

Indian Diaspora as a Strategic Asset

With one of the largest pools of relatively low wage semi-skilled and skilled labour, India is poised as a critical of global sourcing of labour. How can India take advantage of these future trends, so as not only to maximise the welfare of Indians outside the country, but that of those within the country as well? Can international migration and the diaspora be a strategic asset for the country instead of just depleting its best and brightest?

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Recently there has been much hula-bala surrounding the 'Pravasi Bharatiya Divas' held earlier this month in New Delhi. At one level the event signalled a belated, but welcome, recognition that India needs to be more proactive in trying to leverage the diaspora. This is particularly important because, for reasons stated below, human capital flows from India are likely to increase in the next few decades. How will these increased levels of migration (flows) and a larger diaspora (stock) affect India? And in turn, what policies should the country adopt with regard to the diaspora so as to maximise the country's welfare and strategic goals?

International human capital flows will become increasingly important over the next few decades. A variety of factors – demographic, technological, changes in economic structures, domestic politics and national security concerns – will mediate the characteristics of these flows, but there is little doubt that these flows will be of sufficient magnitude to have a profound impact on both sending and receiving countries.

Although increased levels of immigration are, and will be, strongly resisted by a variety of groups in industrialised countries (for cultural, security and economic reasons), they will be strongly supported by firms, since this lowers their labour costs and provides them with complementary skills. Furthermore, limiting immigration will increase the flight of jobs overseas. Services are becoming an ever more important part of the structures of most economies, especially in industrialised countries. And unlike the past, technological changes have meant that services are increasingly tradeable. Moreover, larger LDCs have an even greater comparative advantage in skilled services due to the large pool of skilled manpower and the fact that services (unlike manufacturing) are, in general, wage rather than capital intensive. Industrialised country decision-makers either face the prospect of allowing more immigration from culturally heterogeneous countries or face the prospect that skilled, white-collar jobs will move outside the country. For industrialised country firms the degree to which services are tradeable, lower cost skilled labour is available overseas and international contracting is feasible, will all lead them to contract overseas – and the more this happens, the less domestic opposition in industrialised countries to increased immigration.

The underlying driver, however, will be mounting demographic pressures in industrialised countries arising from declining fertility and aging. The resulting increase in dependency ratios will put unsustainable fiscal pressures on the social security systems of industrialised countries. This is bound to increase the demand for labour from LDCs and is likely to translate to immigration policies targeted to attract the 'fiscally attractive' section of the population, namely, those who are in the age group mid-20s to mid-40s and have high education and skills. Additionally, for cultural, political and economic reasons, immigration policies in industrialised countries will favour temporary migration – where migrants are likely to return to their country of origin – especially in the case of less skilled labour. Finally, national security and neighbourhood concerns will affect which sending countries are favoured and which are not. Hence, multilateral negotiations on labour mobility – such as Mode Four (Movement of Natural Persons) in the GATS and WTO – are unlikely to succeed.

With one of the largest pools of relatively low wage semi-skilled and skilled labour, India is potentially poised as a critical centre of global sourcing of labour. The past few decades has seen

an upsurge of migration from India, first to the Gulf and more recently to North America. The example of software and the H1-B visa phenomena (wherein several hundred thousand Indian software professionals went to the US) exemplifies likely future trends, especially in skilled services. Given these emerging realities, how can Indian take advantage of these future trends, so as to not only maximise the welfare of Indians outside the country, but that of those within the country as well? Can international migration and the diaspora be a strategic asset for the country instead of just depleting its best and brightest?

Potential Roles and Effects of Diasporas

The effects of international migration and diasporas are complex. The effects of overseas networks as sources and facilitators of trade and investment, purveyors of remittances and as 'brain banks' can be substantial. On the other side of the balance sheet, however, the loss of scarce talent – especially people who would have played key roles in institution-building – on the well-being of 'those left behind' can also be substantial. This can range from the loss of a dynamic segment of an emerging middle class on domestic entrepreneurship, to the consequences for future generations of scarce talent in universities. Additionally, the fiscal impact of the lost portion of the skilled tax base can also be considerable. The balance sheet is even more muddled by the role of diasporas as practitioners of 'long-distance nationalism'. While their lobbying and advocacy can be beneficial for the country of origin, their not infrequent support for extremist civil society and political groups is anything but helpful.

Diaspora Characteristics Affecting Country of Origin

It is important to emphasise that none of these effects are automatic simply by virtue of the mere existence of a diaspora. The effects of international migration and diasporas on the country of origin depends both on the characteristics of the diaspora and the conditions and policies of the home country.

Who leaves? It is a truism in migration studies that there is a strong selection bias among migrants – they are not a random drawing from the general population pool of a country. Thus while migrants from India in the late 19th century were largely unskilled labour, a century later they are largely skilled labour. While the former was drawn from north-central India (Haryana, UP and Bihar) and Tamil Nadu, in the recent migrations, Punjab, Gujarat, Kerala and Andhra Pradesh dominate. In both cases, (but especially in the first), younger males dominated. And in the more skill-intensive migration of recent years, migration rates have been significantly higher amongst select religious minorities (Jews, Syrian Christians, Parsis and Sikhs) and higher castes, due to their higher levels of domestic income and education. As a result there are differential affects across households, communities and regions of India.

Reasons for leaving? Migration from India has largely been driven by economic motives, although political factors have been important in specific cases. Where migration is a result of political factors, its consequences are likely to be more inimical to the country of origin. Insofar as the economic migrants are members of erstwhile political elites who are being displaced, their weak links with newer elites are likely to put a damper on their commitment to their country of origin. It is not surprising that economic migrants from north India, where the intensity of social conflicts continues to be high, have been less interested in issues of regional economic development than their southern counterparts. Furthermore, the more recent Indian migration streams draw significantly from the middle class which often carries with it a sense of entitlement stemming from the privileges that India's upper classes enjoy.

Political turmoil both spurs international migration as well as activates diasporic nationalism – which often makes a bad situation worse. The role of diasporas from Kashmir, Punjab (in the 1980s) and the north-east at various times are examples in this regard. It is possible that recent

events in Gujarat could result in a similar situation. Global trends are weakening the cover of national sovereignty – and diasporic minorities will, in all likelihood, play a more activist role, especially where the community faces the threat of violence.

Time of leaving? How long a diasporic community has been out of its country of origin is important in that the greater the vintage of a diaspora the less intimate its links with the country of origin. Although this is changing due to technological changes, which have made it much easier to travel, maintain communication links and keep abreast of various cultural media, it does emphasise the need to nurture second generation links. *Where did it go and how did it fare?* The more successful a diaspora the greater the effects on the country of origin. This is a function both of the success of the diasporic community within the destination country as well as the salience of the destination country. Indians were successful in East Africa, but the trajectory of those countries meant that the overall impact was limited. Conversely, Indians in the UK were relatively modestly successful and therefore despite that country's greater salience, the impact has also been modest. The greater impact of the India community on the US is a function of community's high initial level of education at the time of emigration and consequent success within the US, coupled with the leveraging of that country's global salience as well. Thus if India wants to leverage the strategic impact of its diaspora in the future, it should try and channel outflows to countries that are becoming more important players in the global system.

Policies and Conditions in Country of Origin

The effects of a diaspora are strongly mediated by policies and conditions in the country of origin. The same Chinese diaspora which played a critical role in China's economic growth after 1980, was a silent spectator in the decades before that. As long as China itself was closed, and international trade and investment were ideologically suspect, the skills and wealth of overseas Chinese had little effect on the country. Lebanon presents a similar story. Many central American, African and central European countries have large diasporas – but their own economic policies and political instability means that diasporas have little positive effect and indeed often have a strong negative effect on their country of origin. Armenia is a typical example in this regard.

The prevailing wisdom in India until recently paid little attention to international trade. As a result the importance of overseas trade networks provided by its diaspora were underplayed. This is an important reason why Indians in east Africa and Hong Kong were not courted by the Indian government and Indian business despite the potential pay offs. India's fears of the outside world was reflected not just in its policies towards international trade and FDI but also an apathy bordering on resentment towards its more successful diaspora. In the last decade, the transformation of the ideological climate in India and the success of the diaspora, especially in the US, has instilled much greater self-confidence in both. The resulting lack of defensiveness has been an important reason for the growing links and stronger bonds, which have transformed relations between Indian and its diaspora.

Economic policies, however, are only one side of the coin. A country's political and social policies can have an even more dramatic impact. There is strong evidence today that the problems faced by countries with internal strife are amplified if they have substantial diasporas abroad. India's experiences bear this out, especially its treatment of minorities, be it 1984 in Delhi and more recently in Gujarat. It cannot be overemphasised that increasingly a country' minorities living abroad will press their claim to justice not in the country of origin but in the country of settlement. In turn this will adversely impact on bilateral relations between the country of origin and the country of settlement.

Policy Options

Policy changes in India and global trends portend a potentially large increase in international migration from India. The country and its diaspora are at a historical pivot. There is a significant potential for the diaspora to emerge as an important strategic asset for India in the foreseeable future. But for this to happen, India needs to institute politically difficult policy changes. At the same time the diaspora needs to both put its money where its mouth is, as well as change its priorities on the choice of strategic investments in the country of origin.

Policies towards the diaspora have to be formulated with regard to policies towards other foreigners and the country's own residents so as to ensure that they do not create opportunities for arbitrage that inadvertently subvert the goals behind the policies. Overall the policy regime should not result in a situation where an Indian citizen has a greater probability to get recognition and concessions from her/his country of origin if (s)he leaves than if (s)he had stayed behind. In general, policies should treat the diaspora at par with other foreigners on economic issues (such as investment incentives) while treating them at par with resident Indians on civil, social and cultural rights. Unfortunately, the current policy regime seems to be just the opposite. On the sensitive issue of political rights, the diaspora should be allowed to avail of dual citizenship but critically without the right to vote unless they can be taxed (even to a limited extent).

Deepening Links within Existing Diaspora

India needs to actively court two important, but largely untapped, segments of the existing diaspora: the young, second generation of overseas Indians; and those approaching retirement. India risks losing its links with the second generation unless it finds mechanisms to attract them to come and spend some time in India. Youth is both more risk taking and idealistic and these characteristics can be tapped through programmes to spend a semester (or academic year) in India in their high school or college years and working with NGOs in social sectors.

Unfortunately, the deep malaise in India's higher education – its poor quality and lack of flexibility – is a critical bottleneck in making this happen. Educational services, particularly higher education, need the same degree of liberalisation and decentralisation that liberated India's industries from the vice-like grip of 'Licence Raj'. India needs to set an equivalent of the Foreign Investment Promotion Board (FIPB) for educational services to attract high quality investments in existing public and new private universities. This will not only help in raising India's human capital but will also facilitate the movement of younger members of the diaspora to India. Regrettably the current climate in India is as ideologically opposed to liberalisation in this critical area as it was to FDI a decade ago.

At the other end of the age spectrum, India can tap the expertise of a growing number of retirees who have specialised skills that they can offer even if only on a part-time basis. This is particularly the case of retired doctors, engineers, scientists and professors who may well like to visit India especially in winter. Low transaction cost mechanisms that provide a co-ordinating and information-clearing function to match the expertise of retirees to specific institutions, need to be created. In this case, local governments and NGOs rooted in civic society are best suited to try and match the expertise to their specific requirements.

Tap the Labour Supply Potential in New Sectors and Countries

India's migration and manpower policies need greater portfolio diversification both with respect to the countries of migration and the portfolio of jobs. Currently, India's migration is concentrated in English-speaking countries for obvious reasons. India should try and target the EU, Japan, Latin America and Russia over the next few decades. Similarly, there is considerably greater scope for jobs at all skill levels in global transportation (ships, airlines), health professionals (especially nurses and old-age care professionals) and home care. This requires major investments in specific educational services such as language, nursing and merchant marine training institutions.

However, if India is to become a major exporter of skilled manpower it must liberalise its policies for skilled professionals (especially those of Indian origin) with foreign degrees (at least from recognised institutions). The country cannot simultaneously exult in the success of its diaspora while shutting the door to skilled professionals from abroad. The narrow interest-group pressures from bodies such as the Medical Council of India, Bar Council of India and the ICWA who have put pressure on the government to bar professionals trained in foreign countries needlessly limits India's access to foreign expertise. The premise that India should reciprocate and bar professionals from those countries that do not recognise Indian degrees is self-defeating and is a case of cutting one's nose to spite others. At least in the case of the advanced industrialised countries, a positive list of institutions with high standards should be maintained such that anyone qualifying from these institutions should be allowed to work in India. It needs to be reiterated that barring the top tier of India's professional schools, the average quality is poor. Moreover, India needs hardly fear that opening its markets to well trained professionals from abroad will result in a flood of immigrants!

India's long-term comparative advantage is its skilled manpower and other than the interest of individual professionals and firms who are currently collecting large rents because of lack of competition, the long-term interests of India are to have open borders with respect to individuals with high skills. It is a cruel irony that the US with far greater human capital than India allows Indian citizens based in the US to work on defence contracts and research, even while India is extremely chary of using its diaspora for the same purpose even though the country's aggregate level of human capital is much lower. While India should take a much more liberal approach to the General Agreement on Trade in Services (GATS) and particularly push strongly for liberalisation of Mode Four (Movement of Natural Persons), this is unlikely to bear fruit. Currently, the global climate is such that a multilateral agreement on the GATS is likely to be much more difficult to achieve than selective bilateral agreements. Consequently, India should ratchet-up its efforts to reach bilateral agreements on temporary migration, especially with the industrialised countries. Ongoing discussions between the EU and north Africa, and between Japan and Philippines are pointers in this direction. And if India were to strive to reach such agreements with the EU, Canada, US, Australia, New Zealand, Japan and Russia it would be in a very strong position in a few decades to have a diaspora that is strategically located and placed.

Policies towards Diaspora

Equally important are policy changes that the government should not do with respect to the diaspora. It is important for India to move to a policy regime that treats its diaspora as close to its treatment of its own residents, rather than the current mix of discriminatory policies, both negative and positive. In particular the Indian government should not give any investment incentives to its diaspora greater than what it is willing to give other foreigners and, in turn, both should be close to what the government offers its own residents. It would be indeed tragic if an incentive structure is created whereby the primary mechanism to gain recognition in India is by leaving the country.

It is therefore important that the GOI move to scrap schemes to attract NRI funds with selective benefits, especially in view of India's burgeoning foreign exchange reserves. Similarly, special tax treaties such as those with Mauritius should also be done away with. These schemes inevitably result in round-tripping, i.e., capital flight from India which comes back through these windows, attract 'hot money' and often divert resources from alternative uses rather than result in additional resource flows.

However, instead of focusing on additional financial incentives for its diaspora, India can try to eliminate any negative incentives, be it in employment, business, or educational qualifications. Long-term trends are likely to witness greater 'circulatory migration' and GOI policies should lubricate such flows rather than put hindrances to these natural trends. The GOI should move urgently to reach 'totalisation' agreements with industrialised countries, so that members of the

diaspora who return do not suffer penalties of having paid social security taxes from which they do not draw any benefits.

In contrast to economic rights where the diaspora should be treated at par with other foreign investors, on the matter of social, civil and cultural rights it should be treated on par with other Indian citizens. This must include the right to work, not only in the private sector but also in the public sector and the right to buy and sell land and property. It is puzzling that even as talent is being leached away from the public sector, needless hurdles remain in trying to attract talented persons to work in the public sector. The GOI and the Indian public should have no illusions that there are hordes of PIOs waiting to crash the gates of the public sector to take on jobs even as other talented Indians are exiting. Indeed, in two particular areas – R and D and education – the dearth of talent in public sector institutions makes it particularly important to open it up to any PIO. On this issue, the GOI can draw some lessons from the US where sectors such as defence research and even military service are open to non-citizens. Insofar as there are concerns of secrecy in India, they are grossly overblown and have merely served as a cover for malfeasance and mediocrity.

In the matter of political rights, the diaspora has strongly pressed for dual citizenship. India would not be exceptional in this regard and many countries have moved to do so in recent years. The experience of other countries around the world has shown that there is little downside in this proposal with an important caveat: political rights inherent in dual citizenship must exclude the right to vote unless India can extend a form of the Bhagwati tax, i.e., a tax on citizens abroad akin to what the United States currently practices. First, as a practical matter it is procedurally very difficult in a parliamentary system, since voters have to be resident in a specific geographical location. More importantly, rights without obligations are deeply problematic. The contract of citizenship entails two critical obligations on the part of the citizen, namely, taxes and military service. The diaspora is unlikely to look kindly on either. However, unless there is a tax obligation, dual citizenship should not carry with it the right to vote since it could perversely lead to a situation of representation without taxation. NRIs would do well to remember that citizenship is a social contract and if it brings with it certain rights it also brings with it certain duties and obligations.

At the Pravasi Bharatiya Divas the GOI announced that people of Indian origin resident in a select group of rich countries would be eligible for dual citizenship. This move is extremely regrettable. While it is understandable the India exclude those in south Asia, the People of Indian Origin (PIOs) resident in other LDCs (such as Guyana, east Africa and Fiji) have a much greater regard for India than many of those resident in rich countries. If India were to implement such a move, it would needlessly antagonise a potential strategic asset.

Any move towards dual citizenship will require amendments to the Citizenship Act of 1955, and the process must also eliminate the gender discrimination currently embedded in the act.¹ Currently, residency requirement for PIOs to obtain Indian citizenship varies according to whether the father or mother is an Indian citizen. The same asymmetry applies when an application for citizenship is made on the basis of the spouse being an Indian citizen. If the father/husband is an Indian citizen, it is 15 days; on the other hand, if only the mother/spouse is an Indian citizen, the residency requirement is five years! Steps need to be taken to make the residency requirement short but more importantly there should be parity between genders.

Diaspora's Own Mindset

Finally, the Indian diaspora must itself engage in introspection to try and see what it can do to strengthen India. Despite the admitted success of the Indian diaspora, its impact on India has been modest up to date. In recent years the diaspora's origin has been in the middle class, a group which has received strong preferential treatment in India. Nonetheless, this group has a strong sense of entitlement and often stresses how much more it deserves rather than what it can

do. Consequently, it would not be unfair to say that while relatively successful people of Indian origin in US can find dozens of reasons for not giving back to the country of origin, they are hard put to find one reason to do so.

Finally, it should be stressed that India's diaspora are inevitably a minority in the country of settlement. Both the Indian state and the diaspora from India's majority community must realise, that the claims of protection of communities of Indian origin in their countries of settlement are weakened if minorities in the countries of origin are not protected. One cannot claim protection in one context while seemingly violating it in another context. This means that both the diaspora and the Indian government must handle their internal affairs with substantially greater care and circumspection.

Notwithstanding the current brouhaha about the benefits of the diaspora, India's policy makers should remember that ultimately India's problems will be resolved from within and not without. There has rarely been a nation that has been as blasé about losing its best and brightest as has been India. It is much more important for the country to try and change internal conditions sufficiently so that this is no longer the case. Expecting outsiders, even those originally from the country, to do much in this regard will be a chimera.

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Note

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¹ I am grateful to Urjit Patel for pointing this out.