

International Trade, Immigration and Macroeconomic Dynamics

Abstract: International trade and immigration are two important dimensions of globalization, but their dynamic linkages and the macroeconomic effects of immigration are less well understood. I focus on studying skilled immigration because of its growth and significance. By developing a two-country dynamic stochastic general equilibrium model featuring heterogeneous firms and endogenous firm entry and labor migration, this paper studies whether trade and immigration are substitutes or complements and investigates the macroeconomic consequences of low barriers to labor mobility with emphasizing the roles of the extensive margins of production and trade in shaping immigration dynamics. First, the model predicts that trade and immigration potentially act as substitutes, which is consistent with the derivation from the Heckscher-Ohlin model of trade. Second, high-skilled labor migration makes the labor-sending country worse off due to less output and firm entry, and changes in migration costs create asymmetric welfare effects on high-skilled and low-skilled households. Third, the firm entry channel provides new insights into immigration dynamics: (i) more firm establishments demand more immigrants, and (ii) inflows of immigrants induce firm entry and result in higher labor costs in the long run.