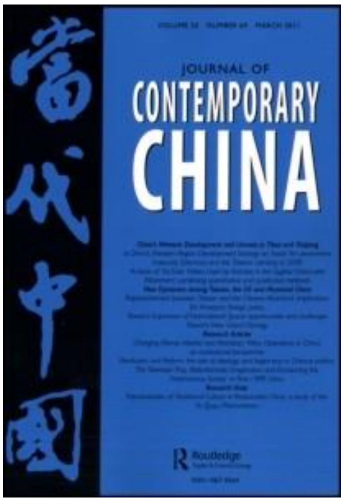

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Returnee Entrepreneurs: impact on China's globalization process

HUIYAO WANG, DAVID ZWEIG and XIAOHUA LIN*

Recent research on returning Chinese students has focused on their role as an alternative solution to their home country's mandate to build technological capacity. This study shows the depth of the 'brain circulation' that is underway and the fact that overseas students are not only serving China from abroad or by returning, but after they return they play a leading role in many aspects of China's 'going out' strategy. These returnee entrepreneurs present many advantages to the Chinese economy. They have studied at the best universities in the world, were deeply involved in the New Economy, and have gained valuable experience in listed companies overseas. They often possess venture capital, many have experience working with some of the best MNCs in the world, and they serve to contribute enormously to China's current economic engagement with the world. The paper describes the returnees' impact on China's globalization drive and analyzes the factors leading to their success in comparison to MNCs and indigenous Chinese firms.

China's opening to the outside world has been multidimensional; foreign trade has skyrocketed, and China tops the world as a target of foreign direct investment (FDI). China holds more in US Treasury bills than any other country, and China has become an active purchaser of overseas resources. Many of these sectors are interconnected, such as the growth of foreign trade and the development of port facilities. In fact, in the early 1980s, even before the country's export trade boomed, state leaders began to

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invest heavily in developing new ports as they had the foresight to see that China would need all the shipping capacity it could handle. Their judgment proved right.

At the outset of the open policy, China's top leaders, particularly Deng Xiaoping, strongly encouraged China's science, technology, and education institutions to send Chinese students abroad. In the first government plan enunciated in 1979, the Education Commission and the Chinese Academy of Sciences sent 3,000 students and scholars overseas each year for five years. In 2007, the Ministry of Education reported that from 1978 to the end of 2007, 1.21 million students and scholars had gone abroad with 319,700 returning to China after they had completed their studies. In the current economic downturn, in which Western countries have been hit the hardest, the number of Chinese students returning has increased. What is the global impact of returning Chinese students and professionals? To date, most scholars have focused on the building of indigenous innovation capabilities.[1] We argue that two dimensions of China's economic opening present an interesting synergy—sending students abroad and the policy of Chinese firms 'going out' (zou chu qu). In fact, after returning to China, many returnees play a key role in linking China to the world. Highflying entrepreneurs, in particular, fulfill this role; nevertheless, even entrepreneurs whose success has been more moderate contribute to China's 'going out' policy.

How do returnees play such an important role in China's going out policy? Historically, students who have returned from abroad have always been engaged in cutting edge global economics and/or politics, serving as trail blazers for China's modernization. The first group of Chinese who left for overseas opportunities, many of them having studied engineering, went to New Haven, Connecticut in the 1880s and returned home to become leaders. Returnees included a Prime Minister, the Minister of Railways, and leaders in China's military modernization.[2] Today, the sectors in which returnees specialize—IT, telecommunications, media, computers, biotechnology—are critical to the New Economy. The returnees are again at the forefront of the global economy and find employment in sectors that tend to do well on international stock markets. Also, having lived abroad and perhaps engaged in IT start-ups, these returnees have greater familiarity with the New Economy and have firsthand knowledge of what type of enterprises will succeed on the NASDAQ. Many of these are sectors in which firms from developing countries can leapfrog, quickly catching up to firms in more developed economies, allowing them to compete globally. Interestingly, most returned entrepreneurs today shun manufacturing, as China's comparative advantage is this sector is only its cheap labor, not the skills,

[1] . AnnaLee Saxenian, Local and Global Networks of Immigrant Professionals in Silicon Valley (San Francisco, CA: Public Policy Institute of California, 2002); and Xiaohua Lin, 'The diaspora solution to innovation capacity development: immigrant entrepreneurs in the contemporary world', Thunderbird International Business Review 52(2), (2010), pp. 123–136.

[2] . Thomas E. LaFargue, China's First Hundred: Educational Mission Students in the United States, 1872–1881 (Pullman, WA: Washington State University Press, 1987); and Hui Huang, 'Overseas studies and the rise of foreign capital in China', International Sociology 17(1), (March 2002), pp. 35–55. Unfortunately, several were captains of ships destroyed by the Japanese in 1895 at the Battle of Weihaiwei.

networks or knowledge of the returnees. Hence, returnees tend not to be as active in exports of anything other than high tech goods or IT products and services.

When a Chinese firm decides to take its business to a global market, it will need to draw from its employees' knowledge of global business, the global economy, international trade and international law. Those who have studied abroad, and particularly people who worked abroad, are much more likely than those who studied only in China to have this knowledge. With their international experiences and networks, often established during their work experience overseas, as well as their ties to Wall Street's global financial firms, they have the capabilities to play a bridging role between Chinese firms and the global economy.

Returnees in the business world

Traditionally, the vast majority of returnees have been academics and scientists, but through the 1990s, more of these individuals engaged in business overseas and began to return home. That Chinese intellectuals have been reoriented toward the business world is not something only returnees are engaged in. As is well documented in Zhongguancun's contemporary history, for example, it has become common for scientists to pursue entrepreneurial opportunities in response to the country's transformation toward a market based economy.[3] Encouraged by the government's sanctioned incubators in high tech zones (many are specifically targeted at returnees), graduates who possess experience with new technologies return as entrepreneurs. These zones serve to help returnees, who are often unfamiliar with working in China, to get investment capital, workspace, and to fill out the necessary paperwork for their return. Today there are over 110 such parks for returnees working in high tech industries. In the early 1990s, cities, led by Shenzhen and Shanghai, began competing for these returnees, offering them various tax breaks on the purchases of housing, cars and computers if they were to set up their enterprises locally.

The macro-policy environment has also proved encouraging. The willingness of people to return and to open their own enterprise has been increasing significantly since 1999, when a new law confirmed the status of private enterprises (vis-a`-vis state-owned enterprises—SOEs). Following substantial layoffs of SOE workers between 1997 and 1999, the status of the private sector grew dramatically in the eyes of the leadership, as they were hard pressed to find jobs for 9 million new entrants per annum to the work force. China's pending entry to the WTO also increased the flow of returnees, particularly people in the legal profession. The IT boom—which became a bubble—also brought many people back to China because of the size and potential of the Chinese market, but after the IT bubble burst, many could have returned overseas. Finally, opportunities within the domestic economy for people possessing new technology skills brought many mainland scientists and entrepreneurs living abroad back to China to try their hand at a start-up company.[4]

The second component of the open policy was the mid-1990s decision by China's leaders to promote China's overseas business activity—the policy of 'going out' (zou chu qu). The inclusion of IPOs and M&As as part of this policy framework increased

[3] . Zhijun Ling, China's New Revolution (Beijing: Xinhua Publishing, 2007).

[4] . David Zweig, Chung Siu Fung and Wilfried Vanhonacker, 'Rewards of technology: explaining China's reverse migration', Journal of International Migration and Integration 7(4), (Fall 2006), pp. 449–471.

the importance of highly talented, globally connected returnees, particularly those with experience in IPOs (they may have started a company overseas and successfully listed it before returning), M&As, and multinational corporations (MNCs), or with access to venture capital (VC). China needed precisely these kinds of individuals in order to take its economy global.

The data

This study draws primarily on two sets of data. The first is based on face-to-face interviews with 50 highly successful returnees, including leaders in MNCs' China operations, international investment banks and venture capital firms, and entrepreneurs. The interviews were conducted by one of the authors while he held the position of Chair of China Western Returnees Scholars Association Chamber of Commerce (WRSACC), the national network for educated Chinese returnees.[5]

The second dataset was gathered from face-to-face survey interviews with 100 returnees and 100 local entrepreneurs in 2004. This survey includes more average returnees, but who are, nonetheless, relatively successful entrepreneurs. Respondents were found from various lists in the hands of local governments and by referral (snowball sampling). One of the authors participated in collecting the data, in collaboration with the Chinese Private Enterprise Association (Zhongguo siying qiye xiehui).[6]

The study is also informed by several surveys, including a web-based survey in 2007[7] in China and personal interviews across China and Canada,[8] as well as numerous stories reported in the media such as the online newspaper, Shenzhou xueren [Overseas Chinese].

Listing Chinese enterprises overseas

Returnees are drawn to IT companies and other cutting edge firms, and as these firms are readily accepted on stock markets, such as the NASDAQ, returnees are in an excellent position to promote Chinese firms on global stock markets. Since 2007, more than 50 Chinese companies have been listed on the NASDAQ with a total market value of US$57 billion, and within these firms, many senior managers have studied abroad.[9] According to Xu Guangxun, chief representative of NASDAQ in China, these firms helped solidify the recognition that Chinese firms can be listed on the NASDAQ, and that view is now widely accepted by the international market. Xu, in particular, emphasized that among Chinese companies listing on the NASDAQ, most of their managers have overseas study experience.[10]

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5 . Wang Huiyao, Contemporary Chinese Returnees (Beijing: China Development Press, 2007), p. 192.

6 . Wilfried Vanhanocker, David Zweig and Chung Siu Fung, 'Transnational or social capital? Returned scholars as private entrepreneurs', in Anne S. Tsui, Yanjie Bian and Leonard Cheng, eds, China's Domestic Private Firms: Multidisciplinary Perspectives on Management and Performance (Armonk, NY: M. E. Sharpe, 2006), pp. 65–81.

7 . Wang, Contemporary Chinese Returnees, pp. 169–170.

8 . Xiaohua Lin, 'Contemporary diaspora entrepreneurship: a conceptual and comparative framework', in Benson Honig, Israel Drori and Barbara Carmichael, eds, Transnational and Immigrant Entrepreneurship in a Globalized World (Toronto: University of Toronto Press, 2010), pp. 31–59.

9 . In fact, NASDAQ opened an office in Beijing in 2007 to lure more Chinese firms to list.

10 . China Daily Overseas Edition, (21 August 2007).

Many of these listed Chinese firms are Internet companies, as in the late 1990s, Chinese people studying or working abroad were far more aware of the power of the Internet than business people in China. Moreover, the Internet developed much more rapidly within China than returnees had anticipated, giving them a strong base from which to apply for IPOs.[11] More importantly, these firms can stand toe-to-toe with firms in developed countries in Internet technology and development, and some have surpassed firms in developing countries.

Some returnees who successfully listed their firms overseas had the practical experience of listing a firm, often their own, while they were still overseas; so, successfully listing a second firm may have been less of a problem. For example, Zhu Min started his own company, Future Lab, in Silicon Valley in 1991. Then, in 1997, he founded WebEx, which in 2002 was listed as one of the top 100 software companies in the world and in 2003 was cited by Forbes Magazine as one of the world's top 25 high-tech companies. In order to concentrate on his business moves in China, Zhu sold WebEx for US$3.2 billion to Cisco—the largest US network equipment company. In China, and with the support of NEA, a well-known VC firm in the US, he founded Cybernaut (China) Venture Capital Management Co., Ltd. Cybernaut, which is listed overseas, has mainly invested in technology companies in the US and has invested US$2 billion in China's semiconductor sector. Similarly, Liang Jianzhang and Shen Nanpeng, both Wall Street veterans, adopted a foreign business model and, after returning to China in 1999, established Ctrip, a commercial website for travel in China. Three years later, they successfully listed it on the NASDAQ. They then founded Home Inns, another online booking site for travel within China. Home Inns became their second successful start-up and was listed on the NASDAQ in October 2006.

Returnee enterprises serve as a litmus test for other Chinese entrepreneurs who are thinking about taking their business to a global market. Although China's economic opening began 30 years ago, the international business world has strong doubts about Chinese enterprises. Thus, returnees' firms, especially those whose stocks are listed abroad, must consistently prove to the world that Chinese firms are a reliable and lucrative investment. On 15 November 2005, after 98 road shows, Vimicro Corp. was finally listed on the NASDAQ, becoming the first Chinese chip design company on the index whose primary industry was core technology; yet on the day that the firm was listed, when its CEO, Deng Zhonghan, was interviewed by CNBC, the journalist did not ask about the nature of Vimicro's business, but challenged Deng directly as to whether the company had proprietary rights to its technology. He also asked Deng if the company's patents, once registered in China, could be protected. These questions let Deng respond positively to public concerns about Vimicro. He loudly announced that 'Vimicro Corp. is a Chinese chip design company which really possesses proprietary intellectual property rights'.[12]

Most Americans see China as a manufacturing county that has not contributed to any core industry. As a result, Vimicro, after it was listed, and another subsequently listed Chinese chip design enterprise, Actions Semiconductor Co., Ltd, shared the

[11] . Tian Suning, Mao Daolin, Zhang Chaoyang and Li Yanhong, heads of major IT firms, said that none of them had expected that the Internet era would come to China so quickly.

[12] . Li Zheng, Movers on Wall Street (Beijing: China Development Press, 2007), pp. 14–15.

same experience—the initial share price did not rise quickly. Deng sees this as a normal market reaction:

> Although foreign investors tentatively invested, they still have reservations and doubts. We need time to prove ourselves. Front runners need to work hard and face doubts and prejudices. Pioneers must pay a price for entering international financing markets.[13]

Fortunately for Deng, Vimicro is good enough to have a conversation with the world, given that it has made seven core technology breakthroughs in digital multimedia and has applied for more than 1,000 international and domestic patents, involving complete proprietary IPR. Yet, Vimicro's major cost in its first year was the time they spent persuading investors that three decades of reform allowed China to accumulate original innovative technologies and to learn to respect and protect intellectual property rights.

Introducing venture capital mechanisms

Venture Capital (VC) firms are totally new to the Chinese economy, but are critical for the kind of start-up firms that are moving onto global stock markets from China's rapidly growing economy. Here again we find returned students playing a key role, as currently, almost all international venture capital companies in China are managed by returnees. Their infusions of capital stimulate new domestic business in China, as well as older firms founded by returnees who want to list their company quickly.[14]

Draper Fisher Jurveltson ePlanet Ventures (DFJ) is a global venture capital firm, which has invested in more than 200 companies in China in its 20-year history. Zhang Fan joined DFJ in the US after graduating with an MBA from Stanford in 2001. Soon after, he returned to Beijing as VP of its Asia branch and, in 2002, he persuaded DFJ to invest US$800,000 in Kongzhong Net, a new enterprise. Less than two years later, Kongzhong was listed on the NASDAQ, the shortest time any firm in China had taken between being founded to being listed on the NASDAQ. In 2004, again representing DFJ, Zhang joined with several other investment houses and invested US$12.5 million in Focus Media, which at the time was involved in advertising. A year later, Focus Media raised US$172 million on NASDAQ, and was the first Chinese media company to list abroad.

CDH Venture, the first private equity (PE) venture capital firm in China, operated with limited partnership, and is relatively unknown in the country because of its low key profile. Founder and chairman, Wu Shangzhi, has an MBA and a Ph.D. in Engineering from MIT. In April 2002, along with five managing members from the direct investment department of China International Capital Corporation (CICC), a state owned investment house which has a JV with Morgan Stanley, Wu established Shenzhen CDH Management Co. The company's key assets were an overseas foundation valued at US$100 million and a domestic foundation of RMB135 million.

13 . Ibid., pp. 36–37.

14 . Returnees running VC firms include: Xiong Xiaoge, senior partner of IDG, Wu Shangzhi, chairman of CDH Venture, Yan Yan, chief partner of SAIF, Zhang Fan, Chinese partner of Sequoia Capital, Ding Jian, chairman and GM of GSR Ventures, David Zhang, chairman and GM of WI Harper Group, Xu Xin, founding partner of Capital Today, Kuang Ziping, founder, chairman and GM of Qiming Venture, He Xin, chairman and GM of the Carlyle Group, and Wang Shen, partner of Texas Pacific Group.

Between 2002 and 2005, CDH invested in nine projects, six of which were listed on the Hong Kong Stock Exchange and the NASDAQ.[15] Clearly, Wu has helped propel China into the global economy.

Interestingly, many VC firms prefer to support China's private sector, and through their efforts, the private economy of China has been able to go global. Also, many of these firms are SMEs, rather than the large state-owned enterprises. Thus, the expansion of China's private sector and its improved status in China has strengthened the link between returnees and Chinese firms going abroad.

The story of Deng Feng, founding partner of Northern Light Venture Capital, reflects this trend. Deng went abroad to study in 1990 and after graduating with an engineering degree from USC and an MBA from Wharton, he founded a network security company in 1997 which was listed on the NASDAQ in 2001, the first hightech enterprise listed on the stock market after the 9/11 attacks. In early 2002, he sold this firm to another Silicon Valley company for US$4 billion, making it the biggest company founded by an overseas Chinese student in Silicon Valley. Deng then shifted from being an independent entrepreneur to a venture capitalist. Why?

> No matter how successful an entrepreneur is, his influence is always limited to one enterprise. But a VC is different because its influence can cover various fields and even the whole economy. Second, in China, investments should have a good platform, and VCs provide this. This way, I can decide where I want to invest. High-tech companies in the early stages need help. By now, Northern Light has invested in more than 20 small and median enterprises in China, and many of them have listed overseas.[16]

Zhang Fan, founding partner of Sequoia Capital China Foundation, sees VCs in China entering a growth period. The Chinese government, recognizing the importance of VCs, began to support them in the late 1990s, establishing many local VC funds, as well as drafting laws and provisions regulating their activities. By 2006, VCs in China had invested nearly US$2 billion in new firms, one quarter of the annual venture capital invested in Silicon Valley. At present, many managers or partners in VC funds were themselves initially supported through VC investments and today this new group of fund managers is playing a significant role promoting the rapid growth of a large number of small and median enterprises.

Xu Xin, a returnee who was then president of Baring Private Equity Partners Asia Group, seeing enormous opportunity in the mainland's Internet market, invested US$5 million in an unknown Internet company, 163.com, in 1999 after meeting the talented young entrepreneur, Ding Lei. The company listed on NASDAQ in June 2000 and quickly became the top Internet website in China. How can VCs help SMEs?

> First, we help them recruit employees. Second, we help create the enterprise's culture and system (ji zhi). Some small companies did not even know the system when they first founded [it]. I told them to build the system, which is the base of one company. Enterprise culture is also very important. A good company manages with its system and enterprise culture instead of individuals. Third, we help entrepreneurs build well managed companies. But it is easier to say that than to do. When confronting difficulties, many of them quit, while others chose to end their career after earning US$10 million. They do

15 . These include Mengniu Dairy, Li Ning, Focus Media, Yurun Group, Super Data, and Yongle Electronic.

16 . Li, Movers on Wall Street, pp. 14–15.

> not have big dreams. Some entrepreneurs have [a] big dream when they still own small companies. We need to find them, invest [in] them and help them to fulfill their dreams.[17]

Ding Jian goes on to explain why returnees help private SMEs. As the Chair of AsiaInfo and a partner in GSR Ventures, Ding recognized how difficult it is in China to create a new business:

> It's painful for everybody and every company struggles from the very beginning. But why did I choose to become a VC? I see so many friends, colleagues and young people around me who are running their own business, and I did not want to see them take the same convoluted road that I did. VCs act as a kind of adhesive, adhering our resources to those good ideas and good teams. A VC's actual function is to set up resources and an environment well suited to enabling companies to grow smoothly and quickly. It is important that small enterprises with good ideas and teams receive money to run successfully.[18]

Managing MNCs in China

With 480 of the world's top 500 MNCs now in China, great demand emerged in China for talented people who had the management skills and transnational networks to bridge East and West. In fact, many reports by firms such as McKinsey, consistently report that China faces a serious shortage of middle- and high-level managers. Overseas students, either those who had already returned, or those working for MNCs or leading companies abroad, have filled many of the top management positions in MNCs, often as the in-country director.

MNCs have played a remarkable job in promoting China's economic development. According to the Ministry of Commerce, at the end of September 2006, 570,000 foreign invested enterprises in China had invested US$665 billion. Over 800 research and development centers have improved China's high-tech competitiveness and most of them are headed by returnees.[19] In 2005, the total industrial value added by FIEs to industries in China reached RMB11.9 trillion, 29% of the entire industrial value of the nation. The imports and exports of FIEs reached US$831.7 billion, 58.5% of the nation's overall trade; and they paid RMB634.9 billion in taxes, 21% of the overall tax income. By the end of 2005, FIEs employed over 25 million workers, 11% of China's total labor force.[20]

The list of MNCs that employ returnees as CEOs, executive VPs, or other very senior posts is impressive. They include: Google Inc., Microsoft China, UBS, Alcatel, News Corps, Siemens, Hewlett Packard, Ernst and Young, BP, General Motors, and others (see Appendix II). Having participated in the company's strategic planning for China, they have been able to put these strategies into practice. They facilitate localization, improve China's overall industrial structure, and help Chinese enterprises move up the value chain in world trade.

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17. Xing Xuejun, Venture Capitalists (Beijing: China Development Press, 2007), pp. 193–194.
18. Ibid., pp. 15–16.
19. For instance, one of Microsoft's most successful research centers worldwide was headed by Zhang Yaqin in China.
20. 'Foreign invested enterprises in China invested $665 billion RMB', Xinhua News Agency, (5 November 2006).

While China's Marxist heritage and troubled historical relationship with the West might cause people to see MNCs as threats to Chinese sovereignty,[21] Zhang Yaqin, a VP at Microsoft responsible for R&D in China, said most returnees in senior positions in MNCs feel both responsible to their company and supportive of China's development. Microsoft Research Asia's motto is: 'work in Microsoft, serve China'.[22] To reach its goal, Microsoft set up a Nature Foundation, cooperated with the Ministry of Education, and established a strategic cooperation department for software outsourcing and training.

Returnees working in MNCs improved communication between China and the world. As Raymond Wang, VP of Siemens China, states,

> Multinationals improve the image of China in the world. The communication between China and the outside world has been strengthened, as more foreigners work here and more Chinese work overseas. This is very important because with China's unique political system and for historical reasons, China often gets misunderstood by the outside world. But with the communication among enterprises, the image of China gets improved. A good international environment is good for the rise of China.[23]

In the two years when Gao Qunyao, currently VP of News Corporation and CEO of Star China, had worked as president of Microsoft China, he had improved relations between Microsoft and the Chinese government. So, when the US Congress discussed MFN (most favored nation trade status) treatment for China, Microsoft supported China. In fact, Gao worked with his Microsoft colleagues in the US to lobby Congress and spoke with the US media on the issue. On the day that Congress voted, Bill Gates published an article in the Washington Post, called 'Thinking of Tsinghua University'. Thus, when the US granted China MFN status, then Deputy of Foreign Trade, Long Yongtu, visited the head office of Microsoft China to express his appreciation.

Many companies listed overseas are run by returnees who bit their teeth on global finance working for an MNC. Wang Weidong, a New York partner of the DeHeng Law Firm, states,

> Multinational companies firstly bring a new concept. I once worked as a lawyer in [the] USA, so I think working methods are indeed significant and meaningful to Chinese lawyers and Chinese enterprises. If we look at the companies listed overseas and the new generation of entrepreneurs, most of them are cultivated from multinational companies.[24]

If we define 'going out' more broadly, we find that returnees have helped the Chinese government deal with the outside world. For example, Sun Yuhong, a director of Hill & Knowlton China, upon returning to China from Harvard, found that Hill & Knowlton only served MNCs in China, not Chinese companies or the Chinese government. So she organized training programs for government spokesmen, and while the Chinese government hesitated to invite a foreign PR firm to train its staff, Sun talked to the State Council Information Office about this:

> I'm Chinese, so it's easy to obtain their trust. I told them there was something wrong with the government spokesmen system, since it was not in line with international standards. So, they invited Hill & Knowlton, China to provide training. Since the training started,

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[21] . Zhongguo keyi shuo bu [The China that can Say, No], and Zhongguo zhilu [The Chinese Road].

[22] . Feng Jiaxue, Guo Yumei and Guo Lijun, Top Careers (Beijing: China Development Press, 2007), p. 150.

[23] . Interview by Wang Huiyao and published in Ibid.

[24] . Wang, Contemporary Chinese Returnees, p. 82.

> more than 20 media companies have reported favorably that China's government invited an American consulting company to train their spokesmen. It's a step forward, not only for China's government, but for MNCs as well.[25]

Chen Wei, President of the China region of the Hay Group, and who has an M.A. in Human Resource Development from Penn State, organized a team of international experts for two years to study 40 famous enterprise leaders in China, building a 'China CEO Competency Model' and an evaluation tool based on data from the study. According to Chen, 'if this plan is executed smoothly, China could possibly turn out hundreds of world class enterprise leaders in 10 years. This will be undoubtedly a creative HR development project for China's sustainable development'.[26]

MNCs are a key channel through which Chinese products are sold abroad. As mentioned above, FIEs are responsible for over 55% of China's exports. Moreover, FDI has helped upgrade the technological component of Chinese exports.[27] Deng Zhonghan, head of ViMicro, had a new explanation of 'MADE in China'. MA means 'manufactured' while DE means 'design', making 'made in China' equal to manufactured and designed in China.

Returnee executives help MNCs sell 'made in China' products to the outside world. Most of the top cell phone producers in the world have manufacturing bases in China, including Motorola, Nokia, Sony Ericsson and Alcatel. Previously, expatriates from the US managed Motorola's China operations; nowadays, several hundred returnees in different management positions have replaced these expatriates. These cell phone manufacturers are among China's top exporters and even the latest iPod phones are made in China and exported. In 2006, China made 455 million mobile phones, almost half the world's output, of which 385 million were exported.[28]

While they prefer to help private firms list overseas, returnees are a driving force behind the overseas listing of large SOEs. Liu Erfei, president of Merrill Lynch, China, was the first mainlander to join an American investment bank, and the person who brought the idea of investment banking into China. To date, he has successfully listed a dozen large SOEs overseas, and was selected as one of the 'Top 50 Global Investment Bankers' by Global Finance.

Part of his fame is derived from his ability to list the China National Offshore Oil Corp (CNOOC) after its first attempt to go public had failed. In late 1999, shortly after he joined Merrill Lynch, Liu was asked to take charge of their second IPO. After careful preparation, and before the road show, Liu dealt with the misgivings, opinions and the psychological price level that investors felt about CNOOC. The road show went well and in February 2001 CNOOC was listed both in New York and Hong Kong, raising US$2.7 billion.

25. Ibid., p. 82.
26. Ibid., p. 84.
27. Mary Amiti and Caroline Freund, An Anatomy of China's Export Growth (Washington, DC: National Bureau of Economic Research, 31 January 2008). ViMicro and SpreadTrum, both run by returnees, created 'China Chip' with its own intellectual property, which was exported to many countries. Now its Starlight CMOS is widely used by important companies such as Samsung, Philips, Logitech, Fuji, Lenovo, Bird and TCL, covering 16 countries and regions. Vimicro Corp's CMOS dominates the market of CMOS for computer image processing, taking 60% of all these products.
28. 2006–2007 Chinese Mobile Phone Manufactures Export Report, China Trade Remedy Information, available at: http://www.cacs.gov.cn/cacs/news/xiangguanshow.aspx?articleId¼38351.

Sun Wei, Managing Director and China CEO of Morgan Stanley, received his J.D. degree from Columbia University Law School. He joined Morgan Stanley in 1998, and in 2000, participated in a series of overseas IPOs for SOEs, such as China Unicom, China Petrochemical Corporation and Aluminum Corporation of China. The IPO for China Petrochemical Corporation had been particularly difficult. Later, after Sun became Managing Director and China Chairman of Business Department at CSFB Asian China Investment Bank, CSFB participated in several significant listings, including Sinotrans Group, CNOOC and China Life.

Many key investment banks involved in these listings, including the difficult listings of Chinese state-owned banks, have placed returnees in charge of these projects. The five investment banks which took care of ICBC's IPO were Merrill Lynch, Deutsche Bank, Credit Suisse, China International Capital Corporation Limited and ICEA. The CEOs and chairmen of these multinational investment banks are almost all returnees.

Zhu Yunlai is a particularly interesting case. Zhu worked in New York, at the head office of Credit Suisse First in Boston, and in Chicago at Arthur Anderson. He joined China International Capital Co., Ltd in 1998, participating in preliminary work on Oil China's IPO. He subsequently led the IPOs for China Petroleum & Chemical Corporation, Aluminum Corporation of China, China Telecom, China Netcom, China Life, the People's Insurance Company (Group) of China, Air China, Shenhua Group Co., Ltd of China, and China Construction Bank.

Leading outbound M&As

China has been busy buying companies overseas and, as with IPOs, returnees are deeply involved in this aspect of the 'going out' policy. The success of M&A activities depends not only on the nature of the enterprises but also on the attitudes of the local government and people. Therefore, M&A teams must be familiar with local politics, economics, culture and conventions. These are the advantages of returnees who span East and West. Fu Chengyu, CEO of CNOOC, has an M.A. in petroleum engineering from the University of Southern California. He has worked in the international petroleum field since 1982 and cooperated with foreign petroleum companies in China. Under his leadership, CNOOC made a bid for the US oil company, Unocal, an ambitious globalization attempt that was ultimately blocked by the US Congress on political grounds.

Many of the recent outbound M&As by Chinese firms are made possible by the fact that most major global investment houses in China are headed by returnees. Some, such as Zheng Yichen, of CITIC International, moved overseas at a very young age, but returned to work in Hong Kong, where they have stayed, running important financial institutions. The purchase of IBM's PC division by Lenovo shows the important role that returnees, who are well placed in investment houses and well connected in China, can play. Liu Erfei, a Harvard graduate, is a Managing Director and Chairman of China Region Merrill Lynch (Asia Pacific) Ltd, responsible for coordinating the firm's overall strategy in China across a range of services and working with senior management of Merrill Lynch's key business and product areas, including investment banking, telecommunications, media banking and emerging markets Internet banking to expand Merrill Lynch's leadership positions in these critical industry sectors. Liu joined Merrill Lynch from Credit Agricole Indosuez where he had been Managing Director and Head of the Investment Banking Group.

Liu was responsible for the successful purchase by Lenovo of IBM's PC division in 2005, a major coup for China. In early 2004, IBM announced that it wanted to sell its PC business, and began to search worldwide for a suitable buyer. Both Hewlett Packard and Dell expressed interest, but IBM firmly believed that Lenovo was the most suitable buyer, as Lenovo's purchase would not create competition with IBM's main business. IBM also believed that Lenovo might become a strategic ally, but initially, Lenovo's CEO, Liu Chuanzhi feared the repercussions of a failed effort. Nevertheless, with Merrill Lynch as the finance consultant of IBM, and Liu Erfei's relationship with Liu Chuanzhi as a personal friend, the task of making the deal fell to Liu Erfei. He was able to persuade Liu Chuanzhi to send a representative to the US to meet with IBM and hear their view. Eventually the deal went through allowing Lenovo to become the third largest PC manufacturer in the world.

Lawyers who return from overseas are also involved in many of these global deals. Xiao Zhiyue, who has a J.D. from the University of London, is a senior partner with Herbert Smith in the UK, and spent 20 years working in the West. He returned to China in 2000. Since then, he has taken part in financing and listing large SOEs, and has served as legal consul for overseas Chinese M&A activities. In one case, he helped the China Petroleum & Chemical Corp. (CPCC) acquire Udmurt Petroleum of Russia, which was the first time a Chinese company had successfully acquired resource assets in Russia.

In the future, perhaps the most active purchaser of overseas firms will be the China Investment Company, the sovereign wealth fund of the Chinese government which uses US$200 billion of China's foreign exchange holdings. The company is headed by Gao Xiqing, himself a returnee with a J.D. from Duke University, and reportedly approximately 80% of the senior management of the company are also returnees from overseas. Through this company, the Chinese government made a major investment into the Blackstone Group.

Success at home and abroad

Several factors that explain the success of firms founded by returnees in China also explain their success overseas. A close look at the in-depth interviews of 50 high flying returnees suggests the following characteristics: overseas experience, high educational achievement, engagement in high-tech industries, teamwork, social networks and access to venture capital.

Among this group, five graduated from Stanford, four from the University of Pennsylvania, of whom three earned MBAs from Wharton, three each from Harvard and Columbia, two each from Oxford and UCLA, and the rest from individual schools, including Yale, Princeton, MIT, the University of Chicago, Carnegie Mellon, HEC in Paris, Berkeley, and the University of London. The full list appears in Appendix I. Academic credentials are also impressive, including 16 Ph.D.s (32%), nine MBAs (18%), and 18 M.A.s (36%). As a result of their education, they are well situated to enter high-tech fields. According to Wang, [29] 77% of successful returnee

[29] . Wang, Contemporary Chinese Returnees.

entrepreneurs worked in high-tech fields, and it is their involvement in those industries that allowed them to list on NASDAQ or succeed quickly in global markets.

The vast majority studied in the US, but about one dozen studied in Canada, the UK, Germany and France. Wang's involvement with the WRSA tilts the sample slightly, as it excludes returnees from Japan, many of whom actually earned Ph.D.s.[30]On average, these high flyers lived overseas for ten years, with five years in college and five years of work. This group knows the West very well; but on average, they have been back in China for close to ten years, which means that they are also familiar with the new, globalizing China. Given their dual experiences, it is not surprising to see that they travel frequently between the East and West.

The interview data suggest that teamwork plays an important role in a returnee enterprises' success, including their globalization endeavor. Unlike domestic firms, who rely primarily on a single dominant character, returnees often build teams with their friends and colleagues, aware that different people have different skills, and if a firm wants to compete globally, it needs input from several people. For example, He Dingyong, who has a Ph.D. in Materials Science from Aachen University of Technology in Germany, returned to China at the end of 2004, and together with two partners, formed the Beijing China Surface Engineering Technology Co., Ltd. He manages R&D, while the other two are in charge of production and marketing. Similarly, four returnees together established the web-based travel agency, Ctrip, which went public, as well as the discount hotel chain, Home Inns, which also was listed on the NASDAQ.

Deng Feng, a returned venture capitalist in China, sees success depending on: (1) a very good team; and (2) the executive force. The 'so-called vision and passion for work are of second importance'.[31] Also, with access to capital being so problematic, entrepreneurial teams are favored by venture capitalists. Good team work and the unusual 'disruptive technology' attracted Japan's Sumitomo Corporation and Sequoia Capital to invest 400 million yen at the beginning of NetScreen.

It is safe to say that overseas investment following returnee entrepreneurs has shaped China's capital market.[32] According to Xia Yingqi, deputy director of Zhongguancun High Tech Park, 80% of overseas capital invested in Zhongguancun went to returnees' enterprises. Why?

> Before investing in a project, overseas venture capital firms consider, first, whose technology the project uses, and second, they examine the educational background of the team. Returnees' technology projects generally come from well-known, overseas research institutions, which give it a better chance to succeed when the funds are invested; in the meantime, returnees have advantages in language and expression when presenting their projects, so investment houses are more willing to invest in returnee enterprises.

Similarly, Zhu Min, chair of Cybernaut (China) Venture Capital Management Co., Ltd, believes that returnees' ability to build high quality teams is their key advantage:

> Among various factors including the industry, team, technology, business model, and so on, the first is team, the second is industry, and the third is the business model; and the industry and business model are linked together. Team is definitely the first. Regardless

[30] . David Zweig and Han Donglin, 'Chinese research students and scholars in Japan: the impact on Sino-Japanese relations', Zhongkuo kenzai [China's Economy], (Tokyo: JETRO, January 2008), pp. 36–51.

[31] . Wang, Contemporary Chinese Returnees, p. 210.

[32] . Ibid., p. 212.

> of whether it is an angel investor or a venture capitalist, they consider only the team. When you have a good team, you can do anything. Now the problem that China lacks outstanding teams is particularly prominent.[33]

Restrictions in the Chinese investment and financing system make it very difficult for domestic SMEs to raise funds. Worse, since returnees have been abroad for many years and are unfamiliar with local conditions, returnees' SMEs have more difficulty getting financial support from Chinese banks. Thus Vanhanocker and Zweig found that returned small-scale entrepreneurs rely primarily on their own capital earned while abroad to start their firms.[34]

Because of the personal resources accumulated over many years studying and working overseas, hoever, and familiarity with overseas business models and philosophy, returnee enterprises attract more overseas capital. As the heads of most international VC firms and investment houses in China are returnees, entrepreneurs and VC investors communicate easily.

The infusion of venture capital into a returnees' enterprise helps it get listed overseas and to operate continuously. Of course, VCs want high returns, and fund managers, always hoping for fast growth, finally lead enterprises to the international capital markets, like the NASDAQ. At present, almost 100% of Chinese returnees' enterprises listed on NASDAQ obtained overseas investment. Returnee enterprises have brought good returns to both returnee entrepreneurs and international investment houses.

Average returnees and local entrepreneurs

To explore the link between returnees and 'going out' further, we now turn to our second dataset based on interviews with 100 returned and 100 local entrepreneurs in Shanghai, Beijing and Guangzhou. These returnees are not necessarily the 50 high flying types that Wang interviewed, as the only two requirements for admission to our survey were that they had been in business for two years and that their firm had revenues of over RMB1 million. These firms are likely to be smaller than the 50 high flyers or leading firms, with an average turnover of RMB7.7 million (running from RMB110,000 to RMB60 million). In terms of their education level, 25% had Ph.D.s and 42% had M.A.s, a lower academic achievement than Wang's high flyers, but still significantly higher than the local entrepreneurs we interviewed. Among locals, only 5% had M.A.s, while the rest were university graduates (23%), community college graduates (35%), high school graduates (32%), or lower.

Despite returning to China, many of these entrepreneurs remained deeply engaged overseas: 19% were still full owners of an overseas company, while 25% were partowners of an overseas enterprise. Among local entrepreneurs, only 3% had full ownership of an overseas company (i.e. had moved some of their economic activities overseas) while 2% of them were part-owners. The majority of these returnees (67%) reported having a strong overseas network, and of that group, 30 out of 67 'strongly' or 'very strongly' relied on that network for their business activities. They were also more likely to rely on foreign suppliers than local firms, thus indicating greater import

33. Ibid., p. 211.

34. Vanhanocker et al., 'Transnational or social capital?'.

activity. On average, our returnee firms had 1.85 foreign suppliers (versus 6.24 domestic suppliers), while locals had an average of only 0.82 foreign suppliers versus 8.35 local suppliers. Finally, among these returned entrepreneurs, 42% planned to live both in China and overseas after their business succeeded, while 45% were committed to living in China full-time.

These returnees were much more involved in exports in 2004 than local entrepreneurs or Wang's high flyers. Of their total sales revenues in 2004, on average 19% of the sales of these returnees' firms relied on exports versus 11% of locals, while over the next five years returnees planned to increase that share to 33%—locals hoped to double their exports to 21% of sales. Despite their overseas connections (81% of them had worked overseas before returning) one would have thought that exports would play a larger role in their firms' business, but the truth is that the majority of returnees are much more interested in the domestic market than the global one, as it is less competitive, and if they bring back some new technology not available in China, they are in a stronger position in the domestic market than in the international one.

To start their business, these returnees had little access to venture capital or foreign loans. Over 65% of their initial investment came from their own funds, earned overseas, with another 11% coming from income earned in China and 8% from relatives. Venture capitalists (3%) or foreign banks (4%) totaled 7% of their initial investment. On the other hand, local entrepreneurs relied primarily (64%) on income they earned in China and none of them received any money at all from a foreign bank or VC.

Of relevance to the current discussion, having an overseas subsidiary was found to be important to the company's revenue, while having a world class or new technology for China was somewhat important. Having worked abroad was statistically significant to a firm's positive performance, as was the firm's level of technology—having a world class technology, or at least one that is new for China. Interestingly, reliance on an overseas network was negatively correlated with 'performance'. Could it be a differentiator between the 50 high flyers and this group of average returnees and local entrepreneurs?

Returnee solutions to globalizing China

Ten years after the Chinese government formally launched its going global campaign, the world has witnessed only limited success by Chinese firms, and the lack of professional managerial talents who understand foreign markets and are capable of handling cross-cultural challenges has been considered the number one obstacle to China's globalization ambitions.[35] To overcome this bottleneck, current approaches have been to develop talents within the Chinese firms or employ local talent. However, such approaches are either time consuming or incur high agency costs. In this regard, returnee entrepreneurs offer a viable alternative. With their education/work experience and resultant understanding of the world market and cross-cultural competence, they are best suited for leading China's globalization move.

Another major barrier facing globalizing Chinese firms is the difficulty in establishing connections necessary for conducting business. Until very recently, SOEs functioned in a shelled environment and their exposure to the international marketplace was largely confined to joint ventures based in China. On the other hand,

[35] . McKinsey, 'Competition from China: two McKinsey surveys', McKinsey Quarterly 3, (2008), pp. 18–21.

private firms tend to be not only resource poor, but also discriminated against in many areas, including going global.[36] Returnee entrepreneurs, however, often have maintained connections, personally and professionally, in foreign countries where they received education, training and/or worked.[37] Such connections have helped the returnees to secure access to funding, updated technology, and the market. The Chinese have been known for their use of ethnic networks in building overseas business,[38] yet, 'Guanxi' or the social capital of the contemporary Chinese returnee entrepreneurs, is not limited to the ethnic connection because they are embedded in at least two social and economic arenas, often including China and their former host country. Besides personal ties with the home country which provide them with competitive advantage over foreign MNCs or entrepreneurs, returnees often have maintained personal and professional relationships in their former host country, and this gives them an edge over SOEs and indigenous entrepreneurs.

Both SOEs and private firms bear the severe burden of 'liability of foreignness' in the global marketplace. The SOEs are challenged politically for their affiliation with the government, whereas private Chinese firms, which tend not to have much international exposure, are faced with difficulties in establishing themselves as legitimate players in a foreign environment.[39] However, legitimacy should be less of a problem for the returnees. As noted earlier, foreign venture capital firms are willing to invest in returnee enterprises in light of their Western experience and training. Returnee entrepreneurs are also better able to market their products and services internationally because of their overseas connections. However, there could be a question regarding returnees' relationships with the Chinese state. The role of government policy in attracting overseas Chinese students is widely known. Still, while returning students are motivated by some sort of homeland sentiments as well as entrepreneurial pursuits,[40] there is no evidence that many of them belong to the 'princely faction'. Indeed, the global stock markets are more likely to accept returnee enterprises than those that are heavily burdened by state interference and thus likely subject to corporate governance problems.

Conclusion

Recent work on returnee entrepreneurship has focused on the returnees' role as an alternative solution to the home country's technological capacity building.[41] In the context of China, this study shows the depth of the 'brain circulation' that is underway and the fact that overseas students are not only serving China from abroad or by returning, but after they return are playing a leading role in many aspects of China's 'goingout'strategy.Havingstudiedatthebestuniversitiesintheworld,deeplyinvolved in the New Economy, experienced in listing companies overseas, possessing venture

[36] . Xiaohua Lin, 'State versus entrepreneurial MNCs from China: initial conceptualizations and evidence', International Marketing Review, 27(3), (2010), pp. 366–380.

[37] . Saxenian, Local and Global Networks of Immigrant Professionals in Silicon Valley.

[38] . John Kao, 'The worldwide web of Chinese business', Harvard Business Review 109, (1993), pp. 24–36.

[39] . Lin, 'Contemporary diaspora entrepreneurship'.

[40] . Ibid.

[41] . Jean-Baptiste Meyer et al., 'Turning brain drain into brain gain: the Colombian experience of the diaspora option', Science, Technology and Society 2(1), (1997); David Zweig, Chung Siu-Fung and Han Donglin, 'Redefining the "brain drain": China's diaspora option', Science, Technology and Society 13(1), (2008), pp. 1–33; Lin, 'The diaspora solution to innovation capacity development'.

capital, and having work experience with some of the best MNCs in the world, these returnees contribute enormously to China's current economic engagement with the world. Even among smaller, less stellar firms, returnees remain actively involved in the global economy, exporting, networking, travelling, and owning overseas enterprises.

In conclusion, as the world prepares to deal with a globalizing China, it must be prepared to deal with a distinct cohort of entrepreneurs—trained overseas and embedded in at least two different social and economic arenas—alongside the state and private firms whose globalization ambition is often hampered by the lack of overseas experience and connection.

Appendix I. Degrees received by 50 high flying entrepreneurs

University	Number of degrees
Stanford	5
Harvard	3
SUNY	3
University of Pennsylvania	4
Wharton	3
Columbia	3
Oxford	2
UCLA	2

Notes: Others: Princeton, Yale, Carnegie Mellon, University of Chicago, Berkeley, University of London, Georgia Tech, Texas Tech, Northwestern, George Washington University, MIT, Boston University, Rutgers, University of Indiana, University of Illinois (Urbana/Champaign), Bonn, Heidelberg, HEC (Paris), US National Laboratories, York University (Toronto), University of Saskatchewan, University of Arkansas.

* Three had degrees from universities in China but had worked abroad.

Appendix II. Returnee companies listed on overseas markets

Successful returnees who led a business to list on Wall Street, interviewed for this study:

1. Tian Suning, founder of Asiainfo
2. Li Yanhong, founder and CEO of Baidu
3. Deng Zhonghan, founder and CEO of ViMicro
4. Yang Ning, founder and President of Kongzhong Corporation
5. Deng Feng, founding partner of Northern Light Venture Capital
6. Zhu Min, Chairman of WebEx
7. Shen Nanpeng, a founder of CTRP and Home Inns
8. Liang Jianzhang, Chair, board of CTRP
9. Xu Xiaoping, Beijing New Oriental Education Group
10. Wu Ping, President of Spreadtrum

Appendix III. Senior staff in MNCs

Successful returnees who played important roles for MNCs, interviewed for this study:

1. Ya-Qin Zhang, President, Microsoft China
2. David Li Yi, Chairman and country head, UBS, China
3. Kai-Fu Lee, President of Google China
4. Liu Jiangnan, Chairman of Alcatel (China) Investment Co. Ltd
5. Jack Gao, VP, News Corporation and CEO of Star China
6. Raymond Wang, VP, Siemens China
7. Jack Shu, VP, Hewlett Packard China
8. Huang Hui, CEO, Juneyao Group; Ex-President, BearingPoint China
9. Jeremy Xiao, Managing Partner, Herbert Smith, Beijing
10. Ge Ming, Chair, Ernst & Young Hua Ming (China)
11. Yi Min, VP, BP China
12. Chen Wei, GM of Hay Group
13. Mao Daqing, GM, Capital and China Investment Co., Ltd, Beijing Operations
14. Chen Xingdong, MD, & Chief China Economist of BNP Paribas Peregrine Securities Limited
15. Charles Cheng, CEO of China District of Investment Department of StandardChartered Bank
16. Fred Hu, MD of the Goldman Sachs Group, (Asia) Inc.
17. Richard Ji, Executive Director of Asia–Pacific District of Morgan Stanley
18. Erfei Liu, Chairman of Merrill Lynch China
19. Christianson Sun Wei, MD of the Chinese District of Morgan Stanley
20. Min Tang, Ex-Chief Economist of Asian Development Bank Resident Missionin PRC
21. Yichen Zhang, Director and CEO of CITIC Capital Markets Holdings Ltd
22. Dennis D. Zhu, MD of Oaktree Capital (Hong Kong) Limited