

Diminishing returns

What South Asia's diaspora can do for the lands of their forefathers

THE ECONOMIST

Like the alumni of a cash-strapped college, ethnic South Asians living abroad are constantly being pestered to fork out a bit for the dear old place. After all, South Asia remains poor, and they, collectively, are loaded. According to a 2009 estimate, Indians, Pakistanis, Bangladeshis, Sri Lankans and Nepalis living abroad were worth \$1 trillion, with another guess the following year suggesting that non-resident Indians own a further \$500m-worth of gold, property and art. The hope has long been that the South Asian diaspora might do for the region back home what the overseas Chinese did for China and pour in investment to fuel rapid growth. A first-ever "South Asian Diaspora Convention" held this week in Singapore had an even more ambitious aim: to use overseas South Asians to foster regional economic integration.

Even the first hope seems almost forlorn. There are fewer South Asians overseas than there are Chinese -- some 25m Indians compared with 60m Chinese. But they send home huge amounts of money. India receives more remittances from expatriates than any other country -- over \$50 billion a year. Pakistan took in over \$11 billion in the most recent fiscal year, not counting the money still seeping back through informal hawala networks. Last year Bangladesh got over \$10 billion, and Sri Lanka more than \$4 billion, an increase of a quarter on 2009, when its 26-year civil war ended. Yet despite all these remittances, there is little evidence that overseas South Asians are mimicking the Chinese by investing huge sums in productive projects.

That is not surprising. The vast majority of overseas Chinese investment in China has come from Hong Kong, Taiwan and, to a lesser extent, Macau. In the early period of China's reforms in the 1980s and 1990s, these places accounted for some two-thirds of foreign investment in China. China kick-started its reforms by opening special economic zones such as Shenzhen to attract investment from the nearby diaspora. As wages and other costs rose at home, it was not a hard decision for ethnic-Chinese factory-owners in Hong Kong and later Taiwan to shift production to the mainland, where the culture and language were familiar, wages were cheap and the government was accommodating. China's emergence as the workshop of the world started with the shift of labour-intensive manufacturing from its neighbours.

South Asia has no equivalent to Hong Kong and Macau. Nor does it have many overseas fac-



tory-owners. As Gopinath Pillai, chairman of the Institute of South Asia Studies, the think-tank in Singapore behind this week's convention, puts it, the diaspora is dominated by labourers and professionals, not entrepreneurs. And unlike China 30 years ago, India has plenty of entrepreneurs at home. Overseas South Asian niches in the law, medicine, Britain's corner-shops and curry-houses and America's motels do not require relocation to a lower-cost production base. India's successful businesses in information technology and other back-office services have brought back some expatriates and their investment. But they have also peopled Silicon Valley.

South Asia remains a less welcoming place to overseas investors than China (see our briefing). The most famous overseas Indian manufacturer, Lakshmi Mittal, built up the world's biggest steel producer entirely outside India before embarking on two big projects back home. Both have suffered long delays. Many successful Indian businesses are investing abroad, despite India's rapid growth. Pakistan, Bangladesh and other South Asian countries are far from easy places to do business.

If an investment boom from the diaspora

seems unlikely, forging regional economic integration seems an even longer shot. The potential benefits are enormous. Trade between India and Pakistan, for example, is nugatory. But the obstacles are also huge. The inter-governmental South Asian Association for Regional Co-operation has struggled for years to lift trade barriers. But its efforts have foundered against perennial political tensions between India and Pakistan, and the fear outside India of being trampled economically by the subcontinental elephant.

Mr Pillai points out that the political suspicions that hamper integration in South Asia tend to dissipate among members of the diaspora, who recognise a shared South Asian identity. His convention has tried to attract scholars and businessmen rather than officials or politicians. The scholars, he says, are enthused. The businessmen "still need to be convinced". He hopes that they can be turned into an influential lobby for reform.

That is optimistic. The diaspora may be more influential in host countries than back home in South Asia. Unlike China's diaspora, which tends to be regarded with suspicion by the government in Beijing, many overseas South Asians have if not

dual nationality, then at least dual patriotism. The fiercest letters The Economist receives after articles deemed to be critical of India or Pakistan tend to come from Dubai, London and California. This fervour has political uses. The 2.2m ethnic Indians in America, for example, were a big help in pushing through a controversial 2008 nuclear agreement. In 2006, as support for the deal was being canvassed, the then Senator Barack Obama noted what seemed "a very co-ordinated effort" to have every Indian-American he knew contact him.

Not all quiet on the Western front

Other governments are less lucky. This week two American citizens of Pakistani origin were charged with illegal lobbying, for failing to declare that they were using money from the Pakistani government to campaign over Kashmir. And Sri Lanka's diaspora is dominated by ethnic Tamils. Long a source of funds for the rebel Tamil Tigers, since their defeat it has been determined to keep up pressure on Western governments to demand accountability from the Sri Lankan government for alleged war crimes. The ties that bind a diaspora to ancestral lands can be a mixed blessing for South Asia's governments.

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Indian supercars slice through traffic in convoy

AFP, Chandigarh, India

at his other home in Los Angeles.

He admits India's roads are often unsuitable and that sports cars can look out of place among the other travellers.

"Chaotic traffic and potholes are not the only problems. The very presence of a sports car excites people and generates mixed emotions on the road," he said.

"Motorbikes accelerate when they see these cars to race us, often risking their lives. Some even take pictures as they ride. There are others who ogle and a few get annoyed with the noise and try to scratch the car's paint."

"Owning an expensive car is matter of pride but driving is a matter of persistence," he said.

The club, founded last year, already has more

than 100 members from three states and has plans to expand with an Internet site and to develop into a one-stop consultancy for supercar owners.

"Having a club exclusive to super cars indicates a healthy sign," Ashish Chordia, a director of Porsche in India, told AFP. "It gives everyone a common platform to interact and experience different products."

Chordia, who also heads conglomerate luxury brand the Shreyans Group importing sport cars, designer clothes and jewellery, believes the potential for top-end goods in India is huge.

"The premium car sector grew by 70 percent last year," he pointed out.

In May, Ferrari became the latest sports car

firm to open a showroom in India, attracted by

the country's growing wealth.

Aston Martin, Lamborghini, Bentley, Jaguar, Porsche already have dealerships despite the massive taxes.

With clubs like the Cannonball likely to become more popular, the police say its activities are not illegal, but that anyone caught speeding or dangerous driving faces large fines or a court hearing.

Gupta is keen to stress that members are trying to strike a balance between rules of the road and getting the most out of their cars.

"We want our members to explore all the possibilities the cars offer but in a responsible manner," Gupta said. "Posh cars are not just meant to be parked. Flaunt them if you have them."



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Onlookers inspect parked luxury sportscars prior to an event organised by the Cannonball Club in Chandigarh.

AFP