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Immigrant

Entrepreneurs

American folk wisdom, marrying Emma Lazarus to Horatio Alger, has it that immigrants are naturally entrepreneurial. In this view, the challenge of beginning life in a new country is analogous to starting a business and venturing forth, economically, on one's own. The proliferation of highly visible niches, such as the Korean corner store or the Italian pizzeria, lends weight to the popular notion that enterprises owned and operated by immigrants are one of the primary routes for the immigrant's economic success and eventual social integration in the host society.

There is more than a grain of truth to this perception. In every decennial census from 1880 to 1990, immigrants were significantly more likely to be self-employed than natives. An analysis of immigrant behavior suggests why. Households typically make the decision about emigrating on a collective basis, determining whom to send and where to send them in ways that they calculate will maximize the household's earnings and minimize its risks. They are, in a sense, canny portfolio managers, investing labor (and typically capital, in the form of family savings) across national and international borders. Furthermore, the members of the household who are chosen or who self-select themselves to emigrate abroad often have personal characteristics similar to those of entrepreneurs. Like entrepreneurs, for example, they tend to be dynamic risk-takers especially in the early stages of a flow when information about the point of destination is incomplete and the likelihood of success uncertain.

Unfortunately, data about the extent and role of immigrant entrepreneurship in the national economy are limited. While social scientists have devoted considerable attention to studying the immigrant firm, focusing on the group characteristics and opportunity structures that favor business creation, statistics that might provide an overview of the aggregate contributions made by immigrant entrepreneurs are not available. Indeed, data are sorely needed on the number of jobs that immi-

grant entrepreneurs create; on the approximate economic value of the forward and backward linkages generated by their activities (for instance, through leasing and upgrading space and buying equipment and raw materials, but also in terms of such economic downstream effects as product distribution); and on the import and export trade they foster with their home countries and regions. Furthermore, given the complex nature of firm ownership in an increasingly interlinked global economy, categorizing businesses as either immigrant or native can be an arbitrary exercise: does a business whose parent corporation is based in Korea, that was itself established and expanded by Korean immigrants to the U.S., that employs some U.S. executives and immigrant labor, and that is owned in part by Japanese and U.S. stockholders, count as a U.S., foreign, or immigrant business? Considering that many immigrant businesses tend toward the informal or even the underground economy, data and their analysis become even more elusive. Ethnographic surveys of neighborhoods provide richer and more complete

data, but their generalizability is limited.

Even in the absence of hard data, however, some general observations are possible. Some high-tech professional immigrants have made extraordinary contributions to cutting-edge U.S. industries. One estimate is that up to one quarter of Silicon Valley firms were established by immigrants. This article will generally focus on lower profile entrepreneurs, but even here immigrants have made significant contributions. Immigrant entrepreneurs have revitalized many neighborhoods: Dominicans in Manhattan's Upper West Side have made Washington Heights a dynamic, culturally diverse environment, according to the

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How To Succeed in Business

## Executive Summary

4+ Immigrants often have personal characteristics similar to those of entrepreneurs.

4+ In every decennial census from 1880 to 1990, immigrants were more likely to be self-employed than natives.

4 Data are sorely lacking on the number of jobs and the amount of wealth that immigrant entrepreneurs create, on the forward and backward economic linkages they foster within the nation's economy, and on the export/import trade they develop with their home countries.

+ Impressionistic data indicate that immigrant firms are usually quite small and tend to employ co-ethnics and family. Nevertheless, they are sufficiently powerful in the aggregate to have revitalized many neighborhoods, particularly in hard-hit urban areas.

+ Evidence suggests that over the last three decades, immigrants have played a significant role in reversing the nationwide decline in the rate of non-farm self-employment.

+ There are great variations in the self-employment rates of different immigrant and ethnic groups. Researchers disagree about the reason for this variation, with some proposing that it is the result of the human or financial capital of individual immigrants, and others suggesting that immigrant communities are themselves differential sources of entrepreneurial energy. :

+ Researchers also disagree about the nature and potential of the immigrant firm. Overall, however, it appears that the immigrant firm neither exploits nor favors co-ethnics, while offering the self-employed an opportunity for socio-economic advancement.

+ If the social capital embedded in relationships of solidarity and trust among co-ethnics is in fact a significant source of economic strength, it may be a key "missing ingredient" in minority poverty analyses, which have typically focused on perceived individual or societal flaws, rather than on the communities within which individuals live.

(continued from page 1)

New York Times. Cubans are widely credited with resuscitating Miami's Little Havana. Indeed, until Miami's recent woes, they and other Hispanic immigrants were credited with rescuing the city from stagnation and transforming it into a thriving, export-driven economy, a gateway to Latin America.

More a matter of speculation, at least for now, is the importance of the role immigrants have played in the resurgence of the nation's small business sector. Thirty years ago, small business was in decay. Today, the opposite is true, a development that one noted student of the phenomenon has declared "nothing short of spectacular." Several researchers have suggested that immigration has strengthened the entrepreneurial drive of the total population, contributing significantly to this transformation.

In the early part of this century, the traditional opportunity structure provided immigrantsâ\200\224virtually all of whom entered at the bottom of the socio-economic system, as factory workers for example â\200\224with the possibility of attaining a decent standard of living and achieving generational advancement. Many of todayâ\200\231s immigrants are thought to face more tenuous prospects. For reasons that are still being debated, the competition for decently paying, low-skilled work is intensifying.' Whether as a viable route up the socio-economic ladder or

as a mechanism for survival in an economically uncertain environment, entrepreneurship is seen increasingly as an important alternative to wage labor.

This article explores the extent and boundaries of immigrant entrepreneurial activity. It summarizes research that seeks to account for similarities and differences in the business participation rate of different ethnic groups, and it evaluates the immigrant firmâ\200\231s nature and potential. In the concluding section, it examines whether the experience of immigrant entrepreneurs holds lessons for immigrant admissions and integration policies, and indeed, for poverty relief and minority policies as well.

#### Accounting for the Differences

Even the casual observer of immigrant entrepreneurship notes its concentration in certain areas and economic activities, and its variation by national origin. Researchers have developed various conceptual frameworks to account for these phenomena, refining their ideas over time to incorporate more complex and revealing data.

Early explanations for immigrantsâ\200\231 high rate of business creation attributed it to a combination of their social cohesiveness and the difficultiesâ\200\224including exploitation â\200\224they encoun-

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150,000 +â\200\224-

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NON-CITIZENS,  
PRre-1980

CITIZENS,  
1980-1990

NON-CITIZENS,  
1980-1990

CImIZENS,  
PRE-1980

Source: The Foreign-Born Population of the United States,  
1990 Census of Population.

tered in the broader labor market. One such explanation, asso-  
ciated with the early work of lvan Light, among others, argued  
that the more hardships and frustrations immigrants experienced  
in the mainstream economy, the more likely they were to seek  
alternative opportunities through self-employment and to  
develop stronger economic and social bonds within their own  
ethnic community. These, in turn, strengthened immigrantsâ\200\231  
capacity to compete in the broader market by providing them  
with information networks, sources of credit, a loyal consumer  
base for their goods, and a steady supply of co-ethnic laborers.

Families make decisions about  
emigrating like canny international  
portfolio managers

Another early explanation centered around the idea of the  
â\200\234middleman minority.â\200\235 This construct, which had proponents  
in various fields, including Edna Bonacich in immigration stud-  
ies, grew out of the observation that many of the groups most  
active in business were historically trading peoples of minor-  
ity status. The groupâ\200\231s traditions and its â\200\234uneasy habit of sojourn-  
ing abroadâ\200\235 (the phrase is Bonacichâ\200\231s) gave the group the  
â\200\234reactive social solidarityâ\200\235 that helped support and perpetuate  
its business success.

Self-Employment Rates by Ethnicity/Race & Sex,  
1990 Census

MALE FEMALE

African American	4.4	20
Armenian	241	9
Chinese	13.5	9.1
Cuban	5.5	5.9
German	1.2	6.2
Greek	23.0	10.1
Israeli	28.6	10.3
Japanese	11	6.1
Korean	279	18.9
Laotian	3.2	2.3
Mexican	6.8	4.4
Puerto Rican	3.6	2.3
Russian	24.9	123
Scottish	121	8.5
Vietnamese	8.3	8.7

Sample consists of nonagricultural workers who are at least 16 years old and who worked at least 20 weeks and usually worked at least 15 hours per week in 1989. Self-employment rate is the percentage of all those working who are self-employed. Source: Meyer & Fairlie, 1996.

However, while the "middleman" concept applied with great force in certain, widely disparate instances, ranging from the Jews of 19th Century France to the Chinese in Malaysia and the Lebanese of West Africa, there were cases in which groups succeeded in business without having the hypothesized trading background. Greek fishermen became successful restaurateurs in the U.S.; Turkish immigrants with no tradition of commerce set up viable shops in Germany. Similar, though less sophisticated "culturalist" arguments that highlighted the beliefs, attitudes or patterns of behavior of an ethnic group failed, on examination, to explain why these groups engaged in entrepreneurship. These culturalist explanations often had an ad hoc or even tautological air: they amounted to saying that members of such and such a group were entrepreneurs because they were by nature entrepreneurial. (For a fuller discussion of this issue, see the book review, page 14.)

The 1985 publication of Alejandro Portes and Robert Bach's Latin Journey: Cuban and Mexican Immigrants in the United States, marked a turning point in the understanding of how different immigrant groups organize themselves socially and economically to negotiate their new surroundings. Since the late 1970s, with the publication of Michael Piore's Birds of Passage, a distinct theoretical view of the way immigrants become incorporated in labor markets had gained prominence. This view posited that immigrant and native-born worker alike encoun-

## The Interactive Model

### Access to Ownership Resource Mobilization

- e close ties to co-ethnics
- e ethnic social networks
- e government policies

#### GROUP CHARACTERISTICS

- \* business vacancies
- Â» competition for vacancies
- \* government policies

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#### OPPORTUNITY STRUCTURES

### Ethnic Strategies & Challenges

- \* Acquire information to establish and survive.
- \* Obtain capital to establish or expand.
- \* Acquire training and skills to run the business.
- \* Recruit and manage efficient, honest workers.
- Â» Manage relations with customer and suppliers
- e Survive strenuous business competition.

### Predisposing Factors

- \* Protect themselves from political attacks.

#### Market Conditions

- \* ethnic consumer products

- e non-ethnic, open markets

- Â¢ blocked mobility

- e selective migration

- e aspiration levels

Source: Waldinger et als, Ethnic Entrepreneurs: Immigrant Business in Industrial Society.

tered the same classic, two-tiered labor market (itself largely an ideal type). This market consisted of a primary segment characterized by selection criteria based largely on credentials and education, clear rules governing pay and performance, and formal channels of career advancement. In contrast stood the secondary segment, where ethnicity and nativity status were important selection criteria, where there were few opportunities for advancement, and where pay and productivity were relatively low. Those who subscribed to this view of the labor market assumed that most immigrants were routinely found in the secondary segment, where their pliability and willingness to work for low wages made them attractive to employers. And since a key dimension of this model of the labor market was the relative impermeability of the boundary between the primary and secondary segments, the clear implication was that there were few possibilities for immigrants to achieve socioeconomic advancement.

Portes and Bach added texture and flexibility to this model by showing that under certain circumstances, immigrants create an alternative, unavailable to native-born workers, which they called the "ethnic enclave." The enclave model, which resulted from a detailed study of the Cuban immigrant experience in Miami, has several distinctive features: geographical concentration, interdependent networks of social and business relationships, and a relatively sophisticated division of labor. More

than just another segment of the labor market, the enclave functions as a substitute environment for the immigrant, cushioning his or her incorporation into the host country by providing both community and employment.

Immigrant entrepreneurship varies by industry and national origin

Perhaps the most striking feature of the enclave studied by Portes and Bach was its capacity to provide the immigrant with a path for upward mobility. From 1973 to 1979, the proportion of Cuban refugees who owned their own businesses rose



from 8 to 21 percent, and by 1979, the single best predictor of self-employment was employment by another Cuban three years earlier.

It is perhaps not surprising to find that immigrant communities take care of their own, and that some of those with the capacity to do so assist newcomers by providing apprenticeships that lead to eventual business ownership. But embedded in this observation was a subtle paradigm shift: Portes and Bach showed that Cuban immigrants not only brought entrepreneurial qualities with them, but created an environment that nurtured and promoted the development of those qualities. Miami's Cuban

Wilmington, Delaware, 1910. Courtesy of the U.S. National Archives

[immigrant Loy selling peanuts

community at least in the period of the 1970s and early 80s was not simply an aggregate of the attributes of individual immigrants, but itself possessed a synergy, what would later be called social capital, that positively influenced the individual immigrant's socio-economic opportunities.

To summarize and perhaps over-simplify, if asked to account for immigrant entrepreneurship, Light would have pointed to the hostile external environment encountered by the immigrant; Bonacich to the immigrant's social position and traditional economic activities; and Portes and Bach to the capacities fostered by and within the immigrant community.

With the limitations of these and other accounts of immigrant entrepreneurship becoming increasingly evident, most researchers came to question the notion that qualities inherent in the immigrant population or the external socio-economic environment were sufficient in themselves to account for interethnic variations in rates and types of business participation. Roger Waldinger and his collaborators at the University of California at Los Angeles have recently proposed a more encompassing model of immigrant entrepreneurship that rejects the artificiality of an either/or framework on whether culture or structure dictates the trajectory of socio-economic attainment.

While acknowledging the theoretical value of the enclave con-

cept, Waldinger and his collaborators found propinquity to be an incidental rather than a defining characteristic of the ethnic economy. For this reason and others, they proposed dropping the term enclave. Instead they developed an interactive approach that identifies a wide range of factors such as market conditions or ethnic social networks that generate, encourage, or in some way have an impact upon ethnic entrepreneurship. While this approach sacrifices some of the theoretical elegance of earlier explanations, its gains in descriptive texture and analytical complexity presage further theoretical advances.

#### A Case Study

According to the model developed by Waldinger and his associates, the opportunity structure the would-be immigrant entrepreneur encounters is determined in part by prevailing market conditions and in part by the accessibility of those businesses to immigrant ownership. Some opportunities are ready-at-hand, such as supplying co-ethnics with foodstuffs, newspapers, clothes, and other culture-specific goods from their country of origin. Since many newcomers retain close links with their home countries and face difficulties adjusting to their adopted land, businesses that service these needs, such as tax accounting firms and travel agencies, also tend to flourish.

However, in order to grow beyond this circumscribed, albeit loyal market, immigrant businesses must expand, and they generally do so along predictable tracks. They take advantage of privileged linkages with businesses in their home country to supply the native-born with imported or ethnic goods. In the late 1960s, for example, an exploding demand for wigs, coupled with improvements in dyes and treatments that could make Asian hair look European or African, encouraged the development of Korean wig manufacturers. A study of Korean immi-

grant business owners in Chicago reports that many got their start in business as importers and retailers of wigs.

Indeed, the Korean experience in Chicago typifies important aspects of the immigrant entrepreneurial experience. Researchers have noted that immigrant businesses often expand into underserved markets; they seek out enterprises with low start-up costs and low economies of scale; and they provide goods when demand is unstable or uncertain. All four elements were true in this case. Koreans expanded into underserved African American neighborhoods, eventually diversifying from wigs to general goods; their businesses required minimal investments, since storefront rents in the neighborhoods they served were quite cheap and the products they sold were available from their sup-

pliers on generous credit terms; there were few economies of scale to be had in the small, neighborhood shops they established\*; and they took advantage of a singular moment in the history of fashion. Finally, in a textbook case of ethnic succession, Korean immigrants bought out businesses owned by elderly Jews who were leaving the old inner-city neighborhoods.â\200\231

A combination of factors helped direct Korean immigrants into certain businesses

As important as these external factors were, Korean immigrants were not simply the passive beneficiaries of a unique and fortuitous set of opportunities. As Waldingerâ\200\231s interactive approach implies, the Koreans were also both predisposed to create economic possibilities for themselves and able to draw upon a variety of well-developed ethnic and class resources. A disproportionate number of them had been self-employed professionals in Korea; blocked by poor English language skills and professional licensing requirements from pursuing their professions in the U.S., they turned to small business as a way of making money and recapturing some of their lost status. In establishing their shops, they drew on Korean traditions of working long hours and enlisting family labor. High savings rates, loans from family and friends, and rotating credit associations helped them finance their ventures.

In short, a remarkable combination of factorsâ\200\224 accidents of fashion, the nature of Korean family relationships, the poor language skills of many of the immigrants, transitional business conditions in poverty stricken areasâ\200\224 helped direct Korean immigrants into certain entrepreneurial activities, which thereafter became an entrenched pattern among the Korean immigrant community.

#### Testing The Models

A different, more supplementary than contrary, view of immigrant entrepreneurship is provided by Marta Tienda and Rebecca Raijman, who conducted a detailed survey of immigrant businesses in Little Village, an Hispanic neighborhood of Chicago. Their findings suggest that Mexican immigrants may be much more entrepreneurially inclined than is typically understood (either within the research community or among the public), and that part of the failure to perceive this entrepreneurial drive can be attributed to the inadequacies of traditional labor force data collection efforts. In particular, surveys, such as the census,

Photo: Margaret Mackinnon

Mzr. Marin, a fruit seller from Mexico

and analyses based on them, by necessity attribute only one job per individual. As a result, they often fail to recognize the extent of the informal, part-time economy that Mexican immigrants participate in, and fail to appreciate the extent to which the family or household influence decisions about income â\200\234packaging.â\200\235 Tienda and Raijman show that self-employment rates for Little Village Mexican-born adults nearly double once multiple job holding is taken into accountâ\200\224with corresponding gains in immigrant household income. Men were involved in

construction and repair services, street vending, gardening and entertainment; while women provided such services as child care, laundry, and housecleaning.

Tienda and Raijman's research suggests that such part-time, informal economic activities provide a training ground and a launching pad for future business ventures among a significant minority of Little Village immigrants. Somewhat surprisingly, they argue that Mexican business owners exhibit a greater propensity for risk-taking and other entrepreneurial traits than Korean business owners do. On the other hand, they also find that hiring of co-ethnics more often functions as a kind of apprenticeship among Koreans than it does among the Mexicans or other groups they surveyed.

So far in their analyses, Tienda and Raijman have avoided  
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## Unite Archives

### Early working conditions

The garment industry, says one team of researchers, is â\200\234the paradigmatic case of immigrant enterprise, as it is risk-laden, supportive of small concerns, and still dependent on traditional sewing skills.â\200\235 In fact, immigrants predominate wherever the industry flourishes, and have revived it in cities where it was decaying. Turks in Holland reintroduced the trade in Amsterdam; Cypriots and Asians revived Londonâ\200\231s dying East End trade; in Paris, almost half the industryâ\200\231s workers and factory owners are immigrants; and in New York and Los Angeles, virtually all new clothing factories are established by non-natives. In New York alone, immigrants from over 60 countries are involved in the trade. The match is obviously a natural, but why?

More than most, the garment industry is two-tiered. The first tier, modern and successful, consists of a mechanized, highly productive segment producing standardized clothing such as jeans and underwear. Unfortunately, this sector is increasingly relocating abroad. The second is a â\200\234spot-runâ\200\235 fashion-oriented segment that is highly labor intensive. Because this

segment constantly generates new product lines, factories are usually located close to the centers of fashion and design,

"+ where quality control is a cabâ\200\224 instead of a plane rideâ\200\224

away. In practice, if not in theory, these tiers break along gender lines, with menâ\200\231s clothing produced by the first tier and womenâ\200\231s by the second.

Immigrants are not only a cheap and reliable source of labor, but they also bring certain strengths and dispositions to the industry

There are few economies of scale to be had on the production end of this latter tier, but considerable economies to be had on the design and retailing end, where a few large stores and name brands predominate. Thus, this segment of the industry is structured as a funnel, with the bulk of the businesses consisting of small, independent contractors, who produce short runs on popular items for â\200\234jobbersâ\200\235 responsible for designing the clothes and setting the specifications. (These jobbers include many of the name brands we recognize today, such as Calvin Klein and Liz Claiborne.) These, in turn, sell to the retailers, who are responsible for consumer merchandising. In the past, many of the larger clothing designers employed their own workers and were known in the business as manufacturers, but increasingly they are relying on contractors and subcontractors to handle production.

This is where immigrants come in. Not only are they a cheap and reliable source of labor, but they also bring their own set of strengths and predispositions to the industry. For example, many of the Jews who once dominated New Yorkâ\200\231s garment industry were tailors in eastern Europe. Most became workers, but a few, using well-established ethnic networks and prior business experience, became factory owners and contractors.

With poor language abilities and backgrounds in traditional, pre-industrial societies where sewing is still a commonly acquired skill, today's immigrants have much in common with turn-of-the-century Jews. However, cognate experience in the home country is not always a prerequisite. The skills that an immigrant needs to get started in the industry can be

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picked up on a shop floor or through family connections. A lack of English language skills isn't necessarily an impediment, either, even for factory owners, who can use intermediaries or translators to negotiate with jobbers. Today, a typical apparel factory in New York is owned by a former Chinese waiter who has saved enough money to open a small shop employing 40-50 people, most of them hired through ethnic or family networks.

Pay is often below minimum wage....  
the U.S. has seen the reemergence  
of sweatshops

These familial and ethnic ties enable immigrants to respond quickly and flexibly to the exigencies of fashion. Information about opportunities can be passed along and friends or family recruited for labor needs, as needed. In addition, if employer and employee are of the same ethnicity or national origin, this tie can do much to alleviate the adversarial or oppressive quality of their relationship, even if it does nothing to diminish its often exploitative character.

Where the Consumer Apparel Dollar Goes

RETAIL MARKUP  
54%

MANUFACTURING

OVERHEAD AND PROFIT : MANUFACTURING  
16% RAW MATERIALS COST  
H 18%  
MANUFACTURING  
LABOR COSTS  
12%

Source: UNITE, 1996.

Courtesy of Cara Lise Metz, ILGWU

Teenage immigrant works in New York City sweatshop

And exploitative it often is. The large profit margins the major retailers insist upon and their ability to farm out work abroad means that contractors are squeezed to the bone. Because start-up costs are so low, new firms are constantly undercutting older ones. The result is that pay in non-union shops is often below minimum wage for all but the fastest piece-workers, working conditions are harsh, and hours are long. The real wages for the garment industry's work force once as high as the auto industry's have been in decline for years, and more and more work is done by the self-employed, for whom benefits needn't be paid. With the increasing laxity of labor regulation enforcement and the declining influence of unions, the U.S. has seen the reemergence of sweatshops.

Women fare worst of all. Though they are often highly skilled, moving up the vocational ladder is particularly hard. Women who attempt to become contractors or factory owners face grave problems in enforcing contracts or disciplining their labor force. For them, entering the needle trade can mean a lifetime of Dickensian labor.



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Chicken

CREAM » BBO RIBS » SEAFOOD » YEL 387-1935 HAMBURGERS

CE

Photo: Margaret Mackinnon

Washington, D.C. street scene

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the question of whether Little Village is an ethnic enclave. When they invest in exploring the question further, they might begin by assessing the prevalence of two of the entrepreneurship-promoting resources Portes and Min Zhou propose are fostered in immigrant communities: bounded solidarity and enforceable trust. As distinctive "outsiders," say Portes and Zhou, immigrants manifest a tendency to affiliate with others of their own ethnicity or national origin, creating a community of buyers, sellers, laborers, employers and financiers, as well as tightly meshed networks of information. These communities, which are both business and social, provide efficient mechanisms for enforcing fairness and contractual honesty. An individual who violates the community's norms risks ostracism and losing access to those valuable resources that the community provides. It would be interesting to find out whether Little Village manifests such traits.

Like Portes, Waldinger stresses the importance of the immigrant's community in shaping his or her socio-economic destiny. Waldinger's model is explicitly multivariate: that is, it identifies but does not weight the wide array of factors that are thought to stimulate immigrant entrepreneurship. Nevertheless, various researchers have attempted to determine the relative importance of these factors, with sometimes surprising results. In particular, the notion that the immigrant community constitutes an important source of entrepreneurial strength "that it is, so to speak, a greenhouse for the development of budding capitalists" has come under searching criticism.

Timothy Bates's comparative studies of Korean immigrant-owned businesses with African American and non-minority owned businesses suggest that human and financial capital "and not social capital" are the key determinants of business activity. Korean entrepreneurs are more likely to have college degrees and more likely to have invested substantial personal assets in their businesses; their returns, however, tend to be significantly below those of African American entrepreneurs, suggesting that the Koreans turned to self-employment because they faced barriers entering the labor market. Similarly, Bates found that, controlling for household wealth and education, the "Asian characteristic, by itself, has no predictive power for explaining self-employment entry."

Patricia Pessar (a member of RPM's editorial board), argues that the social solidarity that is claimed for immigrant entrepreneurial communities has often been assumed (or hypothesized) rather than substantiated. In field work conducted among Hispanic immigrants in Washington, D.C., she finds that ethnic solidarity is neither pervasive nor even necessarily desired by immigrants. Her research suggests that the "social capital" thought to play such an important role in immigrant business

formation may be more scarce and elusive than was imagined.

â\200\234Lost in the fray is the community itself, with its ... supporting or constraining effects on individual economic actionâ\200\235

Statistical analyses conducted by Andrew Yuengert suggest that two rather more mundane features of immigrant communities may explain most of their varying business participation rates. Immigrants from countries with high self-employment rates have higher than average self-employment rates in the U.S., perhaps because they are more likely to be experienced business people. Also, immigrants tend (presumably by coincidence) to concentrate in states with progressive tax codes, which may act as incentives to pursue self-employment, with its greater opportunities for tax avoidance. Yuengert's research finds that these two factors account for 62 percent of immigrant self-employment participation. Yuengert also found little statistical evidence for the â\200\234enclaveâ\200\235 hypothesis.

Sanders and Nee acknowledge the importance of â\200\234social capitalâ\200\235 in explaining interethnic variations in self-employment, but locate the relevant social unit as the immigrant family rather than the immigrant community: â\200\234As a social organization of production, the familyâ\200\235s chief advantages are not simply tan-

R S â\200\224 W â\200\224 Sâ\200\224

gible products, such as unpaid labor, but also involve the mutual obligation and trust characteristic of solidaristic small groups.â\200\235

Finally, economists Meyer and Fairlie demonstrate a startling correlation between the incidence of ethnic self-employment and the average â\200\234self-employment bonusâ\200\235\* earned by the ethnic entrepreneur. This suggests that the self-employment rate is a function of the size of the anticipated gain, which makes sense: the more you are likely to make by becoming self-employed, the more likely you are to become self-employed. But while this answers the question about variations in ethnic rates of entrepreneurship, it does so at the cost of posing another: what makes the self-employment bonus vary so much by ethnicity?

The downside of immigrant entrepreneurship is rarely acknowledged

#### The Downside

Not only has the role of various factors in influencing immigrant entrepreneurship been subject to debate, but so, too, has entrepreneurshipâ\200\231s image as an essentially positive feature of the immigrant experience. Few images in immigration are more ideologically loaded than that of the toiling entrepreneur, pulling himself or herself up by the bootstraps in a strange land. But some researchers say the image fails to register the costs that immigrant entrepreneurship imposes. Indeed, many of the positive aspects of entrepreneurship have a negative dimension that is not often acknowledged. The ethnic solidarity hypothesized to be conducive to immigrant business can be seen in another light, as exclusionary and clannish, impeding access to business and employment opportunities for the native-born. (Korean store owners were criticized for this by some African American leaders after the Los Angeles riots.) The informal business transactions in immigrant communities that are normally regulated by gossip and ostracism can sometimes be enforced in ways that are distinctly illegal. To some of the relatives involved, the much-vaunted â\200\234strong family tiesâ\200\235 that keep a corner store open 24 hours a day may seem exploitative and unfair. There is even reason to suspect that immigrant self-employment is more of a survival strategy than an indication of socio-economic successâ\200\224more, that is, of a lifeboat than a ladder.

Acknowledgment of and concern about these downsides does not mean condemning immigrant entrepreneurship out of hand. It simply means that using entrepreneurship as an ipso facto

Self-employment Bonus Among Selected Groups  
Los Angeles Region, 1990.  
Employed Males Aged 25-64 Years Old

Self-employment Adjusted

bonus bonus

Salvadoran FB \$4,012 \$3,797  
Guatemalan FB 6,768 SRI2.0  
Mexican NB 10,101 9,067  
Mexican FB 6,452 4,737  
Japanese NB B8R0 12,698

Chinese NB 1L 7113 14,232  
Chinese FB 15,437 12,993  
Black NB 14,119 13,467  
Iranian FB 17,806 1559067

Source: Light & Roach, p. 203, 1996.

pro-immigration argument may be much more complex than it appears. But while immigrant entrepreneurship may be somewhat of a mixed bag, in the larger picture, it is still a generally positive phenomenon. Studies comparing co-ethnic employees' salaries to those available on the general labor market have concluded that, overall, immigrants are neither favored nor exploited by their compatriots. A study of the self-employed in Los Angeles by Light and Roach concluded that "defensive self-employment" was in fact most prevalent among native-born whites, rather than among immigrants. And Meyer and Fairlie's study cited above demonstrates that the self-employment bonus was positive for every group, suggesting that entrepreneurship reflects overall economic opportunity rather than distress.

To a certain extent, too, many of the apparently negative aspects of immigrant entrepreneurship can seem less threatening if viewed in historical perspective. The development and strengthening of ethnic ties through formal and informal business associations may partially account for a given immigrant group's seeming "clannishness." But this is a long-standing pattern in U.S. history, one that has not failed to correct itself over subsequent generations.

More troublesome may be the proliferation of immigrant-owned businesses that exploit recently arrived co-nationals in urban sweatshops. The most notorious example of this phenomenon is the apparel industry. [See sidebar: From Rags to Rags.] However, as serious as this problem is, it is, at least on its face,

## How to Succeed in Business

The prevalence of rotating credit associations among economically successful immigrant communities has attracted considerable scholarly attention. These associations are common throughout the world, from Japan, China, and India to West Africa and Jamaica, and the evidence suggests that in setting up such associations in the West immigrant communities are typically adapting or recreating an indigenous practice. Korean immigrants call their associations Kyes. Pakistanis call them Kommittis; ethnic Chinese call them Hui in the U.S. and Tontines in France. Similar organizations, of varying size and formality, serve West Indian, Dominican, and Tunisian immigrant communities as well.

For all their geographic diversity, credit associations usually function according to the same basic principle: its members set aside a fixed amount at every meeting and distribute the sum to each member in turn. But these organizations do much more than simply provide credit. By ritualizing self-help, they encourage savings, foster ethnic solidarity, and serve as springboards for ethnic participation in the broader political arena.

What is less clear is how much of these immigrant groups' economic success is due to the credit associations. Credit associations usually rank third or fourth on most immigrants' list of credit sources. Families often provide larger loans, on better terms. And most immigrants seem to have scrapped together their start-up capital the old-fashioned way: by working long hours and living frugally.

## Financial Resources Used to Capitalize Current Business

OTHER  
4%

PERSONAL SAVINGS  
31%,

## MONEY FROM KOREA

9%

LOANS FROM KIN  
18%

S KYE  
14%

BANK LOANS  
14%

LOANS FROM FRIENDS  
10%

Source: Yoon, 1995, p.329

more of an issue about this nation's commitment to enforce its labor standards than an immigration issue. (Though it clearly has implications for the notion of immigrant solidarity as well.)

### Policy Implications

Aside from favoring the enforcement of existing labor and anti-discrimination laws, it is difficult not to be somewhat agnostic about the role government can or should play in encouraging the growth of entrepreneurship. This could, perhaps, be expressed in more positive terms: if the government wanted to promote entrepreneurship it might focus first on identifying and then addressing the entry barriers to business creation. If it were to do so, it might find that regulations and licensing requirements are among the hurdles that discourage small business aspirants, particularly immigrants (who may lack the knowledge and language proficiency to pursue them). It should be stressed, however, that this is an hypothesis: there has been no research, to our knowledge, on the impediments posed by government regulations on immigrant business formation and growth.

Programs that assist in business development and that provide "how-to" instruction, such as assistance in getting licenses, conducting feasibility studies, writing business plans, and keeping account books, may also help set immigrant businesses off on the right foot, especially if they are extended to other groups and are conducted as public/private sector partnerships using established business associations as conduits. But even these programs pose the awkward question of whether immigrants ought to receive any special assistance, given the limited resources available for discretionary spending and the needs of the native-born population.

Beyond that it is hard to say. Promoting business development may be an attractive agenda for governments seeking to provide targeted relief for groups or areas suffering from high levels of unemployment or poverty. However, in today's climate of aggressive opposition to special programs for any group, these may be anathema. Furthermore, the government's record at picking winners in this area has been disappointing: high rates of business failure and loan delinquency are the norm. More generally, even if governments could enhance opportunities, through tax incentives, loans, and contracting set-asides, they are unlikely to be able to foster the development of those group characteristics or community resources that some researchers have identified as critical for self-sustaining socioeconomic progress.

It is precisely these group characteristics that have been insufficiently noted in the by-now almost sterile intellectual debates over minority poverty alleviation in this country. Too often, the discussion has pitted those who argue that minority individuals lack certain characteristics (the "right" values, the "right" work ethic), against those who focus on the broader economic structure, who argue, for example, that decent jobs simply aren't available.

The highly visible success of certain minority groups has tended to reinforce the position of those who stress a more individualistic view of social relations. However, as Alejandro Portes and Min Zhou argue: "Lost in the fray is the community itself, with its networks, normative structure, and supporting or constraining effects on individual economic action.... The absence of this third approach accounts, in our view, for a good part of the policy failures experienced by proponents of different sets of policies." Robert Manning's study of African American businesses in Washington, D.C. demonstrates how such social capital was systematically undermined by exclusionary and racist policies prior to World War I. If the social capital exemplified by some present-day immigrant communities is indeed a necessary precursor for economic advancement, the grand question, then, is how to develop or recapture that capital among other, more historically disadvantaged population groups.

#### NOTES:

"Various theories have been advanced to explain this phenomenon. One is that the globalization of the world economic system has both decimated relatively well-paying, semi-skilled manufacturing jobs and put downward pressure on the wages such jobs offer. Another is that there may be an increasing spatial mismatch between where most immigrants locate in the inner cities and the suburban location of most jobs.

2 As they gradually took control of wholesale distribution after reaching the necessary critical mass of small shops, Korean entrepreneurs in fact began to achieve some economies of scale

'Ethnic succession is a recurring pattern in the immigrant experience: as an immigrant stock matures and the children and subsequent generations climb the socio-economic ladder, they tend to move into more attractive neighborhoods and businesses, leaving their old haunts to a fresh wave of immigrants. In this case, tension between Jews and African Americans and a sense that Koreans were fellow victims of discrimination led to their being welcomed into the African American neighborhoods. The tension that subsequently developed between the two groups suggests that there may be something inherent in that "middleman" socio-economic position that fosters ill-feeling.

The self-employment bonus adjusts for human capital, measured in terms of education level and language skills, and also aims to control for other, extraneous personal characteristics that might affect earnings.

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