

How immigration affects investment and productivity in host and home countries

Immigration may boost foreign direct investment, productivity, and housing investment

Keywords: immigration, innovation, foreign direct investment, residential investment, productivity

ELEVATOR PITCH

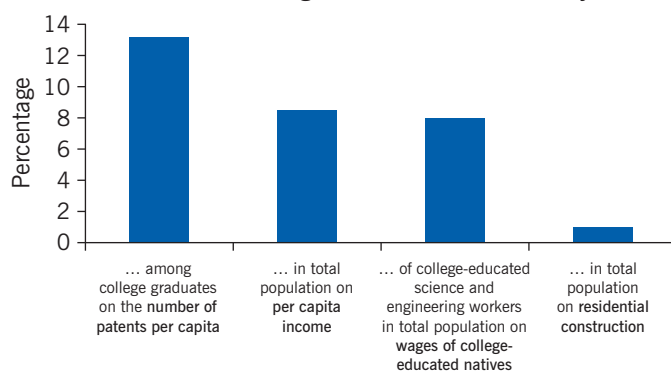
Migration policies need to consider how immigration affects investment behavior and productivity, and how these effects vary with the type of migration. College-educated immigrants may do more to stimulate foreign direct investment and research and development than low-skilled immigrants, and productivity effects would be expected to be highest for immigrants in scientific and engineering fields. By raising the demand for housing, immigration also spurs residential investment. However, residential investment is unlikely to expand enough to prevent housing costs from rising, which has important distributional implications.

KEY FINDINGS

Pros

- ⊕ High-skilled immigration attracts foreign direct investment.
- ⊕ Immigrants can help multinational firms find investment opportunities abroad.
- ⊕ Increasing the share of high-skilled immigrants has sizable income effects that can be attributed to productivity gains.
- ⊕ Foreign-born scientists and engineers particularly contribute to innovation and productivity growth.

Multiple benefits from a rise of one percentage point in the share of immigrants in the host country



Source: Baseline estimates in [1], [2], [3], [4], for various years.

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Cons

- ⊖ Immigration is less likely to promote productivity growth when immigrants are low-skilled.
- ⊖ Residential investment triggered by higher immigration is insufficient to prevent housing costs from rising.
- ⊖ Temporary migrants put most of their savings into remittances, which do not boost investment in the host country.
- ⊖ Attracting high-skilled immigrants may lead to net brain drain for developing countries even though migration possibilities can spur educational investments.

AUTHOR'S MAIN MESSAGE

Immigration by high-skilled workers attracts foreign direct investment, helps firms find investment opportunities abroad, and raises per capita income by boosting productivity. However, despite triggering residential investment in the host country, immigration also raises housing costs, with undesirable distributional effects. Brain drain potentially also harms home countries. Policymakers should thus consider selective immigration policies that attract high-skilled workers, accompanied by redistributive measures that benefit low-income households in the host country and by compensating measures for the home countries that lose part of their high-skilled workforce.