

Migrants are key to productivity gains for countries



*For decades, the focus of the economic literature when studying migration was, for the most part, on the impact it has on labour-related outcomes such as wages and unemployment. But these studies have only been able to tell us one side of the story. As is the case with other flows, such as trade and investment, there are many other aspects of migration that go beyond the localised short-term impact it might have on the labour force. However, there are many reasons to believe that migration may be a highly effective driver of knowledge diffusion across borders, write **Dany Bahar (Brookings) and Hillel Rapoport (Paris School of Economics)**.*

Why? Because similarly to trade and investment, migration is also linked to productivity: as people move across locations, they typically bring along new skills and knowledge to their country of destination. In similar ways, countries of origin can also benefit from the skills and knowledge that their emigrants gain while abroad. If this process of knowledge diffusion through migration is significant, we should be able to see it in important economic outcomes, such as productivity.

This was the main goal of our recent paper. In our research, we explored a novel aspect of how migrants can induce productivity, investigating whether and how they can contribute to the export diversification of countries by fuelling the emergence of new export sectors.



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Our findings suggest that migrants play an important role as vehicles of knowledge between source and receiving countries, which leads to increased productivity as measured by exports. In particular, we found that a 10 per cent increase in the immigrant stock from countries that export a certain good can explain a 2 per cent improvement in the probability of the receiving country exporting this same good to the rest of the world, competitively and from scratch. Our results, therefore, imply that the inflow of immigrants coming from countries with a comparative advantage in a given product can lead to a strong increase in the likelihood that the receiving country will start to export that same product competitively in the following ten years. We deal with endogeneity concerns by instrumenting for migrant flows using a bilateral migration gravity model.

We interpret these changes in the composition of the export basket of countries as sectorial productivity shifts. This is because only an increase in productivity can explain a country being able to export a good to the world in a significant amount from scratch, keeping global demand constant. Interestingly, qualitatively similar results are obtained for sending countries (i.e. migrants also explain the appearance of new goods in the export basket of the sending country).

There are many reasons to believe that migration may be, perhaps, the most effective driver of knowledge diffusion across nations. This is due to the ability of migrants to bring along “tacit knowledge”: a type of knowledge that requires direct human interaction to be transferred appropriately, and hence cannot be embedded in goods or written down on a website or a piece of paper (Polanyi 1956, Arrow 1961).

This particular type of knowledge is often gained only through experience and tenure, and not by simply reading a manual. The knowledge associated with being a good manager, for example, is likely tacit in nature, as it is something that cannot be learned just by reading management best practices. Extrapolating from the research by Nicholas Bloom, Rafaella Sadun, John Van Reenen and others, we know that for a country, gaining comparative advantage in a particular good also involves the ability of its firms to be productive enough, often through better management and other types of tacit knowledge.

Consistently with this, we find that this process is strongly driven by immigrants that are considered skilled (i.e. have completed enough years of education to earn at least a college degree). In fact, when comparing the ability of migrants to shape the export basket of countries through sector-specific shifts, we find that a skilled immigrant is about ten times more effective than an unskilled one. Our evidence also shows that this effect is driven mostly by instances where the receiving country is a non-OECD one, where we find that skilled immigrants are about 20 times more effective in driving this effect than unskilled ones.

Importantly, these results are not driven by a simple increase in the supply of labour, since the data show positive effects for goods both above and below the average capital intensity (the capital-to-labour ratio in the economy) measure. Interestingly, our results suggest that migrants do not play a role in explaining productivity shifts of products that are very ‘simple’ (as measured in a knowledge-intensity scale), as knowledge would diffuse with ease in those cases regardless of migration. Migrants also do not play a role in explaining productivity shifts of products at the other end of the knowledge intensity scale: for highly complex products, it is very difficult for knowledge to diffuse, in spite of migration flows, if migration is not accompanied by complementary inputs.

Based on our work, there are many reasons to believe that migration may actually be a highly effective driver of knowledge diffusion across borders. This is, if anything, the most important conclusion of our study. Therefore, this study carries important policy implications. Since know-how and technology are the most important determinant of productivity growth, policies incentivising temporary migration, for example, may be a highly efficient way for firms and countries to access new knowledge. Further investigation of the type of migration policies that would be most effective for this purpose is, in fact, a crucial part of our ongoing research agenda.

*This blog post is based on the authors’ paper [Migration, knowledge diffusion and the comparative advantage of nations](#), *The Economic Journal*, and it first appeared on [LSE Business Review](#). It gives the views of its authors, not the position of LSE Brexit or the London School of Economics.*

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