



Heterogeneous effect of ethnic networks on international trade of Thailand: The role of family ties and ethnic diversity

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ABSTRACT

Ethnic networks have been found to have a pro-trade effect in previous research. However, the heterogeneous effect of different ethnicities is under-studied. Drawing on the literature on social structure, this paper attempts to untangle the heterogeneous effect of ethnic networks on international trade using trade data of Thailand. We found that ethnic networks have a positive impact overall on trade, confirming the results of previous studies. However, the magnitude of the positive effect varies across different ethnicities along two dimensions. First, the strength of family ties in the culture of origin accelerates the pro-trade effect of its ethnic networks, suggesting ethnicities with stronger family ties have a cultural preference for trading within their own ethnic community. In comparison, ethnic diversity weakens the positive effect of ethnic networks on trade, suggesting an informational value of diverse ethnic structure in promoting trade between different ethnicities. Our study contributes new evidence of the enduring influence of social and cultural attributes on economic activities.

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1. Introduction

The role of culture and social networks on economic outcomes has been embraced by more and more economists in recent years. The enduring effects of traditions, cultural values, and other informal social institutions have been found to have significant impacts on macroeconomic outcomes, such as international trade, investment, and individual decision making, such as preferences for housing, education, and health care (see Guiso, Sapienza, & Zingales, 2006). Within this new field of research, some scholars have paid particular attention to the role of ethnic networks in facilitating international trade and investment (e.g., Bandyopadhyay, Coughlin & Wall, 2008; Freeman and Lindsay, 2012; Rauch and Trindade, 2002; Tong, 2005). Ethnic networks are found to overcome information barriers and support contractual enforcement, and therefore promote trade and investment across borders.

However, one of the lacunas of prior studies is that they have tended to examine a *single* ethnic network in terms of elasticity of trade and investment flows from one country to a group of countries. This has masked a great deal of heterogeneity of network effects on trade. Recent research has empirically demonstrated this lacuna and called for further investigation to unravel the heterogeneous effect of ethnic networks. Bandyopadhyay et al. (2008) examined how twenty-nine ethnic networks located in the US affect the trade flows between the US and the twenty-nine countries of origin. By removing restrictions that the network effect is the same for all ethnicities, they found significant heterogeneity of ethnic-network elasticity on trade. The

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magnitude of the effect of ethnic networks is much larger than earlier studies suggested, but it is important only for five out of the twenty-nine countries; Brazil, Colombia, Spain, Thailand, and Turkey.

We carry on this line of investigation, and attempt to disentangle the factors that can explain the heterogeneous effect of ethnic networks on international trade. We advance the extant literature in four ways. First, the pro-trade effect of ethnic networks has mainly been examined in a few large, developed, English-speaking, high-immigration countries, such as the United States, Canada, and the United Kingdom (e.g., [Girma and Yu, 2002](#); [Mundra, 2005](#); [Wagner, Head, & Ries, 2002](#)). In this paper, we use Thailand as the unique context to examine the effect of ethnic networks on trade. Thailand, being a developing, non-English speaking, Asian country, provides an interesting testing ground in the sense that it is not a major immigration country. Foreigners residing in Thailand may be there for reasons that differ from residents in large immigration countries, such as the United States. Therefore, empirical results from Thailand will be able to extend the generalization of previous studies regarding the general effect of ethnic networks on trade. Second, prior research may have a bias in estimating the effect of ethnic networks where the ethnic minorities are of positive value, but did not estimate their effect by comparing between positive ethnic networks and non-existent ethnic networks. We take this into account by using a qualitative dummy variable and a continuous variable in our regression models to assess the relative effect of ethnic networks. Third, we examine how social structural features of the countries of origin, such as their ethnic diversity and family ties, interact with the pro-trade effect of their ethnic networks in Thailand. This will provide insights into *whether* and *how* pro-trade effects of ethnic networks vary across different ethnicities. Finally, we use a panel data set that spans about two decades to examine the trade effects of ethnic networks. The panel data enables us to use a recently developed system-GMM (generalized method of moments; GMM-SYS) method that controls for econometric issues such as unobserved country heterogeneity, simultaneity and endogeneity (see e.g., [Blundell and Bond, 1998](#)). The control of these estimation issues is very important in establishing causal links between ethnic networks and trade. Therefore, our data and estimation methods present an important improvement upon earlier studies, such as [Rauch and Trindade \(2002\)](#), which only used maximum likelihood and Tobit estimations with cross-sectional data for 1990 and 2000.

The remainder of the paper is structured as follows. In Section 2 we review key literature relating to ethnic networks and trade, and develop our hypotheses. Section 3 provides an overview of ethnic minorities in Thailand. Our empirical strategy is laid out in Section 4. Section 5 presents our findings and discussions. Finally, Section 6 concludes.

2. Literature review

The core of the pro-trade function of ethnic networks lies in the notion that people tend to associate with others who are similar to themselves in some salient respect, such as ethnic identification, religion, and race. Despite the rapid development of modern market-based and liberal societies, this in-group network effect persists ([Bowles and Gintis, 2004](#); [Guiso, Sapienza, & Zingales, 2009](#)). Sociologists argue that in-group affinity supports cooperation by means of positive sentiments, such as ethnic purity and personal loyalty among group members ([Loury, 2001](#)), whereas economists believe that persistent network effects can be explained by their problem solving capabilities, such as promoting information flows among members and the enforcement of contracts ([Bowles and Gintis, 2004](#)).

Prior research, theoretical as well as empirical, has identified ethnic networks as an important intermediary that can mitigate informal barriers in foreign country markets by providing information about demand, languages, business practices, and laws, as well as instilling confidence to facilitate international trade ([Bandyopadhyay et al., 2008](#)). For example, [Rauch and Trindade \(2002\)](#) find that ethnic Chinese networks, proxied by the ethnic Chinese population shares, increased bilateral trade between pairs of countries. The increase rate is higher for differentiated than for homogenous products, suggesting that business and social networks have a considerable quantitative effect on international trade by helping match buyers and sellers in addition to their effect through enforcement of community sanctions that deter opportunistic behaviour. Other studies have focused on trade flows between a single English speaking country, such as the US or the UK, and origin countries of different ethnicities, with most results confirming the positive trade effect of ethnic networks ([Bardhan and Guhathakurta, 2004](#); [Dunlevy, 2006](#)). However, one of the lacunas of this literature is that it has either focused on a single ethnic network, such as the ethnic Chinese networks in [Rauch and Trindade \(2002\)](#), or it has assumed that all ethnic networks have an equal effect on trade.

This lacuna has been empirically demonstrated by [Bandyopadhyay et al. \(2008\)](#) who found significant heterogeneity of ethnic-network elasticity on trade with the US: ethnic networks were important for only for five out of twenty-nine countries in their investigation – Brazil, Colombia, Spain, Thailand, and Turkey – but not for others. However, no explanation is provided for why the significant impact only exists for these particular countries. [Dunlevy \(2006\)](#) is by far the only study that has attempted to disentangle the heterogeneous effect of ethnic networks. Employing export data for fifty US states with eighty-seven foreign countries averaged over the period 1990–1992, [Dunlevy \(2006\)](#) found that the trade effect of the various ethnicities is stronger when the origin country's political system is more corrupt, and less important when Spanish or English is the language of the origin country. The interpretation for the varying effect of these ethnic networks is that ethnic networks are more valuable when destination markets are less transparent or more subject to corruption. In addition, sharing a common language between the import and export countries reduces the value of ethnic networks.

We extend this line of investigation by focusing on some salient social aspects of the country of origin that may account for the heterogeneous effect of ethnic networks. The significant effect of social and cultural aspects on economic behaviour

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