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# Immigrants, cultural distance and U.S. state-level exports of cultural products

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### ABSTRACT

We examine the relationships between immigrants, cultural distance and state-level exports, employing state-specific immigrant stocks and total US immigrant stocks, separately, and a measure of cultural distance recently introduced by [Tadesse, B., & White, R. (2008b). Cultural distance as a determinant of bilateral trade flows: Do immigrants counter the effect of cultural distance? *Applied Economic Letters*]. A positive link between immigrants and aggregate exports is reported and, while cultural distance is found to reduce exports, immigrants partially offset the effects of cultural distance by increasing both the intensity of existing exports and the likelihood that exporting occurs. However, heterogeneity in immigrant effects is observed across cultural product sub-classifications, suggesting variation in the ability of immigrants to influence trade by overcoming information asymmetries.

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## 1. Introduction

We examine the effects of immigrants and cultural distance on state-level exports, placing emphasis on several categories of cultural products, and dispense potential implications of variation in immigrants' abilities to influence trade between their home and host countries. Cultural products are goods and services that convey ideas, symbols and ways of life. Examples include books, magazines, multimedia products, software, recordings, films, videos, audiovisual programs, crafts and fashion design (Cano,

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del Corral, & Poussin, 2000). While exports of cultural products comprise a minor share – roughly 2.4 percent – of total state-level exports, international trade in such products has grown rapidly in recent decades. Between 1980 and 1998 alone, global imports of all commodities increased by 189 percent while imports of cultural products increased 347 percent (UNESCO, 2005). Such growth has added an impetus for related multilateral trade negotiations and, thus, further liberalization of trade in cultural products. Tadesse and White (2008a) indicate that, by fully or partially countering the negative effects of cultural differences on trade, immigrants enhance host country exports of both cultural and non-cultural products. We extend their findings by considering differences in product characteristics while examining whether immigrants' knowledge of home country markets and customs yields variation in the extent to which immigrants influence their host state's exports to their home countries, particularly for products that embed culture.

Prior studies of the immigrant-trade link indicate that immigrants enhance host country exports to their home countries in several ways. First, immigrants' knowledge of their country of origin may make it easier for them to acquire information about profitable international trading opportunities and to reduce informal barriers to trade. An example would be an immigrant knowing consumer preferences in her home country and, as a result, being able to inform exporters in her host country of whether their products can be successfully marketed or if modifications are needed to suit importers' preferences. The implication is that by helping to ameliorate demand and supply matching costs, immigrants may enhance trade between their home and host countries. Second, as they might have connections with local business networks, immigrants may aid in reducing network search costs by helping producers to find distributors, assemblers to find component suppliers, and investors to find joint-venture partners or other investment opportunities. Third, since delivery and payment may occur at different times and places, international transactions are traditionally based on confidence. Through their knowledge of local business law and practices, immigrants may reduce uncertainties related to transactions by facilitating stronger enforcement of international contracts.

Studies of the immigrant-trade relationship that focus on aggregate trade flows and/or on trade in various types of goods (e.g., differentiated and homogenous goods, manufactured and non-manufactured goods, and 1-digit SITC sector classifications) have paid only indirect attention to the influence of immigrants on trade in cultural products and related product sub-classifications. Due to their ability to embed exporting countries' cultures, trade in cultural products may involve higher search/networking costs than trade in non-cultural products. Hence, the estimated effects of immigrants on trade in non-cultural products may not be representative of immigrants' influences on trade in cultural products. Since immigrants' influences on trade are sensitive to differences in product characteristics, we posit that the extent to which immigrants affect host-home country trade (by reducing network search costs, ameliorating demand and supply matching costs, and/or facilitating enforcement of international contracts) may vary across product (e.g., cultural and non-cultural products) and sub-product classifications (e.g., products embedded with different cultural components).

In addition to providing greater insights into immigrants' abilities to influence trade in both cultural and non-cultural products, our study contributes to the literature in two specific ways. First, we differentiate the effects exerted by immigrants who reside in a given state from the influence of the total stock of immigrants residing in the US on state-specific exports to the immigrants' respective home countries. In doing so, we discern the importance of network effects as a means by which immigrants facilitate trade. Second, by employing cross-sectional data for 51 US states and 75 trading partners for the year 2000, we compare the effects of immigrants on trade across export categories and products that embed the exporting country's culture to differing degrees.<sup>2</sup> Our use of state-level export data is essential as failure to find an immigrant-export link using state-level data may call into question the findings of previous studies that employ aggregate data (Dunlevy, 2006). The use of state-level export data also permits examination of the possibility that immigrants enhance the probability of exports to take place (from very low or non-existent levels to an observable threshold

<sup>2</sup> The "51 states" are the 50 individual states plus Washington, DC. A list of the home countries included in the data set is presented in Table 1.

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