Referee report on “Direct and Indirect Impacts of Liberal Immigration Policies on the Inflow of Multinationals in the U.S.”

Using time series data, the paper investigates the effect of U.S. immigration policy on FDI inflows to the country. The key hypotheses that have been tested are (i) liberal U.S. immigration policy increases FDI (direct effect); and (ii) greater immigration increases FDI via its effect on labor costs. While the hypotheses are suggestive and merit serious consideration, there are serious shortcomings that need to be addressed before the paper is ready for publication.

1. It is not clear why the number of refugees admitted to the country has been used as the proxy measure to capture the effect of immigration reform on FDI. Given that majority of FDI inflows are in high-skilled sectors that require relatively skilled workers, the number of refugees admitted is not an appropriate measure to capture the effect of immigration policy on FDI, and any association between the variables cannot be viewed as the causal effect of policy on FDI. The authors should instead use data on skilled workers (e.g. number of H1B visas issued, or lawful permanent resident population (e.g. Kerr (2019)).

2. While majority of the skilled immigrants in recent years have been from China and India, the major sources of FDI inflow to the US are from countries in Western Europe and Australia. How does the study reconcile its hypothesis to this stylized fact?

3. There is a large literature on the role of ethnic networks in promoting trade. In that case, ethnic networks can substitute FDI for greater bilateral trade. The authors should discuss the complementarity between FDI and trade that has been assumed in establishing their hypothesis.

4. The discussion in the section on “Immigration policy of the Federal Government and FDI inflows” can be shortened.

Reference:

William R. Kerr (2019), “The Gift of Global Talent”, https://conference.nber.org/conf_papers/f119265.pdf