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Economic Enclaves or Bridges to the Global Economy?  
Foreign and Diaspora Investments in Developing  
Countries

Vito Amendolagine and Nicola D. Coniglio



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European University Institute

Badia Fiesolana

I – 50014 San Domenico di Fiesole (FI)

Italy

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## **Abstract**

This paper examines the main determinants of linkages between foreign and domestic firms in developing countries. Based on existing evidence, we highlight the relevance of linkages generated by MNEs in developing countries and then we discuss the factors which boost or hamper the interactions between foreign and domestic firms and draw some policy implications. A particular attention is given to diaspora investments – i.e. investments carried out by members of the diaspora or return migrants – that represent a potentially powerful engine of growth and structural change in poor countries.

## **Keywords**

Foreign Direct Investment; local sourcing; diaspora; developing countries



## 1. Introduction

Is “one dollar of FDI [...] worth no more (no less) than a dollar of any other kind of investment” as provocatively argued by Rodrik (2003)? In this note we contrast this view of FDI as a form of capital inflow that can be assimilated to other cross-boundary investment flows such as portfolio investments or remittances. In fact, FDI represents a key driver of economic growth in developing and transitional economies as it does not only increase the quantity of capital but also enhances the quality of the capital stock by introducing technology, innovation, and better management practices and, moreover, by ‘linking’ domestic economic agents to international value chains (Görg and Greenway 2004). The ‘dollar note’ of a FDI investment has (at least potentially) some additional value attached to it; the value is strictly related to the characteristics of the ‘vector’ that carries the banknote, i.e. Multinational Enterprises or foreign investors (henceforth we use MNEs for both categories).

Here we argue that linkages generated by MNEs are an important mechanism through which FDI might foster growth in hosting countries. But as one dollar of FDI is not simply one dollar of capital, not all foreign investors produce the same level of linkages in the host economy. The investor characteristics matter substantially both in terms of the quantity and the quality of linkages that FDI generates. The starting point of this paper is the consolidated fact that MNEs are firms which possess very specific features compared to other firms in origin and destination countries. The so-called ‘heterogeneous firms literature’ (Helpman, Melitz and Yeaple, 2004) suggests that firms that invest in foreign markets represent the upper tail of productivity distribution of firms in the origin country; hence those firms that at least potentially might generate the highest benefit for the host economy. Besides, the well-established, Dunning olistic framework (Narula and Dunning, 2010) highlights the “ownership” advantages of MNEs with respect to the domestic counterparts.

An additional aim of this note is to highlight the importance of diaspora investments in developing countries. A diaspora can be defined as a group of migrants or their descendants who maintain sentimental and material connections to their homeland. According to OECD SOPEMI, diaspora members around the world represent a large and growing group (more than 250 million of migrants in 2010). Investments by diaspora migrants in existing business and/or in new business ventures in their countries-of-origin can be particularly relevant in capital scarce developing countries, such as Sub-Saharan Africa, where relatively weak institutions, social and political risks, inadequate infrastructures and other less-attractive structural characteristics may discourage foreign investors (Riddle, 2008). Furthermore, diaspora members can help poor countries connect to global flows of trade, capital, and knowledge by exploiting a wide range of potential partners and supporters in both their countries of origin and their countries of destination.

The paper is organized as follows. In *Section 2*, we outline the importance of linkages between MNEs and domestic firms and their determinants, drawing some remarks for policy makers. In *Section 3*, we discuss the crucial role of diasporas in boosting the host country development, in particular through direct investments.

## 2. MNEs-Domestic firms linkages: importance, determinants, some policy implications

### 2.1 On the importance of linkages between foreign and domestic firms in developing countries

Investments from multinationals can affect the host economy through several channels: (i) affecting the endowment and the productivity of production factors (direct effect); (ii) letting domestic firms “learn by imitation” (demonstration effect); (iii) establishing production connections with upstream/downstream local producers (linkage effect); (iv) boosting competitive pressure in host country markets (competition effect); (v) generating externalities (spillover effect).

So far, the literature has been mainly focused on the latter channel, i.e. spillovers/externalities, using both a macro approach and analysis based on firm-level data (Görg and Greenway, 2004; Castellani and Zanfei, 2007). However, spillovers are not easy to measure (see Driffield et al., 2012<sup>1</sup> for a critique to the econometric approach that is generally employed in empirical analysis); in particular in developing countries, where the lack of proper data is a major constraint. Besides, spillovers do not happen in a vacuum but are the (often unintended) result of the interaction of MNEs with other economic agents in the hosting economies; hence the precondition for spillovers to materialize is the existence of some forms of ‘linkages’. For instance, learning by imitation of new product/processes and managerial practises requires the existence of a linkage between an MNE and a domestic firm; this linkage can assume complex forms: tacit/formalized, direct/indirect, and intentional/unintentional. Spillovers can also occur through the movement of workers from multinationals to local firms which, in turn, can enhance their human capital by drawing new knowledge and expertise. Productivity gains induced by the presence of MNEs can also come from the competition effect. The latter works through two main ways: on the one hand, international competitors force local firms to exploit their technologies more efficiently; on the other hand, they speed the process of acquisition/imitation of new technologies. Finally, a further externality that can be generated by the presence of international investors is related to an improvement in access to foreign markets (which in turn translates into a better export performance). In fact, MNEs can transfer crucial information to access foreign markets, about distribution networks, transport infrastructure, consumers’ tastes, and foreign regulatory arrangements. A small but growing literature has moved the focus from spillovers to linkages, in that linkages facilitate spillovers and provide benefit even without spillovers (see Morrisey, 2012 and Amendolagine et al., 2013a for a recent analysis on Sub-Saharan Africa).

From a theoretical perspective, the contribution of Rodriguez-Clare (1996) represents a cornerstone for the development of the subsequent analysis. The author emphasizes how the benefits for the host economy depend on the relative propensity of multinational firms to generate backward linkages compared to domestic firms. In more detail, backward linkages are defined as the ratio of employment generated in suppliers of specialized inputs to labour directly employed by the firm. Thus, the work shows that if the “linkage coefficient” is larger for a multinational than for a domestic producer, then this leads to a larger variety of specialized input in the host country and, consequently, to larger productivity of local firms and, then, higher wages in the host economy. The host economy benefits also through forward linkages, i.e. the purchase of specialized inputs by leading domestic firms which, in turn, become able to produce more complex final goods at competitive costs. Multinationals promote more linkages compared to domestic firms when the following conditions are met:

- MNEs produce more sophisticated goods compared to domestic firms (higher demand for intermediates);
- communication/transportation costs between headquarters and local subsidiary are high (reduced sourcing of intermediates from the headquarter);
- home and host countries are “similar” (higher benefit experienced by domestic firms related to the increased in local input variety).

The theoretical analysis of Rodriguez-Clare considers purely the benefits stemming from linkages abstracting from spillovers. As already mentioned, linkages other than being valuable per se are also likely to facilitate learning. An interesting work by Giroud (2007) - based on survey data from two countries - Malaysia and Vietnam – shows how linkages generated knowledge diffusion and learning of domestic suppliers. The main mechanisms identified by the authors were physical and technological specifications of the inputs purchased and technical training programs. However, host countries’ absorptive capacity was found to have a crucial role in determining the extent of linkages and

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<sup>1</sup> In particular, Driffield et al. (2012) argued that the Production Function Approach is not able to distinguish non-pecuniary technological externalities from pecuniary externalities.

spillovers. MNEs in Malaysia rely more on local sourcing of materials (around one-third) with respect to those in Vietnam (one-fifth). In terms of knowledge transfers, local suppliers in Vietnam benefit from MNEs much less than those in Malaysia, due to a poorly competitive environment.

The presence of MNEs affiliates can also boost the productivity of its domestic buyers through an increase in the variety and quality of inputs and knowledge transfers (forward linkages). Görg and Strobl (2002) and Boly et al. (2013a) provide empirical evidence on this specific channel. The first work investigates the effect of MNEs on the start-up size of new local entrants in Irish manufacturing industries. The findings suggest that the presence of multinationals leads to smaller start-up size of domestic companies entering the market, particularly within the modern sectors. On the one hand, this result is due to the tougher competition imposed by foreign investors in both the final and the intermediate goods market, which, in turn, can lead to an improvement of market efficiency; on the other hand, it raises concerns about possible negative effect on the competitiveness of small-scale domestic companies. Boly et al. (2013a) show that the effects of FDI inflows on Sub-Saharan Africa firms are very heterogeneous across countries and firms; they distinguish ‘winner’ and ‘losers’ from MNEs entry and shed lights on their characteristics. Large and more productive domestic firms with a downstream market orientation are more likely to benefit from the presence of foreign investors while small, family-owned companies experience negative net effects. Moreover, supplier relationships enhance the likelihood of gains from the presence of MNEs. In particular, the quality of linkages (i.e. the ratio of long-term relationships) seems to affect those gains more than their quantity (i.e. the number of foreign suppliers). Indeed, the macro-economic environment significantly affects the impact of FDI on domestic firms: a higher quality of business environment, a larger size of the manufacturing sector, a larger stock of FDI and a better access to foreign markets increase the likelihood of benefits. Finally, in terms of reaction of domestic firms to the presence of multinationals (i.e. forward linkages), it came out that firms experiencing benefits from FDI are more likely to adopt imitation strategies. Instead, companies experiencing negative effects from the presence of foreign investors are more likely to adopt a ‘passive stance’ and do not adopt any strategic reaction to the presence of foreign firms. Linkages, in this respect, are likely to promote short-run benefits stemming from FDI in developing countries as well as medium-to-long term structural change by accelerating a Schumpeterian process of expansion of the ‘best’ firms and decline of the least productive ones.

**Table 1. How do domestic firm in Sub-Saharan Africa react to the presence of foreign affiliates in their countries?**

Type of strategy	All firms <sup>(1)</sup>	Winners	Losers
Production of similar products	29,5%	37,9%	31,2%
Adopt similar production technologies	15,5%	17,7%	19,6%
Adopt similar marketing strategies and methods	28,1%	35,7%	30,9%
Recruit key employees from foreign investors	6,4%	9,2%	6,7%
Buy licence or patents from the foreign firm	3,9%	5,0%	3,0%
Produce different products to avoid competition	22,8%	25,2%	27,5%
Produce complementary products	21,2%	25,3%	21,9%
No strategic reactions	38,8%	24,7%	33,9%
<i>Observations</i>	<i>3723</i>	<i>1260</i>	<i>899</i>

<sup>(1)</sup> Includes domestic firms which experience no effects from the presence of foreign firms.

*Source:* Boly et al. (2013a)

After having underlined some of the benefits associated with MNEs-domestic firms linkages in the next session we focus on their determinants.

## 2.2 The determinants

Which types of FDI are more likely to generate linkages? Empirical studies which address this important question with firm-level data are, to our knowledge, still very few and often limited to specific cases. Belberdos et al. (2001) represents one of the first studies which directly address this issue by looking at the determinants of backward linkages generated by a large sample of Japanese manufacturing affiliates operating in 24 countries. Their analysis finds that good quality of infrastructures and large size of the manufacturing sector positively affect the creation of linkages of Japanese affiliates, while restrictive trade policies resulted to have negative effects. Kiyota et al. (2006, 2008) also investigates the determinants of domestic linkages of Japanese affiliates. Their analysis – based on a more rigorous methodology - show that horizontal FDI – i.e. those motivated by the supply of the host country market – are more likely to generate backward linkages. Moreover, they found the time since entry of foreign affiliates to be an important determinant of linkages. In their analysis, the firm variation in the generation of backward linkages largely depends on unobservable firm-level characteristics.

Amendolagine et al. (2013a) employed an original firm-level data collected through the UNIDO Africa Investor Survey 2010<sup>2</sup> to study the determinants of backward linkages generated by MNEs from several different countries across 19 SSA countries. The main results of this study, which is so far the only one focusing on developing countries, can be summarized as follows. First, years since entry of foreign affiliates affect the demand of local intermediates in a non-linear fashion (Merlevede et al. 2011 confirmed a similar result for spillovers generated by MNEs in Romania). This result can be helpful in understanding the limited extent of linkages in SSA highlighted by Morrissey (2012), given the relatively recent vintage of FDI in the African continent. Second, a larger skill ratio (a proxy for “technology gap” between foreign and domestic firms) negatively affects the generation of backward linkages. The larger the technological level of the affiliate, the lower the likelihood/ability of foreign firms to outsource intermediate inputs to local producers in developing countries with low human capital endowment. Third, diaspora investors tend to rely more on local suppliers. This is likely to be due to the favorable position of diaspora members which makes them “bridges” between the economies of their origin and destination countries (see the second part of this note). Fourth, market-oriented investments generate more backward linkages (as in Kiyota et al. 2008). Indeed, employing local inputs is an efficient choice for foreign companies targeting the local market for final goods. Fifth, the mode of entry matters: greenfield investments produce less linkages compared to brownfield ones. The study also finds that the presence of a local partnership boosts the demand of local inputs. Sixth, investors from different origin countries present a different propensity to generate local linkages. Investors from China, the Middle East, and North Africa turned out to be associated with a lower share of local intermediates. In the case of the Middle East and North Africa, the result might be due to the short distance between origin and destination countries reducing the gain from buying inputs locally rather than importing them from abroad (as emphasized by the theoretical work of Rodriguez-Clare 1996 discussed above). In the case of China, there might be different reasons behind the weak propensity to generate backward linkages. On the one hand, language and cultural barriers can work against the establishment of supplier relationships with local firms: particularly, high language distances can imply high transaction costs for foreign affiliates. On the other hand, Chinese firms sourcing strategies are often influenced by political forces with the result that intermediate sourcing is often constrained to the home country. Note also that several Chinese firms investing in Africa are directly owned by Central or local governments (State Owned Enterprises, SOEs). Seventh, a larger reliance of the host economy on natural resources is negatively associated to the share of local sourcing by MNEs. In fact, countries rich in natural resources mainly attract mainly resource-seeking FDI which, in turn, are those with the lowest propensity to make linkages to the local economy.

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<sup>2</sup> The survey questionnaire was designed to collect information a wide array of financial data, investment performance indicators, investor characteristics and perception on approximately 7000 firms (domestic, foreign MNE, and diaspora firms).

Eighth, an efficient legal system generates a more favorable environment for foreign investors and, in turn, enhances the chances of local procurements from MNEs. This finding can be associated to recent applications of the theory of incomplete contracts to international sourcing strategies (Antras, 2003, 2005): if contracts are easier to be enforced, investors will be more likely to opt for out-sourcing (possibly from local suppliers) rather than in-sourcing through imports from the parent company.

The analysis described above suggests that the linkages between MNEs and domestic firms depend both on the characteristics of foreign (and domestic) firms and on macro-level features of the host economy. The host country government can influence both set of factors through adequate FDI attraction policy and with more general policies aimed at improving the local business environment.

### **2.3 Policy implications**

Governments should be aware of the crucial role of linkages: they are valuable per se and promote spillovers and structural change as emphasized in this short note. However, foreign affiliates are highly heterogeneous in terms of linkage creation, so that specific actions are needed to attract those investors which are more likely to establish supplier relationships to local firms. FDI attraction policies in poor countries should be targeted to those firms which are more likely to fulfill the main conditions highlighted above. Firstly, priority should be given to foreign investors operating in sectors with a low “technological gap” with domestic firms; attract firms which produce goods and services that are likely to improve the host-country’s technological frontier but at the same time being not too far from it. In this regard, policy makers in developing countries should be more pragmatic and realistic than it is often the case: even though high tech firms are very appealing targets (in particular for a ‘political’ return), they might generate only few linkages in those countries and sectors where local firms can only supply unsophisticated intermediates.

Policymakers should also be aware of the risk of attracting foreign investors into ‘economic enclaves’ that are more proximate to the investor country than to the socio-economic system of the host one. As it is evident from the Mexican experience, US firms investing in maquiladoras are likely to source a great share of their inputs from the homeland rather than from domestic suppliers.<sup>3</sup>

It is important to take into account that linkages take time to build. The use of financial incentives – rather than the use of ‘hard’ incentives based on less transitory location advantages, i.e. a good business environment, rule of law, skilled and reliable work-force – often generates ‘easy-come-easy-go’ investors with a short-term perspective and with a very low incentive to build a local supply chain. Attraction policy should be designed in a way to generate the condition for a long-term relationship rather than aiming at a short-term (often unfruitful co-habitation); operationally this leads to the use of strategies for ‘retaining’ investors together with strategies for attracting them. An efficient legal system and, more generally, a good business environment are essential for promoting investments with a long-term perspective which, in turn, generate dense linkages to local suppliers. A key role can be played by Investment Promotion Agencies in developing countries that can boost sourcing partnerships by providing assistance and information to both foreign investors and domestic suppliers/buyers.

A special attention should be given to diaspora investors and market-seeking investors that - as suggested by recent evidence (Amendolagine et al., 2013a,b) show a high propensity to generate linkages to local economies.

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<sup>3</sup> Obviously, these special investment zones do have the merit of generating jobs and value added. What we claim here is the reduced likelihood of generating a significative structural change via the creation of backward and forward linkages with domestic firms.

### 3. Migration meets Foreign Direct Investments: Diaspora FDI in developing countries

In the past decades we have assisted to a spectacular increase in cross-border migration: from 1960 till 2000 the number of individuals residing outside their origin countries has increased from 92 to 165 million (Ozden et al., 2011). The substantial amount of human capital ‘lost’ through migration might represent – as emphasized by a growing literature – a development booster through several channels (Boly et al., 2013b). Remittances are the most obvious and studied of such channels but diaspora contribution goes beyond it. First, “Diasporas” can substantially boost trade flows by increasing by purchasing goods from their origin countries (i.e. trade in “ethnic” goods and services) and by working as “information bridge” between different countries. Choi (2003) showed that Korean diaspora has a positive on trade (i.e. it generates more exports than imports); it did not generate brain drain but, instead, brain gain by transferring back to the homeland the higher skills learned in the more advanced destination economies. Second, diasporas can also contribute to knowledge creation and diffusion by driving knowledge and information flows back to their homelands<sup>4</sup>. Third, diasporas can facilitate the integration of their home countries with the global economy through larger FDI inflows. As argued by Leblang (2010), diaspora members can improve the world-wide allocation of capital by reducing information asymmetries. In fact, migrant communities in the destination countries can support investors through information about the tastes of consumers, the quality of labour, the work ethic, and the business culture in their origin country. Diaspora networks can affect investment indirectly, through knowledge about investment opportunities, information about regulations and procedures, or familiarity with language and customs that can decrease the transaction costs associated with foreign investment. Furthermore, some diasporans working as managers of multinationals can encourage their employers to at least take into account the possibility of investing in their country of origin. Kapur (2001) explained the role of the Indian community in the USA in boosting the investment opportunities in India: “Companies like Yahoo, Hewlett Packard and General Electric have opened R&D centers in India largely because of the confidence engendered by the presence of many Indians working in their US operations.....the diaspora which signals an image of prosperity and progress to potential investors and consumers”. Moreover, Choi (2003) documented how FDI into Korea had been enhanced by ethnic Koreans living in Japan.

A growingly important but less analyzed channel through which diaspora can have a pro-development effect is via direct investments in the origin country. These investments are particularly relevant in capital scarce developing countries, such as Sub-Saharan Africa, where relatively weak institutions, social and political risks, inadequate infrastructures and other less-attractive structural characteristics may discourage foreign investors (Riddle, 2008).

#### 3.1 Why one dollar of Diaspora investments might be different from one dollar of capital inflow

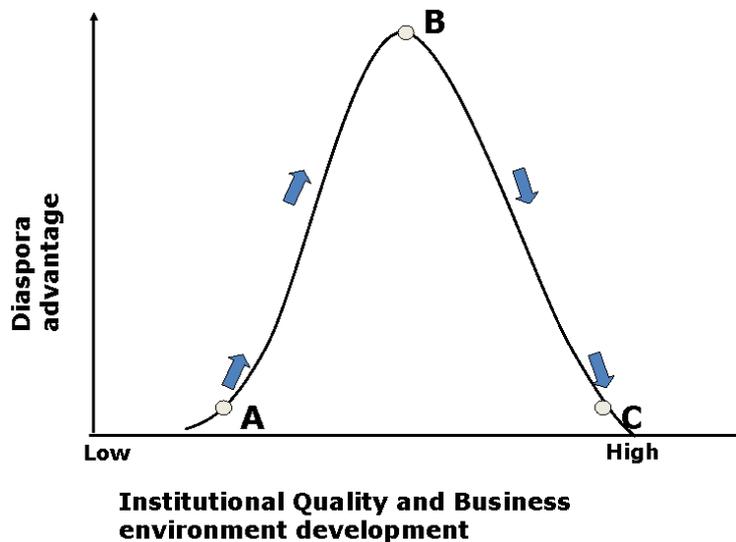
Members of diasporas have – or, more precisely, are more likely to have – two important characteristics which in our opinion make them an especially important target for FDI attraction policy. Firstly, diasporans are likely to have a strong preference for the home country (*home bias*) as a possible destination for productive investments. The reasons behind this home bias can be different: better information on opportunities and market conditions, reduced transaction costs, cultural proximity, genuine interest in home development. Some case studies highlight significant success stories. The crucial role of diaspora was highlighted in the work of Saxenian (2002, 2006) about Chinese and Indian immigrant professionals in the Silicon Valley. In her study, she found that 67 % of Indian scientists and engineers in the USA worked as an advisor or helped to arrange business

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<sup>4</sup> Indeed, this contribution, which can be implemented through professional associations, temporary assignments of skilled expatriated in origin countries, distance teaching, and the return of emigrants with enhanced skills and new knowledge, is particularly relevant for countries suffering from brain drain in specific technical sectors.

contracts in the home country and 18 % of interviewed ones had directly invested in start-ups or venture funds in India.

**Figure 1 – Diaspora investments advantage and host country institutional quality**



The second reason for placing diaspora high on the FDI attraction agenda is related to the fact that migrants are generally positively self-selected: they generally are the best and the brightest individuals from their origin countries. Hence, it is likely that diasporans are intrinsically highly entrepreneurial and willing to undertake investments in business environments which are often difficult to navigate for other investors. A similar theoretical argument as in the “South-South FDI advantage” (Dixit, 2012; Amighini and Sanfilippo, 2013) applies to diaspora investments. Compared to a non-diaspora foreign investor, a member of the diaspora might be used to deal with the difficult economic environment and the ‘bad’ institutional framework of its origin country; this translates into lower cost of entry into that market. This diaspora advantage over other investors is likely to depend on the institutional quality and the business environment of host countries as depicted in *Figure 1*. When the quality of Institutions is very low – for instance in a ‘failed’ State afflicted by civil conflicts – even for diaspora members the advantage of investing is low or null. For intermediate level of institutional quality, it is likely that a diaspora member is more able to conduct business in the origin country compared to other investors. Diasporans can exploit contacts and relationships to effectively drive their investments despite of regulatory obstacles and unreliable contract enforcement systems (instead, other investors might face higher – and often prohibitively high - transaction costs). On the contrary, where Institutions are well-functioning then – at least in principle – a reduced cultural and social proximity to the host economy represents a minor handicap in conducting business. Hence, the ‘diaspora advantage’ is likely to be bell-shaped.

Leblang (2010) studied the effect of diaspora on FDI from 56 source countries to 154 destination countries (for the year 2002). Specifically, the hypothesis tested was that migrant networks can enhance investment by lowering information asymmetries and transaction costs. Methodologically, the object was to measure the impact of diaspora in explaining deviations from the standard international asset pricing model (ICAPM), according to which, without information asymmetries, domestic asset held by individual investors should be proportional to their origin country’s share of global capital market capitalization. Results showed the larger migrant networks, the larger both portfolio investment and FDI (effects on FDI are even larger).

### **3.2 Diaspora in Sub-Saharan Africa: selected evidences**

Although the African continent is a ‘latecomer’ participant to global migration flows the Africans diaspora is steadily growing: conservative estimates put the number of Africans residing abroad at 30.6 million in 2010. This diaspora is contribution considerably through remittances (above 20 billion US \$ per year), trade and – more and more – through direct investments. The empirical evidence on diaspora contribution in Africa is generally limited to anecdotic evidence and some qualitative case studies. Some recent works conducted using the UNIDO Africa Investor Survey 2010 are contributing to a better understanding of the importance of these investors. Boly et al. (2013b) investigate whether diaspora investors differ from domestic firms and foreign investors in terms of export behavior. The authors implemented a firm-level analysis in line with the heterogeneous-firm literature (Melitz, 2003; Melitz and Ottaviano, 2008) through both non-parametric and parametric approaches. Their findings show that diaspora firms are superior to domestic companies in both extensive and intensive margins of trade; hence diaspora firms are, *ceteris paribus*, more likely to export (between 11-15% on average) and present a higher export to sales ratio. This result can be explained by two main reasons. Firstly, diaspora firms in Sub-Saharan Africa are, on average, more productive than domestic firms and in turn, as highlighted by Melitz, 2003 are more likely to enter in foreign markets. Secondly, the authors find evidence that diaspora entrepreneurs have an information advantage. In fact, diaspora firms resulted to be more familiar with international and regional trade agreements than both domestic and foreign competitors. In addition, diaspora firms turned also out to export to a larger number of markets (i.e. one further proxy for the extensive margin) with respect to domestic competitors (the difference with MNEs is very small). This would suggest that diaspora investor have a generally higher ability to access foreign markets (i.e. not only in the foreign country hosting the diaspora investor). In a related paper, Amendolagine et al. (2013a) highlight another important advantage of diaspora investments, i.e. their higher likelihood – compared to MNEs – to generate backward linkages with domestic firms.

### **3.3 Diaspora activation policies**

Diaspora benefits go beyond remittances. The presence of diaspora investors and entrepreneurs in the country of origin’s economy may contribute to the internationalization (and industrialization) of the domestic economy and therefore play a crucial role in helping the development process. Several developing countries and international organization have realized the untapped potential of diasporas and have implemented ‘Diaspora Activation Policies’ A recent work by Gamlen (2005) classifies these policy strategies into three categories.<sup>5</sup> The first is the ‘remittance capture’, which consists of not only raising the amount (and the quality) of remittances, but also – more recently - of enhancing diaspora FDI (for example, this strategy has been implemented in China). The second is ‘diaspora networking’, consisting in measures aimed at connecting the homeland to the diaspora. This strategy consists of specific programs to improve knowledge exchange and promote business and investment (such as websites or newsletters for diasporas). The third strategy is defined as ‘diaspora integration’, which aims at providing the diaspora with political influence and legitimacy. Policies targeting integration consist, for example, of extending citizen rights (i.e. dual citizenship) or organizing diaspora summits or diplomatic visits in their host countries.

The case for policy interventions is particularly strong in the framework of general foreign direct investment attraction policies. Indeed, as any other potential investor, diasporans require a favorable business environment, a sound and transparent financial sector, rapid and efficient court systems, and a safe working environment. At the same time, however, governments in developing countries should pay attention to some crucial aspects that could encourage greater investments by diaspora members in their homelands and, in turn, facilitate additional investments. Boly et al. (2013c) suggests some possible tools such as:

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<sup>5</sup> See also Brinkerhoff 2009 for a discussion on policy measures.

- i) allowing for dual citizenship and facilitating voting by citizens who reside abroad;
- ii) improving the embassies' role in providing information on trade and investment opportunities as well as in supporting business and trade forums to attract diaspora investors;
- iii) facilitating and actively supporting transnational social network between host and home countries;
- iv) engaging in youth-oriented activities to foster relationships with the diaspora investors of tomorrow.

Finally, a crucial role can be played by Investment Promotion Agencies, in partnership with diaspora organizations and/or intermediary NGOs, they might provide dedicated services which facilitate the attraction of diaspora investments (see Riddle et al. 2008)

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**Author contacts:**

**Vito Amendolagine**

University of Bari “Aldo Moro”

Dipartimento di Scienze Economiche

Largo Abbazia Santa Scolastica n°53 – 70124 Bari

Italy

Email: vito.amendolagine@gmail.com

**Nicola D. Coniglio**

University of Bari “Aldo Moro”

Dipartimento di Scienze Economiche

Largo Abbazia Santa Scolastica n°53 – 70124 Bari

Italy

and

NHH Norwegian School of Economics

Department of Economics

Helleveien 30 – 5045 Bergen

Norway

Email: Nicola.Coniglio@nhh.no