Migrants, Ancestors, and Investments*

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Abstract

We use 130 years of data on historical migrations to the United States to show a causal effect of the ancestry composition of US counties on foreign direct investment (FDI) sent and received by local firms. To isolate the causal effect of ancestry on FDI, we build a simple reduced-form model of migrations: migrations from a foreign country to a US county at a given time depend on (i) a push factor, causing emigration from that foreign country to the entire United States, and (ii) a pull factor, causing immigration from all origins into that US county. The interaction between time-series variation in origin-specific push factors and destination-specific pull factors generates quasi-random variation in the allocation of migrants across US counties. We find that a doubling of the number of residents with ancestry from a given foreign country relative to the mean increases by 4.3 percentage points the probability that at least one local firm invests in that country, and increases by 36% the number of employees at domestic recipients of FDI from that country. This effect operates mainly through the descendants of migrants rather than migrants themselves and increases in size with the ethnic diversity of the local population, the distance to the origin country, and the quality of its institutions.

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