

How Immigrant Entrepreneurs Turbocharge U.S. Trade

While skilled immigrants make America smarter, richer and more influential, the process for obtaining a work visa is dismayingly slow, capricious and humiliating.

By ROBERT GUEST

I once asked the boss of Tata Consulting Services, a gigantic Indian IT firm, how many of his top executives had worked or studied abroad. He replied: "All of them."

The world's most talented people are exceptionally mobile. When they move to America, they make it smarter, and that's not just because they are smart. It is also because migration creates connections.

A couple of generations ago, immigrants might sail to America and never see their old friends again. Today, they can text their brothers, wire money to their business partners, and fly back home regularly.

So they form networks. Brainy Indians in Silicon Valley natter constantly with brainy Indians in Bangalore. Brainy Chinese and Peruvians do likewise. Diaspora networks speed the flow of ideas across borders. And this has far-reaching consequences.

It turbocharges trade. Immigrants often start companies that are multinational from day one. Consider the story of Mei Xu. She was born in China during the Cultural Revolution. Her childhood memories are of being locked in a small room while her parents were harangued by a Maoist mob for being "bourgeois."

Now she lives in suburban Maryland and runs an ocean-straddling business. It started when she spotted a gap in the American market for fancy candles. She designed them herself and persuaded her sister in China to set up a factory to make them. Now her firm, Pacific Trade International, grosses \$100 million a year.

Her success depends on having a foot in both countries. She understands American tastes. And she has contacts in China, without which she would struggle to get anything done.

Contacts are crucial in emerging markets, because the rule of law is typically weak. If you can't rely on the courts to enforce contracts, you need to know whom you can trust. William Kerr of Harvard Business School has shown that American firms that hire immigrants find it easier to do business with those immigrants' countries of origin.

This matters for the United States: Most of the growth in the global economy is in emerging markets. And the diaspora effect is very large. For example, an estimated 70% of the world's foreign direct investment in China passes through ethnic Chinese who live outside mainland China.

Migrant networks accelerate the spread of technology, too. Immigrant researchers in America constantly bounce ideas off their chums back home. As these ideas bounce back and forth, they evolve.

For example, three Indian-American engineers had the idea of adapting the cooling technology from a computer to cool a refrigerator. Through a personal introduction, their firm in Texas, Sheetak Inc., linked up with Godrej & Boyce, an appliance manufacturer in Mumbai. Together, they developed a fridge that costs only \$70.

Indian and Chinese consumers demand ultra-cheap products. Local engineers strain every brain cell to invent such "frugal" products, which are often an order of magnitude cheaper than their Western equivalents. We're talking about \$300 prefabricated houses and \$1,800 heart operations.

If America wants to tap the gusher of innovation that is starting to come out of emerging markets, it has to keep letting in immigrants from those places. Some will stay; others will eventually go home. Either way, they will keep ideas flowing through America. A study by the Kauffman Foundation found that two-thirds of Indian entrepreneurs who move back to India from America maintain at least monthly contact with their former colleagues in the U.S. Chinese returnees are nearly as chatty.

Immigrants also provide America with an army of unofficial diplomats, recruiters and deal-brokers. When they visit the countries where they were born, they may grumble about American foreign policy. But they also talk about their well-paid jobs, their amiable neighbors, and the vibrancy of American churches.

And immigrants often absorb and spread American ideals. The opening of the Indian economy in 1991 was partly inspired by the success of Indians living abroad. (During the closed era, a lawmaker cheekily asked Indira Gandhi: "Can the prime minister explain why Indians seem to thrive economically under every government in the world except her own?")

Today, students from China who come to America cannot help noticing that the air is cleaner, the people are richer, and the political system allows people to choose a new government without bloodshed.

Hundreds of thousands of foreign-educated Chinese, known as "sea turtles," have moved back to China in the past decade. They are the elite—bright enough to win scholarships or rich enough to pay American college fees. Many are now highly influential. They dominate the Chinese technology industry, Chinese universities and the think tanks that advise the government in Beijing. They are also steadily rising within the Communist Party.

Cheng Li of the Brookings Institution calculates that sea turtles were 6% of the Communist Party's central committee in 2002. When the next generation of leaders takes over in 2012, he expects, they will be 15%-17%. Few sea turtles return home loudly proclaiming the merits of democracy—that would be career suicide. But China's eventual transition to one-person, one-vote will surely come sooner, and more smoothly, because such a high proportion of the Chinese elite have seen firsthand how free societies work.

While skilled immigrants make America smarter, richer and more influential, the process for obtaining a work visa is dismayingly slow, capricious and humiliating. The political debate in the United States about immigration focuses almost entirely on keeping unskilled Mexicans out, which is odd, since they stopped coming in large numbers when the construction industry crashed in 2008.

Skilled migrants have choices. Canada, Australia and New Zealand welcome them. America, by contrast, lets them come to study and then throws them out when they graduate. New York City Mayor Michael Bloomberg calls this "national suicide." He is right. For America to shut out immigrants is like Saudi Arabia setting fire to its oil wells.

Mr. Guest is business editor at the Economist. His new book is "Borderless Economics: Chinese Sea Turtles, Indian Fridges and the New Fruits of Global Capitalism" (Palgrave Macmillan).

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