

State Visits and International Trade

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February 2007

Summary

Politicians travel extensively abroad, for various reasons. While the general aim of international trips by heads of state is to develop and enhance bilateral relations, the focus of the talks may be on political issues, human rights, environmental protection, cultural contacts, or other themes. A topic that often features most prominently, however, concerns economic relations. Topics to be discussed may range from global economic issues and closer economic cooperation to joint investment projects and trade disputes. Also, heads of state are often accompanied by a high-ranking delegation of business people and managers. On the occasion of state visits, contact offices and business representations are opened, treaties and contracts are signed, and major bilateral projects are officially handed over.

In this paper, I examine empirically the effect of foreign visits by politicians on international trade. It has long been known that political factors affect the pattern of trade. For instance, democratic institutions, similar foreign policies and membership in the same military alliance or international organization tend to benefit trade. Similarly, wars, military conflicts or other political disputes inhibit trade. Most recently, it was shown that the presence of diplomatic representations, such as embassies and consulates, promotes exports. Here, I ask: Do state visits promote exports?

To analyze this issue, I use a large data set covering the travel activities of the heads of state of France, Germany and the United States between 1948 and 2003; I differentiate between various types of visits (e.g., state visits, official visits, working visits). In my benchmark specification, I use a standard gravity model of trade to control for other determinants of bilateral trade. I find that state and official visits have on average a positive effect on exports. A typical visit is associated with higher bilateral exports by about 8 to 10 percent, holding other things constant. This finding is statistically robust and economically reasonable.

A potentially serious problem in the estimation is simultaneous causality. State visits may promote exports, but the choice of destinations for state visits may also be affected by a destination's importance as an export market. To deal with this issue, I have performed extensive sensitivity analyses, including the use of a differences-in-differences specification as well as the application of an instrumental variables approach. Reassuringly, these robustness checks strongly confirm the finding that state visits have a positive (but short-lived) effect on exports.