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Immigration and Firms' Integration in International Production Networks

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Abstract

This paper uses panel data on cross-border migration and transaction-level trade for Swiss municipalities to identify the effect of migration networks on specific margins of the integration of firms in global value chains. We find that the stability of an international supplier-buyer relationship is strongly associated with a-priori knowledge about the supplier's origin as measured by the migrant network with the same country of origin present in the buyer's immediate environment (here, a municipality). Not only do firms engage in more stable input trading relationships and intensify relationships in terms of input trading volume, but they reduce the total number of suppliers in a given country in response to an increase of immigration from there. These results are in line with a theoretical framework where firms' sourcing strategies are subject to incomplete information. Firms diversify their foreign supplier network in order to be less susceptible to potential bad shocks. Once informational barriers are lifted, firms contract fewer suppliers but purchase a larger volume from each of them.

Keywords: MIGRATION; INTERNATIONAL TRADE; GLOBAL VALUE CHAINS; INSTRUMENTAL VARIABLES.

JEL-classification: F22; F23; F16.

1 Introduction

For society as a whole, the diversification and fractionalization induced by immigration tends to be beneficial, in particular, by stimulating the performance of the private sector. Evidence for the latter has been provided by Collier (2001) and Bahar and Rapoport (forthcoming) across countries, by Ottaviano and Peri (2006) across metropolitan areas of the United States, or by Mitarionna et al. (2014) across departments in France. One branch of research on

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