

African Diaspora and Structural Economic Transformation of Africa: Lessons from Asia

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Abstract: *Income levels tend to converge across different regions through the diffusion of technology and productivity. Asian economies are closing income gap between them and high income countries, African economies are not. The literature has provided different reasons for this divergent performance, weak institutions, poor governance, poor policy choices, geography, natural resources endowment, among others. This paper concentrates on one of the reasons, Asia ability to leverage on its Diaspora in the West to diffuse social models that drive high productivity and encourage skill and technology transfer. The paper identifies five drivers of diaspora-induced development. First, domestic reforms help in encouraging investment. Second, stock of high quality human capital at home is important to complement diaspora investment and skill transfer. Third, decentralisation of global supply chain has also helped Asian giants, India and China, to integrate into global economy through service and manufacturing sectors respectively. Fourth, the perception by Western firms that business environment in developing countries were risky can propel Diaspora to invest in their host country just to prove otherwise, and fifth, identification of innovation-induced sector that can drive development and structural transformation. This paper draws its example from the success story of India and draws lessons for Africa.*

Keywords: *Migrants, Diaspora, Remittances, Africa, Asia, Economic Development*

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I. Introduction

African economies have remained persistently undiversified especially in sub-Saharan Africa where South Africa is the only country that has developed an industrialised and diversified economy due to its unique historical circumstances. Other sub-Saharan African countries have remained dependent on exports of primary products. Africa trade engagement with global economy is still driven by commodity exports. Africa's share of global trade has stagnated at around 2 per cent for more than three decades, while that of Asia has doubled from 15 per cent to 30 per cent during the same period (World Bank, 2015). An important reason for this is how Asia has been able to integrate itself to the global economy, while Africa has not been able to do so. An important driver of Asia economic transformation has been the role play by the critical mass of its educated and skilled Diaspora. The contributions of Diaspora to the structural transformation of Asian economies have been well documented. However there are limited studies on how Diaspora can drive development in Africa. The reasons for this are many and they range from the inability of African political elites to understand the importance of African Diaspora in the developmental process to considering them as threats in fragile African countries. To have an understand of how Africa can harness the vast pool of talents in Diaspora there is the need to draw from the experiences of Asia, especially, China and India and draw lessons for Africa. In this paper we analyse how Diaspora can help in structurally transforming African economies.

What follows this introductory section is a review of some literature on Diaspora, remittances and the impacts on development in home countries of the migrants. We follow this up by analysing how remittances can mature from their monetary form to social remittances. Section three reviews how India and China benefitted from their Diaspora through both monetary and social remittances; we also show how the distinct characteristics of these two countries define their differential paths through Diaspora-induced development. In section four we draw from the experiences of these two countries to identify five main drivers of Diaspora-induced development and draw important lessons for Africa. In section five we conclude and make some policy recommendations.

II. Some Literature

Remittances are fast becoming very important sources of foreign earnings for most developing countries as people move from low income countries to high income countries. Although, the share of global population living outside their country of origin remains a little above 3 per cent in the last fifteen years, the absolute number of people living in Diaspora has reached a quarter of a billion (Migration and Remittances Fact book. 2015). Also

at the same time migration is fast becoming more of a south-south phenomenon than south-north. According to recent data, about 38 per cent of migration is within developing countries, while 34 per cent involves movement from poor countries to rich countries (Migration and Remittances Fact book, 2015). Today more people move within Asia than between Asia and OECD countries. Also, in 2015, remittances inflows were estimated to have exceeded US\$ 601 Billion and developing countries received US\$441 Billion representing 73 per cent showing that remittances are developing countries phenomenon (Migration and Remittances Fact book, 2015). However of important concerned in the literature is what remittances are used for, and this has been divided into four broad groups. Remittances can serve as insurance against external shocks within poor household and this can allow household to smoothing their expenditure by inter- temporally responding to hard times. Also, remittances are motivated by emotional ties of the migrants to the family members and loved ones left behind in home country (Karpestam, 2009). Other uses of remittances include the repayments of the cost of migration which were borne by the family. For poor household the cost of migration of a family member is borne by the whole family and the migrant is expected repay later (Prabal and Ratha, 2012). Additionally, remittances can also serve as source of investment to overcome the lack of financial inclusiveness.

In Africa, Anyanwu and Erhijakpor, (2010) found that for a sample of African countries, remittances contributed to decline in the depth and severity of poverty among households. Other studies have shown that remittances can also help during the period of political and economic crisis (Kapur, 2004). In some other cases, remittances have been shown to lead to higher investment by households in social services (Prabal and Ratha, 2012). In specific terms, receipts of international remittances have been shown to correlate with secondary school enrolment in a number of African countries (Ratha, 2013). Likewise, school enrolment has been found to differ between household receiving remittances and those who do not in Guatemala (Adam and Cuenca, 2010). On the flipside, remittances may increase inequality between receiving households and non-receiving household within the same community (Adam, 2011). It can also inhibit progress in the local economy by deepening the economic vulnerabilities of recipients especially when it is uncertainty. Finally, non-monetary aspects of remittances are important as well. Studies have shown that migrants can drive different form of cultural diffusion and social changes. This process has been identified as social remittances in the literature, under this approach migrants can diffuse new ideas, behaviours, norms and social capitals that can promote economic growth and overall development. An important aspect of this is the process of skill transfer and the acquisition of modern capabilities by migrants for the benefits of their home country.

2.2 . From Monetary Remittances to Social Remittance: African Diaspora and the Switching of Social Models

In recent times the interactions between Africa and rest of the World especially global north have been defined by many factors one of which is the movement of people from Africa to high income countries as economic migrants propelled both by conflicts and the need to live a better life in the West. This movement has been exacerbated by the rising income inequality between Africa and the rest of the World, especially the West but also including emerging economies of Asia. The immediate benefit from African diaspora is the monetary remittances they send home from their host countries. Recent data shows that for most African countries remittances have overtaken foreign direct investment, official development assistant and other forms of capital inflows as the biggest source of foreign earnings (Rathan, 2013). Also, at the micro level, remittances have helped poor households to overcome financial hardship and increase their ability to access education and health services (Prabal and Rathan, 2012). At the macro-level, remittances have helped to increase inflow of foreign currency and improve the credit worthiness of receiving countries in global financial market.

In recent times some African countries have also moved beyond the micro impact of remittances by raising funds through diaspora bonds. Nigeria recently issued such bond valued at US\$300M which was over-subscribed by 130%. Yet monetary remittances have limited impact in transforming African economy because the same conditions that have made Africa to remain poor and increase the desires of the continent most productive people to seek greener pasture abroad cannot be addressed by monetary remittances alone(Collier, 2012). Weak institutions, poor governance and dysfunctional public and social models are at the foundations of Africa failure to improve the lots of its people. Learning how other societies have developed norms and cultures that have resulted into strong institutions and good governance should be the next stage of how Africa can benefit from Europe. This has been referred to as social remittances in the literature.

Policy makers tend to focus on monetary remittances whereas how migrants diffuse skills and new ideas from their host countries to their home countries also matters. Monetary remittances seem to be the first stage of benefits derivable from Diaspora. The second stage is the social remittances. According to Levitt, (1995), there are three types of social remittances. The first are normative structures, consisting of ideas, values, belief and ethics. The second are systems of practice, which include political participation, and the third is social capital, which also include values and social norms. These three components can be diffused into the home country of the migrants as they matured in their host country and develop a deeper engagement with former. Unlike monetary remittances it

takes time for social remittances to evolve. According to development economist, Paul Collier, in his book, *Exodus: How Migration Is Changing Our World*, workers who move from poor countries to rich ones are switching social models. In poor countries social model lock people in vicious cycle of low productivity and poverty but when they migrate to rich countries the same set of people became more productive and earn higher income. The goal for poor country is not to keep encouraging more migration to rich countries but to develop some mechanism, through reforms, of how these migrants can help in changing the social models in their home countries so that they can increase their productivity. More importantly migrants can also adapt high productivity-enhancing norms and ethics to their culture. This process has historical precedent. In case of Japan, its transformation through major initiative throughout the Meiji era was accomplished by sending gifted Japanese abroad to bring new ideas that were then adapted to Japan's culture and needs (Bhagwati.2009)

The diffusion of social models that improve productivity may initially seem like a difficult process but like the example of India has shown this is very possible. India saw some of its brightest people migrating to the West until the last decade of the 20th century but when the country started massive reform in 1991 Indian diaspora began to change the social and economic landscape of the country. Today India's experience with the IT industry has been identified as one of the best example of Diaspora-induced development. Africa can learn some lessons from this success and define its future relationship with the West from this perspective.

III. Learning From Asian Success

This section deals with the experiences of the two Asian giants, India and China in driving economic transformation through Diaspora-induced development

India

India remains a prime example of how diaspora can change the structure of an economy and this was done through the IT industry. The enormous contribution of the US-based Indian managers to a spectacular surge in IT and IT-related services in India has been well documented (Utz and Dahlman, 2005). This has been driven essentially by highly skilled migrants who have produced a win-win situation for both sending country and receiving country. India started its reform in 1991, dismantling most of the economic laws that were stunting economic freedom. India through these reforms started the major move from low-productivity activities in agriculture and the informal sector to more productivity sector such as IT and pharmaceutical (Utz and Dahlman, 2005). The Indian software industry which came under the influence of Indian Diaspora especially from the United States began its phenomenal growth during this period, Through the 1990s, the industry grew at about 40 per cent annually and by 2002 it was generating annual revenue of more than US\$10billion almost half of which comes from exports. It employment grew from 56,000 to 360,000 during the same period absorbing more than 75,000 fresh IT and engineering graduates that India produce annually (Kuznetsov and Sabel, 2006). This also led to proliferation of IT firms so much so that the number of IT firms more than quadrupled from 700 to 2800 during the same period. The two flagship Indian IT firms, Wipro and Infosys, became increasingly sophisticated and complex and move towards becoming global brand (Kuznetsov and Sabel, 2006). A key driver of Indian IT revolution is the emphasis of policy makers on higher education, especially scientific education. This, according to many scholars, (Radwan and Pellegrini, 2010; Kapur and Mehta, 2004), did create a domestic surplus of well-trained scientists, engineers, and technicians just as the West faces deficit in this area during the period of IT boom that started since the last two decades of the 20th century till the present period. Through the IT industry, Indian Diaspora have not only enhanced India's image in the World, they have also created a mutually beneficial synergy between Indian science abroad and at home. This is very apparent in the symbiotic relationship between Silicon Valley and the Indian IT industry. The uniqueness of the Indian experience is how the IT industry can overcome some weakness in the local economy to drive innovation. The lesson from India for African economies is that Indian has the key ingredients to drive a knowledge-based economy. These ingredients has been identified as, critical mass of educated, English speaking people; top quality science and technology institutions; macroeconomic stability; large domestic market; stable democracy; vibrant private sector. And a growing financial sector (Radwan and Pellegrini, 2010).

China

Ethnic Chinese have always played prominent economic role in most of their surrounding countries like Malaysia, Indonesia, Thailand, the Philippines, and Singapore. They also dominate other countries like Hong-Kong and Taiwan for historical reasons. During the pre-1978 period these enterprising Chinese set up different businesses in these countries which over time matured to highly diverse and sophisticated firms later. In time the family firms grew into dynasties operating a myriad of small firms in many sectors and countries all under the direct but secretive control of the founding family (Kuznetsov and Sabel, 2006). In a vast geographic zone with under-developed financial markets and fragile legal framework and institutions, the family and ethnic loyalties of the Chinese Diaspora played important role in reducing transaction cost. The business interest of the Chinese

Diaspora began to expand in real estate development, component manufacturing, construction and other sectors that put premium on the ability to combine trading and productive skills together. Also, at the same time Taiwan was developing a model of business organisation that fused elements of Chinese traditional family firms with that of Silicon Valley start-ups (Kuznetsov and Sabel, 2006). This was the state of the relationship between Chinese Diaspora and their neighbours until the Chinese government began its reform in 1978. The immediate result of this was the large influx of Chinese Diaspora from both Hong-Kong and Taiwan for obvious reason, and they turn mainland China into industrial hub. The influx of Chinese Diaspora from these two countries was complemented by the movement of multi-national firms who flocked to the mainland to take advantage of low labour cost and potential large market from China over one billion people. The influx of Chinese Diaspora fundamentally altered the structure of Chinese manufacturing industry as traditional line of production were abandoned for modern ones and China became a manufacturing hub. The basic difference between the experiences of China and India is that the former was driven by huge investment in manufacturing whereas the latter was driven by the service sector. The biggest lesson for African countries from the Indian experience is that the minimum requirements for the Indian

IV. Diaspora-Induced Structural Transformation Of African Economies: Some Key Drivers

Africa economy performance has been defined by the continent interaction with the rest of the world spanning different stages and times. The period of slave trade define a continent that transformed from exchanging goods for goods with the West to exchanging the producers of goods for goods and this has long lasting effects on how economic and political institutions have evolved in Africa (see, Nunn, 2008, Nunn & Wantchekon, 2011, Acemglou and Robinson, 2001). Colonialism also resulted in the evolution of economic institutions that are even today more conducive to extractive activities than productive activities and this has been used to explain why African has depended more on commodity exports than any other region in the world today (see Acemglou, Robinson & James, 2001). As for neo-colonialism, the persistent dependence of African economies on primary product exports is a testimony to continent's unequal relationship with the rest of the world. This can however be changed if the continent can leverage on its vast pool of Diaspora in the rest of the world to transform the structure of African economy. Like the example of both India and China has shown there are some drivers of how Diaspora can help in transforming the economies of their home countries. Here we identify some of these drivers.

i Extensive and Irreversible Economic and Political Reforms

In a paper he delivered sometimes in 2009 in India, the foremost Indian-born American economist, Jagdish Bhagwati, noted that both China and India started their economic reforms in 1978 and 1991 respectively when the elites of both countries realised the inevitability of reforming. It has nothing to do with any urging from the West or Washington Consensus. According to Bhagwati, Indian pre-reform policies had failed to generate economic growth rates that can reduce poverty. Indian reforms were driven by the realisation that the country cannot go on the way it had lived earlier. This was also true of Chinese reforms that led to China's dramatic accelerated growth and massive impact on poverty through moving more than 400 million people out of poverty within three decades. These reforms were driven from within these two countries and not through the so-called Washington Consensus. In the words of Bhagwati "if Washington had sunk into the Atlantic Ocean these countries would still have abandoned their old ways". Meaning that not only that these reforms are irreversible but also that the elites in these countries have realised how important these reforms were to their own survive. An important driver of Diaspora-induced development is the nature of reforms in their home country. China started massive economic reforms in 1978 after the death of Deng through gradual and steady transfer of assets of public enterprises to private entrepreneurs and the opening up of the economy to private investors from Hong Kong, Taiwan and the West. China economic reforms were steady and well-planned with the establishment of what have been identified as "transition institutions" under which the country makes the transition from communist institution of state ownership to capitalist institutions of private property (Rodrik, 2004). China leveraged on its extensive networks in neighbouring Asian countries of the Philippines, Malaysia, Thailand, Taiwan and Hong Kong among others to attract massive physical investment to China from Western firms that were looking for cheap labours and potentially huge domestic market. Africa started its massive reform in 2000 helped by large inflow of revenues from high commodity prices. These reforms which included sound macro-economic management had delivered a growth rate of about 6 per cent annually during the period spanning 2001-2008. Even during the 2009 global financial crisis Africa economy was able to pull through without facing major economic crisis. These reforms had been entrenched

ii High-Quality Education

A unique driver of Indian Diaspora-induced IT revolution is the country top quality engineering and scientific education. India has the best top quality technical and scientific education among developing

countries. The country produces more top quality graduates in engineering and technology than any other nation in the world including the United State. To understand how the country has been able to do this we need to explain the core driver of India success in this respect, Indian Institutes of Technology, IITs.

India history of specialized higher institutions predated her independence and the establishment of Indian Institutes of Technology, but it's the establishment of the IITs by an Act of the parliament in 1961 that has come to define its competence and success in running these types of institutions. The Indian Institutes of Technology are autonomous public specialized institutions, which are governed by the Institute of Technology Act of

1961. There are at present 16 IITs in different parts of Indian governed by this act, each of them is however autonomous but are linked to others through a common IITs council that oversees their administration (UGC 2000). The 16 IITs are located in Bhubaneswar, Chennai ,Delhi, Gandhinagar, Guwahati, Hyderabad, Indore, Jodhpur, Kanpur, Kharagpur, Mandi, Mumbai, Patna, Ropar, Roorkee and Varanasi.

The IITs received considerably higher grants from government than other universities, are consider institutions of national importance, and have consistently been known to be world class (UGS 2005). Some of them have been known to top Indian higher education ranking (UGS), while the only Indian higher institutions in the top 250 of Times Higher Education ranking, arguably the most prestigious in the world, was IIT Kharagpur in 2012(UGC 2013). These institutions have produced a crop of top class engineers who migrated to the West, mostly the United States in the three decades that spanned 1960s to 1980s. This migration was so intense in the 1980s that more than 80 per cent of their graduates moved abroad. However, as Indian began to reform in 1991, the first generation of migrants from IITs who have reached management level in American IT firms began to see opportunities at home. They thereafter leverage on the new generation of top class graduates and developed world class IT firms that have come to dominate the global outsourcing industry and turn Indian into the envy of other developing countries.

The success of Indian IITs has made some scholars to call on developing countries to build world class research universities in the for so many reasons. Kapur and Crowley (2008) evaluate some studies that show that one of the reasons the green revolution has been more successful in Asia than Africa is because Asian countries have been able to develop local capability in adapting foreign knowledge to local conditions through their top class research institutions. Kapur and Crowley (2008) further argue that if green revolution technology (and other technology for that matter), developed in rich countries, is considered a global public good then Africa countries need domestically developed skill and capabilities to benefit from it. Golberg and Pavanick (2006) show that as skill premium increase for all regions of the world quality education has become a driving force to increase in productivity and prosperity. Other advantages of high quality university education include, serving as quality benchmark for others (Kapur and Mehta 2004), meeting local demand for well educated people, especially in skilled intensive sector like ICT (Golberg and Pavanick 2006), and creating knowledge –based economy, as amplified by India (Kapur and Mehta 2004). However some scholars have frowned at the tendency of this kind of university education to encourage brain-drain and create class immobility as only the privileged and their off springs have access to it which tends to perpetuate inequality (Patel 2003). However, (Kapur and Mehta 2007) argued that creating top class institutions will give the elites more stakes in the university system, and country as a whole, than building only mediocre institutions and use the superiority of Indian university system over Pakistan university system to back their hypothesis. The lesson here for Africa is that even if the general level of education is that not high there is still the possibility of developing high quality higher education that can drive innovation and development.

iii Decentralisation of Global Supply Chain

The need for multi-national and global business concerned to look for low labour cost has been at the foundation of movement of producers from high income countries to low income countries since the last two decades of the 20th century. India and China have benefitted from this decentralisation in different ways. India has concentrated on the service sector, dominating the global IT outsourcing business leveraging on it comparative advantage there. China on the other hand has concentrated on the manufacturing sector using its huge population as the basis of cheap labour that has attracted global manufacturing firms (Kutznetsov and Sabel, 2006). Apart from cheap labour these firms were also attracted by a large domestic market. African economies especially those with huge population like Nigeria, Ethiopia, and DR Congo can also replicate this model in both service sector and agriculture value-added.

iv. Risky Business Environment

Global firms from the North always find it risky to do in developing countries and since they hold a substantial share of global capital stock developing countries always find it difficult to break the cycle. Diaspora from developing countries who understand their home country and are in position to channel massive capital toward them has been identified as the first set of people to break the ice. Indian Diaspora in the United States were the initiators of the IT revolution, while the Chinese Diaspora network in the Southeast Asia, the so-called

‘bamboo network’ were the first to invest in China after the country opened up its economy in 1978 (Kutnetsov and Sabel, 2006). The point is that Diaspora networks are more likely to take risk and invest when others do not want to, not because they have emotional attachment but because they understand the potentials of their home countries. Africa potentials economic growth and transformation are best understood by people who grew up in the continent but have also been exposed to global best practices.

v. Identifying Innovative, Growth-Enhancing Sector

It may be difficult for Diaspora to get involved in all sectors at the same time this means it is important to identify some peculiar sectors that can be used to maximise the benefits derivable from them. The indefinable sector has to be one that can tap from the existing potentials in the receiving country. Indian Diaspora ability to successfully use the IT sector was based on her comparative advantage in high level, top quality education technical education. As for China, the country has a network of Chinese Diaspora in surrounding Asian countries that have made the transition from trading and retailing to manufacturing. The government of China, after starting its reforms, just concentrated on using these networks to expand their manufacturing sector and break into the global supply chain. Why it may be difficult for Africa to replicate these two models completely, the continent can learn from them and identified what can work across the continent different sub- regions

V. Concluding Remarks And Lessons For Africa

More people are going to live outside the country of their birth in the coming years as migrants. The conventional wisdom is that this movement of the people can be used to drive growth in both the receiving countries and in the sending countries. In the receiving countries these migrants can serve as economic growth agents in countries with decline birth rates mostly in Europe. In North America which has historically been driven by migrants they will be performing their traditional role of driving innovation and growth. In Asia especially in the oil rich region of the Gulf States they are necessity in a rich region with huge human capital need. For the sending countries in Asia, Africa and Latin America migrants will continue to be important drivers of development both through remittances they send home and through their influence in transforming their home economies for growth. This paper concentrates on the second, that is, how Diaspora can help to transform their economies of their home countries,

The paper draws lessons from the success story of both India and China. These two Asian giants have been able to transform their economies in the last four decades with some help from a large pool of their Diaspora using different models. India has concentrated on developing world-class IT hub using her comparative advantage in high quality technical and scientific education. China, on the other hand, had concentrated on manufacturing sector using her comparative advantage in large pool of Chinese Diaspora in neighbouring Asian countries, especially Hong- Kong and Taiwan where its historical ties were stronger. This shows that although both countries were able to use their Diaspora for economic transformation, they differ in their approaches and strategies. The first lesson for African is that we need to understand the peculiar nature of different African countries to be able to understand how African Diaspora can help in transforming the structure of Africa economy. The second lesson is that Africa needs to identify where it has comparative advantage and use that sector as springboard for development. There have been suggestions that an agro- based industrialisation can help in producing Diaspora-induced development in Africa. Third, Africa has to improve on its economic and political reforms, and they have to be driven from within. More importantly these reforms need to be resilience and be less vulnerable to exogenous shocks. Finally, as the examples of both China and India have shown there is path for Africa in transforming its economy through the help of Diaspora the region only needs to meet some conditions.

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