Over fifteen years into the new millennium, intensifying patterns of global interconnectedness have produced dramatic shifts in the geopolitical and economic status quo. As the world now cautiously edges toward a broader balance of prosperity, cities across the United States are facing new prospects and pressures as hubs of transnational activity. New initiatives have been launched which aim to integrate foreign direct investment (FDI) and export trade into local economic development strategies, yet none so far have considered the most important human assets of a global economy: its abundant international (or diaspora) communities.

This report bridges two main literatures into a new approach for local economic development. The first is an assessment of the evidence for inbound FDI and export trade as economic drivers of expanding importance in the global era. The second is an exploration of newer attempts to connect international migration flows with fluctuations in trade and investment.

**Report Conclusions**

- Attracting FDI and trade is increasingly crucial to the economic vitality of American metros. Meanwhile, the disintegration of international trade barriers and growth of rival economies has made the task of attracting investment and trade more competitive.

- Migration is now much more common and kinetic than in any past era. Migrants stay in one place for shorter periods of time, creating a circulating effect that galvanizes network connections overseas.

- Immigrants, especially the highly-skilled, serve as intermediary actors that connect home and host cultures, economies, and society.

- Empirical studies reveal that inbound investment and export trade volume with a given country increases following immigration from the same country of origin.

- Qualitative research points to improved contract enforcement and market information and knowledge blending offered by transnational actors with “dual identities.”

- Transnational ties with developing countries are not only an investment in the future of global cities, but offer substantial advantages for today’s transnational business climate.

21st Century global cities are reaching beyond American shores for future prosperity. The powerful potential for immigrant communities to be deliberately involved in such urban economic development strategies would not only yield economic rewards. Increased engagement between immigrant and native-born communities results in stronger urban environments overall. This report emphasizes only the economic dimensions of international migration, trade, and investment. In short, America’s cities and metros ought to consider supporting, connecting with, welcoming, and integrating immigrants and internationals into their local business networks and communities if they want to secure a more prosperous future.
The Case for Attracting FDI

The U.S. is the #1 destination for foreign direct investment throughout the globe, and the value of global foreign direct investment has risen continuously in the last decade. In 2013 alone, international firms invested $236 billion in the U.S., a 35% increase from 2012.\(^2\) Clear regulations, relative economic stability, transparent government processes, and the world’s most powerful economy all contribute to the attractiveness of the American market. Because foreign invested (or “insourced”) firms outperform the domestic U.S. private sector in “nearly every economic indicator,” attracting FDI to American shores is more important than ever before.\(^3\)

Foreign-owned enterprise creates out-sized economic impact.

How FDI is not “selling-out.”

- It employs a large and increasing number of Americans.
- Repurposes industrial assets, instead of allowing them to decay or be sold off to overseas competitors.
- Infuses domestic companies with new knowledge and best practices.
- Global best-practices “spillover” into U.S. owned companies in similar industries.
- Provides job opportunities for new and growing industries (IT, Pharmaceuticals, etc.)

Sergio Marchionne - CEO of Fiat Chrysler Automobiles

“Starting in 2009, Fiat rescued over 77,000 U.S. jobs at a struggling Chrysler by purchasing the company for $10.4 billion.”
At the same time that FDI becomes more important to the U.S. economy, the growth of emerging economies, increasing globalization, and a relatively stable geopolitical environment mean that attracting FDI is also becoming fiercely competitive. Fifteen years ago, the U.S. attracted 39% of global FDI, but competition has brought that figure down to 19%. With clear indications that foreign investment outperforms domestic investment, the time to boost U.S. competitiveness is now.

**The Trade Takeover and Future Reliance on Exports**

Much like inward foreign direct investment, the importance of trade in the U.S. economy exploded after the end of World War II. Trade accounted for 6.8% of U.S. GDP in 1960 – now it makes up 23.9% of GDP. The export of U.S. goods is responsible for 27% of GDP from 2009-2014. Today, international trade includes not only an exchange of merchandise goods, but also services. Medical test results, customer service calls, software maintenance, and other services are increasingly being performed trans-continentally. Services now make up 20% of global trade. In terms of merchandise trade, manufacturing continues to rise in importance climbing from 61% in the 1970s to 69% of all merchandise trade today.

![Growth in U.S. Export Value](chart.png)

**Growth in U.S. Export Value**

2004-2014

- South America
- Southeast Asia
- East Asia
- South Asia
- WORLD
- Middle East
- North America
- EU
- Africa

Source: FAS GATS
How Diaspora Networks are Re-defining Our World

What is a diaspora community? How does a diaspora community differ from what we could simply call a pocket of “immigrants”? Whereas the term “immigrant” focuses on geographic place, members of a diaspora are firmly embedded in dual identities. Individuals leave their countries of origin for new opportunity in host countries, but maintain important linkages across vast distances based on shared identity. Another major difference between immigrant communities and diaspora networks requires completely changing our understanding of what it means to “immigrate.” Migrants move back and forth between home and host countries repeatedly throughout their lifetime and maintain closer communication links through new technologies. Such rapid global integration means the days of an “old” world and “new” world are long gone – transnational flows today are becoming a kinetic blur.

The Foreign-born Forces of American Entrepreneurship

The economic vibrancy of immigrants maintaining transnational connections has been widely documented in the United States. Recent research found that 40% of companies in the Fortune 500 were founded by immigrants or the children of immigrants, while over 28% of smaller, Main Street businesses in the U.S. were owned by immigrants. They also make their presence felt at the forefront of American innovation. Even though the foreign-born make up as little as 1/8 of all American residents, about one in every four engineering and tech firms was started by an immigrant between 1995 and 2005.

Transnational Entrepreneurs as an Economic Force

Despite the entrepreneurial potential immigrants often show once they arrive in the U.S., not all immigrants have the education or experience necessary to break into transnational markets. While certain immigrants may have higher amounts of “social capital” in home country markets, research shows that immigrants with higher levels of education make more significant impacts on facilitating transnational business. Transnational entrepreneurs often have lived in the United States long enough to facilitate strong contacts, but not so long as to have lost contacts overseas. These talented individuals have found the means to conduct business in the U.S. and abroad simultaneously and have the potential to serve as intermediaries between businesses in their host culture and country of origin.

How Do We Know that Immigrants Make a Transnational Impact?

Thanks to a few pioneering research papers and reports in the emerging field of transnational entrepreneurship, immigrants have been shown to have significant impact across borders. Immigrants from both developed and developing countries repeatedly show potential to spark greater economic activity by facilitating American exports, importing foreign goods, or catalyzing investment flows.
Some of the first studies to trace this relationship focused on trade. A 1994 report by David Gould found that immigrants provided strong and significant links for bilateral trade, especially in manufactured consumer goods. Though the magnitude of these linkages depended on the country of origin, Gould found that the information provided by immigrant communities was even more essential to export trade than import trade.\textsuperscript{14}

On average, a 10% increase in immigrants to the United States increases U.S. exports to the country of origin by 4.7%.

Just like trade, investment seems to follow social, cultural, and ethnic bonds as well. Using 1970-2000 census data, one study found a strong “national origin bias” for FDI.\textsuperscript{15} Other work shows that trade and investment do not induce immigration, but that the relationship between these variables only blooms when immigration precedes trade and investment.\textsuperscript{16} Even when outlying factors such as exchange rates, market size, import tariffs, language, religion, or cultural and geographic distance are taken into account, the bonds of immigration with trade and investment flows remain.\textsuperscript{17} If the intensity of an immigrant community in a given U.S. region doubles, 3.6 new affiliates are estimated to spring up, whereas a 1% increase in a given ethnicity’s share of a U.S. state’s overall population is associated with a 78% increase in foreign affiliates located in that state.\textsuperscript{18}

**What Comes First, The Migrants or the Jobs?**

In thinking about the fusion of these factors it is of course important to ask whether migrants cause job creation or the other way around. Researchers have largely overcome this issue by rating migration flows alongside investment and trade figures with their country of origin years later. When taken in the same year instead, the numbers predictably reveal that migration, trade, and investment show no signs of interaction.\textsuperscript{19} As quickly as two years after immigrant arrival, however, a clear pattern emerges in the data that has been replicated in Canada, Sweden, Germany, France, and elsewhere.\textsuperscript{20} In each case, it confirms years of previous survey research and anecdotal evidence– immigrants are a direct, transnational line to economic opportunities for both home and host countries.\textsuperscript{21}

**How Do Diaspora Communities Intervene for FDI and Trade?**

The heart of immigration’s effect on trade and investment rests on the ability to reduce informal trade barriers that can some times be difficult to observe directly. A consideration for the social networks that immigrants maintain overseas, however, begins to unveil features of social, transnational interaction that can be thought of as “feedback effects.”\textsuperscript{22} These “feedback effects” shed light on the ways in which immigrants are able to use social networks beyond borders to break down informal trade barriers.
1. Transnational Identities Guard Against Contract Failure
   For those trading or investing overseas, considerable risks lie in entrusting capital or goods to actors that are sometimes thousands of miles away. There is always the threat that problems could arise on either end of a deal, made more difficult by fewer options for legal recourse between two parties operating in different countries. Although the costs of contract enforcement can be quite intimidating for transnational business, trade and investment through immigrant networks shows signs of being less vulnerable to such failures. Social or emotional relationships combined with language ability and greater cultural competence in the business environments of both countries may guard against mistrust or misunderstandings that could otherwise have been avoided.

2. Immigrants Are Better Informed of Transnational Opportunities
   If immigrants are prepared with essential market expertise, they may possess the advantage of a closer familiarity with the preferences of foreign investors or on-the-ground market realities that save time and money for multiple parties. Diaspora communities can facilitate contact between opportunity seekers and markets, such as in the case of Indian software entrepreneurs in California.

3. Social Ties Attract Special Forms of Investment
   Investment visa programs, such as the EB-5 visa have been attracting increasing numbers of applicants who are offered permanent residence conditional upon an investment of $500,000 to $1,000,000 and at least 10 created jobs. Instead of an individual intermediary, specific diaspora communities considered on a macro level can be a strong pull for EB-5 investors seeking green card residence in a place with significant co-ethnic populations. Ultimately, the value of transnational entrepreneurs in diaspora communities is founded in trust building across vast distances. By acting as intermediaries, immigrants in host countries have the potential to gain social capital in their communities and to participate in those host communities as valued members. On the other hand, host communities can strive to nurture connections with former immigrants who have transitioned back to their home countries. These are only some of the ways that U.S. communities can grow in the 21st century as transnational hubs for trade and investment.

The Developing World and the Future of Global Trade and Investment
   The rapidly morphing landscape of international economics in the last several years sends a clear message to tomorrow’s globalizing cities: ignore the developing world at your own peril. While the share of inbound FDI from BRICS countries (Brazil, Russia, India, China, and South Africa) may have stood at a meager 1.5% in 2013, investment from countries like China, India and Brazil has been climbing rapidly in recent years. By the year 2030, 66% of the global middle class is projected to live in Asia, while the U.S. share will be only 7%. From China alone, investment in the U.S. has grown to $93.31 billion since 2005, while 81% of all EB-5 visas in 2013 were Chinese.
Disparities may exist in trade and investment potential between highly-skilled and low-skilled immigrants, but otherwise, migrants from less developed economies do not have a weaker influence on bilateral investment and trade flows. For example, a growing percentage of Hispanic immigrants in the U.S. engage in trade with their home country. Certain groups, such as the Chinese and Indians, have been repeatedly found to have one of the most effective transnational networks in fostering business ties. This proclivity toward diaspora networking is made all the more potent by the fact that virtually all the population growth of tomorrow is forecasted to take place in the developing world. The greatest rates of growth are occurring in Africa, while already more Chinese people live outside China than French people live in France. New trade agreements like the recently-signed Trans-Pacific Partnership, the spread of affordable technology, and vanishing barriers to international investment mean that these same regions are tomorrow’s hotspots for economic growth as well.

Looking to the Future while Impacting the Present
Attracting immigration from the developing world is not only just an investment in the future of inbound investment and export trade, but has great potential to charge local economies now. African immigrants, for instance, tend to be among the most highly educated of any group making their way to the United States. The social capital immigrants provide can also be extremely useful in dealing with developing countries that witness an uncertain rule of law, opaque regulatory environments, or other high information costs. In the case of politically authoritarian environments, employing more people from certain countries of origin has been demonstrated to help companies operate and trade overseas more independently of joint ventures or other restrictive measures.

Traditional economics may argue that migration and capital flow in opposite directions; while migrants seek better economic opportunities in more wealthy countries, capital pulses outward toward investments in the developing world. The reality of a new globalized era, however, shows how far these assumptions are from the truth. Distinct advantages in governance, transparency, and innovation allow the United States to boast the highest inbound FDI figures in the world, while still serving as a prime destination for global migration. As the world’s economic momentum shifts slowly toward the East, it will be imperative for globally interconnected cities to partner with the developing world for new economic opportunities.
Recommendations:

**What can American communities do to support the success of diaspora-led economic impact?**

The importance and benefits of diaspora communities to local economies have only recently begun to be understood and acknowledged. Additional research into the impact of these talented individuals and the value of their global networks is needed. It’s not terribly surprising that awareness concerning the significance of these networks is growing at a time where internet and satellite communications make global connectivity easier and more ubiquitous.

The fact that awareness of these issues is a relatively recent phenomenon means that the development of intentional and proactive policies to utilize diaspora communities as part of a region’s local economic development, growth, and trade strategies and programs has been an anomaly. That is both good and bad news for local economic development leaders and strategists. The good news is that there are many unexplored opportunities, low-hanging fruit, and easy to implement practices to better include diaspora communities into the local economic fabric. The bad news is that there are few well-developed models from which to borrow. We are largely in new and unchartered waters, but waters rich with opportunity.

**Build a more connected and inclusive business, trade, and investment environments locally**

The reality is that some of the most important local economic benefits accruing from strong diaspora networks come when those networks are connected to and working with mainstream economic partners. While there is significant local economic benefit when a global entrepreneur sets up his exporting or importing business in a local community, some of the most profound contributions from diaspora communities are felt when these actors help local mainstream businesses develop new and important trade and investment relationships abroad. In other words, it’s one thing when a small business operates within a community as a global trader, it’s another thing when several local businesses become global operators (and have a competitive advantage because of their partnerships with local, trusted diaspora collaborators).

Too often, however, global entrepreneurs and international talent face isolation and are not well integrated into our local economies. This occurs when immigrant talent—often highly-skilled STEM workers who have emigrated to the U.S.—are viewed less favorably than U.S.-born counterparts. It is rare that a U.S. business recognizes the value that international talent can bring in assisting a business in penetrating global markets, developing relationships with foreign customers and suppliers, or in attracting foreign investment. Moreover, immigrant-owned businesses and entrepreneurs—even those with
tremendous technical skill or global commerce acumen—often are isolated from mainstream business circles. While foreign consulates and ethnic chambers of commerce have been an important vehicle for helping build local relationships, the reality is that more can and should be done to foster a more diverse and inclusive local business and trade community.

The **Welcoming Economies Global Network** (WE Global) is a network for nearly two dozen local economic development initiatives across the Rust Belt that seek to foster economic growth by building more robust local economic environments that include immigrants and internationals. Many of the local members of WE Global seek to more fully integrate diaspora talent through a variety of practices that include developing professional networking and connector programs, communicating and building awareness around the contributions of immigrant-owned businesses and leaders (especially in the areas of global trade and the new economy), and making diaspora communities feel welcome in their new homeland. These programs reflect innovative ideas and range from the nation’s first international student retention initiatives, skilled immigrant integration programs, EB-5 investor visa regional centers, and a variety of other efforts. These efforts are profiled on the WE Global Network website, as well as in **Welcoming America’s Guide to Immigrant Economic Development**.

**Connect diverse, local entrepreneurs with trade-related information and services**

Though diaspora entrepreneurs likely have personal ties back home, they still could use help with some of the red tape behind growing a transnational business, as well as tapping into some of the mainstream U.S. incentives and supports that assist American companies with global trade. Nonprofits, government, and other organizations can encourage diaspora entrepreneurs to utilize their local U.S. Export Assistance Centers and other trade promotion infrastructure.

On a larger scale, the federal government should make it easier for small manufacturers to receive export credit insurance through institutions like the U.S. Import-Export Bank. Lawmakers on Capitol Hill can start this processes, first, by renewing the Bank’s authority, and, second, by encouraging the bank to reach new and diverse exporters. Such efforts already have been launched by President Barack Obama who has announced a plan to promote what he explicitly called “diaspora entrepreneurship” in the Western Hemisphere.

The Business Network of the Americas provides a variety of resources for such entrepreneurs, including a virtual trading platform for small businesses looking to conduct business overseas, providing awards and grants to outstanding entrepreneur-applicants, and providing funding for Small Business Development Centers (SBDCs) throughout the hemisphere. Similar supports and networks should be considered for expansion to other parts of the globe.

Communities at the grassroots level can make a difference as well. They can work to insure that diverse entrepreneurs and business communities, including diaspora communities, are included at various trade and export promotion events, opportunities, and networks.
Mainstream chambers of commerce, as well as state and local economic development agencies, must work to actively engage ethnic chambers of commerce, foreign-owned businesses, the consular corps, and other obvious global business networks to promote local trade and export information and service programs. Mainstream chambers and economic development agencies, however, also must look beyond these obvious targets to engage diaspora communities and the individuals who comprise them in all their potential.

**The Bottom Line**

As international trade and foreign direct investment continue to play a growing role in the global economy and America’s economic growth, the value and importance of diaspora networks will grow. The value of these critical global economic players and the economic benefits that they bring to a local community is only now being fully understood. The strategies and practices that help integrate, welcome, nurture, and grow diaspora networks into the local economic mainstream are just now being launched. While more research needs to be done on this topic, local communities should not wait to identify ways in which they can better incorporate, connect, and foster the diaspora networks within their own region. We look forward to working with communities across the country to build this exciting field of practice.
Among the most prominent of these initiatives is the “Global Cities Initiative,” a joint project of The Brookings Institute and JP Morgan Chase. See: http://www.brookings.edu/about/projects/global-cities


8 Xiaohua Lin and Shaw Tao, “Transnational Entrepreneurs: Characteristics, Drivers, and Success Factors,” Journal of International Entrepreneurship 10, no. 1 (2012): 50–69. Basch and Schiller elaborate more on the phenomenon of transmigration as: “…the processes by which immigrants forge and sustain multi-stranded social relations that link together their societies of origin and settlement.” “Immigrants today build social fields that cross geographic, cultural and political borders (distinguishing here international relations – among several nations – multi-national – among several nations – and transnational – represented by the non-institutional actors of civil society.) Immigrants who develop and maintain multiple relationships – familial, economic, social, religious or political, that span borders are called transmigrants. An essential element of transnationalism is the multiplicity of involvements that these transmigrants sustain in both home and in the host societies… Transmigrants take actions, make decisions and develop subjectivities and identities embedded in networks of relationships that connect simultaneously to two or more nation-states.” See Basch & Schiller, Nations Unbound: Transnational Projects, Postcolonial Predicaments and the Deterritorialized Nation-State, (New York: Gordon and Breach Publishers, 1994).

9 Bitran and Tan, Diaspora Nation: An Inquiry into the Economic Potential of Diaspora Networks in Canada.


11 Bitran and Tan, Diaspora Nation: An Inquiry into the Economic Potential of Diaspora Networks in Canada.


16 Foad, “FDI and Immigration: A Regional Analysis.”


18 Foad, “FDI and Immigration: A Regional Analysis.”

19 In some cases, correlations between immigration, trade, and investment have even been negative, only to reverse that trend once immigrant communities become more entrenched. See: Maurice Kugler and Hillel Rapoport. Skilled Emigration, Business Networks and Foreign Direct Investment CESifo GmbH, CESifo Working Paper Series: CESifo Working Paper No. 1455, 2005.

20 Head and Ries, “Immigration and Trade Creation: Econometric Evidence from Canada.”


27 Stringer, “How U.S. States Are Attracting Foreign Direct Investment.”


30 Flisi and Murat, “The Hub Continent. Immigrant Networks, Emigrant Diasporas and FDI.”


34 Bitran and Tan, Diaspora Nation: An Inquiry into the Economic Potential of Diaspora Networks in Canada.