



# IMMIGRATION POLICY CENTER

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## **POLICY BRIEF**

May 1, 2002

### **The Secret of Success Immigrant Networks Keep Silicon Valley on Top**

*University of California professor AnnaLee Saxenian's new study shows that a substantial share of the astounding growth in Silicon Valley can be traced to the labor and capital of foreign nationals.*

#### **Silicon Valley's Wealth**

University of California professor AnnaLee Saxenian began to uncover the "wealth" of Silicon Valley while doing research for her book in 1994. In a seminal work called *Regional Advantage*, Saxenian examined the factors that contributed to the technology boom in Silicon Valley as opposed to Boston. Her findings discovered that one of the most important components in the success of Silicon Valley was the availability of immigrant labor and foreign capital in the Bay Area.<sup>1</sup>

In 1999, the Public Policy Institute of California (PPIC) commissioned Saxenian to pursue her theory that the tremendous growth in Silicon Valley was directly linked to the circulation of high-skilled immigrant labor. In just five years, Saxenian found that Chinese or Indian immigrants led 24 percent of all Silicon Valley firms and that foreign-owned firms accounted for approximately 14 percent of the region's total employment. The level of foreign ownership shocked many observers and dispelled the notion of California immigrants as low-skill workers.

#### **Professional Networks**

Last year, the PPIC once again commissioned professor Saxenian to investigate the importance of immigrant networks as foreign professionals migrate in and out of the high-tech marketplace. Due to the tremendous presence of Asian-owned technology firms in Silicon Valley, Saxenian chose to look at immigrants whose country of origin was China, India or Taiwan.

To effectively gather data for her research she maintained an online survey for two months and received 2,273 responses. In her questionnaire she addressed three central issues: the involvement of foreign-born professionals in regional entrepreneurial economy, the nature of the professional connections immigrants are building with their native countries, and the extent to which immigrants are establishing business operations in their native countries.

#### **Immigrant Entrepreneurs**

According to Saxenian, first-generation immigrants to Silicon Valley appear to be active entrepreneurs. Although most of the respondents were relatively recent arrivals in the U.S., 52

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percent of immigrant scientists and engineers have been involved in either founding or running a start-up company.

Further findings showed that 60 percent of all Indian respondents reported being involved in starting companies - almost the same rate as their native-born counterparts. Fifty-one percent of Taiwan-born and 32 percent of Chinese respondents also confirmed they had participated in some start-ups. Saxenian's data found that age, gender (male), education and country of origin were all directly correlated to the degree of involvement an individual had in their start-up experience.

### **Actively Engaged**

Beginning a company in today's competitive hi-tech industry requires access to other sources of information. It was no surprise to Saxenian that 19 percent of foreign-born respondents reported attending professional, immigrant or association meetings at least once a month. And over half of those surveyed attend such meetings between two and six times a year. Saxenian argues that this type of community involvement and networking is precisely the reason why Silicon Valley maintains its position as the center of information technology.

Both immigrants and U.S. born professionals in Silicon Valley claim that business associates are one of their most important sources of technology information. In the survey, 73 percent of U.S.-born and 67 percent of foreign-born respondents ranked "business colleagues" as an extremely valuable source of information.

### **A Promising Future**

Although Saxenian administered her survey during one of the most volatile times for high-tech industries in Silicon Valley, 62 percent of immigrant respondents said they are considering starting their own company. This rate was significantly higher than the 46 percent of U.S. respondents who planned to begin a start-up. In fact, only 7 percent of foreign respondents said they would never open their own business, compared to 13 percent of natives.

Seventy-four percent of Indians surveyed said they would like to run their own business someday. A large consensus such as this hints that not only do foreign-born respondents tend to be more entrepreneurial than natives, but they also be more inclined to convert their future businesses into transnational organizations.

Professor Saxenian notes that although many foreign-born entrepreneurs intend to establish commerce in their native countries, few countries provide the economic freedom required for new businesses to thrive. In countries such as China and Taiwan the government gives little if any financial incentive to entrepreneurs and access to capital is limited.

### **Conclusion**

The PPIC survey presents substantial evidence that the "brain drain" from developing countries such as China and India no longer exists. The informal networks of immigrants in Silicon Valley allow a more complex phenomenon of "brain circulation" to prevail. The links between California and distant regional economies are developing quickly.

Saxenian found that many first-generation immigrants exchange information, jobs, and business opportunities with friends and colleagues back home. Her research suggests that local institutions and social networks within ethnic communities play a larger role towards business behavior than do national or personal interests.