

## Gone but Not Forgotten? The Role of the Diaspora

When people are absent from their country of birth for an extended period of time, do they have the same impact on their country of origin as other foreigners? In many ways, the members of a country's diaspora—especially first-generation members—have a very different relationship with those remaining behind (TRBs); they also have the collective potential to be an asset and, occasionally, a liability for their country's development. The diaspora affects the domestic economy both *directly*, through its members' disproportionate willingness to interact/transact with TRBs, and *indirectly*, through their role as "reputational intermediaries." The direct effect captures the willingness of diasporas to trade, invest, start businesses, communicate, travel, and remit to their former homes. Aside from providing financial remittances (see chapter 8), skilled and successful emigrants can affect the home economy in a great variety of ways, as demonstrated by the roles played by the Indian and Chinese diasporas in Silicon Valley through their support of domestic high-tech industries.

Indirectly, the members of a diaspora can help connect the home economy to international business networks by leveraging their reputations. Specifically, they can use their superior knowledge of the characteristics of old and new country acquaintances to match economic partners, use long-term relationships with people from both places to facilitate exchange when long-term contracting is difficult, and alter the profiles of home-country individuals through demonstrations of their capabilities.

Of course, even after allowing for differences in size, not all diasporas are equally effective in supporting development. For this reason, it is essential to examine the factors that determine whether a diaspora can be effective, including the selectivity of its member emigrants, their reasons for leaving, the length of time they have been away, their success in their adopted countries, and the conditions and policies in their countries of origin.

### **Willingness to Interact/Transact**

Where a country is reasonably open to international commerce, its population will have a myriad of connections to foreign residents in general, although those residents are likely to maintain disproportionate connections to their country's diaspora. Its members may retain a strong preference for such home-country products as foodstuffs, thereby creating a potential export market.<sup>1</sup> To the extent that they achieve significant income gains as a result of the positive productivity effect of moving abroad, they may also have the capabilities to indulge those preferences (human capital) and possibly the savings to fund home-country investments (financial capital). They will also tend to maintain friendships and acquaintances with people from their former homes, thereby communicating useful market and technological information.

The literature on international trade provides considerable insight into the role of the diaspora. The impact of immigrants on Canada's international trade patterns, for example, has been assessed by adding immigrant stock variables specific to the country of origin to a gravity model of bilateral trade flows.<sup>2</sup> When the model was tested, a 10 percent increase in the immigrant stock led to a 3 percent increase in imports and a 1 percent increase in exports. Another study using a similar gravity-based approach found that immigrant stocks also affect U.S. import patterns, although in this case the number for exports is even larger than for imports, suggesting that the effect on trade patterns may be due more to reduced transaction costs than to immigrant demands for home-country products.<sup>3</sup>

Even casual observation of first-generation diasporas reveals extensive communication with friends and family in their countries of birth—

1. The aisles dedicated to imported goods by country of origin in supermarkets in larger American cities are one visible sign of the importance of such trade.

2. Head and Reis (1998).

3. Gould (1994).

communication that is becoming ever easier to conduct with the falling costs and improving quality of related technologies. Members of the Indian and Chinese diasporas in Silicon Valley, among others, are able to keep in close touch with business acquaintances back home.<sup>4</sup> Data on patents and patent citations also provide evidence of an “enduring social capital” effect whereby relationships developed while inventors are co-located support economically valuable communications even after migration (see chapter 6): in other words, emigrant inventors are “gone but not forgotten.”<sup>5</sup>

Although it would seem that the “private” informational advantage of being connected to a network might not be as important in today’s information age, this is not the case. One reason is that the informational intensity of goods trade is increasing, in that the share of differentiated products in world trade is climbing. Second, with international migration on the rise, there is a greater supply of diasporic networks. Third, knowledge and technology maintain tacit elements, and their social contexts continue to be critical to how they are transmitted and received. While information is context-invariant, knowledge and understanding are more context-dependent. Personal contacts matter for so-called experience goods. The problem facing economic agents today arises not from a lack of information but from a deluge of it, as people are bombarded with more information than they are equipped to handle. In order to control the flood of knowledge, they have come to rely heavily on social networks in modern economic life.

A substantial network of this type has emerged among the Indian-born population in the United States, which increased by more than half a million over the 1990s.<sup>6</sup> Together with absent Chinese populations, these Indians had a large impact on the economic success of high-tech industries in Silicon Valley. Between 1995 and 1998, Indians were running 9 percent of Silicon Valley start-ups, almost 70 percent of which were in the software sector.<sup>7</sup> Our analysis suggests that a diaspora rich in human capital such as this could be an international business asset. As discussed earlier, the combination of preference, knowledge, and ability to pay may make members of the diaspora willing customers, investors, and purveyors of information. Their knowledge of the needs

4. See Saxenian (2002).

5. Agrawal, Cockburn, and McHale (2003).

6. This section draws heavily from Kapur and McHale (2004).

7. Saxenian (1999). The 70 percent figure is based on all Indian-run start-ups from the period 1990 to 1998.

and capabilities of both U.S.- and India-based firms makes them potentially useful intermediaries in the search and matching process. Because of their ongoing relationships with U.S. and Indian firms (and with other members of the diaspora), they are well situated to use their reputations to support complex transactions when legal contracting is difficult. And their success as technologists, managers, and entrepreneurs in Silicon Valley can change the perceptions of the Indian technology businesses in general.

These groups function as “reputational intermediaries” (see the next section). It is well known that reputational concerns are an obstacle to exporters, especially in services like software. Evidence collected recently suggests that reputation affects the form of contracts established between firms outsourcing customized software and Indian software firms, and that weak reputations are correlated with the tendency to opt for fixed-price contracts over time and materials contracts that are riskier for the buyer.<sup>8</sup> Indian firms have tried to reduce reputational constraints in various ways, notably by entering joint ventures with U.S. firms, acquiring or setting up U.S. firms, getting independent quality certifications, getting listed on the U.S. stock exchanges, and working on-site for the buyer.

According to a survey of Silicon Valley’s Asian population in 2002 by AnnaLee Saxenian, members of the Indian diaspora were generally younger than their counterparts from China and Taiwan. While marginally less educated (77 percent had a master’s degree or higher compared with 86 and 85 percent, respectively, for China and Taiwan), Indians were more concentrated in executive/managerial occupations than Chinese and Taiwanese (23 and 56 percent, respectively).<sup>9</sup> Of the group interviewed, 38 percent classified themselves as being in the software industry, compared with 26 percent of Chinese-born and 19 percent of Taiwanese-born respondents; 98 percent had a bachelor’s degree or better, while 77 percent had a master’s or a Ph.D. Interestingly, 68 percent of Indian respondents said that they earned their highest degree in the United States, whereas 81 percent of Chinese and 92 percent of Taiwanese respondents did so.

Of these admittedly elite Indian professionals, 77 percent had one or more friends who returned to India to start a company, 52 percent travel to India on business at least once a year, 27 percent regularly exchange information on jobs or business opportunities with those back home,

8. Banerjee and Duflo (2000).

9. Saxenian (1999).

**Table 7-1. Leveraging the Diaspora: Indicators of Emigrant Connectedness in Silicon Valley**  
Percent

	<i>Country of birth</i>		
	<i>India</i>	<i>China</i>	<i>Taiwan</i>
How many of your friends have returned to their country of birth to start a company?			
More than 10	4	6	17
1–9	73	68	70
None	23	26	13
How often have you traveled to your country of birth for business purposes, on average, in the past three years?			
Never	48	56	36
Once a year	39	31	38
2–4 times a year	9	8	20
More than 5 times a year	4	5	6
Respondents reporting regular exchanges of information with friends, classmates, or business associates in their country of birth			
Jobs or business opportunities in the United States	27	23	16
Jobs or business opportunities in home country	17	12	8
Technology	33	20	19
Have you ever helped businesses in your country of birth by serving as an adviser or arranging a contract?			
Adviser	34	24	15
Contract	46	42	34
Respondents who have invested their own money in start-ups or venture funds in their country of birth			
More than once	10	4	12
Only once	13	6	5
Would you consider returning to live in your country of birth in the future?			
Somewhat likely	20	29	18
Quite likely	25	14	7

Source: Saxenian (2002).

and 33 percent regularly exchange technological information (table 7-1). As for their potential role as reputational intermediaries, 46 percent have been a contact for domestic Indian businesses. On the investment side, 23 percent have invested their own money into Indian start-ups—10 percent more than once. And, finally, when asked about the possibility of bringing their much-augmented human capital home, 45 percent

reported it would be somewhat or quite likely the case. In a more recent and much more comprehensive survey conducted in 2004, members of the Indian-American population were asked, "How likely is it that you will ever move back to India permanently?" and 21 percent responded "very likely"; 20 percent, "somewhat likely"; 40 percent, "somewhat unlikely"; and 26 percent, "very unlikely."<sup>10</sup>

Still, these figures do not coincide with what is known about the activities of the Indian diaspora from other sources. For one thing, the data on investment activity are silent on the magnitude of investments. Foreign direct investment (FDI) from the Indian diaspora is less than 5 percent of its Chinese counterparts, even though the propensity to invest is comparable for the two diasporas in Saxenian's survey. For another, reality belies the conclusion that 45 percent of emigrants would consider returning. While aggregate data on return migration are unavailable, segment-specific data, such as National Science Foundation longitudinal data on Ph.D. students, suggest a number closer to 5 percent.

At the same time, these survey results make it clear that the Silicon Valley-based Indian diaspora has developed a dense network of connections with the Indian economy. At least for this group, skilled emigration is not a one-way brain drain. What is not so clear is whether the loss of such productive/entrepreneurial potential from the Indian economy is counterbalanced by the diaspora's role in breaking down barriers to international business for Indians who remain. One suggestive piece of evidence from the survey itself is that 73 percent of Indians responding to the question, "Which factors would figure most importantly in your decision to start a business in your country of birth?" listed the "availability of skilled workers."<sup>11</sup> This is interesting in the context of the trade-off we discussed earlier between emigration thinning domestic labor markets (and thus reducing the incentive to search for business opportunities) and the role of the diaspora in helping to facilitate and fund such opportunities.

The relative costs and benefits of this migration for the Indian information technology (IT) sector may be inferred in another way, through the revealed preference of Indian IT firms to the increases in the H-1B cap. Given the size and dominance of Indian IT professions in the H-1B quotas, the Indian IT industry might have been expected to oppose the

10. Kapur (2004).

11. Of the Indian-born who had actually set up business relationships in India, 85 percent listed the availability of skilled workers as a key contributing factor to their decision; 73 percent listed the low cost of labor.

increases, in an effort to thwart the brain drain. Instead, it has enthusiastically supported raising of the cap in the wake of changes in the market structure of the global IT industry, itself a lagged effect of the initial brain drain. In fact, 10 of the largest 25 companies hiring foreign nationals with H-1B visas are IT firms based in India or U.S. IT firms run by Indian nationals.

## Reputational Intermediaries

International business is greatly complicated by poor information on distant trading partners and the difficulties in contracting across national boundaries. To illustrate how a connected diaspora might facilitate such business, consider the U.S. software firm looking to outsource a once-off software development project, with the following attendant difficulties:<sup>12</sup> poor information on the capabilities of the software firms in various locations, difficulties in communicating requirements to outsourcing partners, and concerns about being “held up” by any overseas party owing to difficulties in writing and enforcing contracts with opportunistic trading partners. Members of the diaspora can serve as what we loosely call “reputational intermediaries” to facilitate international exchange by several means: search and matching, contract fulfillment, and altered profiles.<sup>13</sup>

### *Search and Matching*

If members of the diaspora have an ongoing relationship with the U.S. firm, such as that of an employee to an employer, they might be able to use their own reputation to vouch for a particular overseas firm. The incentive to do so might be monetary, as when employers pay premiums for foreign-country nationals who are well informed about home-country business. But the desire to help home-country businesses is incentive enough in other cases.<sup>14</sup> Suppose employees can build up

12. These are modeled in Grossman and Helpman (2002).

13. As far as we know, the term “reputational intermediary” was first introduced in Kapur (2001).

14. A Fortune magazine article profiling the Indian Silicon Valley businessman and technologist Kanwal Rekhi describes a reputational intermediary of the form we have in mind in action (Warner 2000). Rekhi is the former chief technical officer for Novell and a founding member of the Silicon Valley professional organization the Indus Entrepreneurs (TiE). His value as a reputational intermediary is clear from the number of Indian entrepreneurs who come to him seeking his help. Apparently he himself also takes the value of reputation seriously.

knowledge about suppliers through the normal conduct of their business over time.<sup>15</sup> An employee then faces the choice of going out on his own as a network intermediary (by becoming an entrepreneur) or staying in employment. A network intermediary sells the service of matching buyers with suppliers. Members of the diaspora might be well placed to act as network intermediaries once they have either acquired a richer knowledge of home-country firms or developed a system by which to determine such knowledge.<sup>16</sup>

### ***Contract Fulfillment***

Reputational intermediaries also have a part to play in the next stage of this process, when they have the capacity to ensure that each party lives up to its side of the agreement.<sup>17</sup> Once a contract has been signed, the supplying firm may be willing to act opportunistically with its outsourcing partner, but it might be unwilling to risk its reputation with the member of the diaspora vouching for its trustworthiness. Moreover, the ability to “blacklist” an offending home-country businessperson within the diasporic network is always a powerful asset for the vouching party. Similarly, the outsourcing firm, valuing its reputation for engaging in fair business practices within the diasporic network, would be less apt to renege on an agreement forged through an intermediary. In essence, the intermediary leverages his or her long-term relationship with each party to overcome the oft-severe difficulties associated with signing one-shot contracts across weak legal systems.

### ***Altered Profiles***

Members of the diaspora can act as reputational intermediaries to the extent that their business behavior affects the “profile” or “brand” of their countrymen. Firms looking for outsourcing partners under uncertainty will rationally engage in statistical discrimination; they will form an expectation of the quality of any given potential trading partner based on observed characteristics *and* their prior beliefs about the distribution

15. See the model developed by Rauch and Watson (2002).

16. Reputational intermediaries are likely to matter more where knowledge is tacit. Information is distance invariant, knowledge more contextual. Unlike many manufacturing sectors where ex ante knowledge of quality is more easily discernible through third-party certification (through ISO or ASTM, for example), this is much less the case with services where quality can only be discerned after use.

17. For a fascinating game theoretic model of such intermediary-based contract enforcement, see Dixit (2001).

of characteristics in the population that this firm belongs to. Contacts with members of the diaspora have the power to alter these prior beliefs. For example, when a U.S. firm's interactions with Indian engineers from the elite Indian Institute of Technology (IIT) show them to be excellently trained, this experience can influence an upward revision of prior beliefs about the quality of engineers in India from these and possibly other institutions. This mechanism will be especially important if the industry and firms in question do *not* share the negative attributes of other industries in their country—a fact that the outsourcer may not fully appreciate initially.

### *Causes of Reputational Barriers*

Developing-country firms face reputational barriers to entry in export markets when buyers have limited information about the quality of the firms' products and service reliability. Because buyers in major export markets will have had little prior experience in dealing with these firms, they may be reluctant to do business with them. This places newcomers at a reputational disadvantage in comparison with established firms, effectively creating a reputational barrier to entry. Such barriers arise mainly in two situations: where an individual firm is unfairly "stuck with" an unfavorable reputation because of the poor performance of other firms thought to be similar, and where a firm is at a disadvantage simply because it is a late entrant and little is known about it. The importance of reputational barriers is likely to vary across industries and across segments within industries. Reputational barriers are likely to be greater under the following conditions:

—Quality is more tacit; consequently, passing an *ex ante* judgment on the product or service is more difficult. Most tradable services fall into this category, software being a good example.

—The risk of extreme adverse outcomes associated with poor quality is high, as in the case of food products and health care. The cost of a cataract operation in India (even including travel costs) is substantially less than the cost in Europe in comparable facilities, but the overall poor reputation of Indian hospitals is unlikely to make this a viable proposition given what is at stake.

—There are large difficulties in designing contractual mechanisms to mitigate information asymmetries.

—Timely, reliable supply is noticeably important.

## Diaspora Effectiveness

The mere existence of a diaspora does not guarantee it will have positive effects on domestic industries or firms, however. These effects depend on two broad factors: the characteristics of the diaspora, and the conditions and policies of the home country.

### *Who Leaves?*

The impact of emigration depends foremost on the characteristics of emigrants. A truism of migration studies is that a strong selection bias exists among migrants, meaning that they are not randomly drawn from the general population of a country. The bias may refer to skills, education, occupation, risk averseness and dynamism, ethnic and religious selection, political beliefs, income, or regional and urban/rural selection.

It is widely believed that migrants are a select group, showing, for example, more initiative than their apparent equivalents who choose to stay.<sup>18</sup> However, evidence of positive selection is difficult to pinpoint if characteristics are unobservable. This problem is not insurmountable, however, because the most likely source of positive selection is not voluntary migration decisions but those made by universities, employers, and immigration officials as part of the employment-based temporary and permanent visa system. In the case of the U.S. H-1B visa, employers first decide which individuals to petition for, with immigration officials later deciding which petitions to allow. Employers, aided by the presence of emigrants already in the United States, can observe much more about potential H-1Bs than is discernible in the census or Current Population Survey data. Returning to our earlier example of IIT graduates, an employer can determine firsthand the quality of an institution from which an H-1B applicant has graduated on the basis of the performance of other emigrants with a degree from those institutions. Given the costs of the emigration process, these observable markers of quality will provide a distinct advantage to graduates of the most prestigious schools (see chapter 2).

18. Borjas (1987) points out, however, that it is quite possible that immigrants to the United States are negatively selected. Intuitively, the argument is that if income distribution is less compressed in the source country than in the United States—which is the case for many countries in Latin America, for example—it is the high-earner types that will find migration relatively unattractive.

### *Reasons for Leaving*

Economic motives are largely responsible for migration, although political factors are important in certain cases. Where migration is the result of politics, its consequences are likely to be more inimical to the country of origin. Insofar as the economic migrants are members of the erstwhile political elite that is being displaced, their weak links with newer elites are likely to strain commitment to their country of origin. The migration of elites may also open space for new groups. Indeed, the very possibility of exit may make them feel as though they have less stake in the national system, thus diminishing their “voice.”<sup>19</sup> On the other hand, the possibility of exit may reduce the intensity of an elite’s opposition to the efforts of other social groups to claim a share of the national political space.

Political turmoil spurs international migration and activates diasporic nationalism, which often makes an already bad situation worse. Global trends are weakening the cover of national sovereignty, and diasporic minorities in particular are playing a more activist role in their country of origin, especially where the community faces the threat of violence. “Long-distance” nationalism associated with diasporas has often amplified political tensions and conflict in the country of origin.

### *Time Abroad*

The length of time during which a diasporic community has been abroad is important, for the greater the vintage of a diaspora, the less intimate are its links with its country of origin. Although technological changes that have made it much easier to travel, maintain communication links, and keep abreast of various cultural media are beginning to mitigate this tendency, it does emphasize the need to nurture second-generation links.

### *Where Did It Go and How Did It Fare?*

A diaspora’s ability to affect its country of origin varies positively with its own success. This is a function both of the success of the diasporic community within the destination country and of the salience of the destination country itself. The success of the Chinese diaspora in Southeast Asia and the rapid economic growth of the countries there substantially increased their emigrants’ capacity to invest in China when

19. This term is from Hirschman (1970).

it opened its economy. In contrast, while the Lebanese were successful in West Africa, the downward trajectory of those countries eroded their own financial capacity, thus limiting their impact on Lebanon when the civil war ended there. The Indian diaspora in the United States is having a greater economic and political impact back home than its counterpart in the United Kingdom, and a substantially greater impact than that in the Caribbean, reflecting the U.S.-based diaspora's high initial level of education at the time of emigration and consequent success within the destination country. This is, of course, coupled with the leveraging of that country's global salience as well.

In many cases, diasporas are wealthier than those left behind. A case in point is the U.S.-based population from El Salvador, whose income exceeds the GDP of the home country. Emigrants from Mexico and the Dominican Republic are in much the same situation. Since the wealth is concentrated in fewer hands, collective action is easier. Election financing is now an important channel of diasporic influence. And to the extent that certain diasporic individuals have achieved wealth and prominence, they also attain a "reputational influence." This may occur at either the regional or state level, where a village son makes it somewhat big or a national son, perhaps a Turkish-born entrepreneur, makes it very big in another country, such as Germany.

Does the money make that much difference? Two observations are in order here: on the lines of a tipping point argument, it could make a big difference at the margin; and its negative effects can be much larger than its positive effects. It has been found, for instance, that all other factors being equal, the risk of conflict starting after at least five years of peace is six times greater in nations with the largest diasporas than in those with the smallest. Moreover, "after peace has been restored, the legacy of conflict-induced grievance enables rebel movements to restart conflict by drawing on the support of their diasporas."<sup>20</sup> Others would dispute this claim, however.<sup>21</sup>

### *Policies and Conditions in the Country of Origin*

Even once all these factors are taken into consideration, the policies and conditions in the country of origin continue to mediate the nature of the interplay between the diaspora and its country of origin. Although it played a critical role in China's economic growth after

20. Collier and Hoeffler (2000, p. 5).

21. See, for example, Humphreys (2000, 2003); Humphreys and Garry (2000).

1980, the Chinese diaspora was a silent spectator in the decades before that. As long as China itself was closed and international trade and investment were ideologically suspect, the skills and wealth of overseas Chinese had little effect on the country. Many Central American, African, and Central European countries have large diasporas, but their own economic policies and political instability prevent these diasporas from having much positive effect; on the contrary, they can often have a strong negative effect on their country of origin. The Armenian and Croatian diasporas, for example, played an important role in supporting hard-line political groups in their respective countries, thus exacerbating conflicts with neighbors as well as economic problems at home.

Until recently, the prevailing interests and policies in India paid little attention to international trade. As a result, the country underplayed the advantageous overseas trade networks established by its diaspora, which is why Indian businesses and the government did not court Indians in East Africa and Hong Kong when they were looking for safer pastures. India's policies toward international trade and FDI, as well as an apathy bordering on resentment toward its more materially successful diaspora, reflected the country's fear of the outside world. In the past decade, the transformation of the ideological climate in India and the advances made by the diaspora, especially in the United States, have instilled much greater self-confidence in the domestic and foreign Indian population. The decreasing hostility of the former toward the latter has been an important reason for the growing links and stronger bonds that have transformed relations between India and its diaspora.

A more fruitful line of inquiry may lie in the characteristics of the diaspora and of the policymakers or political elite in the home country. If the ethnic, class, or social differences are large, then the degree of influence is likely to be very different from what it would have been had the diaspora and policymakers belonged to the same groups. To be influential, a diaspora must have sway over those who are influential in the home country. Its power must extend to the social or ideological arena, not just the economic one.

Two broad mechanisms allow a diaspora to influence agents in the country of origin: diasporas are likely to be imitated since they are more economically successful than those remaining at home, and diasporas exhibit more active persuasion stemming from a didactic role in stimulating the international transmission of ideas. If diasporas can induce changes in the preferences of agents in the country of origin, the political economy consequences could be significant. Diasporas are known to transfer financial remittances to the country of origin, but it may well be

the less visible, nonquantifiable, and intangible remittances—namely, social remittances or the flow of ideas—that have a greater impact. An interesting example of the long-term impact arising from the home country's imitative tendencies is the unexpected change in fertility rates in Egypt and Morocco.<sup>22</sup> Their emigrants have gone to different geographical areas, primarily the Middle Eastern oil countries and Western Europe, respectively. In general, societies to which Egyptians have emigrated strongly encourage large families (for a variety of reasons). By contrast, Moroccan migrants have gone to host societies in which small families are the norm. In both cases, there was a progressive adaptation to the norms of the host societies. It has been observed that the transfer of “values” has been amplified with the coming of age of the second generation of Moroccan-origin emigrants in Europe.<sup>23</sup> Their fertility decisions were more “European,” and the continued close contact with the country of origin affected fertility decisions at home. Thus although in the mid-1970s demographers were predicting a sharp decline in fertility in Egypt and more gradual change in Morocco, two decades later the opposite occurred, despite higher rates of economic growth and levels of education in Egypt. Indeed, international migration can be a powerful vector of norm diffusion, with long-term economic consequences.

Diasporas stimulate the international transmission of ideas at both the elite and nonelite levels of society, whether through a filial connection across nations, a communications revolution, or experience with international finance institutions that returning immigrants carry back home. A panel study of political attitudes in a cross section of Mexico's population prior to the country's 2000 elections shows how emigrants can expose non-elite family members back home to the preferences of a foreign country.<sup>24</sup> The 2,400 respondents were asked for their party affiliation, views on some political issues of the moment, and details about their families. The responses suggest that their preferences are shaped by a closer connection to the United States through immigration. Controlling for monthly household income, the preferences of respondents with relatives in the United States are more “neoliberal” than

22. Courbage (1995).

23. Courbage (1995).

24. The Mexico 2000 panel study consists of approximately 7,000 interviews in five separate surveys over the course of the campaign, using a hybrid panel/cross-sectional design. Its first round, conducted from February 19 to 27 (just after the official beginning of the campaign), polled a national cross section of 2,400 adults. We used data mainly from this round. Interviews for the panel component of the project were conducted by the polling staff of *Reforma* newspaper, under the direction of Alejandro Moreno.

**Table 7-2. Mexican Attitudes on Economic Policies**

<i>Connection to United States</i>	<i>Mean attitude toward electricity privatization and collective bargaining: (1 = neoliberal, 4 = socialist)</i>
None	3.9
Relatives there	3.72
Visited	3.66

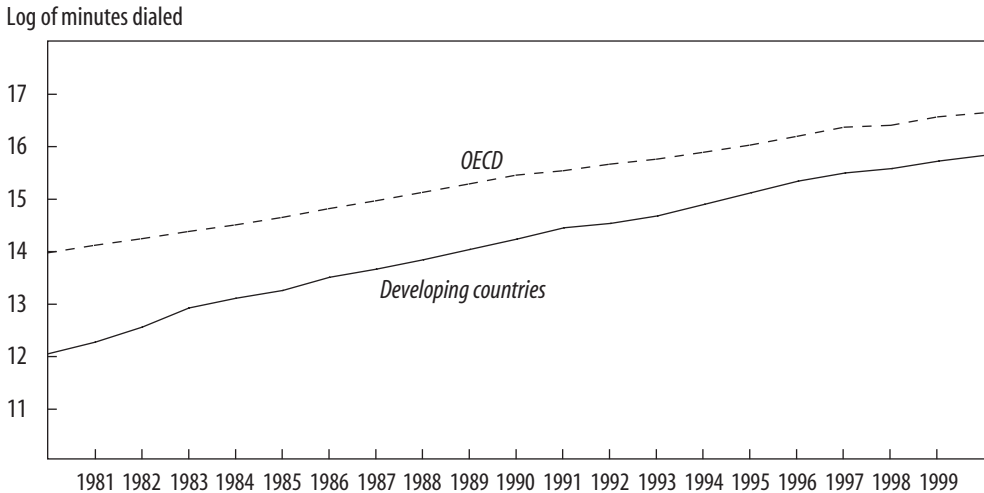
those without similar connections (see table 7-2). Of course, it is possible that a reverse causality is at work, in that households having a more neoliberal predisposition to begin with are emigrating. However, the survey question that asked respondents to define themselves politically elicited broadly similar responses across the three groups. Even so, the evidence is strongly suggestive rather than causal.

In a similar vein, consider families that have children or other relatives studying and working in foreign countries. It is not uncommon for policymakers, in particular, to finance an overseas education for their children, especially in the United States, Japan, United Kingdom, France, Canada, and Australia. In this case, the transmission mechanism for the diffusion of policy ideas is policymakers' children who convey their experiences with and adopt the preferences of their temporary homes. A second factor exposing all socioeconomic groups to the flow of new ideas has been the sharply reduced cost of communications devices. This communications revolution has led to the exponential growth of transnational phone calls (see figure 7-1) and e-mails and a sharp increase in international travel.

The cumulative effect of millions of conversations—akin to filling a pond one drop at a time—is likely to be substantial. On the one hand, the resulting information flows convey “deep” (though frequently tacit) knowledge about things to be done and how to do them. On the other hand, it changes expectations of and preferences for what is and is not acceptable, whether in regard to standards of service, the role of the state, or the behavior of politicians.

The influence of diasporas is not unlike that of international financial institutions (IFIs). According to the vast literature on the influence of the IFIs in various developing countries, most of this alleged influence is presumed to derive from the conditionalities that IFIs impose concurrently with a lending program. IFIs can exercise influence in the sense of leverage because of the quid pro quo involved: money. Consider an alternative channel of IFI influence, namely, people who worked in these

**Figure 7-1. International Telephone Traffic from the United States to OECD and Developing Countries, 1980–2000**



institutions, returned to their countries, and are employed in central banks, finance ministries, or even in high positions such as that of prime minister (as in Mexico, Turkey, and Peru). In these cases, the IFIs are pushing against an open door—they share an epistemology or “common knowledge.” Here, influence takes the form of persuasion. In other words, policymakers in developing countries would act in much the same way an IFI would want them to do but without any overt pressure.

### The Importance of Networks

The foregoing discussion suggests that the role of diasporas in contemporary economic life is better understood when markets are seen not just as price-making mechanisms but as social institutions that facilitate exchange in the Coasian sense. Networks embedded in social institutions mimic market structures through signaling and informational exchange among participants, thereby affecting the flow of information in fundamental ways to shape the content of, access to, and credibility of information. Their role in employment and labor markets, as well as in immigration and immigrant entrepreneurship, is well documented. Once in place, networks create self-sustaining migratory flows that gradually break apart from the conditions that generated immigration in the first place. The resulting “chain migration” is an important explanation

of why ethnic groups with very small numbers in the overall population concentrate spatially and in occupations and trades. Employers have strong reasons to hire individuals with a credible imprimatur, and existing employees' referrals are important means for achieving such approval. Hiring new employees or contractors from networks that have proven to be reliable in the past reduces search costs.

In addition to helping along the employment process, these networks provide access to informational and financial resources. In the 1970s and 1980s, the wig industry emerged as a niche export sector for Korea. Korean Americans often ran hairdressing salons that became "intelligence posts" for changing fashions, thus passing on information that influenced a quick turnaround in designs to continue popular exports from this industry.

India's experience demonstrates the long-term consequences of cognitive externalities arising from the brain drain. First, the brain drain has played an important role in boosting the confidence of overseas investors in India's potential, despite its innumerable problems. Companies like Yahoo, Hewlett Packard, and General Electric opened operations in India largely because of the confidence engendered by the presence of many Indians working in their U.S. operations. Second, it has helped in the diffusion of knowledge through a variety of mechanisms. Given the technological frontier in the United States, there is a substantial upgrading of skills when Indian technology professionals work in that environment. To the extent that some return while others circulate between the two countries, technological diffusion occurs through imitation, as mimicry is an effective way to reduce search costs. Just as Korea climbed up the technological ladder by importing capital equipment of recent vintage (embodying frontier technologies), diasporic networks embody technologies relating to human, rather than physical, capital. China's and India's success in manufacturing exports and software, respectively, can in part be explained by the strategic role played by the presence of their diasporas in global production networks in these sectors. In both cases, diasporic networks played two key roles: an informational role and a reputational one.

The importance of networks has been amplified by a changing logic of production and industrial organization in global markets. Models of large vertically integrated firms that are dominant in sectors with slow-changing technologies and markets are being supplanted by interorganizational networks of suppliers, production facilities, and collaborative research and development ventures. The new logic of production, which emphasizes flexibility over hierarchy, is a response to rapid technological

change and the pressure for shorter product cycles. The resulting decentralized production system consists of dense social networks, flexible labor markets, and collective learning among specialized producers of complex interrelated knowledge, where firms simultaneously compete intensely and collaborate. It possesses a strong spatial dimension manifested in industrial clusters. The importance of spatial concentration is underlined by the IT sector's spatial clustering, despite its own status as the one industry in which production theoretically can be decentralized the most, owing to the minimal movement of intermediate goods.

As already mentioned, diasporic networks act as both reputational intermediaries and credibility-enhancing mechanisms that may be particularly important in economic sectors where knowledge, especially *ex ante* knowledge of quality, is tacit. For instance, the Indian diaspora's success in Silicon Valley appears to be influencing the way in which the world views India, reflecting the reputational spillover effects of overseas success in a leading sector. It has created a "brand-name," wherein an Indian software programmer sends an *ex ante* signal of quality within his or her field in the same way that a "made-in-Japan" label sends an *ex ante* signal of quality among electronic equipment. This, then, helps mitigate the effects of at least one of the reputational barriers discussed earlier in this chapter.

In view of these benefits, perhaps it is time to reevaluate what constitutes comparative advantage in international trade. A country might consider trade strategies that attempt to leverage its diaspora by tapping the potential to increase trade with countries where its emigrants go. In particular, as in India's case, comparative advantage may be greater where reputational barriers for certain goods and services are high, but where the diaspora can augment the country's reputation. Service sectors, in particular—medical, educational, consulting, and tourism—could benefit in this regard. However, as in the case of software services, the diaspora can only augment, not substitute, for domestic capabilities.

The growth of the Internet has provided a new mechanism linking professionals in a diaspora with their counterparts in the country of origin.<sup>25</sup> These networks range in size from a few hundred to a few thousand. The goals are broadly similar: to connect with each other and

25. Examples include the Worldwide Indian Network (India), the Global Korean Network (South Korea), Brain Gain Network (Philippines), and the Reverse Brain Drain Project (Thailand). Jean-Baptiste Meyer and Mercy Brown have identified 41 formal knowledge networks linking 30 countries to their skilled nationals abroad. See Meyer and Brown, "Scientific Diasporas: A New Approach to the Brain Drain" ([www.unesco.org/most/](http://www.unesco.org/most/) [2003]).

their country of origin, and to promote the exchange of skills and knowledge through joint development projects with government agencies, businesses, and nongovernmental organizations in their countries of origin. The contribution of these networks in comparison with other forms of professional collaboration and knowledge transfer is, however, still unclear.

At the same time, what can be said with some certainty is that the network effects of diasporas are not an unalloyed blessing. Diaspora expertise has also contributed to the success of international criminal groups, which, like other networks, rely on reputation, tacit knowledge, and contract enforcement for their effectiveness. The international migration of criminal talent is a prime reason for the growth of such networks. They merit special attention because the financial flows arising from their activities can be so large as to pose serious threats to national governments, and their impact is often made worse with the use of terrorist acts.

### **International Migration of Criminal Talent**

According to UN estimates, international crime generates \$1 trillion to \$1.5 trillion a year, with drug trafficking, illegal arms trade, human trafficking and smuggling (especially of women and children for prostitution and servitude), and money laundering constituting the principal activities. While both source and destination countries are hard hit by these activities, the former understandably suffer a much greater impact. The transnational links behind them provide domestic criminal groups in source countries with substantial financial resources, at times enough to bestow on them significant political power, even to destabilize weak states. The profits from drugs, often funneled through diasporic networks, have played an important role in Haiti's narco-coup in 2004, the ongoing violence in Colombia, and the warlordism in Afghanistan. These activities not only bring in billions of dollars of revenue to source countries each year but also increase their economic dependence on drug trafficking, prostitution, and other forms of illegal activity. Virtually all international criminal networks—whether Albanian, Italian, Colombian, or Chinese—rely on their respective diaspora as a base for their activity.

Diasporas have been a boon to international crime for a number of reasons. As with any business, international criminal activity requires enforcement mechanisms and trust, which diasporic networks can easily internalize. Increased migration—much of which stems from states with

weak economies and political instability—has created a large demand for both financial support and larger global networks. In many cases, such networks become particularly prominent where immigrant groups are not fully integrated into their host societies, as one policy group has observed. Forced repatriation of felons (for example, from the United States to Central America) has given these networks additional strength.

Much like any international industry, many criminal networks rely on expatriated populations to help facilitate their activities abroad. The most well-known example in the last century is the Italian Mafia, which built its structure on a large migratory population, especially to the New World. The Chinese triads have an even longer history and continue to thrive today with strong connections to Chinese populations around the world, particularly in the Netherlands, the United Kingdom, Germany, and the United States. In recent years, traditional triad groups from Hong Kong and Taiwan have been hooked up with mainland Chinese criminal gangs, whose activities extend beyond the usual extortion, gambling, people smuggling, and drug trafficking to more sophisticated crimes such as credit card fraud, computer chip theft, and violations of intellectual property rights. Nigerian criminal gangs (about 500 are thought to be operating in at least 80 countries) are known to take advantage of large West African populations worldwide to operate global networks of drug trafficking and sophisticated, lucrative fraud schemes. According to recent estimates of U.S. customs officials, Nigerian criminal syndicates have established themselves as the world's most active traffickers of Asian heroin, with 25–30 percent of the heroin seized at U.S. international airports found on couriers employed by Nigerian trafficking groups.

The end of the cold war and the conflict in the Balkans prompted an exodus from that part of the world that served, in turn, as the impetus for the establishment of some of today's thriving criminal networks. Ethnic Albanian groups, whether originating from Albania or Kosovo, have been the most prominent and are particularly active in trafficking drugs, arms, cigarettes, illegal aliens, and women for prostitution. They reportedly dominate the market for heroin in Norway, Sweden, southern Germany, and Switzerland. By 1999, Albanian groups controlled most of Italy's prostitution and had displaced the Russian Mafia as the controlling power of central London's lucrative prostitution racket.

Arguably the most educated among the various international crime groups, the Russian Mafia blossomed under the Soviet regime by supplying hard-to-find products to government officials and by greasing the

wheels of a command economy. In the 1990s, the organization profited from the chaotic economic situation, rapidly garnering economic and political influence. This power, combined with the personal ties that many top crime leaders developed during the 1970s and 1980s while serving time in prison, still helps them to coordinate illegal activities today. The group relies heavily on the overseas Russian population, particularly in Eastern and Central Europe, for support and resources.

The following list summarizes the activities of the major crime networks:

—*Italian*: Wide variety of activities including gambling, extortion, drug smuggling, arms dealing, alien smuggling, and environmental crimes, particularly illegal hazardous waste dumping. Extensive presence via expatriate Italian populations throughout Europe, Central and South America, the Caribbean, the United States and Canada. Italian diaspora crime groups in the United States include the Cosa Nostra.

—*Russian*: Particularly active in oil and gas trading sectors, financial markets, and sale of arms overseas. Presence in more than 60 countries. Russian Mafia commonly establishes illegal operations in overseas resorts frequented by Russian speakers. Most influential in Eastern and Central Europe.

—*Ethnic Albanian*: Active in trafficking drugs, arms, cigarettes, illegal aliens, and women for prostitution. Albanian gangs now dominate the market for heroin in Norway, Sweden, southern Germany, and Switzerland, and dominate prostitution in Italy and London. Small-scale operations in northeastern United States. Whether originating from Albania or Kosovo, ethnic Albanian groups are typically from tight-knit clans. Since the end of the cold war, Albanian groups have expanded beyond their borders to become the most significant of smaller criminal groups.

—*Chinese*: Mainland Chinese criminal gangs expanded beyond traditional triad activities of extortion, gambling, and illegal alien and drug trafficking into more sophisticated areas such as credit card fraud, computer chip theft, and IPR violations. Strong connections in Chinese enclaves around the world, particularly in the Netherlands, the United Kingdom, and Germany.

—*Nigerian*: Particularly active in drug trafficking and sophisticated fraud schemes. Nigerian criminal syndicates are the world's most active traffickers of Asian heroin and are increasingly trafficking South American cocaine. Nigerian criminal groups take advantage of large West African populations worldwide. Recent estimates suggest 500 Nigerian

criminal cells are operating in at least 80 countries. The United States and Britain are key targets.

—*Latin American*: In the past decade, have expanded beyond drug production and trafficking into money laundering and production of counterfeit goods. Nevertheless, major Latin American criminal organizations are not involved in the smuggling of illegal aliens into the United States. Trafficking networks have been established across the Western Hemisphere.

An even greater challenge facing the international community lies in the combined support for terrorism and civil wars emanating from these criminal networks. Although the fear of terrorism has in some cases become full-blown paranoia, it is seriously disrupting the transnational flows of human capital, with the costs to U.S. businesses alone beyond \$30 billion since 2002.<sup>26</sup>

## Conclusion

This chapter has provided a wide-ranging review of the role modern diasporas play in integrating developing countries with the global economy—mostly, though not exclusively, for the good. The main drivers of globalization are technological breakthroughs in transport and communications combined with the dismantling of politically imposed barriers on international trade and investment. But social relationships still matter a great deal in facilitating economic exchange, imparting a continuing local bias to business despite these revolutions in technology and policy. The emergence of diasporas helps overcome some of the remaining “social barriers” that lock poor countries out of international commerce. It remains an open question as to whether these linkages outweigh the more direct absence-related losses discussed in chapter 6. The next two chapters continue our exploration of the complex effects of skilled emigration by looking at two additional ways in which a diaspora can alter the fortunes of those remaining behind: their willingness to send money home and the possibility that they themselves might eventually come home.

26. “Do Visa Delays Hurt U.S. Business?” ([www.nftc.org/default/visasurveyresults%20final.pdf](http://www.nftc.org/default/visasurveyresults%20final.pdf) [June 2, 2004]).