# Chapter Two

# FDI, Transnationalism and Diaspora Networks

As discussed in the first chapter we are living in the times of globalisation of capital. In the pursuit of strategies of accumulation and profitability, global capital is pushing through an increasingly 'borderless world' and emerging as the dominant global social-economic cultural power. There are in turn debates about the pros-cons, good and bad, durable and transient effects of globalisations of capital raging in the intellectual and political circles. But there is no denying the fact that globalisation of capital is indeed taking place the world over.

Free trade in goods and free flow of capital, especially of foreign direct investment (FDI) across the countries are the two key stones of the institutional economic order.[i] Investment decisions in a globalised economy can become an important factor in determining the direction an economy will take place in future. FDI provides financial resources for investment in the host country and thereby augment the domestic saving efforts. Contributions of the FDI in providing the much needed foreign exchange to bridge the balance to trade deficit can not be overlooked. For the developing countries in order to avoid the debt crisis, FDI is increasingly used as a source of external finance.

One of the most important and crucial contributions of FDI, lies in raising the technological standards, levels of efficiency and competitiveness of the host country. This is done through the process of spill over effects. Complementary assets like technology, management and organisational competence comes along with FDI and through spill over effects this is passed on to the domestic economy. Through the method of competition between the local firms and foreign owned enterprises, the former are forced to improve their technology and product quality. The foreign-owned enterprises also assists the local related and support firms to improve the quality of their products and ensure greater reliability of delivery which in turn makes it necessary to upgrade their technology.

Competition extends to the export sector too. FDI makes positive impact on host country's export competitiveness by raising the level of efficiency and standards of product quality. Through international linkages of Multinational Corporations (MNC's) FDI provides better access to foreign markets. It also contributes to exports directly if the investment has been made with the specific intention of sourcing parts and components from the host country to take advantage of low cost conditions like low wages.[1]

Demand side constraints on growth is faced by many countries with small domestic market. Enhanced export possibility contributes to the growth of these countries by increasing the exports vigorously and maintaining the tempo of economic growth.

**Theories of FDI**

There are many theories concerning FDI. All the theories emphasise the transactions cost of transferring technical and other knowledge and market imperfections.

According to the Hymer-Kindleberger theory[2] the foreign owned firm's decision to make investment in the host country is related to the compensating advantage. Only compensating advantage will allow it to compete on certain other conditions which needs to be fulfilled too.

- Exporting the product to the host country is not possible or unprofitable due to tariff or transport cost barriers.
- It is more profitable for the foreign owned firms to exploit the advantage itself than to license it to an indigenous producer because of the imperfections in the market for knowledge and firm to firm transfer costs of advantage.
- The advantage is internally transferable.

[1] Bishwanath Goldar and Etsuro Ishigami, Foreign Direct Investment in Asia. *Economic and Political Weekly*, May 29, 1999, p. M-50.
[2] Kindleberger, Charles P., *American Business Abroad* (New Haven, Yale University Press, 1969).

Another theory bases its postulates on the emergence of internationalisation of markets. Buckley and Casson's[3] theory is based on three simple postulates.

1) Firms maximise profits in a world of imperfect markets.
2) When markets in intermediate products are imperfect, there is an incentive to bypass them by creating internal markets within the firms.
3) Internationalisation of markets across national boundaries generates Multinational Enterprises (MNE's).

This theory shows that location strategy of a vertically integrated firm is determined mainly by the combinations of regional incentives to internalise, comparative advantage and barriers to trade; the firm will be a multinational if these factors make it optimal to locate different stages of production in different countries.

Kojima theory was developed in the first wave of Japanese FDI in the 1960's and 1970's. Important arguments of this theory is that Japanese type of FDI would upgrade the identical structures of both Japan and the host country or play the role of initiator and tutor in the industrialisation of less developed countries.[4] Thus the triple effect of the Japanese type FDI are investment, trade and industrial restructures with mutual benefit. In this way Kojima argued that there is an inherent difference between FDI originating in the West and Japan.

But the features of Japanese FDI on which Kojima built his theory have changed fundamentally since the 1980's. The new investing firms are more self-contained and it contributed little in terms of industrial restructuring/ upgradation of local supporting industries but at the same time it helped to increase the host countrie's exports considerably.

John H. Dunning's eclectic theory of international production shows that firms will invest abroad as long as the marginal rate of returns is greater than could

[3] Casson, Marc, C, '*Internalization theory and beyond*' in Peter J. Buckley (ed) New Directions in International Business: Research Priorities for the 1990's (Aldershot, Edward Elgar, 1992), pp. 4-27.
[4] Kojima, Kiyoshi, *Direct Foreign Investment: A Japanese Model of Multinational Business Operations* (London, Croom Helm, 1978), pp. 15-18.

be earned elsewhere.[5] According to this theory, a firm will make a direct investment if three of the following conditions are satisfied: (1) It possesses some ownership advantages vis-à-vis firms of other nationalities in serving particular markets (2) it is more beneficial for the firms to use the advantages itself than to sell or lease them to foreign firms (3) it is profitable for the enterprise to utilize there advantages in conjunction with atleast some factor inputs outside the home country.

Location specific or country specific advantages have an important bearing on FDI and an important determinant is the ability of the firm to generate ownership advantages which are best exploited by the firm in a foreign location rather than in domestic location. In this way eclectic theory is able to provide an explanation for differences in the industrial pattern of outward FDI in different industrial countries.

Although eclectic theory provides a comprehensive explanation for the decision of firms to invest abroad, the theory does not cover the competitive FDI induced by trade restrictions. When a country imposes restrictions on imports of a particular industrial product, there is inducement to multinational firms of the industry to invest in that country. If one or two firms invest, the others must also do so to counter competition and ensure their market share even if the returns to investment are low. Market entry may also be possible because of focussing of future growth and advantages arising out of being the first entrant.[6]

## Capital Movements in the 20th century

It will be interesting to see how capital movements as a factor of growth developed over the century, and the connection between spurt in FDI flows and the capital movements of the previous era.

[5] John H. Dunning , *Studies in International Investment* (London Allen and Unwin, 1970), pp. 59-90.

[6] Bishwanth Goldav and Etsuvo Jshigami, Foreign Direct Investments in Asia– *Economic and Political Weekly,* May 29, 1999.p.152

The half century prior to the World War I was a period uniquely favourable to the free movement of international capital. During this period there was no impedements to the international mobility of productive factor, and the world was sharply divided into capital exporting and capital importing countries, whose needs and opportunities ideally complemented each other. The institutional machinery through which international investments were arranged was more highly developed and better equipped.

After the World War I, the main change which occurred was the emergence of the US as the prime lender and the transformation of continental Europe from a substantial creditor into a substantial debtor. The character of foreign investments of the 1920's took the form of direct investment while another proportion went to finance, relief, reconstruction and stabilization programmes in Europe. Collapse of raw material and foot stuff prices in the twenties, not only reduced the ability of borrowing countries to service their debts but seriously undermined the stability of the International capital market as a whole. A climate of investment so radically different from that of pre war days, combined with substantial short term capital movements, powerfully contributed to the world economic collapse of 1931 and its aftermath.[7]

The Great Depression brought down the whole edifice of the international capital movement and formed a dividing line in the history of foreign investment. The gold standard and free convertibility were replaced by exchange controls, and free trade gave way to import restrictions and bilateral trading. Trade in goods fell and the flow of foreign investment was virtually halted; when it was resumed after the Second World War, its character was completely different. The effect was to destroy the marketability of portfolio capital, as lenders became suspicious of the credit standing of borrowers who in turn, were reluctant to borrow in case they could not service their debts. The war which followed had much the same effect on the foreign investments of the belligerents as did the World War I and the losses

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7 Dunning, n.5, pp. 60-61.

suffered by the leading creditor nations were much more devastating. Indeed in 1945, muthus of the two leading lenders of 1938 were out creditors.[8]

Expansion Since 1945

Since the war, there was a remarkable resurgence in the international capital movements and the volume has risen faster than the world trade.

**Table 2.1**

**Net Flow of Long Term Capital and Official Donations From Capital-Exporting Countries 1946-64**

| | **Private** | **Official** | | **Private and Official Together** | | |
|---|---|---|---|---|---|---|
| | **Total $ million** | **Per annum $ million** | **Total $ million** | **Per annum $ million** | **Total $ million** | **Per annum $ million** |
| 1946-50 | 9145. | 1829. | n.a | n.a | n.a | n.a |
| 1951-50 | 9675. | 1935. | 12,970. | 2594. | 22,695 | 4529 |
| 1956-55 | 14,760 | 3690. | 16,410. | 4104. | 31,176 | 7794 |
| 1960-59 | 6213. | 3106. | 11,174. | 5582. | 17,377 | 8689 |
| 1961-61 | 5310. | 1770. | 17,427. | 5809. | 22,737 | 7579 |
| 1946-64 | 45,103 | 2374. | n.a | n.a | n.a | n.a |
| 1951-64 | 35,958. | 2568. | 57,979. | 4141. | 93,935 | 6710 |

Source: John. H. Dunning, Studies in International Investment. p.70

As the table shows the trend of international capital movements moved steadily upwards until 1960, but after that fell back to its level in the mid 1950's. Nevertheless in the two years 1963 and 1964, the average annual flow amounted to

[8] Ibid. pp. 64-65

$ 7.6 billion an amount considerably greater, in real terms, than the corresponding average in the 1920's.

International capital transactions may involve three types of participants: lender, financial intermediaries and borrowers. Anyone, or all, of these may be (a) private individuals or business enterprises or (b) public bodies.

Upto 1914 both saver, and intermediaries in the international capital investment were almost entirely private persons or companies while the borrowers were either public bodies or private corporations. In the 1920's there were a number of bilateral government transactions and 1940's and 50's various public agencies both national and international become of dominating importance as lender and intermediaries.

Within a variety of lender/intermediary/borrower relationships, three broad groups may be distinguished differing from each other in kind, purpose and effect. They are (1) private direct and portfolio investment in which lender, intermediary and borrower are either business enterprises or individuals. (2) Bilateral intergovernment loans translated directly between lending and borrowing countries. (3) Private and official loans channelled through international financial agencies.

The growth of direct investment essentially represents the horizontal or vertical extension of business enterprise across national boundaries, motivated by purely commercial considerations. Private long terms capital investment has over the years a main source of investment across borders.

By 1960's the multinational companies had become a major force in the world economy. The majority of international investments are owned by a comparatively few firms and the great majority of multinational enterprises were of American or British origin, joined in by Europeans countries.

Modern economic conditions favour the growth of the multinational company. This has been accelerated by changing international demand and supply conditions. On the demand side as incomes expanded , communications improved, international tastes have become more and more standardized. On the supply side, development in capital intensive technology and the increasing cost of research and development programmes have reinforced the need for companies to seek new markets to spread costs economically.

The engines that are driving the globalisation process are the multinational corporations. The MNC is the most advanced form of the organisation of capital today.[9] This is in keeping with the very logic of capital itself. Any individual unit/organisation of capital has the power within it to grow, expand and become a multinational. The history of the MNC's also bears out the fact that an MNC can originate in any nation. For example among the most-dynamic multinational companies present today the Asian multinational companies have their pick of place. They are also present in the most advanced sectors of global production.

The reality of the multinational corporations has been, best described by Stephen Hymer[10] with reference to the 'The Communist Manifesto' substituting the word multinational corporation for bourgeois in the following quote from 'The Communist Manifesto' provides a more dynamic picture of the multinational corporation. "The need of a constantly expanding market for its product chases the multinational corporations over the whole surface of the globe. It must nestle everywhere, settle everywhere, establish connections everywhere. The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country. The multinational corporations by the rapid improvement of all instruments of production by the immensely facilitated means of communications, drawn all even the most barbarian, nations into civilisation. The cheap price of all its commodities are the heavy artillery with which it batters down all Chinese walls. It compels all nations, on pain of extinction, to adopt the bourgeois mode of production, it compels them to introduce what it calls civilisation into their midst i.e. to become bourgeois themselves. In a world, it creates a world after its own image.

The multinational corporation has subjected the country to the rule of its towns. It has created enormous cities, has greatly increased the urban population as compared to the rural and thus rescued a considerable part of the population from

9 V. Janardhan, 'Globalisation of Capital, Multinational Corporation and Labour: Towards a Perspective, *Economic and Political Weekly*, Aug 30, 1999 pp. 1-2.

10 Hymer, Stephen, 'Multinational Corporations and the Law of Uneven Development' in Hugo Radice (ed) *International and Modern Imperialism* (London, Penguin, 1975) p.39 .

the idiocy of rural life . The multinational corporation keeps more and more doing away with the scattered state of the population, of the means of production and of property. It has agglomerated population ,cartelised means of production and has concentrated property in a few hands. The necessary consequence of this was political centralisation. Independent, or but loosely connected provinces with separate interests, loss, system of taxation and government become lumped together in one nation ,with one government, one code of laws, one national class interest, one frontiers and one custom tariff."

**Global Trends in FDI**

One of the most striking aspect of the current trend of globalisation is the essential growth of foreign direct investment. Expanding magnitudes of FDI over the 1990's have prompted governments in both developed as well as developing countries alike to attract FDI with various incentives packages , to expedite the process of their development. Developing countries in particular, constrained as they are in expediting their development by the paucity of resources of all types – financial, capital, entrepreneurship, technological knowhow, efficient managerial techniques access to markets abroad have looked to FDI as a panacea for all their secretions.[11]

1980's witnessed a major spurt in FDI flows. From 1984 to 1989 the flow of net FDI worldwide rose at a rate of 29 percent per annum . The world trade pattern of FDI also underwent a change during this period in which FDI flows from Europe and Japan dominated rather than U.S. U.S. share came down from 41.1% in 1978-80 to 13.1% in 1987-90. Another important development with regard to the FDI flows in the 1980's were the emergence of the service sector as the single largest recipient of FDI. By 1988 the share of the services sector in FDI outflows from industrialised countries had gone up to 60%.[12]Another important characteristic of the FDI flows in 1980's was that 80 percent of the FDI flows were among the industrialised countries and it was more or less a north-north

[11] Nagesh Kumar, 'WTO regime, Host Country Policies and Global Patterns of MNE activity', *Economic and Political Weekly*, Jan 6, 2001, pp. 39-49.
[12] Bishwanath Golden Etsuro Ishigami, 'Foreign Direct Investment in China', *Economic and Political Weekly*, May 29, 1999, p.53.

phenomenon. Japan with its massive export surplus emerged as the major investor and US as a dominant recipient of FDI.

**FDI flows in 1990's**

1990's witnessed a slowdown in flow of FDI activity. Between 1990 and 1992, total outflow of FDI's declined from $230.6 bn to 186.9 bn . Although there was increase after that, it could not reach the 1980's level. One of the crucial development of the 1990's was the rising importance of developing countries as the recipients of FDI..

During 1981-85 the developing countries in south, southeast and East Asia received about a quarters of total FDI in flows to developing countries. In the next five years, 1986-90 the share of this region was much higher at about 53 percent. In recent years this region has being receiving over 60% of the total FDI inflows to developing countries. Among the south,it is the ASEAN countries and China in which FDI inflows have grown rapidly in recent years. Thus for ASEAN-4 (Indonesia Malaysia, Philippines and Thailand) the increase in FDI inflow has been from $16.3bn in 1990 to $ 17.1bn in 1996 and for China FDI flows increased from $ 3.5bn in 1990 to $35.8bn in 1995 and $ 42.3 bn in 1996.[13]

Increasing flows of FDI to developing countries is much more than the phenomenon of globalisation of capital. In the pursuit of strategies of accumulation and profitability, global capital is pushing through an increasingly 'borderless world' new ways of operation and production. Globalisation of capital, therefore, includes globalisation of production too. Globalisation of capital, which therefore means and includes globalisation of production shows promising tendencies of and towards creation of factory jobs the world over encompassing size, race, and skill especially in non-western societies. This is actually leading to large scale job losses in western societies, cheap labour being a major reason why companies relocate or set up this new production facilities in the second and third world. Thus from a humble beginning more than a century ago, many of today's largest global MNC's have evolved and developed into dense spider's webs and highly sophisticated networks of cross border operations. Their evolving corporate strategies and

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[13] World Investment Report-1997

organisational capabilities have enabled them to transcend national boundaries and establish themselves in every corner of the global economy.

**Transaction cost framework and business networks**

Modern economic theories of international production owe their intellectual origin to Hymer, who first emphasised the Oligopolithic behaviour of national firms in maintaining international operations. Hymer's most significant contribution was his explicit recognition that the theory of FDI belongs to the theory of industrial organisation than to the theory of international capital movements and international operation's is part of the theory of firm. Hymer later made the point that FDI has a dual nature: first as an instrument to transfer technology, capital and organisational skill from one country to another and second as an instrument to restrain competition between firms of different countries.[14]

Since the 1970's there have been two parallel developments in the market-efficiency theory of the firm- Transaction cost analysis and Internalisation theory. Transaction cost analysis explains the existence of firm in the domestic context and economics of minimising transaction cost becomes the raison d'etre for the existence of the firm vis-à-vis the market. Internalisation theory contends that MNC's basically functions as an internal market to overcome the costs involved in arm's length transaction in external market. The underpinning notion of internalisation theory is that the net benefit from internalising an intermediate product linking activities located in different countries is both a necessary and a sufficient condition for the existence of a MNC. The MNC becomes a 'device for reducing transaction costs by buying or by eroding complementary assets in different nations and integrating their operations within a single units of control.[15]

The transaction cost framework however has paid little attention to how domestic firms internationalise their production and investment. It also offers no explanation of where firm-specific advantages are exploited. In addition the transaction cost framework offers little understanding of the nature of intra and

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[14] Henry Wai-Chung Yeung, *Transnational Corporations and Business Networks: Hong Kong firms in the ASEAN Region* ( London,Routledge, 1998) pp 54-55.
[15] Buckley, Peter. J, *Studies in International Business* (London, Macmillan, 1992)pp. 62-63.

inter firm network relationship. By the 1990's, the emergence of flexible production processes in an era of post- Fordism had not obliterated the need for transnational operations. It is more reasonable to expect today's transnational landscape of production to be made up of a diverse range and form of organisations centred around the networks. But the 'network' form of organisation tends to focus narrowly on economic returns and on economic transaction costs. Despite the call to introduce social concepts such as culture, cooperation and trust into conventional economic analysis of the MNC, few attempts have been made to address the social dimensions of economic institutions. Instead of adapting an overtly economistic view of culture and social relations, it could be seen as a socially organised and collectively validated process in the study of MNC's and FDI.

**Embeddedness and the social organisation of networks**

Economic perspectives are inadequate to capture complex nation of modern organisations in terms of multidimensionality. The later 1970's and early 1980's witnessed a period in which interest in the new economic sociology as a response to the failure of neoclassical economics in explaining economic (social) action and rationality. The objective is to theorise the relationship between modern economic organisation and ongoing social relations. Zukin and Dimaggio note that the new economic sociology seeks to accept the fallibility and flexibility of human action; to view social causation on a contingent, path-dependent and except at microscopic levels, irreducible to simple models of high generality; and to value carefully designed empirical research over ingenious mathematical models based on untested assumptions.[16]

Forerunner to this thinking is Karl Polanyi who viewed economy an an outcome of social action rather than as a separate realm from social life. This notion of the social construction of the economy leads to an increasing concern with economic issues arising from everyday life.[17]

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[16] Karl Polanyi *The Great Transformation* (New York, Holf Rimhart, 1944).
[17] Zukin, Sharon and Di Maggio, Paul (eds), *Structures of Capital: The Social Organisation of the Economy* (Cambridge, CU Press, 1990) p. 2.

Embeddedness of economic (social) action is the conceptual underpinning of the new economic sociology. By embeddedness it is meant that 'the behaviour and institutions to be analysed are so constrained by ongoing social relations that to construe them as independent is a grievous misunderstanding.[18] Subsequently economic action becomes embedded in ongoing networks of personal relationships rather than being carried out by atomised actors. Many of the relations between business firms were non-contractual in nature, implying a substantial degree of trust and moral cohesiveness between business firms on social actors. Many times economic action is as embedded in ongoing social relations that market forces give way to social relations on a signal of economic (social action). To understand and explain economic action requires a proper appreciation of its social embeddedness. The new economic sociologists confined that economic institutions do not emerge automatically in response to economic needs. Rather they are constructed by individuals whose action is both facilitated and constrained by the structure and resources available in the social networks in which they are embedded. This conceptualisation of economic institutions as social constructions, represents a move from the concern with the social origins of economic actions (in the forms of economic institutions), manifested in modern complex organisations. Recent applications of the 'embeddedness approach' are also found in the study of industrial networks, development country firm formation and regional development.[19]

Concept of 'embeddedness' helps to revitalise network analysis by injecting social and historical dimensions into the production systems. By recognising the cultural and social embeddedness of the formation of network relations and economic transactions, the nature of production systems prevailing in different societies and locations can be understood.

A business network can be defined as an integrated and coordinated structure of ongoing economic and non-economic relations embedded within, among and outside business firms.[20] Actors in business works are motivated by

[18] Henry, Wai-Chung, n.14, pp 56-58.
[19] Mark Granovetter 'Economic Action and Social Structure: The Problem of Embeddedness' in MarkGranovetter and Richard Swedberg (eds) *The Sociology of Economic Life*, (Boulder, Western Press, 1992) pp 22-56.
[20] Henry Wai-Chung, n.14, p 65.

both economic goals (e.g. profit, market share, market control) and non-economic goals (e.g. power, sociability, approval, status, recognition, moral justification). No single universal logic can determine all concrete outcomes of a network relations because these outcomes are necessary contingent on time and space-specific contexts. This does not mean that economic (social) action is completely determined by networks of social relations. Rather economic relations should be envisaged as being embedded in networks that constrain and restrain pure economic forces.

In other words it is a nested structure with emergent power in an abstract sense: participants and agents in a network often benefit from the economies of synergy through which they can achieve what is impossible if they were to go it alone. These economies of synergy are manifest in information sharing, pooling of resources (capital, labour, and technology), mutual commitments, strategic commonality, personal favours and so on. Networks are also enduring structures embedded in social relations which last for a long time and are reproduced through mutual economic and non-economic benefits.

Business networks, like any other form of human networks, are essentially relational. Granovetter and Swedberg define networks as a regular set of contacts or similar social connections among individuals or groups.[21] Network relations are based on confidence, solidarity, trust mechanisms and trustworthy behaviour among actors. The existence of trust is also very important in a network of business relationships because trust is pivotal to the economy, and not merely to social relations. Trust can be defined as some sort of mutual undertaking through which interacting parties in a group are expected to avoid opportunism and to promote welfare among members of the group/networks. Trust promotes cooperative relations at all levels. It is not subject to economic cost and benefit analysis.[22]

In trust relations, there are strong ties and weak ties. The literature of trust-relations tends to emphasise strong ties in facilitating trust mechanisms. Strong ties are constituted by family relations, kinship and religious affiliations. But sometimes weak ties can be an effective as strong ties. Weak ties are particularly

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[21] Granovetter and Swedberg n.19, p. 9.

[22] Bart Nooteboom, 'Trust Opportunism and Governance: A Process and Control Model' *Organisation Studies*, vol.17 (6), 1998, p. 1010.

effective in business operations through appropriate institutions such as personal relationships, clan associations, chambers of commerce, informal identical group and so on. Weak ties of this sort can contribute as much to the formation of long lasting network relations under favourable atmosphere and trust mechanism.

In a world of perfect information and perfect competition, networks are irrelevant because all economic transactions can be accomplished through arm's length markets. But such a perfect world has never existed and never will. Networks are therefore a necessary form and process to overcome imperfections in the world economy

**Transnationalism Diaspora and Networks**

The development and maintenance by individuals of social networks that cross borders are much less known and understood.

'Transnationalism' is the process by which immigrants build social fields that link together their country of origin and their country of settlement.[23] Transnationalism is a conceptual framework that describes a "nexus of translocal phenomena born out of the contemporary conjuncture of migrations, dislocations cultural reformulation flexible accumulation and mobility of capital and labour associated with the 'hyper modernity" of late capitalism.[24]

The crucial element in this analysis in the centrality of diversity, integration and change and it is a powerful conceptual tool to unravel the entanglement within a 'unity of disunity'[25] by moving away from the conventional thinking in

[23] Glick Schiller, Nina Linda Basch and Cristina Blanc-Szanton, 'Translationalism: A New Analytic Framework for Unerstanding Migration' In Glick Scheller et al., (eds) *Towards a Trnasnational Perspective on Migration.* (New York, Academy of Science, 1992) p.1.

[24] Allan Pred and Michael John Watts, *Reworking Modernity: Capitalisms and Symbolic Discontent* Rutgers University Press, 1993 Quoted in Aihwa Ong and Donald Nonini (eds) *Ungrounded Empires: The Cultural Polices Chines Transnationslism* (New York, Routledge, 1997) p.3.

[25] This idea of modenity is from *Marshall Berman, All That is Solid Melts into Air: The Experience of Modenrity* (New York, Penguin, 1982) Quoted in Ong and Nonini, 1997) p.15.

dichotomy: us /them, Chinese/Western, here/there change/continuity' etc. Appadurai calls this 'global ethnoscapes'.[26]

'Immigrant' as an analytic appropriate term looses its significance because it evokes an image of permanent rupture which in reality is the immigrants develop networks, activities, patterns of living and ideologies' that span this home and the host society - social fields that cross national boundaries can be constructed and maintained without imigration through internet participation or tourism or through trnasnational investment. Transnationalism as a conceptual framework encompasses the economic dimension of transnational linkages.

Global process are made local by people-people such as entrepreneurs, tourists and computer mediated communication (CMC) users who establish sustained social relations across national boundaries. Localisation occurs when people become enmeshed together in the complixities of everyday life.

Understnading social life today, according to Appadurai, involves examining the production of locality'. Appadurai argues throughout his works that people strive to bridge various levels of disjunction (i.e. spatial separation and difference (ie, language or citizenship) by creating 'neighbourhoods' an essential element of social life.[27] In Appadurai's model locality is the property of social life (a cultural conception not a territorial marker of social groups), which 'neighbourhoods" are life worlds constituted by relatively stable associations by relatively known and shared histories[28] - in other words, the social forms that structure life in a community. Extending Anderson's model[29] of the nation state to the global world global, the national and the local are linked together in analytical framework. Appadurai concludes that there are "three factors that most directly

[26] Arjun Appadurai, "Global Ethnoscpes: Notes and Queries for a Transnational Anthropolgy" In R. Fox ed. *Recapturing Anthropology: Working in the present* (Santa Fe, NM: School of American Research, 1993) pp.191-210

[27] Arjun Appadurai, "The Production of Locality" in *Counter Works: Managing the Diversity of Knowledge* (ed) Richeard Fardon (London Routledge, 1995) p.204-225.

[28] Ibid., p.215.

[29] Benedict Anderson, "*Imagined Communities : Reflections on the Origin and Spread of Nationalism* (New York, Verso, 1983).

affect the production of locality in the world of the present - the nation state diasporic flows and electronic and virtual communities.[30]

Global communication networks such as Television and the internet, world trade investment opportunities, market networks, and labour migrations more fully integrate local communities into a global system of interdependence. Economic dimensions of transnational linkages through the diaspora's transnational investment in the age of post capitalism and post modernity has increased due to the widespread relocation of production and mobility of capital and labour between and within regions. In this process transnational investment, international migration, national economic' policies of the nation states are linked together.

Joel Kotkin has argued that a competitive World Economy, plays to the traditional strengths of certain diasporas, which he calls global tribes. According to him it was they, not nation states who would be privileged actors in the emerging, post cold war globalised world.

Process of globalisation has brought about major changes in the world economy. Enormous advances in cheap and rapid communication and personal mobility, the rapid growth in the flows of people, goods, money and deregulation, the relative loss of economic control by national governments and the increasing world wide interlinkages of industrial production and managing through FDI has been multiplying pressures of competition and uncertainty.

The pressures of competition and uncertainty raises questions about the ability of the huge bureaucratised corporations to organise the international economy and control the impact of global factors.

Huge bureaucratised corporations it may be argued, seek reliable conditions in which to produce for known mass markets and a predictable political and legal environment. Through FDI, they seek to increase this market presence.

Developments in micro electronic and in consumer demand in the last couple of decades have also created a less exclusively comfortable environment for the multinationals. The first has reduced the costs of the most advanced forms of

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30 Arjun Appadurai, *Modernity at large: Cultural Dimensions of Globalisation* (Minneapolis, University of Minnesota Press 1996) p.198.

production and made possible a combination of high tech and flexibility, thus shattering the unchangeable domination of bigness and of mass production. The second has seen a diversification of tastes and a proliferation of specialised markets. Neither of these are well served by bureaucratic formation or by minute division of labour and de skilled workers .[31]

Modern technology and deregulation have led to a global financial system, a single world market for money and credit as well as for stocks and futures. This internalisation of linking disorganised national finance capital (the bonding of banks and industry within a particular country). Both finance and industry have now become internationalised but into separate circuits and with different rhythms.[32]

Development of a fundamentally unpredictable worldwide capital market and the multiplying pressures of competition and uncertainty has led to a inability to control global forces. Lash and Urry refer to this situations as 'Disorganised capitalism' in which both governments and corporations have both lost the ability to organise the national economy or to control the impact of global factors.[33] It is the world in which the uncontrollable choices of individual actors can have unpredictable consequences. . But for the great corporations, planning and organisation is a perquisite. For the Fordist mass production predictability is a must.

Penetration of trade into domestic economies has increased competition and uncertainty. It has led to the break up of previous secure local mass markets and reduced the control of both states and large producers within each national economy. "Large corporations in the atmosphere of uncertainty, have become wary of and unsuited to situations of rapid change, competition, risk and uncertainty. The general malaise of big corporation has been manifest now for many years in a proliferation and succession of fashionable management nostrums and consultants

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31 Constance Lever Tracy, David Ip and Noel Tracy, *The Chinese Diaspora and Mainland China: An Emerging Economic Synergy* (London, Macmillan Press,1996) pp. 6-7.
32 Schwartz, Herman, M., '*States Versus Markets*', (New York, St. Martin's Press, 1994), p. 238.
33 Lash, Scott and Urry, John, '*The End of Organised Capitalism*', (Madison, University of Wisconsin Press, 1987), pp. 313-16.

recipes for their rejuvenation, stressing flexibility, devolution and team responsibility, net working, creativity, reskilling and so on".[34]

There is little dispute that the changes in the world economy and polity and in the dominant cultures in the last few decades have been tremendous. Pirenne and Schumpeter's view that capitalism is a discontinuous system in which new era calls forth a new body of men and women, quite different from their predecessors, and that organisation and entrepreneurship are antithetical is relevant here. It has to analysed if the globalisation process has disrupted and disorganised the multinational corporations and opened up opportunities for the new comers.

Within the developed countries it is clear that there are new opportunities for the new players. Small businesses, in decline and universally stereotyped as dependant, backward and low skilled until the 1970's began to increase in numbers again. Many of these has been innovative and successful self starters. They use the latest of technology and are developing/designing for the newest niche markets. 'Silicon valley' and 'Third Italy' has become synonymous with innovation and development of latest technology for the world market.[35] Few, however, realised the potential of these small firms as actual or potential actors on the global stage or as nearest rivals to the International operations of multinationals.

## Diaspora Capitalism

Joel Kotkin designates five groups as dominant 'global tribes' the Jews, British, Japanese, Chinese and Indians. Each is possessed of three defining characteristics (1) a strong sense of ethnic identity and a sense of mutual dependence and unity (2) a global network based on 'mutual trust' enabling it to function beyond national and regional borders and (3) as openness to and passion for technical and other knowledge.[36]

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[34] Lever Tracy et.al, n.31, p. 7.

[35] Michael Best, *'The New Competition: Institution of Industrial Restructuring'* (Cambridge, Polity Press, 1990).p.53

[36] Joel Kotkin, *Tribes: How Race, Religion and Identity determine success in the new global Economy (* New York, Random House, 1993) pp 4-5.

William Safran[37] has tested four criteria's for the diaspora's (1) Dispersed from original centre to attract two 'peripheral' places. (2) Maintain a memory, vision or myth about them original homeland (3) believe they are not-and perhaps cannot be fully accepted by their host country (4) see the ancestral land as a place of eventual return, when the time is right.

Among the five tribes mentioned by Kotkin Chinese and Indians are our subject of study. Both are different in their own way but share the characteristic features specified by Kotkin and criteria outlined by William Safran.

Both Chinese and Indians pocessed strong sense of ethnic identity and a sense of mutual dependence and unity. Both Chinese and Indians have a global network based on mutual trust enabling it to function beyond national and regional borders. Their economic action was embedded in ongoing networks of personal relationships based on trust. Both Chinese and Indians have a passion for technical knowledge and this can been seen by number of people working in the high technology areas and studying in the best university of the west.

Globalising opportunities provided the means for the diaspora to realise the implications of the criteria mentioned by Safran – they believe that they are not and perhaps cannot be fully accepted by their host country and forseeing the ancestral land as a place of eventual return, when the time is right.

The new world situation offer novel opportunities for the diaspora. One of the distinguishing features of the diaspora has been that they have been playing the role of the 'middlemen minority'.[38] In contrast to most ethnic minorities, they occupy an intermediate rather than low status position. They tend to concentrate in certain occupations notably trade and commerce but also other 'middlemen' lives such as agent, labor contractor, rent collector, money lender and broker. They play the role of middlemen between producer and consumer, employer and employee, owner and renter, elite and masses etc.

The literature is not unanimous on the canvas of this form. Two prominent themes occur. The first sees the source of the pattern in the hostile reaction of the

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[37] William, Safran, Diaspora's in Modern Societies: Myths of Homeland and Returns" *Diaspora* 1 (Spring, 1991)pp 83-99.

[38] Blalack, Hubert M. Jr., '*Towards a Theory of Minority Group Relations*' (New York, John Cooley, 1967), pp 79-84.

surrounding society to the cultural and racial distinctiveness of these groups. They are pushed out of desirable occupations and forced to make living in marginal lines. That they manage to escape the lowest rungs of the economic orders and sometimes acquire considerable wealth is explained by this response to discrimination: a closing of ranks, the formation of solidarity community with considerable pride in group membership, and a special exertion to overcome handicaps. A second theme stresses the nature of the societies in which middleman groups are found. They are characterised by a 'status gap' or marked division between cities and masses. Examples include feudal societies with a gap between preparatory and landed aristocracy or colonial societies with a gap between representatives of the empirical power and the natives.[39]

Sojourney is the first stage of the diasporic journey: they begin as sojourners in the territories to which they move. Sojourney is not a sufficient condition of the middlemen form in that there are sojourners who do not become middlemen; but it is a necessary one, with important economic and social consequences directly related to the pattern. The Economic effects involved a tendency towards thrift and a concentration in certain occupation. Thrift is the product of a willingness to suffer short term deprivation to hasten the long term objective of returning to the homeland. It is shown in excessively long hours of work, an emphasis on serving (often sending part of their savings to the homeland) and a very little time or money spent on consumption. Sojourners are there to make money, not spend it and this 'future time orientation' enables them to accumulate capital.[40]

Sojourners in course of time develops a more stable pattern of living. They form small family firms and development of guild time structures. They typically evince the following tracts: a resistance to out-marriage, residential self-segmentation, the establishment of language and cultural schools for their children, the maintenance of distinctive cultural traits and a tendency to avoid involvement in local politics except in affairs that directly affect this group. They form highly organised communities which resist assimilation communal solidarity nays an

[39] Edna Bonacich, 'A theory of Middleman Minorities', *American Sociological Review*, 1 vol. 38, Oct, 1973. p. 583.
[40] Ibid, p. 585.

important role in economic position solidarity is interjected into economic affairs in two ways: it plays a part in the efficient distribution of resources and helps to control internal competition. Resources distributed within the ethnic community include capital, credit and easier terms to purchases, information and training and jobs and labour.

The law of "combined and uneven development" suggest that any contender for capitalist power status would have to begin its industrialisation using the same level of technology as the existing powers with which it wished to complete. Capitalism is increasingly globalised and its main players are multinational corporations. In this situation any would be competitor must start at the same global level and be able to start operating tranationally very quickly.

Diaspora capitalist, start with a transactional network and therefore have overcome obstacles to transnational operations before they start, and cannot be frozen out of global marketing channels by existing powerful corporations. They are used to insecurity and operating in unfamiliar environments, relying on family management of transnationally networked small and medium firms on personal trust and reputation and on strategies of flexible diversification, rather than on bureaucratic structures, law and states support or on the advantages of scale and mass production. Many of the disorienting experiences of globalisation have long been familiar to the culture of diasporas. In its modern form however globalisation provides them with new resources for overcoming them.[41]

Economic reforms in both China and India provided opportunities for the diaspora to expand their activities and show their capability in handling foreign capital. Its home grown experience are put to test in third world region, of a developing country. How the state facilitated their development in both the countries in the main objective of the study.

In the case of Chinese diaspora and the Indian diaspora, the economic role played by them has been different. This is because of the nature often respective business cultures and their relationship to the state.

The Chinese living outside mainland China have been important minority traders around South China Sea since the 12th century. Their role can be compared

[41] Constance Lever tracy, n. 31, p.11.

to the Phoenicians in antiquity or the Jews and Lombard's in Europe in the middle ages or the Greeks and Indians in colonial and post colonial Africa. During the 19th and 20th century they played the role of intermediaries and subcontractors for Colonial powers like the British and later for Japanese in East and Southeast Asia. But since 1970, they emerged as economic players in their right. During the last quarter of the century they contributed to the capitalist development in their host country and growing prosperity of the region.

Nonethless, relationship between the migrant Chinese and the indigenous population in Southeast Asia was a complex one. An important phenomenon accompanying the waves of migration from China was the formation of mutual help societies in each place of settlement (see Table 2.2) They were based either on the kinship (clan), place of origin in China, dialect or sub-dialect, craft, or a combination of these factors. Mutual help societies assisted the new arrivals to settle and lent money to members for specific purposes. In this way the Chinese diaspora were able to create a cohesive web of interlocking organisations and relationships that provided a firm and stable framework within which traditional societies could be recreated, maintained and developed. Thus individual members could prosper far from home

**Table 2.2**

**Mutual Help Societies**

| **Type** | **Organising Principle** | **Example** |
|---|---|---|
| 1.Class Associations | Kinship by Surname | Lee Class Association |
| 2.Locality Association | Locality | Jee Yap Association |
| 3.Dialect Association | Dialect or sub-dialect | Hokkien Association |
| 4.Guilds | Crafts | Goldsmith Association |

Source: Ch'ing D, *The Overseas Chinese Entrepreneurs in East Asia : Background, Business Practices and International Networks*, CEDA Monograph M 100, 1993. p.39

The Diaspora responded to the circumstances around them by constructing strong and durable commercial institutions and cultures, which enabled them to raise credit, gather information and enter into agreements. They formed a multiplicity of associations based on kinship, shared surname, place of origin, dialect etc and carried on their business through long term particularistic networks on the basis of personal trust. This was guaranteed by the indispensability of reputations within their communities and ostracism of those who forfeited it. One of the most important distinguishing factors of the Chinese diaspora historically is that the Chinese State played a limited, if at all any role. In countries where the Chinese formed minority communities such as Indonesia, Thailand etc, they faced native states that offered support in limited, discontinuous and unreliable ways and at times were actively hostile. Subsequently they continued with business activities without depending on the state or the legal systems and functioned as self-regulating entities.[42]

Opening up the Chinese economy to foreign capital placed them in an advantageous situation both in terms of their identity as business players and fulfilling William Safran's definition of the identity of Diaspora. The Chinese Diaspora always had a memory and vision about the original homeland i.e. China because of the cultural moorings. Their return to China in terms of setting up business was means by which host countries unjustified fear that Chinese are usurping their economic position is removed too. Most important factor of all was the last of Safran's criteria. The timing was thought to be right by the diaspora because of the opportunities available in the mainland. Chinese diaspora business are loosely interlined family firms, often of small and medium size, scattered through out the region and the world owned by people with diverse national loyalties but also with elements of common history, culture and identity. Their network of particularistic ties known as guanxi with people outside the family for business transactions was used to expand the business in the mainland.

[42] Constance Lever Tracy, n.31, pp.21-22

Since Chinese diaspora is vast and varied, Singapore with more than 70% of the population consisting of ethnic Chinese has been for a case study of China. This will show how the diaspora Chinese have been successful in networking and establishing the business in mainland. It will also show the role played by the Chinese state in promoting the policies with regard to the diaspora.

Indian diaspora can be seen from the three sequential phases –the ancient and medieval phase when contracts were established with northwest, northern Africa and Southeast Asia. Second period belongs to the 19$^{th}$ century immigration during the colonial period. The third phase is immigration in the present century to industrially developed countries and oil rich countries.

The perspective in which Indian diaspora will be looked into will be their contribution in the wake of liberalisation and structural changes in the Indian economy ushered in since 1991. It has been pointed out that, compared to the Chinese diaspora, the Indian diaspora are far behind in their investment in India.As mentioned earlierthis study will look at the Indians settled in the USA. They have been noticed for their entrepreneurship and it is of them that Kotkin has compared with Chinese, the Japanese and the Jews in the US. Indians, especially in high technology areas like Silicon Valley play an important role in ushering in information technology innovations all around the world. In the 1990's with Indian economy opening up and globalisation opportunities in information technology sector being an attractive incentive, there is a considerable interest among the Indian diaspora to contribute to their land of birth in terms of technological and monetary units. In lot of ways the situation is similar to the Chinese. The focus of the study will be the relationship between the state and the Indian diaspora in the united states and the policies undertaken by the Indian state to facilitate the investment of the diaspora.

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[i] Nirmal Kumar Chandra, 'FDI and Domestic Economy – Neoliberalism in China' *Economic and Political Weekly*,(Bombay) November 6, 1999, p. 319.