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Diaspora Investments and Firm Export Performance in Selected Sub-Saharan African Countries

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Summary. — Diasporans can contribute to the development of their home countries by investing their capital in existing businesses and/or setting up new ventures in their countries-of-origin. This paper analyzes whether these growingly important investors differ from domestic firms and foreign investors in terms of export behavior. Our results indicate that diaspora firms are more likely to be exporters, to export more intensively and toward more destinations compared to domestic firms; in addition their export performance is not substantially dissimilar to that of MNEs. The presence of diaspora investors and entrepreneurs may contribute to boost the internationalization of developing countries.

Key words — diaspora firms, export performance, foreign direct investment, Sub-Saharan Africa

1. INTRODUCTION

Globalization has not only given rise to an accelerated flow of goods and services around the world but has also fostered an increase in the movement of people across borders: during 1960–2000, the total global migrant stock increased from 92 to 165 million (Ozden, Parsons, Schiff, & Walmsley, 2011). The greatest growth in the number of migrants is largely driven by people migrating from the South to the North, which increased from 14 to 60 million over the period. In addition, these immigrants are increasingly skilled: high-skill emigration rates exceed 80% in countries such as Guyana, Jamaica and Haiti, and are above 50% in many African countries (Docquier & Rapoport, 2012). Undoubtedly, this phenomenon is one of the major aspects of globalization.

Some scholars argue that migration results in a "brain drain" whereby educated and skilled members of a country leave in search of higher wages and better living conditions (Bhagwati & Hamada, 1974; McCulloch & Yellen, 1977). [1] Others scholars argue that this "brain drain" is (at least partly) offset because the prospect of leaving provides an incentive for those left behind to invest in their own human capital. [2]

Besides these possible effects, there is growing evidence on the beneficial impact of migration on origin countries in the South. The fact that skilled migrants can create enormous benefits for their countries of origin has come to attention in recent years through the conspicuous contributions that the large, highly skilled, prosperous and well organized Chinese and Indian diasporas have made to their home countries. China and India have been very successful in attracting foreign direct investments (FDI) from their diasporas: an estimated $ 360 billion of investments were made by overseas Chinese in China between the years 1980 and 2004 vis-à-vis $ 2 billion of investments by overseas Indians to India over the same time period (Geithner, Johnson, & Chen, 2004). Both countries have established special export processing zones and have given diaspora investors priority for establishing operations in these zones; they have created specific incentives for businesses owned and operated by diaspora members, such as tax breaks and access to free or cheap land. In particular, India is frequently cited in the literature to exemplify the potential for a diaspora to foster technology and knowledge diffusion (Agrawal, Kapur, & McHale, 2008; Kerr, 2008) or the contribution of return migration to the home economy (Agrawal *et al.*, 2008; Saxenian, 2002, 2006).

In the light of these considerations, this paper analyzes in which respect these growingly important investors differ from domestic firms and foreign investors. In particular, we

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investigate whether a diaspora firm differs from domestic and foreign firms in terms of export performance.

Investments by diaspora members in existing businesses and/or in new business ventures in their countries-of-origin might be particularly crucial in capital scarce developing countries, such as Sub-Saharan Africa, where relatively weak institutions, social and political risks, inadequate infrastructures or other less-attractive structural characteristics may discourage foreign investors (Riddle, 2008). In addition, diaspora members can contribute to overcome the relative isolation of poor countries from global flows of trade, capital, and knowledge by exploiting their comparative advantage in the ability to connect with a wide range of potential partners and supporters in both their countries of origin and their countries of destination. These connections may create opportunities for investment, trade, and outsourcing; foster strategic partnerships; and tap into sources of political and financial capital that can facilitate the transfer of knowledge and technology from developed to developing countries. Diaspora entrepreneurs may also leverage their access to relatively cheap labor and, in some cases, large talent pools in their countries of origin into a comparative advantage in manufacturing or knowledge-process outsourcing.

In our analysis we use original firm-level data collected through the United Nations Industrial Development Organization (UNIDO) Africa Investor Survey 2010 (AIS 2010, henceforth) across 19 Sub-Saharan Africa countries. The survey questionnaire was designed to collect information from business owners/senior managers on a wide array of financial data, investment performance indicators, investor characteristics, and perceptions (the database comprises more than 700 variables).

The original contribution of this paper to the literature is twofold. First, we look at the impact of diaspora investors in Sub-Saharan Africa. While there exist numerous empirical studies on the impact of diaspora on economic development in several Asian countries such as India, Taiwan, and China (Arora, Gambardella, & Torrisi, 2004; Gao, 2003; Geithner *et al.*, 2004; Rauch & Trindade, 2002; Saxenian, 2002, 2005, 2006), there is a glaring void in the case of Sub-Saharan Africa. Second, contrary to the prior literature studying diaspora investments, we employ a firm level approach, using both parametric and non-parametric methods, in line with the heterogeneous firms literature (Melitz, 2003; Melitz & Ottaviano, 2008). Using firm level data allows us to determine whether diaspora firms have a better export performance compared to domestic ones (in terms of both intensive and extensive margins) and to shed some light on the source of their competitive advantage.

We find that diaspora firms not only have higher probability of exporting but also a higher share of exports in total sales than the domestic ones. Moreover, they export toward a larger number of countries. The better export performance may be explained by two factors. First, diaspora firms have on average a higher labor productivity compared to domestic firms. Second, diaspora entrepreneurs have an information advantage as confirmed by the fact that they are more familiar with international and regional trade agreements than both domestic firms and, interestingly, foreign multinational enterprises. Our results suggest also that diaspora firms are not substantially dissimilar from Multinational Enterprise (MNEs) in terms of export performance.

Diaspora investors and entrepreneurs may, therefore, significantly contribute to the internationalization of their home economy and, through this channel, play a crucial role in boosting the economic development of migrant-sending countries.

The diaspora should be viewed as a potentially important asset for a country's development strategy to be mobilized strategically within the framework of broader policy initiatives to support the development of productive capacities.

The remainder of this paper is organized as follows. Section 2 provides a brief overview of the literature on the role of the diaspora in economic development. In Section 3, we describe the size and the relevance of African diaspora and illustrate some initiatives carried out by African governments and international organizations to encourage diaspora investments. Section 4 describes the data and the econometric methodology, while Section 5 discusses the main results. Finally, Section 6 contains our concluding remarks.

2. THE ROLE OF THE DIASPORA IN DEVELOPMENT: A LITERATURE REVIEW

Diasporas are "ethnic minority groups of migrant origins residing and acting in host countries but maintaining strong sentimental and material links with their countries of origin—their homelands" (Sheffer, 1986). Diaspora members identify themselves as members of a dispersed identity group with continuing common ties to the homeland. [3]

There are several ways in which diasporas can stimulate economic development in their homelands (Rauch, 2003; Wei & Balasubramanyam, 2006).

First, diasporas contribute to financial flows to their home countries through private money transfers (remittances) to family members (Ratha *et al.*, 2011). Globally, in 2010, remittance flows are estimated to have exceeded $ 440 billion; from that amount, developing countries received $ 325 billion (World Bank, 2011a). The true size of remittances including unrecorded flows through formal and informal channels is likely to be significantly larger. Diasporas also organize philanthropic activities targeted to the homeland, either through diaspora organizations, faith communities/organizations, or less informal, more individual ways.

Second, diasporas can have a substantial impact on trade flows. In fact, international transactions are plagued with informal trade barriers—such as information costs and cultural barriers—in addition to formal trade barriers like transportation costs and tariffs. The presence of people with the same ethnic or national background on both sides of a border may alleviate these problems as confirmed by a growing empirical literature (Combes, Lafourcade, & Mayer, 2005; Gould, 1994; Head & Ries, 1998; Peri & Requena-Silvente, 2010; Rauch & Trindade, 2002). Immigrants can also stimulate imports to their new country of residence by purchasing goods from their homeland (supporting international trade in ethnic products). This "ethnic trade" or "nostalgia trade" consists mainly of foodstuffs, but also includes films and music, reading material, utensils and dishes, ornaments, and textiles and clothing: goods which, in principle, have more difficulty penetrating international markets than other types of exports. If home country exporters are successful in exploiting the diaspora market, they can move beyond it to tap other markets. In this case, diasporas serve as a bridge to wider markets. Beyond merchandise trade, the presence of diasporas also stimulates the export of services, especially international tourism (Newland & Taylor, 2010).

Third, diasporas may facilitate the domestic firms access to technologies and skills through professional associations, temporary assignments of skilled expatriates in origin countries, distance teaching, and the return of emigrants with enhanced skills. Since the reconsideration of migration as a form of