



# DIASPORA TO TRANSNATIONAL NETWORKS: THE CASE OF CHINESE DIASPORA IN THE MAINLAND CHINA

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## Abstract

*Out of the many views on globalization, the one that focuses on the network approach is different in scope. This approach focuses on the social embeddedness of the profit oriented business world rather than giving Multinational Corporations the central role in the globalization process. Changes in the world economy have brought in new players in the competitive market place and one of the players is the Diaspora investors. The Diaspora investors unlike the traditional business players use network relations to survive and succeed in the dynamic global economy. An excellent example for this is the case of Chinese Diaspora. They were able to carve a niche for themselves in the mainland China when the economy opened up. By using network relations and making connections horizontally across the vertical walls of a segmented society they were able to promote transnational linkages. This article focuses on the utilization Guanxi as a cultural strategy for securing social resources towards goal attainment.*

The World economy has experienced a progressive international economic integration since 1950. However, there has been a marked acceleration in this process during the last quarter of the twentieth century. The emergence of globalization

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is one of the most important developments of this period and its manifestations in the form of increased international trade, international investment and international finance could be considered as harbinger of a new era of international integration. With its overriding reach cutting across barriers of regions, states, and stages of development, it has been defined as "the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away."<sup>1</sup>

There are many contributions to the debate on Globalization. One of the contributions to the literature is the one that analyses the interplay between the various scales of economic activity, from the local to global.<sup>2</sup> These theorists recognize that the process of globalization as constituted by the complex relationship between multiple, different local systems - that we are in an era of glocalization, rather than globalization. The key challenge for this perspective is to understand how producers cope with the interface between local and the global, or the governance mechanism in this process. Some writers take the multinational corporation as the core economic actor in a global hierarchical flat system<sup>3</sup> while few others view global system as a network of regional world.<sup>4</sup> Focus of the network approach is social embeddedness of the profit oriented business world rather than giving the Multinational Corporation the central role in the globalization process. Within this network governed economy, social ties between communities in the interacting regions are a central concern. Scholars adopting this network approach to globalization have focused on the role of ethnic ties, to explain the accelerated growth of cross border economic transactions.<sup>5</sup> This view looks at social networks not as a social economic rationality, but sees it as the basis for the emergence of economic transnationalism. In contrast to theories of the product life cycle or new International division of labour, which focus on the multinational corporation, this view looks at Globalization as: "a network of interdependence at worldwide distance."<sup>6</sup>

## Globalization and Changes in World Economy

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 worldwide inter-linkages of industrial production and managing through FDI has been multiplying pressures of competition and uncertainty.

The pressure of competition and uncertainty raises questions about the ability of the huge bureaucratized corporations to organise the international economy and control

the impact of global factors. Huge bureaucratized 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 electronics and changes 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 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 is well served by bureaucratic formation or by minute division of labour and deskilled workers.<sup>7</sup>

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.<sup>8</sup>

Development of a fundamentally unpredictable worldwide capital market and the multiplying pressure of competition and uncertainty has led to an inability to control global forces. Lash and Urry refer to these 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.<sup>9</sup> 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 Faddist 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 recipes for their rejuvenation, stressing flexibility, devolution and team responsibility, networking, creativity, reskilling and so on."<sup>10</sup>

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 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 have 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' have become synonymous with innovation and development of latest technology for the world market.<sup>11</sup> 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.

## Embeddedness and the Social Organisation of Networks

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 on the networks.

The relationship between modern economic organisation and ongoing social relations needs to be analysed in order to theorise on networks. Forerunner to this thinking is Karl Polanyi<sup>12</sup> who viewed economy as 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.<sup>13</sup>

Embeddedness of economic (social) action is the conceptual underpinning of this theoretical idea. 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'.<sup>14</sup> 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 as 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. This means 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.<sup>15</sup>

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.<sup>16</sup> Actors in business networks are motivated by 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 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, and 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.<sup>17</sup> 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.<sup>18</sup>

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 as effective as strong ties. Weak ties are particularly 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.

## Migration, Diaspora and the World Economy

In a globalizing world, migrations are a significant force of historical change. Large-scale migration of Asians, Africans and Europeans were central in fashioning the world of the nineteenth century, its worldwide empires and the establishment of global economic and political dominance by people of European origin. Twentieth century migrations have been just as important, particularly in the creation of a post-colonial world order.

Anyone looking at large scale migrations will ask the question 'why'? Often the causes of migrations are discussed in existing literature in terms of "push" and "pull" factors. Both objective and subjective factors contribute in terms of what people are experiencing, how they understand and interpret those experiences and how they perceive opportunities and possibilities away from home. Clearly economic and demographic factors were significant opportunities thought or known to be available abroad, or elsewhere in the state, as opposed to those within a locality, which were seen as limited, stagnant or declining, have influenced the movement of the people. More often it is the perceived opportunities abroad which persuade people to leave home, for individual and familial advancement in a new era, often combined with the hope of sending back remittances to enrich the extended family and possibly to provide for the individual's comfort during his old age in his home village.

Migrations have led to the establishment of Diasporic Communities worldwide. Diaspora can be defined in different ways. It can be described as a minority ethnic group of migrant origin which maintains strong and sentimental ties with land of its origin.<sup>19</sup> Often this term is used to describe any population that is considered de-territorialized or transnational - that is which has originated in a land other than that in which it currently resides, and where social, economic and political networks cross borders of nation states and indeed span the globe. They are emerging as significant - players in the construction of national narratives, regional alliances and global political economies.<sup>20</sup>

In a globalizing world, the assessment of the diaspora goes beyond the historical and cultural ties and extends itself to the wider economic role. This becomes significant because of the success achieved by them in various occupations and the importance they have for the domestic economy of their countries of residence/origin and the international economy. In an increasingly competitive and interdependent global economy, the importance of maintaining competitive advantages through efficient organizational and operational strategies can hardly be over - emphasized. One significant economic activity or strategy that is increasingly adopted is to engage in investments across national boundaries. Diasporas have become important because of their success in surviving in different environments and their ability to cross borders to productively contribute to their roots. Thus globalizing opportunities provides the incentive and modern communication provides the means to re-establish contact for the diaspora.

Diaspora represents an important new source and force in International finance and commerce. They can be analyzed on the basis of their combinations of ethnic identity, geographical dispersion (with a global network) and open mindedness (with a belief in scientific progress). In other words they combine what liberals believed intrinsically separate - ethnic identity and cosmopolitan identity. The members of the diaspora constructs the technological and financial bridges between distant economies and their ethnic ties render the utilization and coordination of resources among firms of the cross border regions, and thus increasing competitiveness<sup>21</sup>

Joel Kotkin calls them (Jewish, Indian and Chinese Diaspora) as global tribes and predicts that in the new era with the opportunities provide by globalization and reduced power of the nation states such cosmopolitan groups will flourish.<sup>22</sup>

The economic achievements of certain diasporic groups are seen to result from the mutual policy of resources transfer of credit, investment of capital, and provision of services among family, extended kin and co-ethnic members. In all their domains in the contemporary period in which transport and communications has become

easier and faster diaspora as a social form is characterized by a triadic relationship<sup>23</sup> among (a) Globally dispersed yet collectively self contained ethnic groups, (b) the territorial states as contexts where such groups reside and (c) the homeland states and contexts from where they and their ancestors came.

The role of Diasporas can also extend itself to even production and reproduction of transnational social and cultural phenomenon. Glick Schiller et al.<sup>24</sup> point to the logic of associating both material items and persons. "The constant and various flow of such goods and activities have embedded within them relationship between people. Their social relations take on meaning within the flow and fabric of daily life, as linkages are reconstituted in the context of families, of institutions, of economic investments, business and finance and of political structures including nation states."

### **Chinese Diaspora**

Diasporas has contributed immeasurably to the development of the mother country's development in many ways. This ranges from post war reconstruction efforts of the Jewish, Italian and Lebanese Diasporas, to the impressive flow of funds by the diaspora which went into China when the economy opened up in the late 1970's.

The new world situation offer novel opportunities for the diaspora. Diasporas like the Chinese 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.<sup>25</sup>

Chinese diaspora business are loosely interlined family firms, often of small and medium size, scattered throughout the region and the world owned by people with diverse national loyalties but also with elements of common history, culture and identity.

One of the distinguishing features of the Chinese diaspora was that they have been playing the role of the 'middlemen minority'.<sup>26</sup> 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, labour 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 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.<sup>27</sup>

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 saving (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.<sup>28</sup>

Sojourners in course of time develop a more stable pattern of living. They form small family firms and development of guild time structures. They typically evince the following traits: 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 plays an 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 compete. Capitalism is increasingly globalized 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 transnationally very quickly.

Diaspora like the Chinese, 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.<sup>29</sup>

The Chinese living outside mainland China has been important minority traders around South China Sea since the 12th century. Their role can be compared to the Phoenicians in antiquity or the Jews and Lombards 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.

Nonetheless, 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). 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 1. Mutual Help Societies**

Type	Organising Principle	Example
1. Class Association	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.<sup>30</sup>

## Open Door Policy and Chinese Diaspora

The Chinese 'open door policy' and its encouragement of FDI provided diaspora with new opportunities in utilizing the business system to their advantage. They developed two network relationships: (1) Extra-firm relations with the local party officials and bureaucracy and (2) inter-firm relations with business partners through intricate shareholding arrangement and with personal friends through joint ventures.

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 a means by which host countries unjustified fear that Chinese are usurping their economic position is removed too.

Diaspora also concentrated their investment away from older, more established industrial areas. Most of these investments are in smaller cities, townships and villages where official dealings for the most part are with the lower levels of government. The diaspora make small initial investments, at the level of local decision making. The result is that some of the regulatory intervention and central and provincial government scrutiny that larger investments attract is avoided.<sup>31</sup>

## Business Networks and Diaspora

A business network is generally understood as an integrated and co-ordinate set of ongoing economic and non-economic relations embedded within, among and outside business firms. A network is however more than just an integrated structure, because it is simultaneously a structure and process. Networks are enduring structures

emerging from social relations and hence networks represent the sum of all social relations.<sup>32</sup>

The overseas Chinese capital networks are a predominant mode of business organization in Asia. This form of social and business organization of transnational production has spearheaded a rapid diffusion of economic activities and interregional FDI flows among various countries. Kao points out that "cross border investments alone are responsible for turning the de facto network of loose family relationships into today's Chinese commonwealth."<sup>33</sup>

However transnational operations of business firms do not occur in a time-space vacuum. Rather, they are embedded in specific historical and geographical contexts, within which the social organization of capital and institutional regulations are important. Despite the reduction in the range of activities undertaken by nation states in the era of globalization, states have generally, though arguably, maintained political sovereignty, to varying extents. Government policies towards inward foreign investment, both promotional and restrictive, serve as the 'visible hand' reinstating national economic sovereignty and reshaping the geography of transnational operations.

### **Guanxi and Network Building**

According to Karl Polanyi, through most of human history, the dominant form of exchange had involved relationships of "reciprocity", with markets embedded in these or acting at the margins between them, and state redistributive systems superimposed upon them. "Reciprocity" described a broad range of long-term particularistic relationships and mutual obligations between individuals and groups, in which goods and services, status, power and affections were transferred back and forth in structured ways over a prolonged period.

*Guanxi* - (ties of family, kinship or friendship) is a Chinese concept and practice. The use of personal connections and ties for utilitarian ends clearly includes the essential element of Karl Polanyi idea of reciprocity. It became a powerful force penetrating and reshaping the operations of both the plan and market in China. *Guanxi* as concept and practice include a broad range of personalized, continuing reciprocity, combining instrumentalism and personal feelings. It operates within the constraints of bureaucracy and market relations. It involves both personally selective favours between those of unequal power, patron and client employees and employee and mutual aid and relational contracting between equals.<sup>34</sup>

Even before the reforms, *Guanxi* was used to make connections horizontally across the vertical walls of a segmented society. Classmates, relatives, ex fellow members of an army unit or a political faction used their past associations to get information or resources. Such networks were built into the regular functioning of organisations and the bargaining relations in which they were constantly involved. As market relations were encouraged, horizontal linkages were established between the officials and the entrepreneurs. It became a powerful force permeating and reshaping the operations of both the plan and the market in China.

To know and practise *Guanxi* is part of the learned behaviour of being Chinese. Chinese diaspora utilized *Guanxi* as a cultural strategy for securing social resources towards goal attainment. During the period of rapid transition stage, when the socialist universalistic values are cast into doubt and the market is not yet fully operational, *Guanxi* blossom to play new instrument which enables people to achieve what is usually denied them through normal channels.

Local officials with newly gained economic authority became the most important agents for diaspora investment in the mainland. They were able to provide favourable tax policies, cheaper land, power and water in the initial stages, relaxed customs inspections and imported materials, permission to sell a higher percentage of goods in the domestic market etc. The Chinese diaspora investors were able to build up cultural and linguistic affinities with the local officials. Most importantly they were able to establish '*Guanxi*' with them through a variety of mechanism.

## Conclusion

The role of the diaspora in promoting transnational linkages through investments in their countries of origin will not only show economic and technological collaborations, but also show the power of social networks. In a globalizing world, where the trade barriers are disappearing and communications becomes faster, the diaspora could play a dominant role in productively utilizing the resources they possess in investing back to their own country. The case of the diasporic community like the Chinese shows that some of the traditional beliefs and practices can be an advantage which can be made use of to survive and succeed in the globalized world.

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