presence of local customs brokers, export-import financiers, and other trade-related businesses) can assist SMEs in navigating the barriers to exporting. As the importance of SMEs grows in the American economy, the presence of these local networks will become critical to securing a region’s ability to competitively access the export markets. Peri and Requena’s research documenting increases in trade attributable to the presence of immigrants notes that, “in most cases the largest part of the trade-creation effect is due to an increase in the number of trade transactions (extensive margin) with little to no effect on the volume of the average transaction (intensive margin).” I.e., immigrants help create new exporters or build new customers for existing exporters, rather than helping large multinational traders grow the size of their contracts.¹⁵ This makes immigrants an extremely valuable element of growing SME exports.

Global Detroit’s Contribution to Export Growth: Building a More Welcoming Region

Traditional export promotion efforts fall into two categories: (1) teaching the mechanics of export, and (2) building the relationships needed for trade. The U.S. Commerce Department, Export-Import Bank, various state export promotion initiatives, and even local chambers of commerce, business accelerator networks, ethnic chambers and international business organizations provide a number of important and valuable services in this regard. Most systems, however, are based upon models developed decades ago at a time when the planet was far less connected. While these models still provide value (and have been modified to try to meet technological and market transformations of the Information Age), few have been developed from a strategic foundation that was conceived in a flat world.

The Global Detroit model is designed to expand regional exports by building a more international community right here in metro Detroit. While the strategy is an indirect one (relying upon the traditional programs to teach the mechanics of export), it is conceived out of and designed for the New Economy. It asserts that building a more international region in Southeast Michigan will have natural—and significant—growth impacts on the region’s export economy. While a variety of Global Detroit programs will help make the region more welcoming and internationalized (e.g., the creation of a Welcome Mat of social services, the Welcoming Michigan campaign, use of ethnic media, etc.), two Global Detroit programs are worth mentioning because they help explain these export impacts.

1. Cultural Ambassadors

A strong Cultural Ambassadors program will do much to create the international ecosystem within southeast Michigan that can facilitate export growth. Conceived by then-private citizen Rick Snyder, the Cultural Ambassadors program at Ann Arbor SPARK was launched in 2008 to attract foreign born knowledge workers to the region and to help integrate them into the cultural and social fabric of their

¹⁴ Peri and Requena.

¹⁵ Peri and Requena.

new community, as well as to foster international business and trade networks. The initiative fostered volunteer culture teams (e.g., Team Japan, Team India, Team Russia, Team Israel, Team China, etc.) to strengthen cultural networks by identifying fellow nationals in the community and enhancing and marketing local cultural events. Each team sought to develop ties with its home country's international business community and to market the Ann Arbor region to that community.

The Global Detroit report recommends expanding the reach of SPARK's Cultural Ambassadors program beyond Ann Arbor--broadening the number of teams and supporting their growth throughout the entire region. Since the report was written, Global Detroit has been developing plans to develop social media as a means to connect the international community throughout the region.

A robust Cultural Ambassadors program better connects the international communities and individuals within southeast Michigan. As the various interests within these communities--ranging from international food, art, culture, and geopolitics to international business and export--link together within southeast Michigan, the virtual distance between Michigan businesses and their end customers across the world vastly decrease. The Cultural Ambassadors programs seeks to fertilize the international ecosystem at home so that southeast Michigan businesses and residents can connect with other regions of the world without ever having to invest in the expense and time of traveling abroad.

2. International Student Retention

Michigan has 22,600 international students studying at its colleges and universities, with more than half at the state's three research universities: University of Michigan, Michigan State University, and Wayne State University. Prior to Global Detroit, there was no concerted program to retain this talent in the state after graduation. In June 2011, the University Research Corridor will launch an International Student Retention initiative (one of the first in the nation) funded by the New Economy Initiative to sell international students on the opportunities in Michigan, link international students with employment opportunities, and assist them in navigating federal immigration laws will grow the number of skilled workers in the state. Of importance to the export effort, these students are often among the most connected to the business communities within their home countries, and are among the most able to assist Michigan companies in lowering the communication and information barriers to export.

Students are encouraged to stay in Michigan through assistance with meaningful internships and work opportunities through the International Student Retention program. However, these efforts will help globalize the Michigan business community even if international students end up returning to their home countries. Through curricular and optional practical trainings allowed under student visas, the program will help international students attain internships, and provide them with a better sense of the Michigan business economy. In short, it will broaden international students' exposure to Michigan businesses, creating relationships that can be sustained even after an international student's return to her home country. Graduates of the international student retention program who return to their home country will be not just Michigan alumni, but former interns and employees of Michigan businesses, with a practical understanding of Michigan's economic assets. They will be uniquely able to tie Michigan's businesses to the markets in their homes.

Global Detroit strategies are designed to make the region more welcoming in order that existing immigrant groups are encouraged to stay and prosper, and to reach back to their home countries to

bring relatives, neighbors, classmates, business associates, and other countrymen to southeast Michigan. As noted above, the growth in the numbers of these new migrants is directly correlated with a region's ability to decrease the communication and information barriers to trade. While the Global Detroit report does not distinguish between how these strategies should be targeted towards different ethnicities or countries of origin, and, in fact, argues that the region should be welcoming to any and all newcomers, the research does indicate that growth in immigration from developing countries with rapidly growing economies may be the most important benefit.

Global Detroit as an Integral Part of an Exports-Driven Economy

While metro Detroit requires some traditional export growth strategies that focus on large businesses and increasing export volume—trade missions, business accelerators, and the like—the regional export strategy must be informed by our growing understanding of the new, networked, “flat” world in which we live. Especially for small and medium-sized businesses, and with particular strength in developing countries, programs that emphasize the development of a region richly connected to the rest of the world through personal relationships have immense potential to provide access to new and growing export markets.

Simply put, the evidence shows that a greater number of immigrants in a region leads directly to a greater capacity for growth in the export economy. By creating a more welcoming culture, Global Detroit seeks to make Detroit a destination for immigrants from around the world. Further, specific elements of Global Detroit's recommendations have vital components of a regional export strategy: the expanded Cultural Ambassadors program and the International Student Retention Initiative foster exactly the kind of relationships that create access to foreign markets. Without these relationships, and relying on old ways of doing business, southeast Michigan will be left to chase markets and overpay for access to them. In short, someone else will get there first.