

# Emigrant Population as Potential Source for Export Growth in Developing Countries

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# World Economic Forum: Four-point pathway for promoting trade, attracting private investment and achieving export diversification:

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- Cutting bureaucratic red tape
- Creation of a conducive regulatory and legal environment
- Enabling environment for improved service trade
- Expand e-commerce to help reduce transaction costs of trade

Another pathway:

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Pool of domestic nationals residing abroad:

<http://www.un.org/en/development/desa/population/migration/data/estimates2/estimatesgraphs.shtml?2g2>

# Source and destination of international emigrants



Credit: Graph based on D3-based circular migration visualisation adapted from [www.global-migration.info](http://www.global-migration.info)

# Organization of the study

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- Review of potential effects of emigrants on exports of source country
- Some empirical findings
- Case of Pakistan
- Some policy recommendations

# Potential effects of emigration on exports of source country

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- Transaction cost effect
- Preference for ethnic goods
- Mitigation of asymmetric information

# Transaction cost effect

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- Emigrants reduce transaction cost of trade
  - Individual specific
    - Personal connections
  - Non-individual specific
    - Knowledge about country of origins' markets and institutions
    - Overcoming language barriers

# Immigrant preference for ethnic goods

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- Own demand for their source country products
- Impact on tastes of original residents
  - International aisles in grocery stores
  - International potluck at work
  - “Wear a hejab to work” day “Wear a hejab to school” day

# Mitigation of information asymmetries

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- Both the host and source country have access to the ethnic networks formed by immigrants in the host country
  - Mitigate information asymmetries
  - Support contractual enforcement

# Some empirical findings

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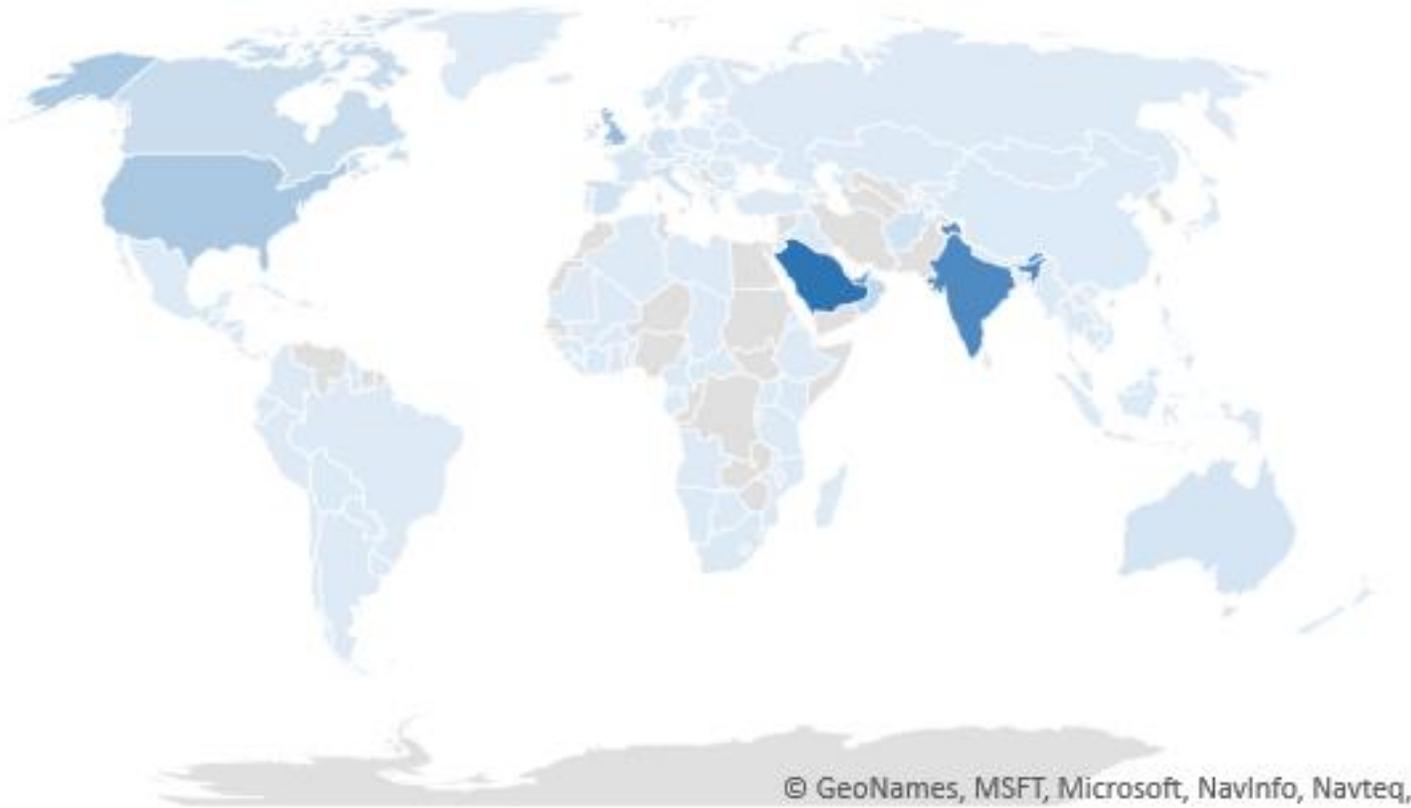
- Most studies have used data for developed countries and have analyzed collective effects of their resident migrants without focusing on any particular country of origin. Estimate gravity model of trade to obtain immigrant elasticities of exports and imports.
  - For Canada: Head and Reis (1998): statistically significant effects on imports from and exports to its 136 trading partners.
    - Higher impact on imports due to immigrant preference for home country products and to immigrants' own involvement in import business from countries of origin.
  - For UK: Girma and Yu (2002): Immigrants from non-Commonwealth countries increased both imports and exports, those from Commonwealth countries increased exports but reduced imports. Import-substitution resulting by higher demand for imports by immigrants.
  - For US: Hutchinson and Dunlevy (1999): Higher immigrant effect on imports from English-speaking countries.

## Some empirical findings (contd.)

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- Only 4 country specific studies
  - Bolivia: Bacarreza et al. (2006): Small effect of emigrant stock on intra-industry trade.
  - China: Rauch and Trindade (2002): Found significant effect of Chinese emigrants on trade between China and some individual host countries.
  - China and Japan: Kumagai (2007): Chinese networks in Japan have a stronger effect than Japanese networks in China
  - Pakistan and OECD: Akbari and Hyder (2011)

# Pakistani emigrants by their destination countries, 2017



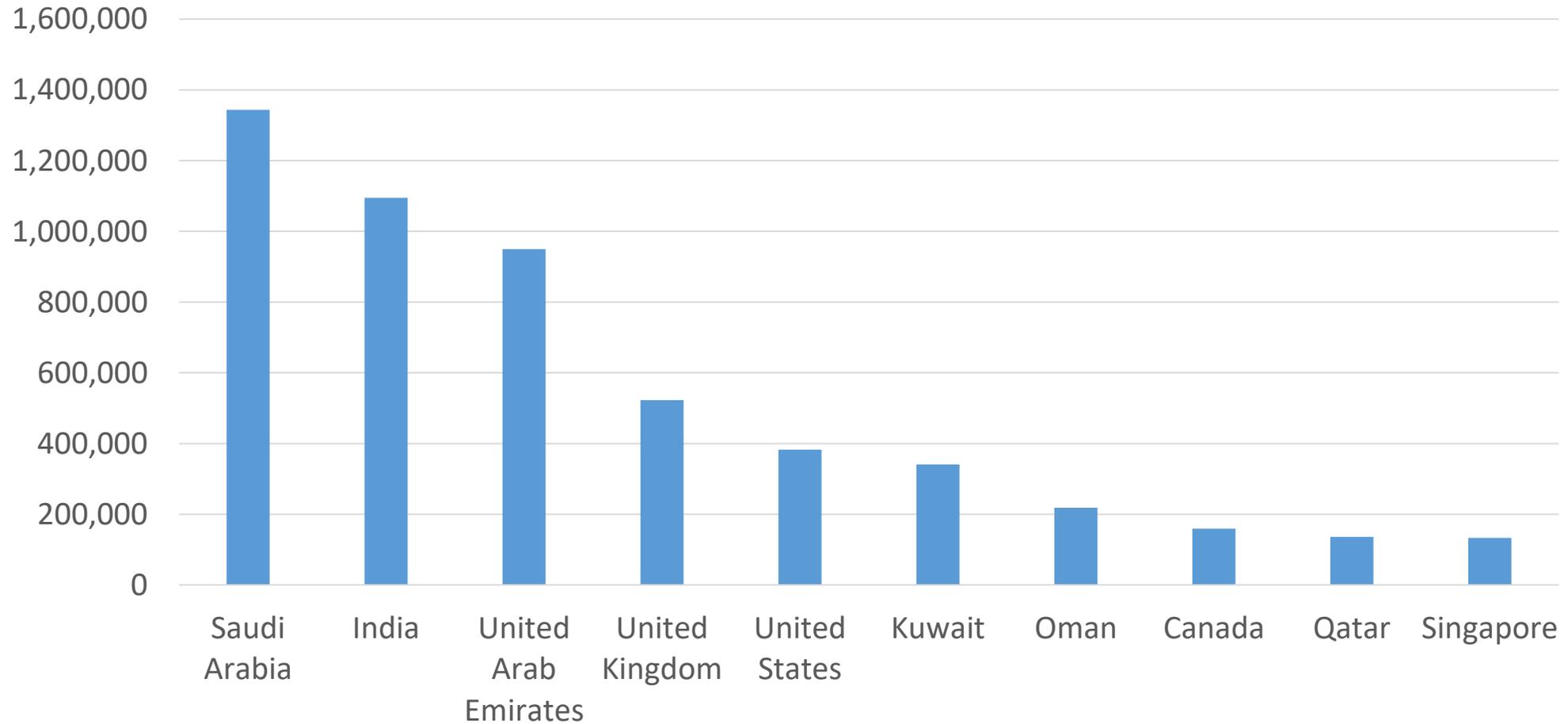
Emigrant Population



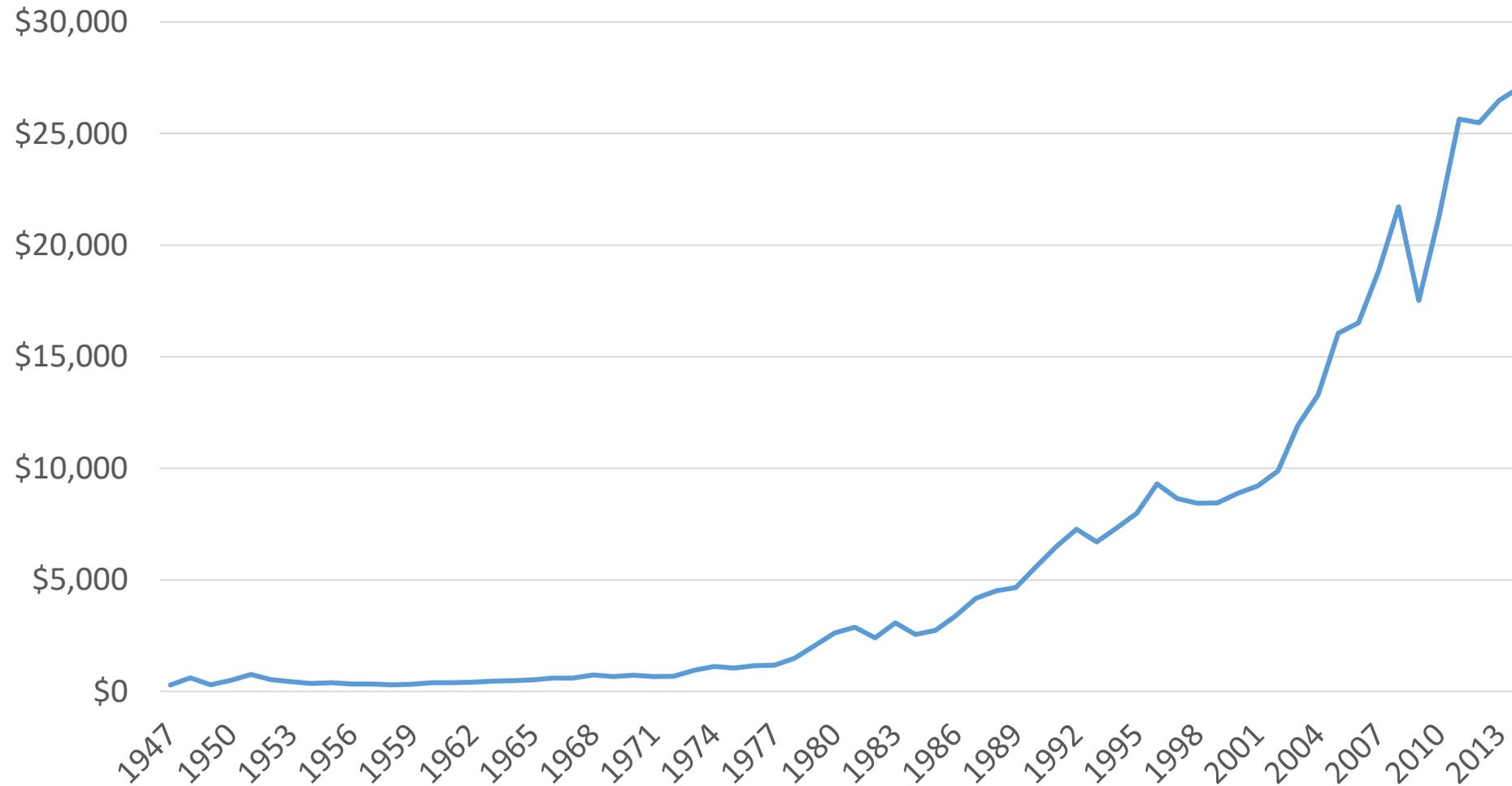
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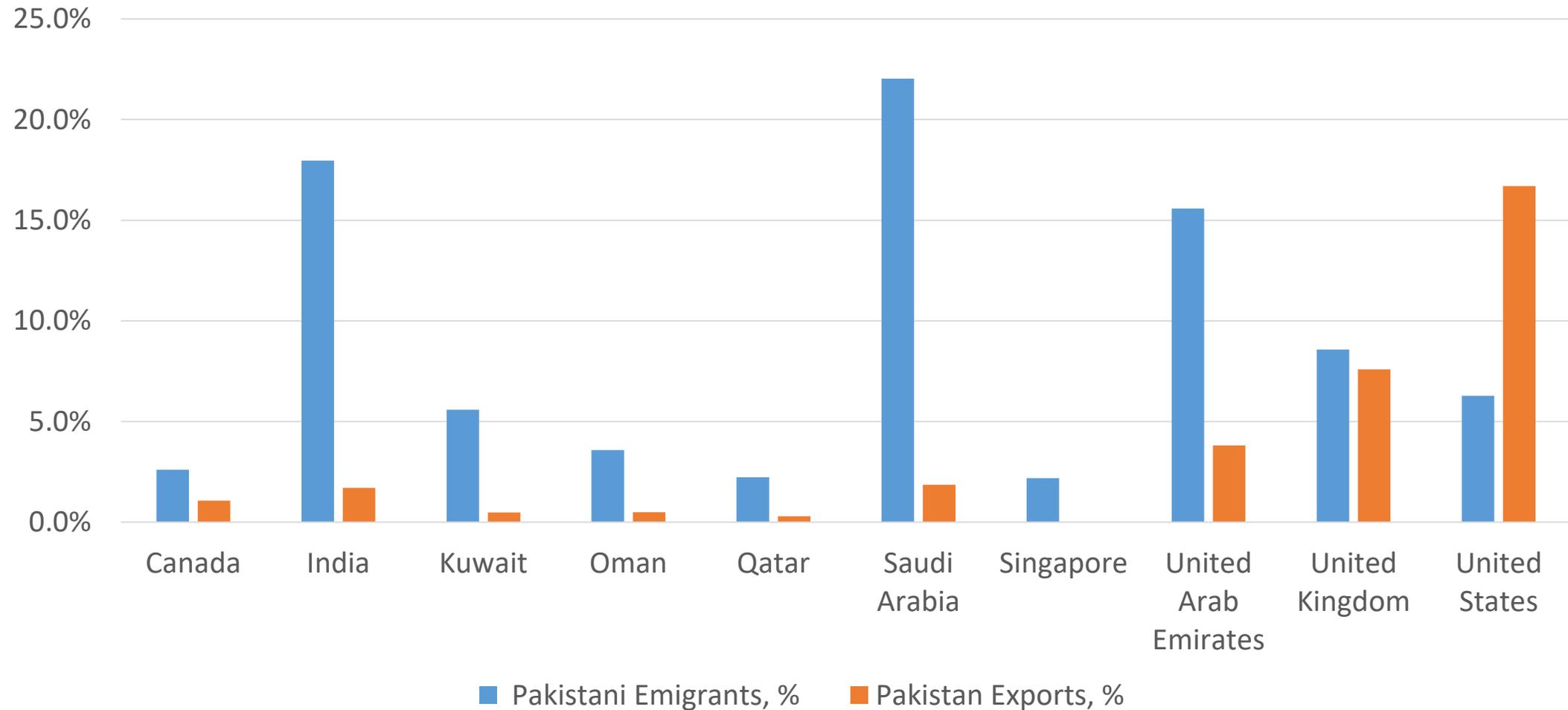
# Top ten destinations of Pakistani emigrants, 2017



# Total exports of Pakistan, 1947-2014 (US \$million)



# Pakistani exports to top ten emigrant destination countries



## Some empirical findings: Pakistan and OECD countries

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- Akbari and Hyder (2011): Computed emigrant elasticities of imports and exports using a gravity model
- Statistically significant elasticities
- Pakistani emigrants in OECD countries accounted for a quarter of annual export growth in Pakistani net exports to English-speaking OECD countries.
- Trade deficit with non-English speaking countries would have been 46 percent higher if there were no increase in expatriate population.

# Some conclusions and policy implications

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- As their natural growth of population slows down, developed countries will rely increasingly on immigration for their labour force and economic growth
- Trade policy in developing countries should view their expatriate population as another source of promoting trade
- Proper institutional support should be available for expatriates wanting to establish trade relations with their source countries
- More data needed to investigate trade enhancing effects of emigration, at global level, to help with evidence-based policy
- Vohra (2011): strong export-growth linkages for Philippines, Malaysia and Thailand. Similar linkage can be explored for Pakistan