

Diaspora and Development through Business Networks

THE MINISTRY OF Overseas Indian Affairs has estimated that the Indian diaspora has reached a population of more than two crore, dispersed across more than 200 countries¹. Traditionally, emigration has been perceived as ‘brain drain’ that signifies the loss of human capital. However, international migrants have been playing an increasingly important role in the process of development of their home country.

One channel by which emigrants contribute to the economy is remittances, which have been increasing even during the years of the global recession. Private remittances to India have increased by more than four times in 10 years, from US\$14.3 billion 2001 to US\$67 billion 2012². However, the positive impact of migration is not limited to remittances. Transnational diasporic business networks play a significant role in reducing the search costs of trading partners. These networks can contribute to the home country economy by facilitating international trade, foreign direct investment and technology transfer and by nurturing innovation and entrepreneurship³.

Evidence from the United States (US) suggests that migrant stocks to the US from immigrants sending countries have risen concomitantly with trade flows between US and those same countries. This particular phenomenon is observed between India and US too between the years 1990 and 2000. The stock of Indians settled in the US has more than doubled in this decade from about 3.4 lakh (1990) to a little over 8 lakh (2000) and the bilateral trade flows on an average have increased by 1.6 times.⁴

Foreign traders often face unknown legal and institutional challenges as well as other transaction

costs when they enter into a transaction with parties from other countries. The migrant population has the situational advantage of being well versed with the business climate and opportunities in the country of origin as well as destination. Non-resident Indians (NRIs) can overcome informational barriers of business with India more easily than other foreign traders. Saxenian (1999)⁵ reports that about half the US entrepreneurs from India undertake business with India, particularly in the information technology sector. Indian software engineers based in the US played a critical role in the creation and growth of the software industry in India (Commander et al. 1994)⁶. NRI entrepreneurs have set up companies that have headquarters both in India and the US. Networks like the Network of Indian professionals have helped in the creation of such companies. Undoubtedly, the diasporic community has a positive impact on the Indian economy.

An increase in the stock of international migrants by 10 per cent is estimated to increase bilateral trade between the country of origin and the destination of migrants by about 1.4 per cent and by 1.7 per cent when the migrants have attained higher education. Both countries gain in this process. The emigration of educated workforce is assumed to cause a loss of the country’s scarce human resources. However, educated migrants have a greater capability to participate in bilateral trade and investment ties with their home nation⁷.

There is a need to reframe the development impact of migration so that we shift away from a brain drain approach towards one where India is able to capitalise on the networks of people of Indian origin.

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1. [http://moia.gov.in/writereaddata/pdf/NRISPIOS-Data\(15-06-12\)new.pdf](http://moia.gov.in/writereaddata/pdf/NRISPIOS-Data(15-06-12)new.pdf)
2. World Bank Remittances Dataset. http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/RemittanceData_Inflows_Oct2013.xls
3. Nanda and Khanna (2009). <http://www.hbs.edu/faculty/Publication%20Files/08-003.pdf>
4. http://cid.econ.ucdavis.edu/data/undata/NBER-UN_Data_Documentation_w11040.pdf
5. Saxenian, AnnaLee (1999). Silicon Valley’s New Immigrant Entrepreneurs San Francisco, CA: Public Policy Institute of California, June.
6. Commander, Simon, Chanda, Rupa, Kangasniemi, Mari and Winters, L. Alan (2004). “Must Skilled Migration Be a Brain Drain? Evidence from the Indian Software Industry,” IZA Discussion Paper No. 1422. Available at SSRN: <http://ssrn.com/abstract=632349>
7. Sangita (2013). “The Effect of Diasporic Business Networks on International Trade Flows,” *Review of International Economics*, 21(2): 266–280.