Harnessing diaspora assets in developing countries

Are developing countries under-utilising a wealth of diaspora resources? At the recent World Economic Forum ASEAN summit, I approached this question from three perspectives. As a contributor to the Commonwealth Secretariat's recent survey of expatriates in London, I drew on its insights. As a former investment banker with a remit across global emerging markets, I recalled the relative differences in approach by different countries. As an engaged member of the Bangladeshi diaspora, I was also able to speak from personal experience.

There are at least two reasons why developing countries can no longer rely on a linear path of economic catch-up. Rapid advances in technology are revolutionising how we organise economic activity and produce output. This is particularly disruptive for those who compete mainly on the basis of inexpensive labour. At the same time, a new backdrop of protectionism and 'trade war' means that foreign markets and foreign capital will be harder to tap. What is required is a strategy of experimentation, innovation and leapfrogging.

Diaspora can help on both fronts. Harnessed correctly, their inherent bias towards the homeland can act as amplifying nodes in powerful cross-border networks. They can lend not only their expertise but their professional reputations – two important factors in platform economies. Harnessed correctly, their savings and investments can also act as foot-soldiers in the flow of capital to developing countries, crowding in investment from other sources. Potential foreign investors often ask, "How much is your diaspora invested in this?"

It is important to distinguish between *involuntary* and *voluntary* involvement of the diaspora. For many years, countries such as the Philippines and Bangladesh have enjoyed a large and growing flow of remittances from overseas workers. However, the vast majority of this is obliged by poverty. These are involuntary remittances sent for the upkeep of immediate family back home. They are certainly not a proxy for active engagement by the professional and entrepreneur diaspora.

The Commonwealth Secretariat's survey and workshop with expatriate focus groups in London reveals a 'market failure' in diaspora engagement. There is ample supply and demand but they fail to meet at significant levels. Three-quarters of respondents said that they send remittances to their countries of origin. Two-thirds have said that they'd like to invest or park their savings in the home country. However, in practice, less than half of them currently have a bank account in the home country. Only one in ten owns any business there, either on their own or with a local partner.

What explains the gap between interest and action? What can be done to overcome it?

Successful models can be found in Taiwan, Korea, Israel or India. Some have reached out as part of a proactively designed strategy by the government. Some have fostered interaction without direct government intervention. However, in all cases, the tone and attitude set by the government ensured that diaspora are seen as an asset, not as a threat or as 'traitors' for choosing to live abroad.

Governments, through their embassies, have a marketing role to play. A significant proportion of the diaspora are eager to learn more while some others may have lost interest. It is telling that some embassies were unable to mobilise the one hundred respondents required from each country in the survey. Several of us have been actively hosted and courted by Ambassadors of *other* countries such as Malaysia or Singapore. A measurable objective of diplomatic missions has to be the extent to which they contribute to building awareness of economic opportunities and foster relationships with potential investors.

Digital technology can accelerate diaspora engagement in at least four ways

The fourth industrial revolution offers great opportunities to be harnessed. First, progress in payments technology is already lowering the cost of transferring money. This needs to continue apace with assistance from regulators.

Second, technology around digital identity and communication should make it more convenient for an expatriate in the UK for example, to open and operate a bank account in Bangladesh. Especially at a time when hard currency is costly to acquire and deposit interest is low in the west, developing countries should be able to obtain a float of diaspora deposits within its shores.

Third, technology could be easily deployed to enhance the administrative experience of diaspora engagement. I invested in a version of 'diaspora bonds' issued by Bangladesh at a time when the country's reserves were a third of what they are now. In fact, it is precisely at times of external account weakness when diaspora investment is most valuable. Like many others, I value the option of withdrawing my money at any time but in reality have not felt the need to do so.

However, the process of acquiring those bonds is onerous and once acquired, claiming coupons requires a nominee in the country (my elderly father!) to obtain signatures from me before submitting those paper bonds physically to the bank every six months. This is certainly not the stuff of digital leapfrog!

Technology should also help ensure accountability and allow the tracking of processes in the way that a courier company tracks the movement of its parcels. In my case, relatively simple queries have taken more than a year to elicit a response – much less a resolution. The Commonwealth survey highlights issues of governance, perceived corruption and a weak financial system. However, the survey also shows that expatriates are positive about the fundamental growth story that non-diaspora investors may undervalue. Most members of the diaspora are familiar and comfortable with the uncertainties inherent in emerging markets. Their request is that government processes do not add to those uncertainties.

Finally, 'platform technology' can be used to create communities of diaspora. Similar to Facebook or LinkedIn groups, members can be categorised and matched according to interests and what they can offer. Communities can cut across interests in the same location (for example, multi-sector professionals in London) or they can cut across locations (for example, economists in London and Manila). Over time, these can expand into peer-to-peer investing and mentoring platforms. Like all platforms, professional communities will need to be designed, nurtured, curated and used constructively.

The key to effective diaspora engagement in the fourth industrial revolution is process and governance, powered by digital.

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Notes:

- *Lutfey Siddiqi was a panelist on the session titled "Missed Opportunity: Diaspora Networks" at the World Economic Forum's ASEAN conference.*
- *The post gives the views of its author(s), not the position of the institutions they represent, the LSE Business Review or the London School of Economics.*

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