

# **The Global Chinese Diaspora - Creating Wealth, Contributing to National Development Abstract**

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Since China opened its economic doors in the late 1970s, overseas Chinese have played an essential role in connecting China's economy with the world. At the same time, ethnic Chinese have taken up important roles in helping to develop the various economies of the host countries where they are living. This paper is aimed at studying the key factors affecting the roles of the Chinese diaspora in creating wealth and their participation in driving the economies of their host countries and their homeland. The literature consists of the two schools of thought explaining the success factors of Chinese business people that are cultural (e.g. culture, ethnicity, and business networks) and structural school (e.g. Government role, and political patronage). The analysis reveals that even though these factors affect the success of the Chinese diaspora in creating wealth and helping to develop countries in the past, these factors have tended to change and reduce in their importance due to the change of economy and society within China itself and in the host countries. The suggestions for promoting roles of the Chinese diaspora in creating wealth and developing countries are provided.

## **1. Introduction**

The growth rate of the Chinese economy has ranked at a high level and steadily increased for a long time until China became the 2<sup>nd</sup> most powerful economic nation in the world. China is presently stepping forward to be equivalent to the USA in terms of political and military power.

Contributions to national development and creation of wealth of China have been monitored by academics. Studies and research have been extensively conducted about its key success factors. However, one factor that has been concentrated on is the role of the Chinese diaspora or overseas Chinese contributing to national development and creating wealth for mainland China.

The Chinese diaspora is probably one of the largest scattered populations amongst many countries around the world. As many as 70% of the Chinese diaspora live in the Southeast Asian region. The Chinese government has focused on this group by determining a policy to encourage the Chinese diaspora towards national economic development, particularly, appealing to overseas Chinese to invest and work in China.

This paper has 3 objectives: the first is to study the roles of Chinese diaspora in creating wealth and contributing to national development, the second is to study the affect of the roles of Chinese diaspora, and the final is to conduct suggestions for the developing roles of the global Chinese diaspora.

## **2. Roles of Chinese Diasporas in creating wealth and contributing to national development**

The Chinese diaspora has contributed to creating wealth and national development for both their host countries and for mainland China. Overseas Chinese have played a role in creating an economic connection between China and other nations that Chinese people have lived in as follows:

### ***2.1 Facilitating international trade and investment***

A network of kinship relations and language of Chinese diaspora contributes to making easier business across borders. Such network relationships have swiftly built reliability and flow of trade data within the network. In addition, knowledge of local culture contributes to trade cooperation among emerging economies that have weak commercial regulations. It could be considered that besides the global economic leaders, emerging

economies, which are important trading partners like the East Asia countries, have a large proportion of Chinese population such as Taiwanese, Malaysians, and Thais, etc (PRC General Administration of Customs, 2012).

In terms of international direct investment, China has become the investment target from around the world since opening up the nation into a capitalist system. The value of FDI during 2001 – 2011 in China has increased on average by 10.6% yearly and global investment by 8% (combining Hong Kong and Macau figures results in it having 14% of FDI around the world) or the 2<sup>nd</sup> highest ranking in the world below the USA (UNCTAD, 2012). It has been accepted that the Chinese diaspora contributes to direct investment into China (Henley et al., 1999; Sikorski and Menkhoff, 2000; Ng and Tuan, 2002). It was noticeable that most capital sources have been invested from countries that have large amounts of Chinese diaspora such as Singapore, Taiwan, and Hong Kong, etc. In addition, the study of Harvard Business School found that it was easier for American companies that hire people from the Chinese diaspora to establish and run their businesses in China (The Economist, 2011).

### ***2.2 Creating efficient business for competition***

In the past, most Chinese migrants around the world were laborers. Overseas Chinese laborers, especially those from the colonial era, contributed to economic and industrial development for the host countries that were lacking in a labor force (Lai, 2009). However, one apparent characteristic of ethnic Chinese is that of being entrepreneurs. The large numbers of poor and uneducated Chinese migrants were able to strongly form together and some have gone on to create large-sized businesses. Information for the world's business leaders confirmed that the top ten richest people in Thailand, Indonesia, Malaysia, and Singapore include 8 ethnic Chinese (Forbes, 2012a, 2012b, 2012c, and 2012d).

The Southeast Asian region is the obvious example of the economic role of overseas Chinese. The overseas Chinese are the minority of host countries but, they represent ownerships that have more total assets than the others group. In Malaysia, there is ethnic Chinese 26% of the total population but they have become owners in the stock market with total holdings of 39% more than any other group in the country (see Table 1). In 1998, there were only 1% ethnic Chinese out of the total population in the Philippines but up to 60% operating in private economy, the same as Indonesia that had only 3% of ethnic Chinese who controlled more than 70% of the Indonesian private economy (Chua, 2003).

**Table 1:** Ownership by Ethnic Groups and Sectors of Share Capital (par value) of Listed Companies, Malaysia, 1970 and 2004

Year	Malay	Chinese	Indians	Others	Nominee Companies	Foreigners	Total
1970	1.9	22.5	1.0	N.A.	N.A.	60.7	100
2004	18.9	39.0	1.2	0.4	8.0	32.5	100

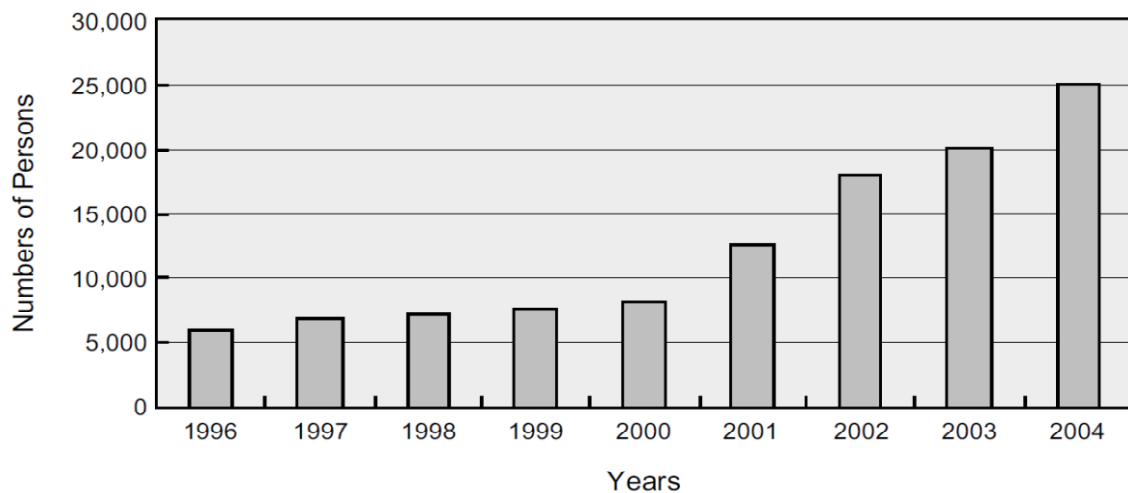
*Source:* Malaysia (1973) and Malaysia (2006)

### ***2.3 Supporting technology transfer from overseas***

There is an increasing number of Chinese people living overseas or having graduated from universities overseas who have returned to China since 2001 (see Figure 1). These people are equipped with knowledge, experience, and new contacts, particularly those Chinese who have worked in hi-tech industries producing new, high value-added products, or with new management techniques. They play essential roles in creating and developing high technology industries, as well as strengthening the competitive advantage of China (Chen and Liu 2003). Moreover, the education system of China is dominated by experts who graduated overseas, including 78% of presidents of universities, 62 % of PhD supervisors, and 84% and 75% of academicians at the Chinese Academy of Sciences and the Chinese Academy of Engineering respectively (Cai, 2009).

Many Chinese people overseas become well-educated scientists with high academic rankings. In 2007, there were 32,000 Chinese scientists in the United States or 22.5% of the total number of overseas students who achieved a doctorate degree. Besides these statistics, among 2,600 Chinese life scientists, 800 of them are professors at research universities throughout the United States (Cai, 2009). Even though these people will not come back or invest in China, they still serve their home country through the process of ‘brain circulation’ by transferring information or technology to China (Gaillard and Gaillard 1997). The samples found included occupations such as teaching, lecturing, and co-researching. Some Chinese people who work overseas, they offer their technology inventions to partners in China so as to get better benefits. They are generally disappointed with their employers in their host country to claim ownership right on their work (David et. al., 2008).

**Figure 1: Numbers of Returned Chinese Students (1996–2004)**



Sources: Ministry of Education of the PRC (2004)

### 3. Factors affecting the roles of Chinese Diaspora

There are at least two schools of thought to explain how Chinese businesspersons deal with their businesses. The school of thought regarding culture pays attention to culture, race, and business network, whereas the school of thought regarding structure focuses on roles of the government and importance of political patronage (Whah, 2008). This topic will analyze cultural and structural factors affecting the roles of Chinese Diaspora in creating wealth and contributing to national development and the changing tendency of those factors.

#### *3.1 Government policy about Chinese Diaspora*

China's government uses the policy of utilizing benefits from overseas Chinese Gamlen (2006). There are various actions to implement such a policy including creating feeling relationship between the overseas Chinese and the homeland such as establishing an institute to link the relationship with overseas Chinese (Overseas Chinese Affairs Office and All China's Federation of Returned Overseas Chinese), taking part in the activities of communities or organizations of the overseas Chinese, etc. Moreover, the policies promoting overseas Chinese to serve their homeland are created such as providing privileges for overseas Chinese, promoting FDI from overseas Chinese, and promoting overseas talented Chinese to return to their homeland (Chemouni, 2009). This policy is highly successful, especially in terms of drawing attention to FDI, as well as drawing attention of overseas talented Chinese to work in China.

However, China's government policies concerning Chinese Diaspora are going to change direction following the economic development of China. The tendency of policy changing can be found in at least three directions as follows.

The first tendency is policy change from focusing on PRC's citizens aboard extending to all overseas ethnic Chinese. During the 1980s, the policy of China's government concerning Chinese Diaspora focused on PRC's citizens living aboard. At present, China's government has expanded the policy to all overseas ethnic Chinese disregarding nationality, economic status, and immigration duration. The factors as to why China's government changes its policy to extend to all overseas ethnic Chinese could be due to the high number of this group scattered around the world. These people have knowledge about local markets and connections with business persons and politicians in their host countries. Another reason is due to the economic crisis in Europe that tends to become worse. Asia and emerging economies are becoming the main engines in driving world economy. So, it is necessary for China to seek new markets and reduce its dependence on the US and the EU markets.

China is also changing from being the investment receiver to being the investor due to many reasons such as 1) their large number of international reserves, 2) the appreciation of Chinese Yuan due to trade surplus, 3) the higher wages of laborers than that of new emerging economies, and 4) the necessity of seeking new sources of raw material and power overseas to maintain economic stability of the nation. Additionally, China can use more benefits from overseas Chinese who do not have Chinese nationality due to the unclear tendency of nation-state and flexible nationality.

The second tendency is policy change from seeking financial capital to seeking human capital. During the initial period of opening the country, China's government focused on promoting investment from overseas by using network of Chinese Diaspora to look for overseas investors. China wants to restructure its national development from labor-intensive economies to be knowledge based economies due to the increasing of its labour costs and the competition with new emerging economies that have lower labour costs. As a result, utilizing benefits from Chinese Diaspora's network tends to be seeking cultivated and skilled people to develop hi-tech industries for domestic and technological competition (Smart and Hsu, 2004).

For the third tendency, China's government has changed its policy from supporting overseas Chinese return to the nation to be encouraging them to serve the nation from abroad. The key factors which impact the changing policy directions consist of 1) the ICT development causing effective cross-country communication at low cost, 2) the promotion of the government to encourage state-owned enterprises and private sectors to invest in or expand businesses abroad, and 3) the requirement of China's government to develop the nation to be a knowledge based economy by adopting high technology from abroad as the model of the linkage between Taiwan's Hi-tech industries and Taiwanese in Silicon Valley (Smart and Hsu, 2004).

Looking at the policies implemented by the past governments in host countries, most policies were to prevent or form limitations for ethnic Chinese to work and scramble for local peoples' occupations. In other words, most policies provided privileges for local people rather than aliens. The outstanding example is from the new economic policy of Malaysia's government to give higher privileges for Malays or Bumiputra sons of the soil in terms of studying, working, etc when compared to foreigners. The purpose was to expand opportunities for local people to compete with ethnic Chinese and other foreigners. This policy resulted in success for Malaysian business persons and obstacles for Chinese Malaysian business persons. Even so, the former prime ministry of Malaysia accepted that the policy led to weakness for local people. Malaysian people had to count on the government (Yun, 2003), whereas the Chinese business persons tried to adjust themselves and strengthen their businesses. Another interesting example is reserving some occupations for Thais during the period of the Prime Ministry of Field Marshal Plaek Pibulsongkram (1942) to prevent foreigners, particularly Chinese from working in some careers (agriculture, handicrafts, haircutting, tricycle driving, construction, etc.). Ethnic Chinese had to find other occupations and they were finally successful in their businesses such as milling, trading, and banking (Wanlayanggul, 2009).

At the present time, the policy of preventing foreigners' working is being reduced. Most ethnic Chinese receive nationality in the country where they are living. Moreover, ethnic Chinese can mix their culture with local culture very well. Ethnic Chinese have influences on economy, society and politics of host countries. Meanwhile, governments of the host countries tend to promote roles of the ethnic Chinese to connect its economy with China. They want to draw investments from overseas to develop their domestic economies, agreeing to the policy of China to promote investments overseas. The countries in Southeast Asian region also tend to welcome foreigners who have specific skills within the agreement of free flow of workers in eight professions of ASEAN Economy Community.

### **3.2 Cultural proximity**

Cultural proximity is the key factor affecting the roles of Chinese Diaspora in linking Chinese economy to the host countries. For the linkage of internal trading and investment, it is widely known that the groups of investors who came to China during the initial period were from Hong Kong, Taiwan, and Singapore. Most of the people living in these countries are ethnic Chinese and they are familiar with language and culture (Johanson and Vahlne, 1977). At the same time, Chinese investors from the mainland select countries to invest in by considering the cultural proximity, especially in the countries where there is a high proportion of ethnic Chinese as in Southeast Asia (Poston et al., 1994). Buckley et al. (2007) studied the factors effecting Chinese outward direct investment (ODI) between 1984 and 2001 and found that cultural proximity of the countries that received investment (percentage of ethnic Chinese in total population) had a highly significant and positive effect on Chinese ODI.

However, the cultural proximity between Chinese on the mainland and overseas Chinese are not necessarily similar. To the contrary, there tends to be more differences. Most countries where ethnic Chinese live consistently prevent and persecute aliens. After the Vietnam War, Vietnam's government seized land from ethnic Chinese and pushed them to be "boat people" (Ma and Cartier, 2003). Similarly, Indonesian's government during the period of Suharto established a policy to limit civil rights of ethnic Chinese (Suryadinata, 2004). The situations forced ethnic Chinese to adjust themselves to match with the context of the country where they lived, causing cultural change and assimilation with local cultures.

Governments in some countries also have assimilation policies to create unity within their nation. For example, the Singapore government established new city plan and operated the project of new living places for Singaporean communities by integrating the diversity of races, cultures, and socio-economic status to create the national consciousness of people in the country (Yeh, 2012). Similarly, Thailand's government in the past had a policy of state convention to create national consciousness and unity of Thai people. People who live in Thailand had to be called "Thais" and needed to learn Thai language. The business success of ethnic Chinese in Thailand is associated with the high level of assimilation. The lineages of ethnic Chinese in Thailand mostly speak Thai (most of them cannot speak mandarin). Moreover, they have name and surname in Thai (Ma and Cartier, 2003). Likewise, Indonesia's government formerly prohibited the use of mandarin documents and limited rights of ethnic Chinese in the country. The ethnic Chinese had to adapt themselves to match with local culture. They had to use local language and have their names in local language.

In fact, ethnic Chinese who move to other countries do not use the same Chinese language. Chinese Diaspora in Southeast Asia use various dialects such as Fujian, Hakka, Teochew, Cantonese, and so on depending on their origin, age, and economic and social backgrounds. In the past, there were only small gaps of language (Wikipedia, 2012). Chinese Diaspora could use Chinese language to deal with their businesses and create social networks (Cohen, D., 2001; Tay, 1999). They also had low cost of language learning (Putnam, 2002). However, the differences between Chinese Diaspora and mainland Chinese tend to increasingly expand. Mainland Chinese generally use mandarin, but Chinese Diaspora in many countries use local languages. Even so, many countries still are concerned with learning Chinese language such as the mandarin speaking campaign in Singapore, complete

Chinese education system in Malaysia and mandarin teaching arrangement in schools in Cambodia.

### **3.3 Chinese business network**

Culture of Chinese business is one factor citing their accomplishments. It is a system of Chinese business relations called *guanxi*. It means running business through personal relationship network. An advantage of the *quanxi* system was derived from relational assets decreasing risks of investments and commerce, reducing transaction costs (Sung, 1996; Braeutigam, 2003; Erdener and Shapiro, 2005), creating business opportunities in overseas markets due to gaining information of investment opportunities and commercial cooperation for entering the markets (Zhan, 1995).

It was indicated in some literature that the *guanxi* system had benefits for Chinese companies and influenced a pattern of the Chinese ODI (Luo, 1997; Standifird and Marshall, 2000; Tong, 2003). Therefore, Chinese MNEs generally selected the investment destinations where they would receive benefits from relational assets in the form of race or family coherence together with people in the invested countries (Lecraw, 1977; Wells, 1983; Lau, 2003) and probably emerged as networking skills (Dunning, 2002; Erdener and Shapiro, 2005). The system of Chinese business relations is also the essential factor for operations of multinational enterprises in China and other nations such as Taiwan, Malaysia, Singapore, Indonesia, Thailand, etc, where overseas Chinese have played a major role in business.

However, some academicians argued that Chinese entrepreneurs do not have to do business by means of the *guanxi*. Although being of the same race probably facilitates Chinese entrepreneurs in different countries, the most significant factor is a person who supports them to obtain the highest profits no matter if such person is Chinese or not (Gomez and Hsiao, 2001). The *Guanxi* network is only one of the strategies used for transactions among ethnic Chinese entrepreneurs (Luo, 2000; Yang, 1994; Weidenbaum and Hughes, 1996; Kotkin, 1992). The sample supporting this argument is the transformation of Malaysian Chinese businesses from the intra-ethnic and family businesses to the inter-ethnic and various forms of business organizations. It was continual adjustments resulting from the government's policy which gave benefits for Malaysian lineage (Whah, 2008; Wu, 2003).

It was found that the pattern of Chinese business relations and Chinese Diaspora gradually changed to the western relationship. It was probably because linkage of China's economy into the global economy and overseas Chinese companies can increase transactions overseas. Businesses of overseas Chinese were descended to new Chinese generations who generally graduated from western universities which increasingly caused changing performances to the western style (Jansson and Ramström, 2005). In 1997, the crisis in East Asia and Southeast Asia caused westernization in this region. Therefore, many family businesses collapsed, were taken over, or changed owners. After the crisis, law system in these countries was gradually developed and reduced necessity of the *Guanxi* system.

### **3.4 Business-politics linkages**

The important factor impacting the role of Chinese Diaspora was political patronage for ethnic Chinese entrepreneurs. In the past, ethnic Chinese in some Southeast Asia countries received benefits from the government patronage. In Malaysia, prior to becoming England's colony for example, the population of ethnic Chinese was only a minority but they became more successful than local people because of patron-client relationships among the Malay royal family and some ethnic Chinese entrepreneurs. The state governor received income and investments from ethnic Chinese traders. Meanwhile, ethnic Chinese were granted exclusive power in some businesses such as tax collection instead of the government, selling opium, etc (Wu, 2003). Likewise Ethnic Chinese in Thailand had a relationship with the state governors, so they had power to dominate trading and tax farmers.

However, persons who had political power did not patronize businesses due to consideration of race relationships rather they did so because of reciprocity relationship. In emerging economies with weak governance, politicians or state authorities were happy to assist some businesses to receive privileges from the government's policy, being the

government's parties in mega projects, or to have monopoly power for some businesses. These conditions were conducted to exchange advantages (private, public or both) without kinship or race relationship.

The Chinese government also used reciprocity relationships with the private sector. As in the case of the Chinese government requesting of Goldman Sachs, the American company, a donation of 510 million CNY to Hainan Security which was encountering operational obstacles. The exchange was needed to continue to support and approve the establishment of joint venture business of financial consulting in China. Another case was the General Motors negotiated with the Chinese government to establish the automobile manufacturing plant in Shanghai. They offered the exchange of automobile industrial development in China so that China enabled to compete in the global markets and distributed special automobile lots by 35% of the first production phrase to the Chinese government (Watanasupachok, 2008).

Transactions along with the government patronage were a more difficult tendency. In 1997, after the crisis, the economies of East Asia and Southeast Asia were severely criticized as crony capitalism and the cause of crisis. Hence, the World Bank and IMF forced a change of the governance regulations of economic and financial systems in this region and called for governments and public sectors to have good governance. In addition, they opened free economy, particularly the AEC integration, to improve regulations of each country to be more in accordance with international standards. The governments' power in economy was decreased so business competition was more free and fair.

#### **4. Conclusion and Suggestion**

When analyzing the above information, it appears to be that the factors affecting the roles of Chinese Diaspora and success of their businesses both in the aspects of culture and structure have been decreasing or changing in their importance. International economic structures and relationships are going to be changed. China has changed from the role of investment receiver to be the investor overseas more and more. The cultural differences between Chinese in China and Chinese Diaspora are increasing. It is found that Chinese business network has a decreasing influence on the success of overseas Chinese' businesses. Business contacts depend on the benefits rather than the race relationship. Ethnic Chinese may not be different or have advantages over non-ethnic Chinese in terms of the opportunities available as a result of the economic growth of China as well as economy of East Asia and Southeast Asia.

To develop a relationship and cooperation with the Chinese Diaspora and Chinese people in China to reinforce creating wealth and contributing to national development, there should be several methods to practice. Other than arranging forums to share opinions and strengthen relationships between Chinese businesspeople, other activities should be arranged.

- Arranging interesting and specific forums for Chinese Diaspora classified into business sectors or occupations so that the relationships will be developed easier when the participants have a similar interest. Additionally, they should be arranged in local language so that the ethnic Chinese can also participate easier.
- There should be an activity for developing knowledge regarding developing businesses in China and businesses for the Chinese Diaspora. Business schools based on the Chinese style should be established.
- A curriculum, standards of teaching and the learning of Mandarin should be developed. There should be widespread use of a Chinese testing system similarly to TOFEL for English.
- Scholarships for exchanging Chinese students (similarly to AFS) should be promoted. Moreover, scholarships for studying in China should be increased as well as scholarships for Chinese to study in other countries.
- Chinese studies in other countries, as well as research about the Chinese Diaspora should be promoted.

In the era when East Asia and Southeast Asia become the main engines in driving world economy and China is expected to become the most powerful country of the world's economy, Chinese Diaspora will be an essential tool in creating the connection between Chinese economy and the host country where they are living.

However, the factors supporting the success of Chinese businesses and the roles of Chinese Diaspora in creating wealth is changing, particularly in terms of the similarity of culture, language, and business cooperation. The development of the relationship between the Chinese Diaspora by reducing differences and learning, as well as developing capability of Chinese Diaspora will be extremely necessary.

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