

# Diaspora Networks

## A New Impetus to Drive Entrepreneurship

In the early 1800s, John Ford and his son, William Ford, left their Irish homeland to come to America in search of greener pastures in the New World. What ensued was beyond the imagination of the elders of the Ford family. William's eldest son, Henry Ford, established one of the greatest business empires in the world. Henry's innovations revolutionized the way people would use transportation in their daily lives. The effects of his innovations were felt all over the world and, most importantly, in his ancestral home—Ireland.

One summer day in 1912, Henry visited Ireland to reconnect with his roots. Conscious of Ireland's low development level Henry felt a strong emotional draw to apply the knowledge and ideas he had accumulated to revitalize the depressed area of Cork, where he traced his family roots. His decision to expand his company in his homeland was based on his emotional desire to reconnect and contribute to the development of his ancestral land. Henry's story illustrates the significance of a Diaspora bond in global entrepreneurship.<sup>1</sup>

This article examines how Diaspora entrepreneurs are uniquely placed to identify market opportunities in their home countries and are able to use this information to create and invest in new ventures, spurring job creation and economic growth. This article also advocates for a stronger element of Diaspora entrepreneurship in aiding sustained economic development efforts, and provides suggestions on Diaspora engagement policies to utilize this asset effectively.

The premise that entrepreneurship will translate directly into high levels of economic growth and lead to innovation is intrinsically tied to Diaspora entrepreneurship. The phenomenon of Diaspora entrepreneurship has been gaining considerable attention because it represents a rich resource that leads to promising prospects for economic growth. Consider the scale of the capital flows in a Diaspora network. In 2010, worldwide remittance flows are estimated to have exceeded \$440 billion. Of that amount, developing countries received \$325 billion, which represents an increase of 6 percent from the 2009 level. Recorded remittances in 2009 were nearly three times the amount of official aid and almost as

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large as foreign direct investment (FDI) flows to developing countries.<sup>2</sup> If emerging entrepreneurs from the Diaspora are leveraged optimally, they can help reduce overt unemployment, alleviate poverty, and raise the standard of living across the globe.

Diaspora bonds characterized by ethnic and social affiliations have played an important and strategic role in shaping cross-border trade and commerce activities and promoting global entrepreneurship. Historically, the term was used to

describe the exile of Jews from their ancestral homeland, Israel. Incidentally, the term has evolved and has been applied to explain the potent economic force that the Israeli Diasporas have come to represent. Other historical Diaspora networks include Phoenician trading networks distributed throughout the ancient Mediterranean,<sup>3</sup> 15-century Chinese business outposts in Southeast Asia, and the origin of international finance through Diaspora-based banking networks spanning 16-century Europe.<sup>4</sup>

In today's context, the size of Diaspora networks and the global reach that they extend due to inexpensive air travel and communications channels are redefining their potential. At one point, Diasporas were inter-

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nationally dispersed networks, but now they have evolved and have become more interdependent than ever before. The unprecedented movements of Diasporas on such a large scale have set a global demographic trend that marked the 20th and 21st centuries.<sup>5</sup> It looks as though this trend will continue as processes of urbanization and globalization continue their advances, and the full impact of climate and population changes take effect.<sup>6</sup> Today, there are 215 million first-generation migrants around the world representing 3 percent of the world's population.<sup>7</sup> If migration continues to grow at the same pace as over the past 20 years, some analysts predict that there could be 405 million international migrants by 2050.<sup>8</sup>

Indeed, the number of "transnational citizens" who have permanent residences and engage in businesses in both their adopted countries and their countries of origin are on the rise. These trends fundamentally illustrate that Diaspora networks offer a huge global reach and are potentially the new and pervasive tool of global

development and entrepreneurship. Understanding these trends is necessary in designing an effective Diaspora strategy.

As the huge potential of Diaspora networks is being recognized, it is also important to extend the general concept of Diaspora, currently limited to cultural, ethnic, or religious groups bound by shared cultural norms and traditions, to be all encompassing. The notion of Diaspora needs to expand from its traditional sense to consider cross-national and international social capital networks. The more conventional networks, such as The Boston-Israel Business Forum that connects Israeli entrepreneurs with Jewish members in the area, are fast expanding to broaden the definition to include professional, expatriate, and other affiliated networks.

Activated Expatriates is a Diaspora network made up of individuals who have ventured into international markets and have become a bridge for their peers from that home country who would like to engage with the international market they now represent. Due to common cultural ties, a level of trust exists that allows for the formation of business relationships that may be useful in accessing new international markets.

Examples include international trade experts and representatives who set up shop overseas to support firms looking to establish a presence in that country. Partnership for Growth (P4G), facilitated by Richard Boly, a U.S. diplomat and director of the Office of eDiplomacy while serving in Italy, is a program aimed at promoting economic dynamism in Italy by sharing relevant experiences from the United States.

Another category of a Diaspora network, termed “boomerang expatriates,” are individuals who, due to their extensive work overseas, have attained strong relationships and insights into working in overseas markets. These individuals, upon returning home, leverage their ties to these markets to assist emerging firms and entrepreneurs with interest in doing business in these countries.

There also are the NGO and multinational expatriate Diasporas of individuals who work with these organizations to establish affinities and strong ties in foreign countries. These ties are leveraged to first support the multinationals, and also can be drawn to supporting new entrepreneurial initiatives. Many of these individuals serve in different capacities with multiple firms, or emerge to consult with new ventures seeking to break into foreign markets. An example is IntEnt, based in the Netherlands. Founded in 1996, it provides support to Diaspora entrepreneurs in the Netherlands who would like to set up new businesses in Surinam, Ghana, Turkey, Morocco, Ethiopia, Afghanistan, or Curacao.

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The biggest edge Diaspora entrepreneurs have is their ability to establish social links through cultural and linguistic commonalities. With intimate understanding of cultural and social norms, distinct business cultures, and local languages, Diaspora entrepreneurs form trusted bonds and unlock opportunities often closed or unknown to other entrepreneurs. These networks also can be used to gain knowledge about market opportunities and infrastructural gaps. For example, in China, the concept of *Guanxi* is commonly practiced. *Guanxi* describes the basic dynamic in personalized networks of influence and is a central idea in Chinese business practices. A Diaspora network can greatly enhance this cultural understanding and accelerate business opportunities.

The roles of Diasporas in developing knowledge-based sectors in China, India, Ireland, and Israel are now well known.<sup>9</sup> For example, most of the foreign direct

investment that flows into China is initiated by the Chinese Diaspora. Of the \$105 billion of FDI in 2010, two-thirds came from places where the population is mostly ethnic Chinese.<sup>10</sup> These Diaspora networks have facilitated capital flows and connections to commercial networks, enabled technology and knowledge transfers, and spearheaded development of special economic sectors in their native countries.

The other well-known example is

of Silicon Valley's immigrant entrepreneurs, who led the dot-com phenomenon in the 1990s by starting technology businesses that generated economic gains and employment in the United States and also created a tight-knit network and established businesses in their homelands. Today they are contributing to the creation of new hubs of technology and skills in their home countries. As these entrepreneurs collaborate with former classmates and colleagues in once-dormant economies such as India and China, they are providing access to the markets and know-how that are critical to success in today's global economy. This also is applicable to "immigrants" who once worked and were educated in the United States and the United Kingdom and have returned to their home countries. This group of expatriates take advantage of their links and connections to the United States and have spurred technological innovations and economic activities.

Another advantage of a Diaspora network is the ease of connecting with prospective partners in both their home countries and chosen country of destination. Through these connections, opportunities for investment, trade, and outsourcing are available. Strategic partnerships also are formed by leveraging political and financial resources necessary in the transfer of knowledge and technology from developed to developing countries. Diaspora entrepreneurs also may leverage their access to relatively cheap labor and, in some cases, large talent pools in their countries of origin into a competitive advantage in manufacturing or knowl-

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edge-process outsourcing (such as information systems integration and insurance underwriting).<sup>11</sup>

Akin to all other types of entrepreneurs, Diaspora entrepreneurs thrive by recognizing and taking advantage of opportunities. In pursuit and realization of their entrepreneurial ambitions, members of the Diaspora display personal attributes such as risk-taking, optimism, resilience, determination, persistence, creativity, and adaptability. Members of the Diaspora have successfully utilized these traits and leverage their unique positions within the nodes of the network to foster business development, job creation, and innovation.

While the entrepreneurial spirit inherent among Diaspora members remains the key to success, an ecosystem of government agencies, philanthropic organizations, multilateral institutions, and Diaspora associations aid Diaspora entrepreneurs in comprehending market dynamics in their countries of origin, seeking financial resources for their entrepreneurial activities, and providing tools to navigate and negotiate through the system. Nine of the ten largest investors in China in the mid-1990s, reaching \$200 billion in 1995, were overseas Chinese investors engaged in a variety of cooperative relationships through their Diaspora network.<sup>12</sup> A country that has a robust Diaspora engagement policy in place acts as a conduit to activate the Diaspora network in tangible and intangible ways.

A combination of economic, political, and financial factors also helps a Diaspora network to flourish. A Diaspora member will be more confident of exploiting his ties to his country of origin if the destination is recognized for its political stability, established legal system, good governance practices, a well-connected infrastructure, and sound financial institutions. In addition, an economy poised for growth and development opportunities make it an attractive destination for Diaspora entrepreneurs to explore business opportunities. According to research comparing entrepreneurship in more than 40 countries, higher levels of entrepreneurship are positively correlated with higher levels of economic development.<sup>13</sup>

Given these insights, I am of the opinion that engagement with Diasporas is an important strategic function in today's networked world. To ignore and miss out on capitalizing this thriving group of entrepreneurs would result in undesirable consequences for any country's economic growth. On a macro level, governments should invest in establishing a pro-business climate with favorable policies that encourage the flow of FDIs, and have regulatory reforms that will liberalize their economies and encourage free trade. Governments also should establish a robust and efficient legal system, sound financial institutions, and a critical mass of human and social capital to entice Diaspora entrepreneurs to their home countries. By ensuring access to quality education, infrastructure, and public services, regulating excesses, and providing a safety net when the market fails, policymakers can create an ecosystem that will support and facilitate high levels of entrepreneurship activities. The following recommendations are some approaches that can be taken to engage Diaspora entrepreneurs:

- Identify Diaspora-affiliated organizations such as Endeavor, TiE, OPEN, IIBN,

The African Diaspora Marketplace, TAN, GlobalScot, ChileGlobal, Mexican Talent Network, and others, and work with these platforms to integrate and engage the network in the broader development of countries, especially emerging countries. It is essential to note that the way these affiliated organizations are engaged must be in line with the countries' local conditions and requirements.

- Organize Diaspora business forums, present opportunities for communication with the Diaspora members and government officials to enable greater cooperation.
- Draw and put in place formal structures designed to reach the right set of participants through governmental agencies. Resources also should be available through initiatives and interest-based organizations to budding entrepreneurs in the form of mentoring, networking for contacts, skills for building, and scaling an enterprise, as well as access to capital.

In fact, the Diaspora network can be engaged effectively by involving members in the planning and development of high-tech industries. Government-backed R&D and world-class research facilities and universities should attract Diaspora entrepreneurs to invest in their home countries.<sup>14</sup> The Diaspora entrepreneurs' knowledge will be instrumental in establishing these technology parks, counseling governments on the market opportunities and gaps in attracting capital, and building global businesses interlinked to different markets and networks. Additionally, these Diaspora entrepreneurs can provide valuable knowledge transfer to local entrepreneurs and employees. Millennium Science Initiatives (MSI) in Chile and Latvia offer models for engaging Diaspora members in efforts to channel incremental government R&D resources into centers of excellence.<sup>15</sup> High-tech industrial parks in emerging economies often strive to attract high-achieving Diaspora members with the intention of creating a "culture within a culture" that is more conducive to entrepreneurship.<sup>16</sup>

We should also seek to initiate dialogues with Diaspora professionals to identify potential areas of economic growth, and allocate and deploy the right resources from the Diaspora network to these areas. India, for instance, has identified health care-related export services and medical tourism as important business opportunities, attracting customers from high-priced health care countries that are looking for alternatives. India seeks to leverage its medical workforce to meet the global demand for health care-related services, and sees the Diaspora as an important ally in this effort.<sup>17</sup>

Members of the Diaspora network are attuned to identifying opportunities and often move quickly to take advantage of them. By their nature, Diaspora entrepreneurs with their close links to their countries of origin understand the opportunity and have affiliations and "cultural" capital that will aid these activities. They also bring knowledge and understanding acquired outside the country that may help them to see possibilities that are not apparent to people who have never lived elsewhere.

In essence, governments should make Diaspora entrepreneurs feel welcome in their countries of origin. Entrenched business interests may not welcome out-

siders, even of a common origin, especially if they threaten to shake up established practices—such as the cozy relationships between government ministries and industrial conglomerates in East Asia or the oligarchies that dominate many other developing economies.<sup>18</sup> Given the network value of a Diaspora, many governments are actively pursuing Diaspora entrepreneurs and honoring their achievements, as well as integrating them as important economic agents.

A significant approach to fostering Diaspora entrepreneurship is to provide a visa framework that makes it easy for Diasporas to travel between their country of origin and their new home country. A progressive visa framework includes multiple reentry travel visas, long-term visas, and dual citizenship that will enable Diaspora entrepreneurs to engage in investments, business opportunities, ventures, and technology expertise. Additionally, we should pursue the implementation of pro-trade policies, such as lowered taxes on imported raw materials and equipment, a favorable tax systems for businesses, and facilitating the setup of new businesses to promote cross-border entrepreneurial activities.

By intentionally facilitating and energizing Diaspora networks, international and local businesses can extend their capacity by capitalizing on a wider range of expert actors who are specialized in key technical and market domains that represent skillsets generally not available, thereby allowing for the formation of varied entrepreneurial and business ventures.

In summary, the benefits of a vibrant Diaspora network are enormous, and any policymaker who fails to devise a Diaspora strategy will be losing out on the potential economic development and job creation opportunities that it brings. An energized Diaspora network is a rich resource for international entrepreneurs to tap. These networks allow government and policymakers to easily and efficiently receive insight and input. By intentionally engaging with these networks, real-time and actionable insight may be gained on how new ventures may be started and scaled over international divides.

Promoting entrepreneurship abroad by engaging, designing, and implementing a comprehensive Diaspora strategy network constitutes an immense source of “soft power.” Diaspora networking is the new impetus to drive entrepreneurship and has the capacity to convert the brain drain into brain gain and brain circulation. Diasporas, through their confluence of education, network, and access to

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capital in home countries, are particularly advantageous for global entrepreneurs due to their international presence and the wide range of resources they can potentially make available to entrepreneurs. To effectively use Diaspora as a tool, policy-makers need to create a favorable business climate through trade liberalization reforms, encourage flows of FDIs, ensure good governance through transparent financial and legal frameworks, and engage the network through an ecosystem that promotes entrepreneurship.

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