

# **People and Investments on the Move: Diaspora Direct Investments, A Powerful Development Driver**

**Isabella Corvino**

## **Introduction**

This article aims to describe the positive potential of migration and diasporas on foreign direct investments and trade. Migrants as individuals, as group and as entrepreneurs are promoters of trade and investment impacting the territorial development of both the countries of origin and destination (Bratti, De Benedictis and Santoni 2014<sup>1</sup>). The value of these roles are directly proportional to their capacity to enhance their cultural identities and to mobilise competences and know-how resources. The literature analyzing the determinants and effects of the participation of migrants in international trade still heavily rely on case studies, focusing on the analysis of two countries model exercises (country of origin and destination of people and goods). The quantity of evidence reported in the literature is now sufficient to go further and look at this phenomenon in search of new reading keys and some policy advice.

## **Migration and remittances**

Migrant communities have the capability to overcome barriers given by the lack of information thanks to the positive role played by transnational networks. Information, reliability and flexibility of the network are the added value of migrants' business. Thus, being a migrant entrepreneur improves the economic safety strategy (due to the underestimation of their human capital in the country of destination) through the enhancement of human capital and relational capital.

According to some authors (Rauch 2001 Rauch and Casella 2003), migration networks increase bilateral trade and have a positive impact in bringing together supply and demand. The effect of the presence of these entrepreneurs gains more and more importance in case the mentioned countries have no historical ties (ex-colonies or historical migration relationship – as in the case of Germany and Turkey – in which case commercial flows do not show an intense growth.

---

<sup>1</sup> There is a positive relationship between immigration and trade that stems from the fact that: (A) consumer preferences for immigrants favor the import of goods as well as exports to their countries of origin; (B) the bridge created by migration and the business community reduces the fixed costs of knowledge in favor of the possibility of exports and raises the level of knowledge of the market opportunities that exist in the countries of origin; (C) immigrants have preferential access compared to market opportunities in their country of origin.

Furthermore, migrants have preferential access compared to market opportunities in their country of origin, especially if the country has an unstable institutional pattern or the common use of implicit contracts makes business difficult (as happens in many eastern countries). In such cases, migrants can handle this kind of contract and its rules, or act as a guarantee in case they are working for a foreign enterprise in their country of origin.

The capacity to mobilize development resources of course needs a favourable environment: efficient energy and communication infrastructure and services, the support of policies and institutional framework, a porous entrepreneurial pattern, and the territorial concentration of initiatives (useful to attract stakeholders' attention and gain an overall "economic weight"). The literature, and sometimes policies, while discussing human mobility, have tended to start from a negative point of view: instead of pointing out and enhancing the positive potential of migration they have focussed on tackling migration sounding like an anti-development agenda.

The migration phenomenon is a permanent feature in human history, it is the starting point of the growth parable; it has shaped our world, introducing new ways of interpreting the concept of development and inventing social innovation<sup>2</sup>. Over the past decades, international trade and investment have grown enormously – most of all in developing countries. The reduction of transportation and communication costs and the growing number of international agreements minimizing the effect of formal barriers to trade and investments have given birth to a new economic era and have made it possible for migrants to live simultaneously in a transnational dimension. The space for policy advice and critical thinking is the transnationality of migrants and the positive nexus between migration and development.

After discussing international trade and investment, perhaps focusing on remittances could be perceived as a step back, but that would be a misunderstanding. Remittances are personal economic resources transfers. In the collective imagination, these are just small amounts of money sent to families in need, but remittances are more than this. Migrants' remittances to developing countries are estimated to have reached \$436 billion in 2014, a 4.4 percent increase over the 2013 level<sup>3</sup>. Remittances remain a key source of funds for developing countries, far exceeding official development assistance (ODA) and even foreign direct investment. A recent analysis reported in

---

<sup>2</sup> The stock of international migrants is estimated at 247 million in 2013 and is expected to surpass 250 million in 2015. The estimates are from the Migration and Remittances Factbook 2015 released by the World Bank in May 2015.

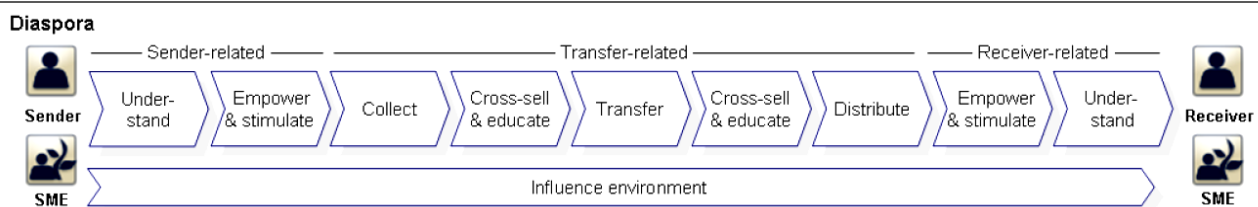
<sup>3</sup> Migration and Development brief, World Bank 2015

the World Bank's Global Economic Prospects 2015 shows that remittances are also less volatile than official aid flows as they are linked to people.

Remittances are a fundamental starting point; the ability of the migrant to spare it and to make plans for savings, investments or simply designated to consumption measures the rationality of the sender. The WB asserts that remittances have a positive impact on the development of receiving countries:

- they contribute to the formation of human capital (a common remittances receiver spends + 58% than a non-receiving one<sup>4</sup>);
- improvement of health care;
- can be used to access credit (very important as we talk about entrepreneurial remittances);
- the upgrading of quality in consumption contributes to the upgrading of living standards;
- fights poverty and has a trickle-down effect which stimulates markets and contributes to the creation of job demand and of course to the start-up of business investments.

The following diagram illustrates how remittances are funds in search of an enhancement in between different dimensions, from the country of origin and destination. In each of these dimensions it is possible to operate through strategies creating or enhancing its value.



*Value Adding Remittance Services to expand the development potential of money transfer, GTZ 2009*<sup>5</sup>

There are different kinds of remittances: personal, entrepreneurial and collective remittances. Collective remittances are recently gaining more and more economic importance; sent by migrant groups, normally for charity or development projects to be realized in third countries<sup>6</sup>. All kinds of

<sup>4</sup> Data registred in CeSPI researches: ABI-CeSPI BANCHE E NUOVI ITALIANI. I comportamenti finanziari degli immigrati, a cura di José Luis Rhi-Sausi e Marco Zupi, Bancaria editrice, 2009

<sup>5</sup> Economic Development and Employment Division GTZ, 2009, Transfer plus – Value-adding remittance services that expand the development potential of money transfer

<sup>6</sup> Corvino I. 2007 - Migrazioni e sviluppo: il fondo italo-andino di solidarietà 4+1 "Juntos por los Andes"- CeSPI working paper 36/2007

remittances are not just money flying from a country to another; remittances are an economic instrument in the implementation of projects conceived with improved human capital.

### **Migration and entrepreneurship**

As previously stated, the human capital of migrants in the country of destination is often underestimated and they are seen as working in niches that are time consuming, labour-intensive and with low high economic retribution. For these reasons, a great number of migrants try entrepreneurship. There are different kinds of migrant entrepreneurs as noticed in a previous study<sup>7</sup>:

- Some migrant entrepreneurs are entrepreneurs “by default”. They are not following a natural vocation but they want to use their own competences as a means to attain social mobility and adequate payment. In this case, it is a self-occupation strategy that has positive repercussions on family stability.
- Some others are entrepreneurs by chance, as noted by Schumpeter: “dispersed entrepreneurship is that function, whose essence lies in recognizing and carrying out new possibilities in the economic sphere” (Schumpeter 1928: 483). According to this vision, an entrepreneur is born if and when they carry out new positive combinations of experience and conditions.
- The last case is entrepreneurs by vocation, for whom the migration experience is a step in implementing their projects.

A very interesting aspect of migrant entrepreneurs is the positive potential on development that they bring by taking advantage of their particular position in the *middle*, between the country of origin and the country in which they live. In this situation, they can capitalize on good opportunities and give support to the implementation of a transnational initiative, or they can just choose where to set up the enterprise – as in the last decade, countries of origin are experiencing high rates of growth and migrants can take advantage of this growth start up enterprises or just make long term investments.

Factors strengthening migrant entrepreneurship lie in the higher tolerance to risk among migrants than among natives; the “risk profile” of migrants has its negative counterpart, as when

---

<sup>7</sup> Corvino I. 2012 – “El transnacionalismo de los migrantes y las dificultades de la agnición – Remesas, skype y proyectos comunes” presented at the Conferenza de la ASOCIACIÓN LATINOAMERICANA DE SOCIOLOGIA, Santiago del Chile

they ask for credit, normally they are perceived as not reliable creditors. Fortunately the cohesiveness and solidarity of extended families provide some access to credit (informally). Migration chains work at the same time as a shelter against adversities like the lack of jobs and of information. When a migrant community is old enough in a country, is normally proves their dominance in certain activities or working sectors (due to the vacancy chain or national specialization); specialization gives them reliability and the critical mass to start integration into the national entrepreneurial pattern. Entrepreneurship increases among migrants as it has high potential payoffs as it provides livelihoods for migrants still unfamiliar with language and other host country mores. Entrepreneurship acts like a family strategy to accumulate wealth and sets a foundation for the economic mobility of the next generation: the great goal of migration.

### **Trade & DDI**

Migrant communities open the world of the country of destination to thousands of new solicitations; nostalgia goods (food, clothes, cultural identity-related objects), foreign languages and mores start what could be a potential positive cross-fertilization. Autochthonous goods play an important role in triggering transnational economic relations, as foreign markets stimulate the offer of territorial goods and have a direct impact on the development process. Transnational commercial initiatives stimulate research and improve enterprises' performance. Migrant entrepreneurship creates jobs and market opportunities through innovation while migrant investors create economic and social capital operating in a global network.

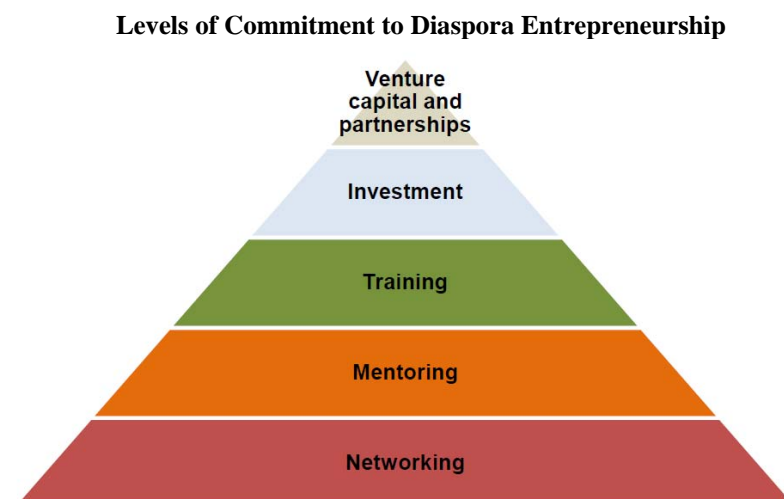
Obviously it takes time to become an entrepreneur, as they need to adapt to new business models, accumulate economic resources, and sometimes improve skills. In the beginning, the role of the community network is really fundamental; after some time, to be entrepreneur means to develop connections and collaboration with native entrepreneurs, category associations and banks (the normalization and integration of migrants in the native dimension) and finally, if they succeed, to find proper ways to operate at a transnational level.

The impact of diaspora direct investment (DDI) on development, in particular investment in companies, increases production activities in the country of origin. It produces the enhancement of skills in the country of origin, the exchange of positive role models among countries, and the transfer of technology. DDI creates economic and social capital through the channelling of human and economic resources in global networks. One of the characteristics of poor countries is their

relative isolation from global flows of trade, capital, and knowledge. Diaspora members have the chance to instigate the flow of all three at the same time, acting as development drivers.

The diagram below shows in an effective manner the entrepreneurial development of a migrant community, starting from the network to take advantage of the flow of information, evolving towards mentoring, or the identification of fellow-countrypeople able to act as "guides" in identifying activities and fields of work and the organization of an interesting path.

Networking and mentoring are the first stage of migration. At this time, migrant community is really fundamental to overcoming difficulties and helping newcomers learn how to live in a different society. Training activities refers to the specific training needed to manage complex tasks, (law and business management). At this level of the pyramid the entrepreneurship diaspora is finally ready to operate investments and perhaps when business grows, to activate venture capital.



*Source: Mobilizing Diaspora Entrepreneurship for Development, pg 26*

This transnational approach considers migration no more as a unidirectional flow but as a bidirectional or multidirectional movement of people, ideas, goods and capital.

### **Final Remarks**

This article tries to illustrate how the migration phenomenon could interact with international trade and foreign direct investment. Particular attention was paid to the role of migrant entrepreneurs as promoters of trade and investment, impacting on territorial development of the countries of origin, in spite of the micro-scale of their initiatives and projects.

Policy responses to diaspora entrepreneurship have to include the following options:

1. Encourage access to capital, especially for small-scale entrepreneurs, through loans, competitions, and risk-sharing mechanisms for investors.
2. Provide high-quality education and vocational training to develop business skills.
3. Establish mechanisms that encourage regular consultations with diaspora professionals.
4. Adopt policies that make it easy for diaspora business owners or investors to come and go between their country of origin and their country of settlement.

Microfinance could be a powerful instrument for socio economic integration of new entrepreneurs. It has to be improved to be not just a “first aid” instrument, but something useful to respond to innovation and internationalization needs, and finally not to leave them lost in the informal economy.

### **Bibliography**

Abhishek Pandey, Alok Aggarwal, Richard Devane, and Yevgeny Kuznetsov, *India's Transformation to Knowledge-based Economy — Evolving Role of the Indian Diaspora* (Gurgaon, India: Evalueserve, 2004), <http://info.worldbank.org/etools/docs/library/152386/abhishek.pdf>.

Canavire Bacarreza G. J. e Ehrlich L. (2006), *The Impact of Migration on Foreign Trade: A Developing Country Approach*, “American Journal of Economic Development”, n. 6.

Bratti M., De Benedictis L. e Santoni G. (2014), *On the pro-trade effects of immigrants*, “Review of World Economics”, vol. 150, n. 3

De Arcangelis G., Ferri G., Galeotti M. e Giovannetti G. (2000), *Sud o est? Sfide e opportunità per l'Italia di una crescente integrazione*, Banca d'Italia, "Incontro di lavoro sulle economie del Mediterraneo", Roma 6 aprile.

Iranzo S. e Peri G. (2009), *Migration and trade: Theory with an application to the Eastern–Western European integration*, “CReAM Discussion Paper Series”, n. 5.

Frigeri D. a cura di (2014), *Osservatorio Nazionale sull'Inclusione Finanziaria dei Migranti in Italia, terzo rapporto*, Roma, CeSPI – Centro Studi di Politica Internazionale.

Gould D. M. (1994), *Immigrant Links to the Home Country: Empirical Implications for U.S. Bilateral Trade*, “The Review of Economics and Statistics”, vol. 76, n. 2.

Head K. e Ries J. (1998), *Immigration and Trade Creation: Econometric Evidence from Canada*, “The Canadian Journal of Economics / Revue Canadienne d'Economique”, vol. 31, n. 1.

Newland K. and Tanaka H., 2010, *Mobilizing Diaspora Entrepreneurship for Development*, Migration Policy Institute, USAID, MPI

Parsons C. R. (2012), *Do Migrants Really Foster Trade? The Trade-Migration Nexus, a Panel Approach 1960–2000*, “World Bank Policy Research Working Paper”, n. 6034.

Rauch J. E. (2011), *Association and Social Networks in International Trade*, “Journal of Economic Literature”, vol. 39, n. 4.

Rauch J. E. e Casella A. (2003), *Overcoming Informational Barriers to International Resource Allocation: Prices and Ties*, “The Economic Journal”, vol. 113, n. 484.

Rauch J. E. e Trindade V. (2002), *Ethnic Chinese Networks in International Trade*, “The Review of Economics and Statistics”, vol. 84, n. 1.

M. Schiff (eds.), *International Migration, Remittances & the Brain Drain* (World Bank and Palgrave Macmillan), pp. 53-80.

Ronald Tadao Tsukashima, 2007. “Ethnic – collective action, intergroup competition and social networks: formation of ethnic – trade guilds, pp 854 – 874.

Zoltán J. Ács, 2006, “How is Entrepreneurship Good for Economic Growth?” *Innovations*: 96–107

Zoltán J. Ács and Attila Varga, 2005, “Agglomeration, Entrepreneurship and Technological Change,” *Small Business Economics* 24, no. 3: 323–34