

Demography, Democracy, and Global Capitalism

“As a tool for spreading wealth, open borders make foreign aid look like a child’s lemonade stand,” writes Robert Guest, business editor of *The Economist*, in his latest book, *Borderless Economics: Chinese Sea Turtles, Indian Fridges, and the New Fruits of Global Capitalism*. In fact, affordable travel and easy communication have allowed immigrants around the world to create powerful new cross-border networks. Having traveled through dozens of countries and 44 American states himself, Guest offers an insider’s perspective on how these networks create wealth, spread ideas, and foster innovation. At a Cato Book Forum, he argued that America’s unique ability to attract and absorb migrants lets it tap into the energy of diaspora networks around the globe.

ROBERT GUEST: My book is about freedom of movement—about why the world is a better place when people are free to migrate from one place to another. If you want to understand why this is so important, the best place to start is somewhere where freedom of movement is not allowed.

North Korea is the kind of place where they usually don’t let anybody in or out. And if you shut out people, you shut out ideas. When I visited, I went to an exhibition of North Korean technology. They showed me the Kim Il-Sung computer—which, they assured me, was running on North Korean software, the best technology in the world. I was a little bit skeptical. So I reached out and hit the off switch on the computer, and hit it again to reboot it, and what flashed up on the screen? “Texas Instruments.”

North Korea is *17 times* poorer than South Korea—which was actually poorer a couple of generations ago—and it is among other things the country’s detachment—its isolation—that explains why people are now starving there.

Why does freedom of movement matter? When people move, they bring ideas and connections with them. Over recent decades, there has been a fundamental change in the nature of global migration. First, more people are moving. There are now 215 million first-generation migrants in the world. That’s an increase of 40 percent in the past two decades. It’s about 3 percent of the

world’s population. If migrants were a country, they would be the fifth largest one in the world—and probably the most innovative.

When people think of China, they think of a large nation in east Asia. But if you think of the Chinese *people* instead, a different picture emerges. There are 70 million Chinese people living outside of the mainland, which is more than there are French people living in France.

The other big change concerns communications. It used to be that, when migrants left their home country, they would arrive in America and lose contact with the place they came from. At the beginning of the century, a transatlantic telephone call cost more than a month’s wages, and cheap air travel hadn’t yet been invented. People lost touch. Now, as soon as the plane touches the tarmac, migrants can text their family members back home, or Skype them for free, or catch up on various social networking sites. Migrants these days stay intimately and constantly connected. So they create networks, and these networks have tremendous consequences for business, technology, and politics.

When you want to conduct business across borders—especially with the emerging world—it’s important to know people. In societies that lack the rule of law, for instance, it is important to know whom you can trust. The overseas Chinese understand Chinese business culture very well, which is why roughly 70 percent of the foreign direct

investment that flows into China flows through the Chinese diaspora.

Consider the case of Cheung Yan, a Chinese woman who came to America two decades ago and noticed two things about the country. She noticed that Americans throw away enormous amounts of waste paper—junk mail, old catalogues, unread editions of the Sunday *New York Times* and so on. She also noticed that a lot of ships come fully laden from China to America, but they go back half-empty because the products that America sends to China are often weightless. I’m talking about intellectual property, movies, IOUs from the government, and so on.

Ms. Cheung created a business from these observations. She began loading up all that wastepaper onto those empty ships to China. She had the contacts to help her set up a recycling factory there. She turned the paper into cardboard boxes. Other Chinese firms no doubt put televisions in those boxes and sent them back here. Ms. Cheung is now one of the richest people in China—all because her outsider’s perspective enabled her to see an opportunity that everyone else had missed.

Migrant networks have an enormous impact on technology as well. Vivek Wadhwa of Duke University found that although migrants are only an eighth of the U.S. population, they make up a quarter of the founders of high-tech start-ups. Now, part of that is selection bias. The kind of people who are prepared to leave the comforts of home and seek their fortune abroad are a dynamic, creative bunch. But it’s not just that. Living in exile—learning a new language, confronting novel situations, coping with unfamiliar problems—forces you to think outside the box.

Several studies have shown this. For example, William Maddux of INSEAD and Adam Galinsky of Northwestern University got together a group of MBA students and asked them to solve a creativity puzzle called

the Duncker candle problem. Each student was given a box of tacks, a candle and some matches. They were told to attach the candle to the wall and light it in such a way that it didn't drip wax on the floor. The solution is to empty out the tacks and pin the box to the wall, allowing it to act as a sconce for the candle. The interesting finding was that the students who had lived abroad were able to complete the task much more easily. Their experience enabled them, literally, to think outside the box.

Migration creates cross-border networks. That makes cross-border collaboration easier, and that in turn boosts innovation. Let me give you an example. Hundreds of millions of people in India currently don't have any form of identification. They can't prove they exist—which means they can't get credit, open bank accounts, or do business with strangers. The Indian government wanted to create a biometric database to solve this problem, but had no idea how to go about it. So they asked Nandan Nilekani, an Indian software billionaire, to help. He reached out to some of his brainy Indian friends in Silicon Valley. Soon they were furiously Skype-ing each other. Before long, a number of them hopped on a plane to Bangalore and got to work building the necessary system. Today, the Indian government is registering millions of people using the biometric database they created. Thanks to the power of collaboration, hundreds of millions of Indians may soon be able to prove who they are.

There are lots of examples of how diaspora networks influence politics. More than 500,000 Chinese people have studied or worked abroad and then gone home—one of the largest foreign-study movements ever. The Chinese government has been encouraging this because they want their citizens to learn skills such as engineering and medicine.

But, the thing is, the government wants to separate these technical skills from the bad ideas these individuals might pick up in a democracy—such as, for instance, democracy. And what they're finding is that these things are impossible to disentangle.

When people are exposed to democracies



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like the United States, they can't help but notice that the air is cleaner, the people are freer, and political disputes are not solved through civil war. And this huge cadre of edu-

cated elites are going back to China and assuming positions of influence. They run technology firms, think tanks, and universities. They are rising within the Communist Party itself.

In 2002 about 6 percent of the members of the Central Committee of the Communist Party were “sea turtles”—meaning they had studied or worked abroad and come back. In the next five years, that number more or less doubled to 11 percent—and Cheng Li of the Brookings Institution predicts that it will be somewhere between 15 and 17 percent in 2012, when the country is due for a big changeover in personnel at the top.

The state is very strong in China, but it is also brittle. There is widespread discontent, especially in rural areas. When a crisis comes, there will be pressure for reform. And it will then make a huge difference that so many of the elite have seen at first hand how an advanced democracy works. The sea turtles will eventually turn China democratic.

I'd like to end with a thought about demography. Europe is currently in the midst of a debt crisis because its citizens have stopped having enough babies. There won't be enough workers tomorrow to pay the pensions we were promised yesterday. Immigration could help. But our welfare states pay immigrants not to work.

America is completely different. You can't subsist on welfare here as an able-bodied young male. So immigrants work, which means they quickly learn how to rub along with native-born Americans. That, in part, is why the American model is so robust. And as the global population stabilizes, more and more of a country's economic strength will be determined by where people want to live, rather than how many people are born there. I think that a lot of people will choose to live here, if you let them. ■

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much too soon, instead of waiting for more information to surface. When private property, public administration, and the rule of law are not in sync, governments tend by excessive regulation to destroy economic production at the bottom and transfer wealth from the top, which cannot be sustained.

Modern societies are thus locked into this fatal contest between the soundness of their political institutions and the forces of technological innovation. At one time, I was confident that the forces of growth and prosperity could maintain the upper hand against the excesses of state power. But in watching the recent flailing of political actors, and the

subsequent drift of our economic system, I am no longer so sure. One hope is that my little book will offer some guidance on the sharp change of course that is necessary, both in the United States and elsewhere, to correct the encroachment of state power in areas that should be left to the voluntary choices of private individuals. ■