

Migration and business

Weaving the world together

Mass migration in the internet age is changing the way that people do business

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IN THE flat world of maps, sharp lines show where one country ends and another begins. The real world is more fluid. Peoples do not have borders the way that parcels of land do. They seep from place to place; they wander; they migrate.

Consider the difference between China and the Chinese people. One is an enormous country in Asia. The other is a nation that spans the planet. More Chinese people live outside mainland China than French people live in France, with some to be found in almost every country. Then there are some 22m ethnic Indians scattered across every continent (the third Indian base in Antarctica will open next year). Hundreds of smaller diasporas knit together far-flung lands: the Lebanese in west Africa and Latin America, the Japanese in Brazil and Peru, the smiling Mormons who knock on your door wherever you live.

Diasporas have been a part of the world for millennia. Today two changes are making them matter much more. First, they are far bigger than they were. The world has some 215m first-generation migrants, 40% more than in 1990. If

migrants were a nation, they would be the world's fifth-largest, a bit more numerous than Brazilians, a little less so than Indonesians.

Second, thanks to cheap flights and communications, people can now stay in touch with the places they came from. A century ago, a migrant might board a ship, sail to America and never see his friends or family again. Today, he texts his mother while still waiting to clear customs. He can wire her money in minutes. He can follow news from his hometown on his laptop. He can fly home regularly to visit relatives or invest his earnings in a new business.

Such migrants do not merely benefit from all the new channels for communication that technology provides; they allow this technology to come into its own, fulfilling its potential to link the world together in a way that it never could if everyone stayed put behind the lines on maps. No other social networks offer the same global reach—or commercial opportunity.

The immigrant song

This is because the diaspora networks have three lucrative virtues. First, they speed the flow of information across borders: a Chinese businessman in South Africa who sees a demand for plastic vuvuzelas will quickly inform his cousin who runs a factory in China.

Second, they foster trust. That Chinese factory-owner will believe what his cousin tells him, and act on it fast, perhaps sealing a deal worth millions with a single conversation on Skype.

Third, and most important, diasporas create connections that help people with good ideas collaborate with each other, both within and across ethnicities.

In countries where the rule of law is uncertain—which includes most emerging markets—it is hard to do business with strangers. When courts cannot be trusted to enforce contracts, people prefer to deal with those they have confidence in. Personal ties make this easier.

Chike Obidigbo, for example, runs a factory in Enugu, Nigeria, making soap and other household goods. He needs machines to churn palm oil and chemicals into soap, stamp it into bars and package it in plastic. He buys Chinese equipment, he says, because although it is not as good as European stuff, it is much cheaper. But it is difficult for a Nigerian firm to do business in China. Mr Obidigbo does not speak Chinese, and he cannot fly halfway around the world every time he wants to buy a new soap machine. Worse, if something goes wrong neither the Chinese government nor the Nigerian one is likely to be much help.

Yet Mr Obidigbo's firm, Hardis and Dromedas, manages quite well with the help of middlemen in the African diaspora. When he wants to inspect a machine he has seen on the internet, he asks an agent from his tribe, the Igbo, who lives in China to go and look at it. He has met several such people at trade fairs. "When you hear people speaking Igbo outside Nigeria, you must go and greet them," he laughs.

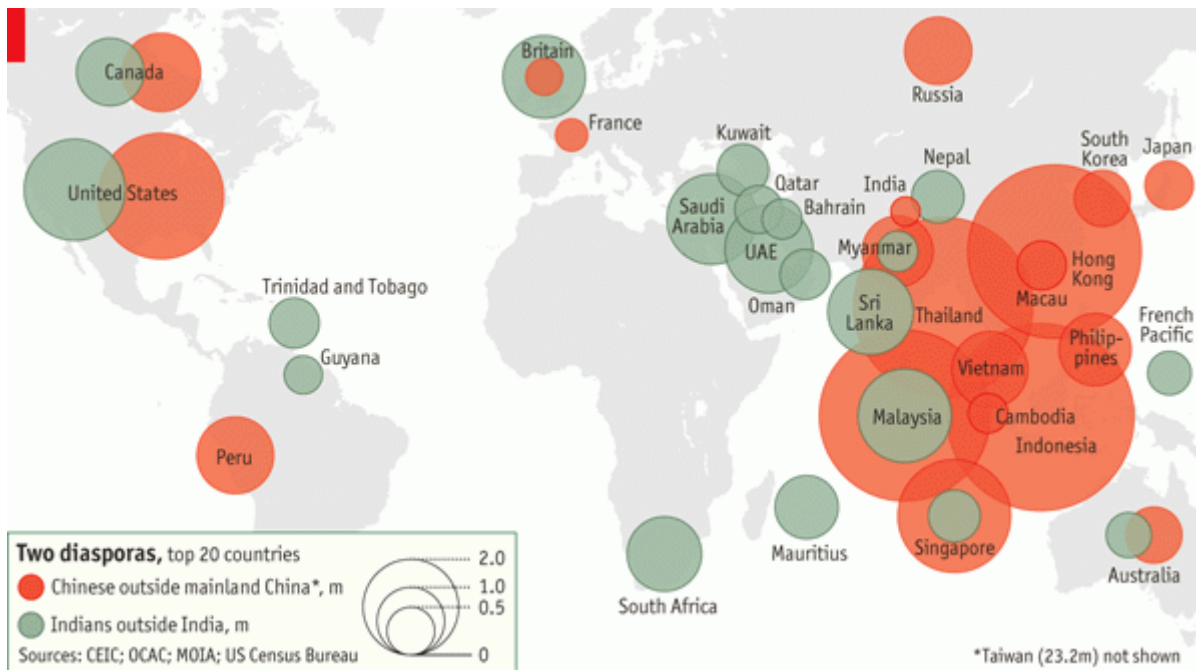
He trusts them partly because they are his ethnic kin, but mostly because an Igbo middleman in Guangdong needs to maintain a good reputation. If a middleman cheats one Igbo, all the others who buy machinery in Guangdong will soon know about it. News travels fast on the diaspora grapevine.

Thanks in part to Mr Obidigbo's diaspora connections, Hardis and Dromedas is thriving. It employs 300 workers and sells about 300m naira-worth (\$2m) of products each year. And it is just one of many African firms that use migrants as their eyes and ears in distant lands. The number of Africans living in China has exploded from hardly any two decades ago to tens of thousands today. One area of Guangzhou is now home to so many African traders that the locals call it Qiao-ke-li Cheng (Chocolate City).

The ability to use informal networks built on trust and a sense of belonging is not restricted to honest businesses such as soap making. Those with dirty hands can build criminal networks on a very similar basis. Many past diasporas have housed a "thing of our own", or Cosa Nostra, as the Sicilians put it, and some still do. But new technology may tip the scales in favour of those abiding by the law, at least a little. National police forces still do not co-operate seamlessly, but they are much easier to connect than once they were. And the ability of migrants to communicate with home directly leaves less room for sometimes criminal middlemen.

In through the out door

The Chinese and Indian diasporas have long been commercially important. In previous generations, however, China and India themselves were closed economies, so overseas Chinese and Indian traders had to content themselves with linking foreign ports to each other (the Chinese in South-East Asia, for example, and the Indians in parts of Africa). That has completely changed. The overseas Chinese now connect the world to China and China to the world. The Indians do the same for India.



Consider the Riadys, an ethnic Chinese family who have lived in Indonesia for nearly a century. Mochtar Riady established the family fortune after the second world war, first as a bicycle trader, then by buying a bank, then by founding the Lippo Group, a conglomerate.

Throughout his career he relied on his relationships with other Chinese exiles. Rosabeth Moss Kanter, a professor at Harvard Business School (HBS) who has written a study of the Riady family, argues that for the Lippo Group, “networking is not just supportive of the business strategy; networking is the business strategy,” and that ethnic ties serve as an “entrepreneurial springboard.” Mr Riady would probably agree. “Without a network, we can do nothing,” he once said.

The Riadys spread from Indonesia into Hong Kong and Singapore. In the 1980s they moved into America, hooking up with Chinese-American firms engaged in trans-Pacific trade. After Indonesia restored normal diplomatic ties with China in 1990, Mr Riady spent eight months touring the Middle Kingdom by car, sniffing out opportunities and forging new friendships. The Lippo Group—which has interests that range from property to supermarkets and newspapers—is investing in a variety of businesses in second-tier Chinese cities, where Western multinationals have been slow to penetrate. John Riady, Mochtar Riady’s grandson, says Chinese contacts “really make us feel at home.” The government in Beijing has set up a ministry to deal with the overseas Chinese.

It's who you know

China's top providers of foreign direct investment*
2010

Country/territory	\$bn	As % of total	Chinese residents, m
Hong Kong	67.5	63.8	6.58
Taiwan	6.7	6.3	23.16
Singapore	5.7	5.4	2.79
Japan	4.2	4.0	0.52
United States	4.1	3.8	3.46
South Korea	2.7	2.5	0.70
Britain	1.6	1.6	0.30
France	1.2	1.2	0.23
Netherlands	1.0	0.9	0.15
Germany	0.9	0.9	0.07
Others	10.2	9.6	31.88

Sources: CEIC; OCAC;
US Census Bureau

*Including through tax havens

Small wonder. Most of the foreign direct investment that flows into China is handled by the Chinese diaspora, loosely defined. Of the \$105 billion of FDI in 2010, some two-thirds came from places where the population is more or less entirely ethnic Chinese (see chart). That includes Hong Kong and Taiwan, which are officially part of China. But these two places operate as if they are part of the diaspora. Citizens of Taiwan are entirely outside Beijing's control. Hong Kongers are not, but they enjoy secure property rights and the rule of law in much the same way that Chinese Americans and Chinese Singaporeans do.

These data may be misleading. Mainland Chinese businesses sometimes launder money through Hong Kong to exploit Chinese government incentives for foreign investment. Nevertheless, it is clear that ethnic Chinese are far more confident about investing in China than anyone else. They understand the local business culture. They know whom to trust.

Which is why they also serve as a bridge for foreigners who wish to do business in China. A study by William Kerr and Fritz Foley of HBS showed that American firms that employ lots of Chinese Americans find it much easier to set up operations in China without the need for a joint venture with a local firm.

While some migrants settle down, others study or work abroad for a while and then return home, and others go first to one place, then another. "People don't have to choose between countries," says Kathleen Newland of the Migration Policy Institute in Washington, DC. "They can keep a foot in two or more." Their ceaseless circulation spreads ideas and expertise as the body's blood spreads oxygen and glucose.

Bringing it all back home

The benefits can be seen at places such as Fortis, a chain of 50 private hospitals in India. Malvinder and Shivinder Singh, the brothers who built the company up, both

studied business in the United States. That imparted what Shivinder calls “a certain discipline”. “If you live only in India, you naturally measure yourself against Indian standards,” he says. “If you have lived abroad, you measure yourself against the best in the world.”

During their father’s terminal cancer the brothers had a sad opportunity to see the American health-care system up close. Shivinder observed that the best American hospitals did not just have good doctors. They were also superbly organised. Doctors follow carefully documented procedures instead of relying solely on their instincts, as Indian doctors tended to. This might cramp the style of one or two medical geniuses, but it also raised ordinary physicians to a consistently high standard.

Fortis hospitals reimagined that American excellence to fit a frugal Indian setting. A leading surgeon in America might perform 250-350 operations a year. A surgeon at a Fortis hospital will perform 1,200. An army of helpers takes care of all the mundane tasks, leaving surgeons free to concentrate on the surgery. So even though the Singhs pay their doctors well, a kidney operation that might cost \$100,000 in America costs less than \$10,000.

To keep up with cutting-edge medicine, Fortis “very aggressively” recruits Indian doctors who have studied or worked abroad, says Shivinder. They bring back specialised skills, some of which were not previously available in India, such as transapical procedures for heart patients and ballooning techniques in spinal surgery. They also bring contacts: when a tough problem arises, they know whom to e-mail for advice.

Because migrants see the world through more than one cultural lens, they often spot opportunities invisible to their monocultural neighbours. For example, Cheung Yan, a Chinese woman living in America, noticed that Americans threw out mountains of waste paper and that ships carrying Chinese goods to America often steamed back half-empty. So she gathered up waste paper and shipped it to China for recycling into cardboard boxes, many of which were then returned to America with televisions inside. Her insight made Mrs Cheung a billionaire.

Going to California

The world is full of budding Cheung Yans. Immigrants are only an eighth of America’s population, but a quarter of the engineering and technology firms started there between 1995 and 2005 had an immigrant founder, according to Vivek Wadhwa of Duke University.

The exceptional creativity of immigrants doubtless reflects the sort of people who up sticks and get visas. But work by William Maddux of INSEAD (a business school) and Adam Galinsky of Northwestern University suggests that exile itself makes people creative.

They compared MBA students who had lived abroad with otherwise similar students who had not, using an experiment in which each was given a candle, a box of

matches and a box of drawing pins. The students' task was to attach the candle to a wall so that it burned properly and did not drip wax on the table or the floor. This Duncker candle problem, as it is known, is considered a good test of creativity because it requires you to imagine something being used for a purpose quite different from its usual one. Some 60% of the migrants saw the solution—pinning the drawing-pin box to the wall as a makeshift sconce—against 42% of non-migrants.



New York, new yorker

The creativity of migrants is enhanced by their ability to enroll collaborators both far-off and nearby. In Silicon Valley, more than half of Chinese and Indian scientists and engineers share tips about technology or business opportunities with people in their home countries, according to Anna Lee Saxenian of the University of California, Berkeley. A study by the Kauffman Foundation, a think-tank, found that 84% of returning Indian entrepreneurs maintain at least monthly contact with family and friends in America, and 66% are in contact at least that often with former colleagues. For entrepreneurs who return to China, the figures are 81% and 55%. The subjects they talk about most are customers (61% of Indians and 74% of Chinese mention this), markets (62% of Indians, 71% of Chinese), technical information (58% of Indians, 68% of Chinese) and business funding (31% of Indians, 54% of Chinese).

Mr Kerr has devised an ingenious study which uses patent information to measure how knowledge moves through diaspora networks. Looking at the names on American patent records, and guessing that an inventor called Zhang was probably ethnic Chinese, whereas someone called Rubio was probably Hispanic, he calculated

that foreign researchers cite researchers of their own ethnicity based in America 30-50% more often than you would expect if ethnic ties made no difference.

It is not just that Brazilian scientists in São Paulo read papers written by Brazilian scientists in America. There's also gossip. Brazilian scientists in America will often alert their old classmates in São Paulo to intriguing research being done at the lab down the hall. And the information flows both ways.

A study in 2011 by the Royal Society found that cross-border scientific collaboration is growing more common, that it disproportionately involves scientists with diaspora ties and that it appears to lead to better science (using the frequency with which research is cited as a rough measure). A Chinese paper co-written with a scientist in America is cited three times as often as one produced solely in China.

Ramble on

Diaspora ties help businesses as well as scientists to collaborate. What may be the world's cheapest fridge was conceived from a marriage of ideas generated by Indians in India and Indians overseas. Uttam Ghoshal, Himanshu Pokharna and Ayan Guha, three Indian-American engineers, had an idea for a cooling engine, based on technology used to cool laptop computers, that they thought might work in a fridge. In India visiting relatives they decided to show their idea to Godrej & Boyce, an Indian manufacturing firm.

Mr Pokharna wheedled an introduction from a young member of the Godrej family, exploiting the fact that both had been at the University of Pennsylvania's Wharton business school. They discovered that Godrej was already working on a cheap fridge for rural Indians too poor to fork out the \$200 normally required, let alone the subsequent electric bills.

Jamshyd Godrej, the firm's chairman, was determined to make a cheap battery-powered fridge. With the help of Mr Ghoshal's cooling chip, his team produced the Chotu Kool ("little cool"): light, portable, small and cheap. Mr Ghoshal's firm in Texas, Sheetak Inc, is working with Godrej to make it more efficient.

The "new type of hyperconnectivity" that enables such projects is fundamental to today's networked diasporas, according to Carlo Dade, of the Canadian Foundation for the Americas, a think-tank. "Migrants are now connected instantaneously, continuously, dynamically and intimately to their communities of origin...This is a fundamental and profound break from the past eras of migration." That break explains why diasporas, always marginalised in the flat-map world of national territories, find themselves in the thick of things as the world becomes networked.

Shrewd firms are taking notice. China's high-tech industry is dominated by returnees from abroad, such as Robin Li and Eric Xu, the founders of Baidu, China's leading search engine. Asked how many of his top people had worked or studied abroad, N. Chandrasekaran, the boss of Tata Consulting Services, a big Indian IT firm, replies: "All of them."