Startup Elsewhere

Michaela Ross
CUNY Graduate School of Journalism

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Startup Elsewhere
By Michaela Ross

Donald Trump declared it dead. Hillary Clinton trumpeted it must be revived. And Marco Rubio warned it’s slipping away.

Short of a coroner’s report, the American Dream doesn’t seem to be doing much living in America. And perhaps nowhere has the U.S. lost its reputation as the land of opportunity as it has with immigrant tech entrepreneurs: a group that once served as a star example.

A significant number of young entrepreneurs—especially students who came to study at U.S. universities—now head home to launch their tech startups and are taking with them high-skilled jobs, revenue and the cutting-edge spirit of innovation on which America has historically prided itself.

So I set my alarm for 6 a.m. on a recent Saturday to call and ask Indian immigrant Madhav Krishna if, in the seven years since he graduated with a degree in computer science at Columbia University and launched his own tech startup, he had found the American Dream. And if so, did that dream live in New York City, or 9½ hours and 8,301 miles away in Bangalore, India, where he now sat?

The decline of America’s imported innovation empire stems from different factors: the emerging economies where many foreign tech entrepreneurs were born are expanding, offering ever-rising standards of living and pools of tech talent at a fraction of New York City or Silicon Valley’s prices. The visa and green card backlog also drives away innovation: stories abound of entrepreneurs who’ve created hundreds of jobs only to be kicked back home when the Department of Homeland Security wouldn’t renew their visa.

I had heard much about Krishna in tech circles across New York City. His LinkedIn profile listed him as a self-confessed geek. It tallied his skills in Python, Java, C, C++ and six other programming languages he’s fluent in, apart from English and Hindi.

Soon my computer screen framed his face in the baby blue interface of a Skype call. Krishna, 30, wore a red and black checkered plaid shirt with bright blue headphone buds dangling from his ears. His mass of black hair swept away from his forehead.

He started by telling me about how he first got into tech. He was 12 years old when his father brought a desktop computer to their home in New Delhi. Young Krishna immediately taught himself to code.

“I was just fascinated by it,” he said. “It just came naturally.”

In India, he said, parents often encourage their children to study medicine or engineering. But he immigrated to the U.S. after finishing his undergraduate degree to get a master’s in computer science.

“Education was valued a lot in my family,” he said. “My parents understood the U.S. was a good place to study and start my career.”

Krishna is part of a long line of bootstrapping immigrants who came to the U.S. seeking opportunities and went on to become entrepreneurs. Some of America’s most American companies—from Procter and Gamble to McDonalds to Ford—were founded by
immigrants or their children. But Krishna warned that for today’s entrepreneurs in the tech industry, U.S. tech hubs have lost a lot of luster.

“America does have its work cut out for it,” he said, talking about rising living and operating expenses compared to India. “New York is probably in a dangerous place. San Francisco is facing the same issue.”

Venture capitalists like Albert Wenger see firsthand how foreign-born entrepreneurs like Krishna now favor making their home countries into home base for their businesses.

“Now many of them come – they come here to study, they come here to work at a startup,” he said. “And then instead of starting a startup here they go back and start up their startup in India, China or Africa even – the same goes for Europe.”

Wenger first came to the U.S. as a German exchange student in the 1980s. Later as a tech entrepreneur, he launched five companies in America: from a data analytics startup to a service to read books via email. Now he’s a partner at Union Square Ventures, a New York City-based venture capital firm that invests $1 billion into tech startups worldwide, including many immigrant-founded startups.

“So there are now venture funds being invested in India, venture funds being invested in China,” Wenger said. “Those are all part and partial of a larger global shift.”

From his view on the 19th floor of his office overlooking most of Midtown, he talked about why immigrant tech entrepreneurs leave the city and country. With the spreading of the Internet to all corners of the globe, tech startups launch wherever there is a connection and the conditions are best. Higher expenses, visa hurdles and anti-immigrant rhetoric are three conditions working against the U.S. right now.

Krishna agreed with Wenger. So if the climate for these innovators in the U.S. is declining, I then asked him if he still believes in the American Dream.

“My uncle has been saying for years, it’s not the land of milk and honey anymore,” he said. “I think it’s becoming harder to have that dream.”

He paused.

“It’s migrating.”

American immigrants innovate. Scottish-born Alexander Graham Bell created the telephone. German-born Levi Strauss crafted the first pair of denim jeans after the California gold rush. And the pedal bicycle, as we know it, was fashioned by French-born Pierre Lallement.

After settling on the Brooklyn shores of Coney Island from Germany, Charles Feltman concocted the first hot dog. Canadian James Naismith dreamed up the game of basketball in his Massachusetts’ YMCA class. Oscar Banker patented the automatic transmission after escaping genocide in the Ottoman Empire and Ralph Baer, a German
Jew who fled the Holocaust, developed the world’s first commercial video gaming console.

Immigrants make up only 13% of the country’s overall population, but they have filed over a quarter of the country’s global patent applications, won a third of America’s Nobel prizes in the sciences in the last hundred years and make up over half of all computer science Ph.D. students in U.S. universities.

American immigrants aren’t just innovators, they’re entrepreneurs. Immigrants build businesses at twice the rate of native-born Americans. And over the past 20 years, this rate increased 50% while natives’ startup rate decreased 10%.

Then, once they’re up and running, American companies founded by immigrants and their children pull in revenues greater than the GDP of every country in the world outside the U.S., except China and Japan.

“It’s been established that immigrants have added a lot to the U.S. economy,” said Vivek Wadhwa, author of “The Immigrant Exodus: Why America Is Losing the Global Race to Capture Entrepreneurial Talent.”

Wadhwa, 58, immigrated to the States from India as a young man, launched two tech startups and has since become a modern-day foil to Paul Revere, sounding a fervent alarm that the immigrant tech entrepreneurs are leaving.

Immigrants had launched over half of all tech startups in Silicon Valley and a quarter in the overall country as of 2005, Wadhwa told me in a phone call from his office at Stanford, where he serves as a law fellow.

Immigrants and their children founded or co-founded four companies for every ten in the Fortune 500’s 2010 rankings. They have also produced seven of the world’s 10 most valuable brands and launched tech giants like Intel, eBay, YouTube and Yahoo.

Before Google could perform 40,000 web searches a second, its co-founder, Sergey Brin, immigrated to the States from Russia. Before Tesla designed the world’s first luxury electronic car, Elon Musk was teaching himself computer programing at age 12 in Canada.

But the flow of immigrant entrepreneurs is reversing, and former New York City Mayor Michael Bloomberg warned Congress in a 2011 speech that the American Dream was leaving with them.

“We will not remain a global superpower if we continue to close our doors to the people who want to come here to work hard, start businesses and pursue the American Dream,” he said.

No other U.S. mayor knows the importance of immigrants in the economy like a New York City mayor. Foreign-born individuals make up 3 million of the city’s 8 million population, and run over half its small businesses.

Bloomberg not only recognized the importance of immigrants to the economy, he also recognized the job creating power of the startups they were launching. Since the late
1970s, firms 1 year old or less have consistently created about 3 million jobs a year, according to the Ewing Marion Kauffman Foundation, an entrepreneurship and education research firm. In comparison, all older firms lose about 1 million net jobs combined each year.

“It’s what I call national suicide – and that’s not hyperbole,” Bloomberg said.

Startups create jobs and immigrants create startups. But by 2012, Wadhwa’s research showed that the number of tech startups in Silicon Valley founded by immigrants had dropped almost 9%. The nation-wide number had slipped 1%.

Wadhwa said he saw firsthand that the U.S. was losing highly skilled immigrants even before the era of the Great Recession. In 2006, he calculated that over 1 million high-skilled temporary workers and students were waiting for a yearly allotment of 120,000 green cards. He figured that frustration with the hold-up would spur many of these professionals home, but no government entity tracked this data. So he teamed up with scholars from Duke, Harvard and Berkeley Universities to launch a series of survey studies.

By 2009, Wadhwa and his team estimated about 200,000 highly skilled workers from India and China would leave the U.S. over the next five years, up from the roughly 100,000 that had left over the 20 years prior.

In their surveys, entrepreneurship was a strong prospect for these returnees. More than half of the over 1,000 Indian and Chinese professionals the team contacted said they’d likely start a business in the next five years, and that the opportunities were better for them to launch at home than in the U.S.

Two years later in 2011, the team contacted almost 300 Indians and Chinese who’d actually launched startups – the bulk of them in tech – after moving home from working or studying in the U.S. Of these, almost 75% of Indians and over 80% of Chinese said the opportunities to launch their startups were better or much better in their home countries. The strongest advantages cited were lower operating costs, employee wages and access to local markets. Over half said the quality of life was better at home than in the States.

Wadhwa had begun to quantify what he called an immigrant entrepreneur exodus. They named the 2011 study, “The Grass is Indeed Greener in India and China for Returnee Entrepreneurs.”

I asked him if he’s tracked the exodus since this report.

“Skilled immigrants are leaving the United States in larger numbers than before,” he said.

He sighed into the phone.

“It's accelerating, sadly.”

* * *
Madhav Krishna hunched over his Dell Inspiron laptop in Columbia’s Butler Library to scour job postings. It was December of 2008. He had just finished his master’s degree with a “sizeable” student loan at an ivy league’s international student rate. And down the street, the Lehman Brothers’ bankruptcy declaration had touched off an almost two year recession and a nationwide purge of 9 million jobs.

“It was the worst time to graduate,” said Krishna.

After years of dreaming of a coveted U.S. diploma and the opportunities that could come after, Krishna watched as many of his fellow international classmates packed up their diplomas and got on planes home after failing to find jobs in their fields within the 90-day post-graduation window allotted to foreign students. He said he vigilantly applied for 50 positions a day.

“It was really, really hard,” he said.

Just weeks before Krishna’s time ran out, a new tech company on Fifth Avenue hired him. He fell in love with startup culture. He ploughed through 15-18 hour days and learned about every aspect of running a company. He even launched a website with another Indian friend to connect people in the startup world.

“It was like a dating site for entrepreneurs,” he said.

That site later fizzled out, but Krishna hadn’t given up on the dream of creating his own company.

The new vision came on a trip back to New Delhi in January 2013. To celebrate his father’s birthday, Krishna’s family gave out hundreds of plates of food on the street in front of their upper-middle-class home. But when an 11-year-old boy who looked homeless thanked Krishna for the food with huge hug and a smile, Krishna started tearing up.

“I had this moment of epiphany and I was like ‘holy shit, I need to do something for people like this kid,’” he said.

“I tried to figure out how I could use my skills to make an impact and some sort of change there,” Krishna said, “Education can empower people to bring themselves out of poverty.”

Then came his golden business idea: he’d help people learn English through their phones. This wasn’t just a problem in India: an estimated 23 million adults in the U.S. have low or zero English proficiency. Learning English means access to better-paying jobs in either country.

Krishna already had a background in “natural language processing” from his time at Columbia, which interfaces technology with human language. He researched language education and found the largest obstacle for English learners was often the chance to practice the skill. Back in New York City, he developed an app with another Indian co-founder that mimicked language immersion on a cell phone. They called it mESL, for Mobile English as a Second Language.
Krishna and his partner piloted the app at a Midtown YMCA and other low-income, immigrant education institutions in the city. The program worked on even the simplest cell phones. By the end of the experiment, English learners with the app improved their skills by 63%. It was a success. But the challenges to make it into a business loomed.

“It was so frustrating,” he said. “Trying to launch a business on nights and weekends. I kept thinking to myself how much farther I’d be if I could get legal status and do it full time.”

In the U.S., Krishna was considered a “highly skilled worker” on an H-1B visa sponsored by his employer. H-1B visa holders can legally start companies on paper, but cannot be self-employed. They can’t even call themselves a CEO on Facebook without fear of an immigration official pulling them aside at an airport and deporting them.

Krishna’s business had already created three part time jobs and hired 7-8 contractors in the middle of a slow U.S. economic recovery at 8% unemployment. But unless he married a native for a green card or convinced someone with permanent residency to launch his business for him, Krishna was stuck trying to run a startup in his spare time. Moreover— unlike countries like the U.K., Australia and Singapore – no "startup" visa exists in the U.S. The closest option, known as the EB-5, is tailored more toward developers who invest at least $1,000,000 in their venture, far more than is needed to launch a typical tech startup.

“You can’t be an entrepreneur who has a great idea, and is able to build it out into a business within a few months,” said Krishna. “The visa system doesn’t support this sort of model, whereas that’s what’s happening increasingly.”

Krishna started speaking out about his situation. He joined FWD.us, a national non-profit launched by Mark Zuckerberg, Bill Gates, and other Silicon Valley heavyweights. On its website, FWD.us says it’s “mobilizing the tech community in support of policies that keep the American Dream achievable in the 21st century” through comprehensive immigration reform.

The organization works against an ever-loudening outcry of anti-immigration activists, who state that foreign workers steal jobs from Americans and foreign students steal slots at American universities.

“There is a widespread notion that dollars are being spent on foreign students and that they are displacing U.S. students, even if in general that isn’t right,” John Bound, an economist at the University of Michigan who studies the foreign student influx, told the Wall Street Journal last March. For every foreign student with an advanced STEM degree who stays in the U.S., they create 2.62 jobs.

Krishna used FWD.us as a platform to talk about the jobs his company created and its path for expansion, but he started to wonder if his business was really better off in the U.S. He noticed his friends who had gone back to India were happy and doing well in their jobs. He researched the cost of launching his startup India.

“Space is incredibly cheap,” Krishna said. He compared the $75 monthly cost to rent a desk at a Bangalore co-working space to the $350 to $600 options he’d seen in New York City. The same co-working desks in San Francisco rent for $400 to $500.
By this point, he had also tired of the cost of living in New York City while trying to save for a business.

“In New York, I feel like I would spend so much time worrying about not spending $12 on my next meal, and eating healthy at the same time and paying rent and, like, all this crap,” he said. “I just wouldn’t have to deal with that there.”

And as much as New York City’s tech industry boomed, its price tag to live and do business had morphed its idea culture, Krishna said.

“Manhattan is becoming this weird place – all the creatives and young people are being pushed out to further away,” he said. “And they’re the ones who are creating these businesses.”

Finally, Krishna thought about how he wouldn’t need a visa to launch a startup in his home country.

“This seems like an idea that’s gonna work, I should just make the leap,” he remembered thinking.

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In 1964, Indian immigrant and researcher Mehdi Kizilbash published a report, “The Employment of Returning U.S. Educated Indians,” in the Comparative Education Review. At the time, he noted, the 6,000 Indian foreign exchange students studying in America made them the largest group of Indians outside their homeland after Canada. Moreover, surveys found recently returned Indian students wanted to go back to the U.S., citing reasons such as India’s lack of employment, decent wages, and adequate living conditions.

“These and other circumstances barely touched in this article, make the short-run prospects for the satisfaction of Indians returning from the United States very grim indeed,” Mehdi wrote.

But at that time, restrictive immigration laws in the U.S. allowed a quota of only a few hundred Indians to stay a year.

Then, in 1965, the U.S. Hart-Celler Act dropped country quotas and began favoring immigrants with special skills. Americans expected to see an influx of Italians, Portuguese and Greeks. But a new group waited to move in: Asian engineers.

Waves of thousands of Indians, Chinese, Taiwanese and Korean engineers flooded the country. Their skills were needed as America forged tech jobs to fight the space race, arms race and personal computer race that was heating up in the 70s-style offices of SoCal and Silicon Valley. America needed innovators, and immigrants were pouring in to fill positions.

Vivek Wadhwa remembers the excitement of coming to the U.S. in 1980.

“Back then, the United States was the only real destination for someone serious about information technology,” Wadhwa wrote in his book.
By the 1990s, foreign-born individuals accounted for one of every four engineers and scientists in California – more than twice the rate of other tech-driven states in the U.S. And Chinese or Indian immigrants made up a quarter of all CEOs at high-technology firms in Silicon Valley.

The “brain drain” of talented immigrants from their home countries siphoned thousands of high-skilled workers into the U.S. But by the mid 2000s, the flow had started to reverse.

In the case of India, the country’s economy boomed after opening up its markets to more trade in the 1990s. India now commands the world’s third highest purchasing power, and its middle class is expected to quadruple by 2020. India has also overtaken the U.S. as the world’s second largest Internet market, as more of the country’s 1.3 billion people connect and become potential customers.

“It’s huge, huge scale,” Krishna said.

The tech industry grows just as rapidly as the market grows, too.

“India’s pretty exciting these days,” Krishna said, calling out companies that now command higher valuations than their rivals in the U.S.

The startup Flipkart, an Indian online retailer, had an estimated worth of $15 billion this year. Snapdeal, a similar company started by an Indian entrepreneur who returned to the country after being refused a U.S. visa renewal, is now worth $5 billion. In comparison, U.S. online retail startups like Jet.com and Gilt Groupe are valued at $1.5 and $1.1 billion, respectively.

A support system for tech startups in India is growing too. The number of startup incubators and accelerators in the country is up from 80 to 110 in the last year alone.

Some contend that plenty of obstacles still exist for startups in India. A quick glance at the WorldBank’s 2015 “Ease of Doing Business” report ranks India 155 of almost 200 countries when it comes to launching a business. The U.S. ranks 49.

But no Indian entrepreneur can take advantage of launching a business in No. 49 if they can’t legally stay in No. 49 in the first place.

An analysis by the National Foundation for American Policy in 2011 estimated an up to 70 year green card wait for an Indian immigrant on a professional work visa. Although attempts to quicken the wait for a green card have been made since then, one New York City-based attorney who’s practiced immigration law for nearly 20 years told me, “It still might take an outrageous amount of time to receive it.”

And until immigrant entrepreneurs secure a green card, also known as a permanent residency visa, they’re forced to invest in their U.S. business while knowing they could, at any time, be told to leave the country and their investment behind.
Meanwhile, a legislative solution to the immigrant tech entrepreneur exodus has become a political football. In 2010, then-Republican Sen. Dick Lugar and Democratic Sen. John Kerry introduced a bill to create a startup visa. A startup visa would give immigrants a window of time to launch their businesses in the U.S. if they met certain criteria – like hitting targets for job creation, revenue or financing – at a fraction of the $1,000,000 price tag of an investor visa.

“Global competition for talent and investment grows more intense daily and the United States must step up or be left behind,” said Kerry in the bill’s press release, noting that the legislation would reaffirm, “we’re the world’s best place to do business.”

One study by the Ewing Marion Kauffman Foundation in 2013 estimated the startup visa would create 1.6 million new jobs over ten years. And although the bill received widespread bi-partisan support, proponents accused Democrats of stalling the bill’s progress by trying to leverage the support for immigrant entrepreneurs to pass more comprehensive – but also more controversial – immigration reform.

The bill died on the House floor.

New iterations of the startup visa have been introduced and left to fizzle out in 2011, 2013 and 2014.

Finally, in November 2014, President Obama’s issued his own executive order.

“Acting within his legal authority, the President is taking an important step to fix our broken immigration system,” read the White House’s press release.

Since then, Obama has slowly rolled out information on a startup visa plan. Full details on what would be required to apply are expected by the end of the 2015.

Then, in November 2015, in a show of opposition to – or perhaps lack of faith in – Obama’s executive order, a fifth iteration of the startup visa bill was re-introduced by two bi-partisan congressmen.

Meanwhile, general anti-immigration rhetoric has exploded during the presidential campaigns.

“The U.S. is in reverse gear when it comes to immigration, thanks to Donald Trump.” Wadhwa told me. “No one seems to care about entrepreneurs right now because the battle that's happening is over the unskilled, undocumented workers, and the tirades against Mexicans are just, you know, really sad.”

In his presidential running announcement, Trump trumpeted his own immigration reform, saying we need to get Mexico – and “South America and probably the Middle East,” – to stop sending their problems: their “rapists” and their “crime.”

“Basically, we’re moving backwards,” Wadhwa said.
While presidential candidates dictate obituaries to the American Dream and the executive and legislative branches hunker in immigration gridlock, a pull to keep immigrant entrepreneurs like Krishna in the U.S. is coming from the country’s heartland.

Rust Belt cities like Detroit, Pittsburgh, Cleveland and Springfield work to woo immigrant entrepreneurs with lower living and startup costs, free legal services, access to STEM talent at nearby research universities and opportunities for seed capital.

Once booming examples of upward mobility and manufacturing prowess, many of these Rust Belt cities are now bleeding their own populations: Detroit is less than half the size it was in 1950 and shrinking. Immigrants would bring back bodies, and immigrant tech entrepreneurs would bring back innovation.

“People here used to be afraid of tech – they thought tech drove away jobs because that’s what it did to the auto industry,” said Faris Alami, a Kuwaiti tech entrepreneur and small business advisor for Goldman Sachs who moved to Detroit in 2003.

“Everything is changing now.”

Alami spoke to me in the old Chevrolet factory in downtown Detroit where the Corvette was designed. Now it’s the city’s most established non-profit incubator for tech entrepreneurs: TechTown.

Alami polished his Michigan state-shaped silver lapel pin. He believes Detroit is already capturing global talent. He boasts that the city has the third-most tech jobs in the nation, and ranks first in the country for number of engineering tech degrees. A third of all high-tech firms started in Michigan have immigrant co-founders: the third highest rate in the nation.

Dozens of other places in the Midwest attempt to promote themselves as future tech hubs, too. Cincinnati declared itself an “immigrant friendly city.” St. Louis launched an international startup competition, “Arch Grants,” in part to attract immigrant entrepreneurs as new residents. Dayton, Ohio collaborates with the local university to keep foreign-born students from leaving after graduation by helping them obtain non-temporary visas.

Krishna told me, however, that he would not consider launching his startup in any of these places. He wanted a city with an established tech environment, and, besides, visa obstacles exist everywhere in the U.S.

Instead, he kept researching India and what it would take to relocate his business to one of the world’s biggest tech hubs – Bangalore.

“The market’s going pretty fast, startups are getting funded,” said Krishna. “A lot is happening.”

“It’s the Silicon Valley of India,” he said.

Krishna knew if he could launch there, apart from the cheaper rent, he could easily find talented employees. Bangalore, Pune, Hyderabad and Chennai – all in India – top the world’s list of cities with the most tech workers. The surplus starkly contrasts to Silicon Valley, where startups pay a premium to compete for the best brains.

“Mid-level software engineers in Bangalore get paid $25,000 per annum, whereas in the U.S. it’s closer to $140,000,” Krishna said.

Krishna’s family and friend network in India could also help him transition back to a spacious apartment in a central part of the city where he would be walking distance from a co-working space.

“I’d have access to good restaurants, good bars, nice events and cultural stuff,” said Krishna.

And, unlike New York, the quality of life came at a lower cost.

“It is awesome. Food is just incredibly cheap and so good,” Krishna said, admitting he could hire in-house help to cook him a meal for $4. “You can just live a nice and comfortable life.”

Krishna thought about the years of paperwork, lawyer fees and legal hoops to jump through if he tried to continue his business in the U.S.

“If I had the option of doing this full time, I probably would have quit my job earlier and tried to do this in the States,” he said of his startup. “But again, I didn’t have that option.”

He thought about his home country’s booming tech industry, and how he had a chance to be part of that story.

“Screw it,” he said. “India has pretty exciting things going on.”

He changed his business name to Vahan, Sanskrit for vehicle.

And he went home.