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A transnational research agenda on the determinants, policies, and impacts of diaspora direct investments

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ABSTRACT

Diaspora actors can increase trade, investments, as well as exchange of technology and know-how between home and host countries. As almost half of the world's countries have adopted policy incentives to encourage diaspora direct investments, such flows have received considerable interest by scholars and governments alike. In a comprehensive scoping exercise, this essay highlights the critical contributions made by the existing literature on diaspora investment in the fields of international political economy, economics, business studies, transnational and migration studies, economic sociology, and ethnic entrepreneurship. Flagging existing shortcomings, the essay outlines an integrated, transdisciplinary, and transnational research agenda. It offers new lines of inquiry, methodological considerations, and suggestions for testable hypotheses that are needed to advance our understanding of the modalities, determinants, and impacts of diaspora investments, as well as the role of public policies. Offering new categorizations for diaspora investors and public policies, it suggests how analytical frameworks can make meaningful differentiations that account for the heterogeneity of diaspora populations, firms, investments, and contexts.

The integration of national economies is increasingly becoming linked to the movement of people. This is because international migration contributes to stronger economic, political, and cultural ties between geo-political units. Migrants and their descendants act as bridges that can increase trade, investments, and exchange of technology and know-how between home and host countries. For this reason, migrant populations are positively correlated with FDI flows from their countries of destination into their countries of origin.¹ In the last 20 years, scholars and policymakers have increasingly asked how economic contributions by diaspora² actors can foster economic and human development in their countries of origin. The growing interest in diaspora investment in many parts of the world is evidenced by the fact that at least 63 countries, or almost half of the countries with data, have adopted specific policy measures to attract such investments (United Nations, 2017).

This essay's main objective is to establish an integrated,

transdisciplinary, and transnational research agenda on diaspora direct investments. It offers new lines of inquiry, categorizations of diaspora investors and diaspora investment policies, as well as testable hypotheses that are needed to advance our understanding of the modalities, determinants, and impacts of diaspora investments. The suggested research agenda is based on diaspora investment scholarship in the fields of international political economy, economics, business studies, transnational and migration studies, economic sociology, and ethnic entrepreneurship. Scholarship from international business and finance studies, as well as IPE scholars, explore why and how many diaspora actors invest in their countries of origin, and to what extent these investments are different from non-migrant-owned businesses in terms of social networks, access to information, and overcoming political and economic risks. Recent studies analyze the role and effectiveness of policy incentives, such as tax breaks, streamlined bureaucratic

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¹ See, Anwar & Mughal (2013); Docquier & Lodigiani (2010); Leblang (2010); Kugler & Rapoport (2005); Javorcik et al. (2006); De Simone & Manchin (2012). Especially highly educated migrants are associated with considerably higher inward FDI, whereas low-skilled migrants have a large and negative effect on both inward and outward FDI (Gheasi, Nijkamp, and Rietveld 2011). However, these studies generally operate on a highly aggregate level and Leblang (2010, Fn 23) notes that if data is restricted to investment flows from rich countries into poor countries—as is of particular importance for the bulk of migration and development questions—the statistical significance of the correlation goes away.

² Diaspora actors are all persons who originate from a certain country, self-identify with that country, and maintain a meaningful cultural and social relationship with the country (Sheffer, 2003; Naujoks, 2013, p.12). This includes both citizens and non-citizens of the home country, as well as first- and second-plus generation emigrants.

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procedures, partnerships with chambers of commerce, as well as migrant-focused business incubators. In spite of the significant interest in diaspora investments, little is known about the magnitude and effects of such financial flows on fixed investments, exports and technological upgrading, employment, the supply and value chain, as well as tax generation. This essay highlights the critical contributions made by these lines of research and flags existing shortcomings in our understanding.

Diaspora investments as a relevant area of research

Contributions of migrant and diaspora communities are increasingly recognized in countries of destination and origin in the form of remittances, innovation, trade and investment, and in the transfer of technology, skills, and knowledge. While inflows of private transfers and remittances have captured the attention and imagination of policy-makers and scholars, migrants who have become successful entrepreneurs in their destination countries can also play an important role in FDI flows.

Diaspora investments can include Foreign Direct Investments (FDI), Foreign Portfolio Investments, investing in capital accounts, diaspora sovereign bonds, and real estate as well as small-scale investments into SMEs (Naujoks, 2018a). This review, however, will focus on diaspora FDI flows only. FDI is a category of cross-border investment made by a resident in one economy (the *direct investor*) with the objective of establishing a lasting interest³ in an enterprise (the *direct investment enterprise*) that is resident in an economy other than that of the direct investor's (OECD 2008, p. 17). The motivation of the direct investor is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence by the investor in the management of the direct investment enterprise.⁴

There are at least five reasons why a focus on diaspora investment is warranted. First, the study of diaspora investment may increase our understanding of FDI. While total FDI is widely considered an important factor for economic development, the actual impact it has on development is not clear, as will be discussed more in detail below. Studying FDI flows at the aggregate level can be misleading. A focus on sub-components and lower levels of analysis is required to advance our understanding of its impact (Tsai, 2010, p.388–9). Diaspora FDI can be analyzed as a sub-component of the general study of FDI as it may enrich our understanding of how specific FDI flows affect local development.

Second, it can further our understanding of economic transnationalism. Transnational studies help to overcome simplistic conceptualizations of migrant behavior, sharpening our understanding of simultaneity in the lives of many, if not all, migrants.⁵ By researching diaspora entrepreneurship and investment, we gain knowledge on how migrants use resources and opportunities in countries of origin and destination, and understand who becomes transnationally, economically active at what point and why. Third, research on diaspora investment may serve to demonstrate the positive effects of migration and the agency of migrants as economic and development actors, thus diminishing negative associations that persist in both countries of origin and destination in spite of a general trend toward more positive perceptions

³ However, it is acknowledged that, sometimes, investments are made to strip companies of their assets and are thus not for a lasting relationship, OECD (2008, p.22).

⁴ Similar to this is IMF's definition in the Balance of Payment Manual (BPM6). For the purpose of statistics, investments are counted as FDI when an investor acquires at least 10 percent of the direct investment enterprise.

⁵ Levitt and Jaworsky (2007) define transnational migration as "taking place within fluid social spaces that are constantly reworked through migrants' simultaneous embeddedness in more than one society." For the transnational approach toward migration studies, see Basch, Glick Schiller, & Szanton Blanc (1994); Faist (2010; 2012); Portes, Guarnizo, & Haller (2003).

of migratory phenomena (Thränhardt & Bommes, 2010). A focus on diaspora actors and their active role as a bridge between economies may contribute to a more positive perception.⁶

Fourth, scholarship suggests that because of specific characteristics of diaspora actors, their investments may create more local employment, be more stable, and have more significant spillover effects.⁷ Even if the socioeconomic effects of diaspora investments were not superior to other forms of foreign capital, it may be easier to convince diaspora actors to invest in their countries of origin. They may be considered the 'low hanging fruit' for home countries in their investment promotion efforts. Thus, it may be that diaspora investments are an additional source of capital that, with the right incentives and policy-framework, adds to the existing pool of foreign capital.

Lastly, governments in many parts of the developing world display a strong interest in encouraging investments from their emigrant populations. A recent study by the United Nations (2019) reveals that at least 63 countries established policy incentives in this regard.⁸ Consequently, the Global Compact for Safe, Orderly and Regular Migration encourages states to develop targeted support programs that facilitate diaspora investments (United Nations, 2018, para 35, lit. e). However, public policies that aim at encouraging diaspora FDI are based on anecdotes and general assumptions. Assessing the impact, drivers, and characteristics of diaspora investment could be an important first step for evaluating public policies that aim at encouraging such investments. If it were true that diaspora investments can be encouraged with greater ease than other foreign investment and that their impacts are comparable or even superior to that of non-diaspora investments, then, from the viewpoint of a country's political economy, it would be significant to demonstrate the importance of including migration-related aspects into the relevant policy-framework. On the other hand, a more realistic understanding of the actual contributions and the potential of diaspora can prevent its invocation as a 'cure-all' and help steer the right mix of policies and programs.

A transdisciplinary research agenda on diaspora FDI

In the last two decades, the development effect and potential of migrants has become an increasingly important field in economic and social science research. In spite of the substantial research on diaspora investments, our knowledge on their determinants, scope, and effects remains limited. The sample-size and research methodology of most studies does not allow us to take the hypotheses about diaspora investment behavior as secure knowledge. Several commentators readily assume that a substantial part of migrant population are 'altruistic technologists' who do not shy away from sharing technology with other actors in their country of origin (Debass & Ardovino, 2009, p.8). However, diaspora investors may not be better informed than other foreign investors—particularly as more traditional foreign investors often benefit from expert advice (Terrazas, 2010, p.9) and local managers (Graham 2019, p.39). Diaspora investment "comes with its own risks and inequities; it is not inherently more benign or developmental than FDI" (Tsai, 2010, p.421). The remainder of this essay spells out major components for a transdisciplinary research agenda that is needed to adequately explore diaspora investments, their modalities, and impacts.

⁶ On the other hand, critics have argued that a focus on the economic activities of migrants follows a commodified, neo-liberal view of human mobility (Pellerin and Mullings, 2013).

⁷ See Balasubramanyam (2005); Debass & Ardovino (2009); Gillespie et al. (1999); Javorcik et al. (2006); Nielson and Riddle (2007); Riddle and Nielsen (2011); and Rodriguez-Montemayor (2012), among others.

⁸ The interest of countries the world over is also reflected in the discussions of past Global Fora on Migration and Development (GFMD) that highlight the need to discuss and explore what government measures work efficiently as incentives for diaspora investments and trade (GFMD, 2013).

It lays out key questions, differentiations, hypotheses, and methodological considerations with regard to diaspora investors and investments, their impacts and determinants, as well as the role of public policies (Fig. 1).

Categories of diaspora investors

Much of the literature on diaspora investment departs from universal mechanisms and characteristics. However, it is unrealistic to expect all diaspora investments to be similar and have similar impacts. It is hence misleading to ascribe static causal relations between particular forms of diaspora capital and economic development (Tsai, 2010, pp.422–3; Graham, 2013). We need a differentiated theory that considers distinctive types of investors and modalities of investment to disentangle the various effects and to provide valid micro-foundations for the observed macro effects.

We can discern different categories of diaspora investors.⁹ *Financial investors*, such as angel, venture, and private equity investors, look for a financial return. Same as non-diaspora investors, who are often generalists with diverse specialties, financial diaspora investors may have expert knowledge in specific sectors but are rather agnostic about where to invest. *Expanding business investors* have a company in the country of residence and expand its operations with a joint venture or a wholly owned subsidiary in the country of origin. Sub-categories include *absentee business owners*, who continue to live in the country of residence, while relatives or a local manager take care of the operations, and *transnational entrepreneurs*, who establish dual residence and whose engagement takes advantage of both host and home opportunities. *Return investors* relocate to their country of origin and invest capital by opening a new company or by buying into an existing venture.

In addition to migrants investing their own funds, it is recognized that they can act as intermediaries for financial transactions. As such, diaspora actors can channel investments through ‘non-diasporic’ foreign corporations and investors to their country of origin.¹⁰ For instance, a diasporic Indian high up the ranks at Google may be able to spearhead a major investment by Google in India. Future research may thus investigate the number and scale of investments that are brokered, what and why makes diaspora managers or experts effective intermediaries and when the information provided by them leads to investment projects in the country of origin.¹¹ In addition, Graham (2019) introduces the concept of diaspora-affiliated firms that also encompass foreign firms that remain owned by non-diasporas foreign investors but that are managed by diaspora actors or returnees.

Already for a single country, different categories of diaspora investors may have different motivations and preferences, and their activities may have different effects. Commentators have urged researchers to overcome the perception of ‘the diaspora’ as an analytical category (Brubaker, 2005). The study of transnational economic activities would benefit from including different ethnic groups that the diaspora population may consist of, different regional origins, genders, religious groups, classes, socioeconomic status and occupational groups,

⁹ Landolt, Autler, and Baires (1999) distinguish five categories of transnational enterprises, depending on whether they are involved in the transfer of goods and remittances; cater to immigrants’ ethnic consumption needs; are small businesses located in immigrant neighborhoods that employ exclusively persons from a certain diaspora community; return migrant micro-enterprises; or are enterprises that expand operations from the market in the country of origin into the immigrant market in the destination country.

¹⁰ Kapur (2010); Naujoks (2013, p.82); Kotabe et al. (2013).

¹¹ According to UNIDO’s *Africa Investor Survey 2010*, for only six percent of all foreign investors in countries in sub-Saharan Africa, the diaspora community was the main source of information about investment opportunities. Underlining the network effect among diaspora actors, one third of diaspora respondents relied on information from the diaspora community itself (UNIDO, 2012, p.52).

regions of settlement, as well as circumstances of emigration and differences between first- and second-plus generation diaspora actors. This may also include differences in the legal status of diaspora investors in countries of origin and destination.¹² Importantly, research needs to acknowledge that diaspora actors may simultaneously hold multiple group memberships in different social spheres (Faist, 2012) and account for the socioeconomic, identity, and spatial positionality of different diaspora populations (Koinova, 2018).

Volume, composition and characteristics of diaspora investments

Data on diaspora investment is extremely scarce. A global review of existing statistics revealed that Ethiopia, India, Senegal, and Tunisia are among the few countries that track diaspora investments.¹³ However, even in these countries, records are mostly limited to investors who declare their investments as diaspora investments or who take advantage of certain government benefits. In addition, data is limited to proposed and approved investment licenses. Investments after a person’s return and reinvested earnings are generally not included in these statistics. Overseas Chinese investments are often invoked as the quintessential diaspora investment success story.¹⁴ However, China does not collect official ‘diaspora investment’ data and the high amount of so-called diaspora FDI inflows is based on the *total* investment from Taiwan, Hong Kong, and Macau (Tsai, 2010).

Chacko and Gebre (2013) and Naujoks and Kriaa (2016) appear to be the only studies that assess the scale and allocation of diaspora investment funds, analyzing official data in Ethiopia and Tunisia respectively. Unless we know more about the scale of diaspora investments, the individual mechanisms and effects of diaspora investment projects may be less relevant. When assessing the volume of diaspora investments, it is critical to stress that investments by foreign companies do not necessarily equal FDI. The latter is a financial concept from the balance-of-payments statistics whereas investment for economic analysis is a variable from the real, national accounts (Agosin, 2009).¹⁵

The absolute volume of FDI is generally less revealing than its sources, composition, and uses (Tsai, 2010, p.421). To gauge the extent of diaspora investments, empirical work has focused on three measurable aspects of such flows. Studies assess the prevalence of diaspora investors among firms in migrants’ countries of origin,¹⁶ sample migrants in their countries of residence to understand how many invest ‘back home,’¹⁷ or investigate the scale of diaspora investments at the aggregate level.¹⁸ Other studies rely on data captured by investment permits and often only for a subset of diaspora investors. Thus, while studies have shed light on the share of diaspora actors involved in transnational business activities and other aspects, issues regarding the size of such flows and their impacts remain by and large unanswered.

The impacts and modalities for diaspora investments may depend on whether they are resource-seeking, asset-seeking/capability-seeking, market-seeking, or efficiency-seeking (Balasubramanyam, 2005, p.14),

¹² Naujoks (2013) explores how status passages toward citizenship in the US and toward a special diaspora citizenship status affect investment behavior of overseas Indians.

¹³ This unpublished review was conducted by the author on behalf of the UN Development Programme.

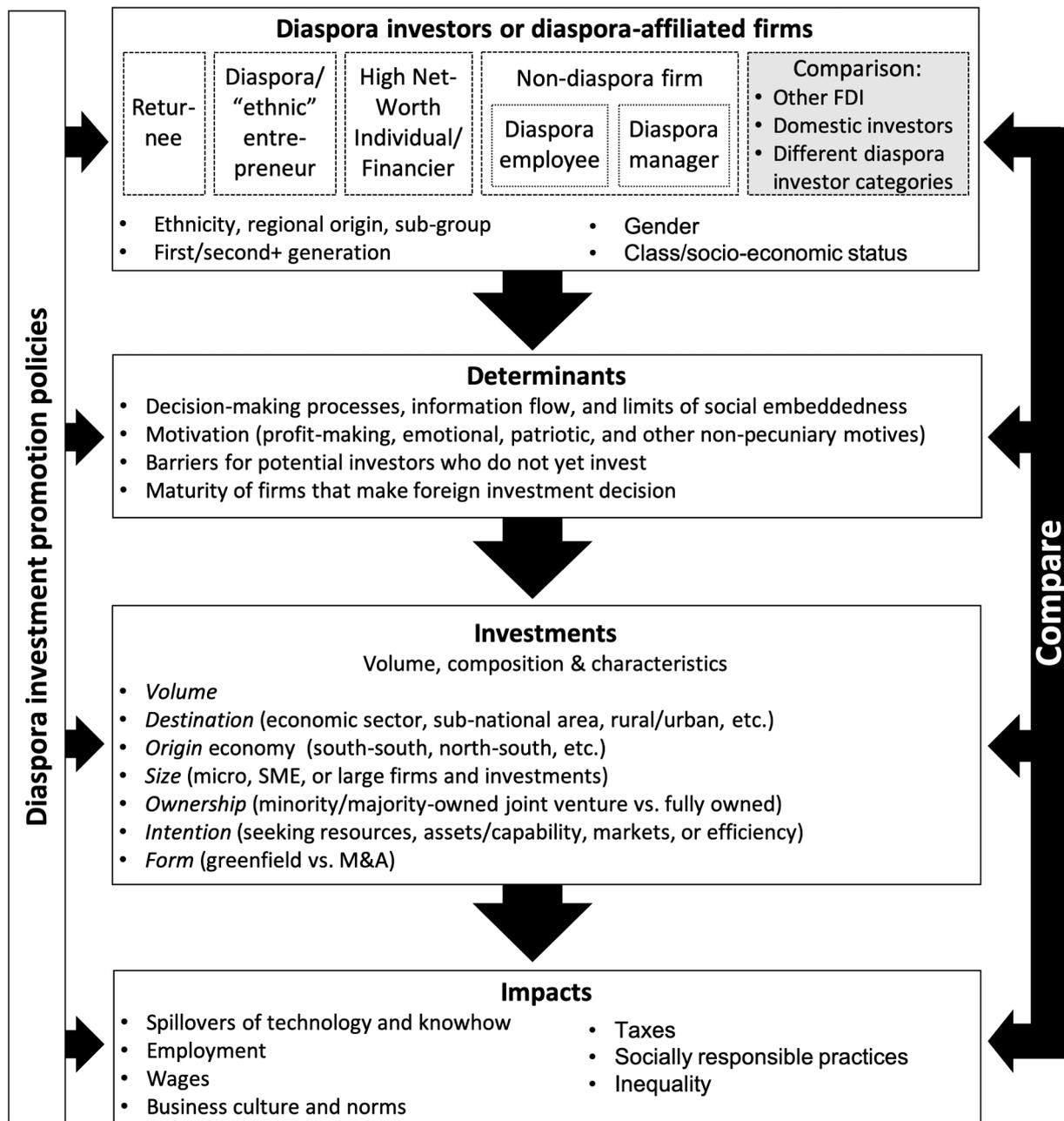
¹⁴ See, Guha & Ray (2000); Bajpai & Dasgupta (2004); Wei (2005); among others.

¹⁵ FDI in the form of mergers and acquisitions never becomes real investment, while investment by foreign firms can exceed FDI if such investments are financed through loans by foreign firms on the domestic capital market (Agosin, 2009, p.22).

¹⁶ See, Graham (2011; 2019); UNIDO (2011); Boly et al. (2012); Naujoks (2018a); Naujoks and Kriaa (2016).

¹⁷ See, Gibson and McKenzie (2010); DMA (2012); Dossani (2005); Saxenian (2002); Portes, Guarnizo, & Haller (2002).

¹⁸ See, Tsai (2010); [REFERENCE REDACTED].



Source: Author’s conceptualizations

Fig. 1. A comprehensive research framework on diaspora investments. Source: Author’s conceptualizations.

whether they are greenfield investments or mergers and acquisitions, or whether they depend on the size of the investing firm, the firm that is invested in, or the investment. Often, diaspora investors are not involved in wholly owned firms (Dreher, Nunnenkamp, & Chaitanya Vadlamani, 2013; Graham 2019). It would be interesting to explore if there is a minimum threshold that makes diaspora ownership an asset and what control of diaspora actors and what constellation with other foreign-owners are particularly beneficial.¹⁹ We may further differentiate

scenarios in which diaspora investors raise money from diaspora networks (Woodruff & Zenteno, 2007; Nanda & Khanna, 2010), use their own funds, or access financial institutions in the country of origin or destination.

Determinants: Understanding the foreign investment decisions of diaspora actors

Assumptions about diaspora investors’ decisions include their emotional, patriotic, and other non-pecuniary motivations. Whereas most microeconomic approaches regard human investors purely as creatures of logic like the Vulcan Mr. Spock in Star Trek, decision-making models for FDI need to include emotion (Van de Laar & de Neubourg, 2006). Theories on the determinants of diaspora investments generally assume that a stronger diasporic attachment increases such

¹⁹ Especially in the bracket 10–25 percent ownership, the control that a single shareholder has depends on the ‘contractual rights’ given to them, which in practice depends on the distribution of the cap-table, i.e., how many other shareholders hold significant parts of the company. One important sign of control is whether the shareholder (or their nominee) has a seat on the board.

investment and that migrant entrepreneurs are more likely to invest in their country of origin than other groups of investors.²⁰ It appears that many questions in this regard are not only unanswered, they are also not yet asked.

Expanding on the literature on the determinants of diaspora investment, future research needs to explore the actual motivations of diaspora investors and the linkages between motivations and the characteristics of investment activities. This should draw on international business research that attempts to answer why companies in general engage in FDI activities.²¹ The explorations are often rooted in Hymer's (1960) research that explains the international operations of enterprises by certain competitive advantages that outweigh the natural advantages of operating in home environments. Generally, firms' inclination to invest abroad are thought to be based on ownership, location advantages, and internalization (Dunning 2001). While this logic may equally apply to diaspora entrepreneurs, it needs to be explored if diaspora investors are a distinct category of investors and/or to what extent observed differences are caused by other factors, such as firm size.

While existing scholarship has examined transnational diaspora entrepreneurship post hoc, by assessing the business activities of diaspora actors, insufficient attention has been paid to identifying specific obstacles and barriers that impede more, and more successful, diaspora investments (Rodriguez-Montemayor, 2012, p.11, see also Kotabe et al., 2013; Riddle, Hrivnak, & Nielsen, 2010). A comparative analysis of firms that already operate in the target economy needs to consider if there is a positive self-selection bias for non-diaspora-owned foreign firms entering a foreign economy. Diaspora-owned companies may venture into the economy of their country of origin at earlier stages of their lives than other firms. Consequently, research may explore whether non-diaspora-owned firms in the migrants' country of residence have a stronger net-worth and reached a higher stage of maturity than diaspora-owned firms.

In contrast to non-diaspora-owned firms that may be open to expanding to wherever they find the best market conditions, diaspora investors often focus solely on investment targets in their country of origin. This, and the reliance on their ethnic social networks, could not only be an advantage, but also a constraint that leads to sub-optimal investment decisions.²² We should also advance our understanding about the flow of information. Ethiopian emigrants who are not themselves active in the construction sector, predominantly invest in the construction business in Ethiopia, especially by acquiring heavy machinery that then is rented out to construction companies (Chacko & Gebre, 2013). However, we know too little about the actual diffusion channels and how they enable or constrain investment decisions and their impacts.

Measuring the impact of diaspora investments

There appear to be virtually no studies addressing the direct or indirect effect of diaspora investments on fixed investments, exports and technological upgrading, employment, the supply and value chain, and tax generation. This includes questions of whether diaspora investments may affect existing inequalities, vulnerable groups, and if they have positive effects on sustainable investment, for example, by promoting socially responsible investment. The impact of diaspora investment may depend on whether the firms pay higher wages and pay taxes, or to what extent they are allocated in tax-free economic zones or enjoy tax

²⁰ See, Gillespie et al. (1999); Naujoks (2013, pp.248-50); Nielsen & Riddle (2007); Nkongolo-Bakenda & Chrysostome (2013); Ratha et al. (2011, pp.147-8).

²¹ For research on international business expansion and transnational entrepreneurship, see Drori, Honig, & Wright (2009).

²² Granovetter (1985) shows how social embeddedness of ethnic enterprises can constrain their performance.

exemptions.

The potential impact of diaspora FDI on development is generally modeled after the effects of FDI in general. For example, Rodriguez-Montemayor (2012, p.6) holds that diaspora investments have the potential of other foreign investments, such as bringing financial capital, advanced technology, and business practices to emerging markets. They can also lead to positive externalities—spillover effects—when local firms observe and imitate positive practices of foreign investors. Balasubramanyam (2005, p.15) explains that in the case of wholly diaspora-owned firms, the economic impact would follow standard analysis of FDI inflows. Based on the usual assumption of two factors of production—capital and labor—, constant returns to scale and perfect competition, Balasubramanyam sustains that there will be a redistribution of income from capital to labor and also a redistribution of income from domestic capital to foreign capital.

In spite of the oft-quoted benefits of FDI, critical voices challenge what forms of FDI lead to what effects on economic, social, and sustainable development. In Latin America, FDI fell short of generating spillovers and in many cases wiped out locally competing firms thereby crowding out domestic investment (Gallagher, Chudnovsky, & Porzecanski, 2009). On the other hand, studies observe a positive and significant relationship between FDI net inflows and higher Human Development Index values in Africa (Gohou and Soumare, 2012) and middle- and low-income countries (Sharma and Gani 2004). It is beyond the scope of this essay to assess the impact of FDI in general.²³ By taking note of these open issues with regard to FDI in general, the following sections focus on scholarship that contains specific analysis of diaspora investment and entrepreneurship, especially on the potential impact of such investments.

Higher productivity of diaspora investment enterprises

Scholarship offers three explanations why diaspora investment may have a better impact on development in localities of origin than other forms of foreign capital. The first explanation is based on the comparative advantages of diaspora entrepreneurs, who may be better informed, can make better use of social networks to decrease risk, and generally engage more effectively in investment activities. Balasubramanyam (2005, p.14) theorizes that diaspora investors contribute more to the social product of their countries of origin than traditional types of capital. To underpin this claim, Balasubramanyam refers to the ability of the diaspora to utilize and exploit location advantages in the countries of origin (p.17), as well as their ability “to assess the competence and ability of cooperant factors, negotiate much more efficiently with local bureaucracy, and organize and manage local resources, chiefly labor, effectively” (p.10).²⁴ Ratha et al. (2011, p.153) assume that language skills and similar cultural backgrounds can greatly contribute to the profitability of investment in unfamiliar countries. Graham (2019:29-36) argues that diaspora-affiliated firms are more capable than other foreign firms because of diaspora actors' social ties and cultural fluency.

Concrete hypotheses are needed to evaluate such suggested impacts. Studies can explore whether the assumed advantage of diaspora-owned companies leads to a better economic performance and profitability. If diaspora-owned firms are more successful, they may be less likely to go bankrupt than other foreign-owned companies or have a higher *return on investment* than other foreign-owned or domestic enterprises.

Higher efficiency of diaspora investments

FDI is generally expected to have a positive effect on capital

²³ For a discussion on the potential effects of FDI, see de Mello (1999); Farole and Winkler (2014, p.9); Resmini (2019).

²⁴ Non-resident Indian investors are better informed about the political risk in India than other foreign investors (Dreher et al., 2013, pp.95-96).

formation and long-term development when directed toward an underdeveloped sector of the economy. In sectors with significant domestic production and firms, it is expected that foreign capital has a crowding out effect, leading to less capital formation in the economy. Riddle and Nielsen (2011, p.234) suggest that compared to other foreign firms, diaspora investments could be characterized by a higher degree of efficiency, with less crowding out of domestic resources. On the other hand, it could be argued that many diaspora actors are not mere financial investors who are knowledgeable about and willing to invest in any sector that yields the highest return on investment. The efficiency hypothesis could thus be undermined if diaspora investors are less flexible in choosing the sector of their economic engagement.

More 'benign' diaspora investments

Scholars argue—mostly from a theoretical or empirically-inspired viewpoint—that diaspora investments may be characterized by superior qualities than other forms of investments. Riddle and Nielsen (2011, pp.235–6) set out a list of hypotheses on why diaspora investments may be superior to other sources of foreign investments. Namely, they postulate that, when compared with other foreign investors, diaspora investors may be less likely to repatriate profits and more likely to reinvest in existing firms; be less likely to extract capital in periods of political and/or economic risk; prefer local inputs and employees over imported products and labor; engage in innovative socially and environmentally responsible business practices; and provide social capital linkages for local firms to external supply chains and markets. Importantly, they hypothesize that “[o]ne of the main goals of diaspora economic activity in the country of origin may be to generate employment—for their family, friends, local community, or nation in general. Thus, diaspora investors and entrepreneurs may be more likely to establish greenfield activities rather than merely merge with or acquire existing firms in the country-of-origin economy” (ibid.).

A World Bank study finds that diaspora investors of Caribbean descent express “a strong desire for having an impact on job creation and economic development through their investing. In terms of impact for investors, these factors ranked second and third after generation of financial returns, highlighting that the diaspora do have a social metric for success in addition to a financial one” (infoDev, 2013, p.21). It may be questionable whether such statements actually lead to business practices that have the wished-for effect. Especially with diaspora actors from developing countries, it can be expected that a considerable desirability bias prompts answers that are socially desirable. Many of the hypotheses on the motivations, impacts, modalities, and challenges are based on theoretical deliberations and few empirical assessments exist on these questions. It is, thus, of seminal importance to empirically test the existing assumptions and to understand the scenarios in which they hold true, and in which they do not. Instead of focusing on the one-time investment, for the development impact, it is important to see whether the investment creates *lasting* employment, or even growing employment and tax benefits based on the expansion of production and economic activity.

With regard to technology transfer, Javorcik et al. (2006) speculate that while non-diaspora foreign investors may be unwilling to share their technology with local workers, diaspora investors may be more inclined to do so. However, this hypothesis has not been analyzed empirically and it seems premature to assume that this is an established impact of diaspora investment (Rodriguez-Montemayor, 2012, p.6). Similarly, Kotabe et al. (2013, p.3) postulate, “Diaspora investment/entrepreneurship generates new jobs and increased income, turns ‘brain drain’ into ‘brain gain’, contributes to the diffusion of technology and production knowledge, assists in the internationalization of domestic firms, and stimulates foreign investment from non-diaspora sources.” However, while many of these effects appear to be intuitive as they are commonly associated with FDI in general, no empirical assessment of any of these areas has been conducted. It is necessary to identify the exact mechanisms behind the observed FDI spillover

patterns and advance our understanding of the spillover potential of global value chains in the context of global strategies and governance (Farole and Winkler 2014). For diaspora FDI, this means not only to theoretically deduce how diaspora investors could fit into the emerging transmission channels, but also to establish evidence on where, how, and to what extent diaspora investments have particularly strong (or weak) spillover effects and how they compare to the effects of other forms of investment.

Graham (2011; 2019) shows that diaspora-owned firms make greater use of social networks than do their non-diaspora-owned counterparts and that respondents at the former perceive these networks to be more important to firm location decisions and profitability, despite the fact that most respondents in both categories are local, Georgian firm managers. However, diaspora-owned firms are not more likely to engage in a specific set of socially responsible, pro-development behavior than other foreign firms (Graham, 2013; 2019, Ch.6). On the contrary, the data suggests that they are less likely to do so.²⁵ Also working conditions in Chinese factories owned by Taiwanese and overseas Chinese investors are far worse than those in Japanese and Western-invested operations (Tsai, 2010, p.421). While scholars have asked how prevalent specific non-pecuniary and benevolent motivations are within diaspora investor populations, for the actual impact, it may be less important to ask how many diaspora actors engage in investment activities or to what extent diaspora investors are more or less prone to providing stable capital that has particular development effects. For example, the overall impact of socially responsible micro-investors may be considered smaller than the impact of socially responsible large-scale investors. In other words, the scale of ‘good intentions’ matters and it is not necessarily the average motivation that counts for the overall effects, but the motivation per invested dollar.²⁶

Impact on institutions

Assessing the impact of diaspora entrepreneurs, Saxenian and Sabel (2008, p.383) sustain that the importance of diaspora networks for economic development “lies not in the direct contribution of assets, but in the role of these networks in the design and construction of new institutions in their home countries. Although these contributions are often incremental, thus difficult to detect and even more difficult to quantify, over time they have the potential to create a context that supports self-sustaining growth.”

Kshetri (2013) argues that diaspora actors can act as institutional entrepreneurs and change agents to improve entrepreneurship-related institutions, including *regulative* institutions, such as government’s assistance and special support to start businesses, *cognitive* institutions, such as individuals’ knowledge and experience related to legally protecting a new business, dealing with and managing risks, and finding information on receptive markets; as well as *normative* institutions, such as societal views on entrepreneurship, innovation, and creative thinking. FDI can facilitate the diffusion of entrepreneurial culture and innovation by way of various spillover mechanisms, such as skilled labor turnovers, enterprise spin-offs, demonstration effects, and supplier-customer relationships. Diaspora networks can have particularly important spillovers, as they generally have privileged access to providing information and relational proximity (Kshetri, 2013). However, not all impacts are positive. Bosco (1994, pp. 9–10) cites the

²⁵ Graham measures self-reported priority to hiring local staff over foreign staff, offering higher salaries than other firms in the respective sector, providing a higher quality of life and opportunities for professional development for employees and their families, contributing to economic development in Georgia more than other firms in this sector, as well as donating to charitable causes.

²⁶ ‘Motivation’ is taken as a token for development effects, though obviously, the actual development impact depends on much more than investors’ ‘motivations’, as is acknowledged that the ‘road to hell is paved with good intentions.’

“knowledge of who, how, and when to bribe” as the cultural edge that Taiwanese investors have over their Western counterparts in China. While such knowhow may be considered an advantage from the business point of view, it may have a reinforcing impact on corruption with established negative consequences for the country’s political economy and the rule of law. Similarly, the social networks of diaspora-owned businesses in Georgia simultaneously protect firms from regulatory hazards and undermine the development of the rule of law (Graham, 2013). While there are good reasons to assume positive development impacts from diaspora investments, research should not overlook possible negative consequences.

Policies and incentives to attract and facilitate diaspora investments

As governments are increasingly interested in maximizing the development impact of their emigrant population, national and local governments establish policy measures to encourage or facilitate investments by their diaspora (Naujoks, 2021). In 2019, 59 countries, or 60 percent out of 99 countries with data, had instituted at least one policy specifically for diaspora investors (Fig. 2). Half of the countries have streamlined bureaucratic procedures or allow the transferability of diaspora actors’ financial assets. 42% provide tax exemptions or other financial incentives and still a third establishes preferential allotment of permits and licenses. One in every four countries provides diaspora investors with preferential access to credit. These practices are particularly prevalent in Latin-American countries, while two-thirds of countries in Africa and Oceania have adopted such schemes. Only Europe trails behind with less than a third of countries having adopted such measures (Fig. 3).

If (potential) diaspora investors are more likely to perceive transaction costs and risks in their home country lower than for other foreign investors, they could be targeted as ‘low hanging fruit’ by investment promotion agencies. Policy-oriented research focuses on existing barriers that policy interventions may aim at abolishing and positive incentives governments provide to encourage such investments. An increasing number of projects and programs in countries of origin and destination attempt to connect diaspora entrepreneurs with their localities of origin and support their endeavors.²⁷ These can be implemented by national institutions, such as finance or diaspora ministries and investment promotion agencies, but equally by municipal and regional governments that often seek investments into their localities (Naujoks, 2018b; Naujoks, 2021). Policies and programmatic activities fall in 11 categories:

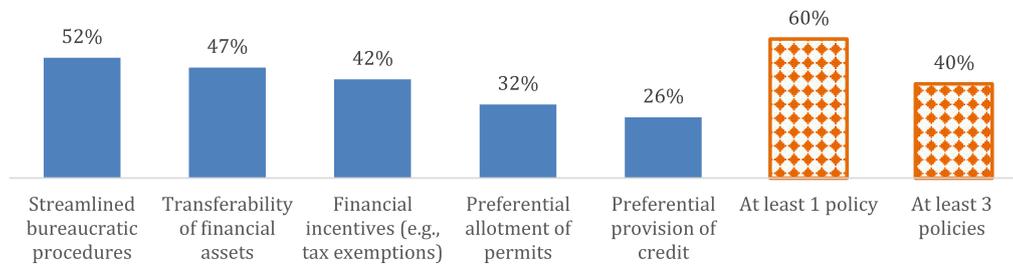
1. *Legal rights*: In countries that have adopted legal restrictions on foreign investments, giving diaspora actors the right to invest is the first precondition for their economic involvement.
2. *Funds, tax exemptions, and securities*: Governments can use the traditional tools of investment incentives, including covering certain costs, exempting investments from specific taxes, and securing transactions (Ionescu, 2006, p.23).
3. *Streamlined bureaucratic procedures*: Diaspora investors often have difficulties in maneuvering complex local legal and administrative processes in their countries of origin (Ionescu, 2006, p.23; infoDev, 2013; Naujoks & Kriiaa, 2016). Thus, streamlined bureaucratic procedures can increase the ease of conducting business.
4. *Communication and dissemination of information*: Limited awareness of investment opportunities is a major barrier for many diaspora actors. Eighty-six percent of Caribbean diaspora investors learn about investment opportunities through friends and family, limiting the diaspora to a narrow universe of potential deals (infoDev, 2013, p.18). Limited access to investment

information is also the greatest barrier to diaspora engagement in Montserrat (DMA, 2012). For this reason, targeting and informing actual and potential diaspora investors about rights, processes, and investment opportunities is often a public-policy priority (Riddle & Nielsen, 2011, p.249). Such strategies generally require mapping diaspora populations and their capability and willingness to invest in their home country,²⁸ as well as the creation of communication platforms for such exchanges. These can take the form of guides and brochures, diaspora investment conferences, or web-based platforms.

5. *Stronger development effects*. Governments can not only try to affect the volume of inward diaspora investment but also its development impacts. There appear to be no examples specifically for diaspora investors yet, but with regard to FDI in general, India’s 2015 Model Bilateral Investment Treaty foresees greater protection for the Indian state and its ability to regulate investors (Jandhyala, 2015). It aims to align investments with sustainable development and inclusive growth; and it requires investors to make a substantial and long-term commitment of capital in India, to hire a substantial number of local employees, and to make a substantial contribution to India’s development through its operations and transfer of technological knowhow.
6. *Entrepreneurship and investor training*: To increase the capabilities of investors as business owners, governments conduct entrepreneurship training for actual and potential diaspora investors or establish business incubators to increase the productivity of diaspora-owned enterprises (Riddle, Hrivnak, & Nielsen, 2010). Capacity building mechanisms can equally aim at educating high net-worth individuals and entrepreneurs on how to become angel investors (infoDev, 2013).
7. *Networking opportunities*: Investment promotion agencies create virtual or in-person business-to-business (B2B) platforms or other opportunities for diaspora investors to connect with other diaspora investors, government officials, and, in particular, with firms and potential partners in countries of origin. As diaspora investors can find it hard to establish a relationship of trust with local entrepreneurs, primarily because of distance and lack of due diligence channels (infoDev, 2013), meaningful networking windows may enable stakeholders to build trust.
8. *Mentorship and diaspora expert programs*: Programs can either match diaspora experts as mentors with aspiring local entrepreneurs (Newland and Tanaka, 2010), public companies in need of expertise, or other diaspora investors.
9. *Access to finance*: Access to finance is consistently ranked as a major obstacle for diaspora investors, especially when diaspora investors engage in micro and small businesses (Rodriguez-Montemayor, 2012; Naujoks & Kriiaa, 2016). While access to finance can be limited to access to credits and investments, it can equally envision a venture capital model built on partnerships that includes both funds and management advise (Newland & Tanaka, 2010).
10. *Crowdfunding and investment platforms*: To increase the visibility of funding or investment opportunities, governments establish web-based platforms that facilitate networking between investors and target firms and the transfer of funds (infoDev, 2013). These can aim at angel investors or at crowdfunding opportunities that aim at attracting smaller investments from a large number of investors. This policy option is connected to the above areas of

²⁸ Targeting endeavors often focus on high net-worth individuals (Rodriguez-Montemayor, 2012; infoDev, 2013). The Ethiopian government revised its initial strategy to target all Ethiopian emigrant communities as ‘one diaspora’, by adopting a differentiated approach that identified specific investment priorities for different populations and offered them concrete differentiated opportunities (Ionescu, 2006, p.56).

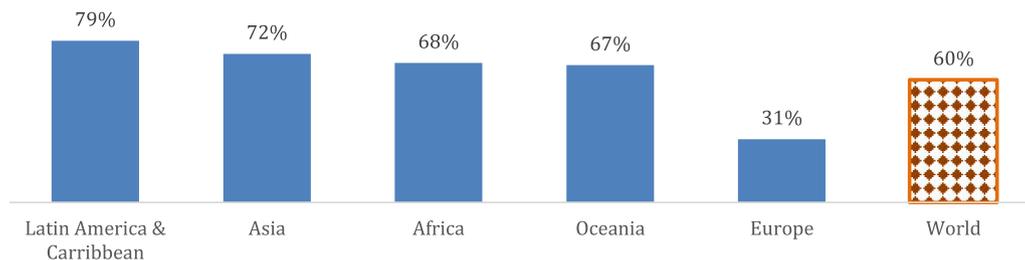
²⁷ For an overview of policies in the Balkans, see Williams (2018).



Source: Author's calculations based on United Nations (2019).

Note: Based on data from 99 countries.

Fig. 2. Share of countries with specific diaspora investment policies (2019). *Source:* Author's calculations based on United Nations (2019). *Note:* Based on data from 99 countries.



Source: Author's calculations based on United Nations (2019).

Note: Based on data from 99 countries.

Fig. 3. Share of countries with diaspora investment policies – by world region (2019). *Source:* Author's calculations based on United Nations (2019). *Note:* Based on data from 99 countries.

intervention on dissemination of information, streamlined bureaucratic, networking opportunities, and access to finance.

- Diaspora investment institutions:* To implement the above policies and programs, governments sometimes create special institutions that specifically target diaspora investors.²⁹ These can be units located within general investment promotion organizations or separate diaspora-centered institutions.

The United Nations' (2019) World Population Policies database, with its indicators on policies to attract diaspora investment, is an essential first step toward understanding the distribution of such policies the world over. However, we know little about their adoption processes and determinants, their categorizations, effectiveness, and impacts. Discussions on policies and 'best practices' are generally based on the ideas and intentions of programs, not on their impact. There appears to be virtually no assessment on the effect of public policies on diaspora investments. As an exception, Naujoks and Kriaa (2016) find that although Tunisia grants a wider array of benefits and exemptions to diaspora investors than to non-diaspora investors, in practice, the former are 53 percent less likely to receive exemptions than the latter. What is more, when firms were asked how important these incentives were for their decision to establish or expand operations in Tunisia, almost half of the firms that received FDI found that these incentives were important or very important for their decision to invest in Tunisia, compared to one out of five diaspora-owned companies.

Scholarship should address systematically whether and under what conditions specific policies have an effect on the volume, composition, and impact of inward diaspora investments. While we see a trend

towards adopting policies specifically for diaspora investors, critical voices highlight that it would be more effective to establish the same benefits and convenient procedures for all foreign investors. Ratha et al. (2011, p.176) sustain that while it may be better to provide efficient procedures for all investors, without requiring proof of the investor's origin and nationality, origin countries could still benefit from focusing their scarce resources on providing services to members of the diaspora. Also Kayode-Anglade and Spio-Garbrah (2012) conclude as a lesson for diaspora bonds that the sale should be open to all investors, but that they should be marketed strategically to a few target groups. It would be important to understand whether, when, and why a diaspora-centered investment promotion strategy trumps a generally welcoming stance that includes diaspora investors.

Toward a transnational and transdisciplinary research agenda on diaspora investments

The above elaborations have highlighted the need to investigate different categories of diaspora investors, modalities of investments, their determinants and impacts, as well as the public policies established to govern such flows. In addition to testing the hypothesis highlighted in the previous sections, this section provides overarching suggestions for future research.

Creating generalizable knowledge through surveying diaspora investments

The majority of empirical research underpinning diaspora investor characteristics is based on convenience samples and is unable to account for the self-selection of participants. More rigorous analyses rely on firm-level surveys to gauge differences in firms depending on the origin of capital and other factors. Benjamin Graham conducted a firm-level survey with 161 foreign-owned companies in Georgia (Graham 2011, Graham 2013) and 223 such interviews with firms in the Philippines

²⁹ See Gamlen (2019) for a detailed overview on diaspora institutions the world over.

(Graham, 2019). Naujoks and Kriaa (2016) survey 400 randomly chosen firms in Tunisia, comparing the impact of foreign direct investments by ethnic Tunisians and other investors on employment, wages, rural development, and exports. And Boly et al. (2012) draw on data from the general UNIDO investor survey in 19 sub-Saharan countries that also included questions on diaspora investors.³⁰ Future studies need to adopt research designs that allow for greater generalizations. This includes using sampling frames based on administrative data for diaspora investments, foreign investments, or firm directories.

Adopting a transnational lens

Too often research focuses only on activities in one economy. Scholarship on 'ethnic' enterprises in countries of residence usually limits the analysis to activities in that economy, regardless of the ways economic activities relate to their localities of origin (or other international social spaces). The same holds true for much of the research on diaspora activities and economic enterprises by returnees, whose activities are scrutinized from the domestic or local perspective in the country of origin only. One analytic challenge for the future lies in incorporating transnational diasporic relations into the analysis and as relevant explanatory variables (Tsai, 2010, pp.422–3).

Applying a transnational perspective, leads to focusing on "continuing relations between immigrants and their places of origin and how this back-and-forth traffic builds complex social fields that straddle national border" (Portes, Guarnizo, & Haller, 2002, p.279). It is necessary to ask how returnees and transnational companies make use of transnational networks and where this is not the case, how continuous transnational activities shape the domestic economic performance. Thus, questions on the quality and extent of transnational activities should be built into the analyses of all forms of diaspora investments. This includes explorations into whether diaspora investment enterprises use the comparative advantage of transnational bridges and international contacts for international cooperation, access to knowledge, research, and capital.

Scholarship on ethnic entrepreneurship in integration research looks at economic adaptation and how, why, and when immigrants indulge in self-employed activities, mostly at the micro-level.³¹ Ethnic entrepreneurship is "a set of connections and regular patterns of interaction among people sharing common national background or migration experiences" (Waldinger, Aldrich, & Ward, 1990, p.33). The ethnic entrepreneurship paradigm generally disregards the transnational and country-of-origin perspective, but it can provide guidance with regard to economic activities in the localities where diaspora actors reside and what activities and under what circumstances can lead to international business and investment ventures. However, the focus has to shift toward the interlinkages between business activities in the receiving and in the home context, and to understand what effects under what circumstances can be expected in either context.

The transnational lens may not only adopt a bi-lateral focus on the countries of origin and destination, but also consider in what ways activities and diasporic (and other) networks in a variety of countries may influence the economic potential and impact of diasporic actors'

³⁰ While the UNIDO investor survey has a wide sample, the concept validity of the diaspora investment question is problematic. The survey simply asks whether any investors are from the "diaspora." Different interpretations of this term, especially in sample among 19 countries are likely to have had an impact on the responses, though it is impossible to understand what impact. For a critique, see also Graham (2019, 213).

³¹ For concepts and models used in studies of ethnic entrepreneurship and a certain bias to consider ethnic business ventures as "usually characterized by rather low innovativeness", see Volery (2007, p.37); Ma et al. (2013). While not all 'ethnic entrepreneurship' is related to migration and diaspora phenomena, the economic activities of migrants are often regarded as a sub-field of international ethnic entrepreneurship (Portes & Yiu, 2013; Riddle & Brinkerhoff, 2011; Zhou, 2004).

investments and entrepreneurial activities.

Geo-economic differences and comparative IPE studies

Diaspora investment plays different roles for different stages of the economic development process. It has been argued that diaspora investors can serve as first movers, going into the market when it is not attractive to other foreign capital (Gillespie et al., 1999; Riddle & Nielsen, 2011, pp.235–6; Rodriguez-Montemayor, 2012, p.7). It is argued that this has the potential to show non-diasporic investors that investments can be financially lucrative, which in turn can lead to other investments. However, it is not clear if diaspora investments ever had this effect, and more importantly, what the parameters are that would enable such a trajectory. This 'wallflower' or 'hidden gem' motive appears to imply that the country offers real investment opportunities, but that non-diasporic investors shy away from these opportunities given perceived political or economic risks. The first-mover diaspora investment then showcases that investments are economically viable. Comparative IPE research should examine what investment opportunities must exist, what hurdles should be small enough, and what kind of diaspora investment and in what sector can have such a signal function. We may equally assess the role of diaspora investment in countries that have gathered already a certain degree of interest by international investors. Only 14 percent of countries with diaspora investment programs are in developed regions, suggesting a focus on such incentives in economically less developed countries (Fig. 2).

Conclusions

We know that FDI and migration are positively correlated and that many diaspora entrepreneurs express strong motivations to invest in their communities of origin. First-generation scholarship has emphasized the potential of diaspora investment and offered suggestions on the differences between diaspora and non-diaspora FDI. These studies were essential for creating the field of study, though the conceptualizations are often based on anecdotal evidence or are limited in their generalizability. The in-depth review of diaspora entrepreneurship and investments in IPE, economics, sociology, business, and policy studies reveals that a deeper understanding is needed of the where, why, when, and under what conditions diaspora investments differ from other forms. Research needs to be built around testable hypotheses and critical investigation of the potential and limitations of such investments.

We need to know more about the scale and composition of diaspora investments. Beyond monolithic conceptualizations, analytical frameworks need to make meaningful differentiations that consider the heterogeneity of diaspora populations, the various economic sectors or sub-national units, and the geo-economic factors that determine the modalities and impacts of diaspora investments. Diaspora investments may be categorized according to their size, form, location, production-chain integration, or involvement of investors. This includes investigating where, how, and to what extent diaspora employees of non-diaspora firms act as intermediaries for their companies' investments. Recent studies have shown that it is possible to create more generalizable knowledge by adopting specific sampling methodologies at the firm level. While most research remains rooted in either economy of origin or destination, the study of diaspora investments requires adopting a persistent transnational lens. One of the key challenges for future research consists in going beyond the declared motivation of diaspora investors to measure the actual impact of investments.

Whereas the research agenda outlined here focuses on diaspora investments in a narrow sense, it will be useful to expand research on the interlinkages between decisions and activities to.

As half of the world's countries have adopted policy measures to incentivize diaspora investments, we need to build sound empirics around the determinants, the distribution, and, in particular, the effects of specific policy interventions. This essay aims to contribute to interdisciplinary cross-fertilization that, in the end, will advance our

understanding of the modalities, determinants, and impacts of diaspora investments.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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