





Working on the Fringes: Immigrant Businesses, Economic Integration and Informal Practices

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The emerging post-industrial urban economies are characterized by a renaissance of small businesses. As numerous examples from many cities in the European Union, and in advanced economies in general, suggest, immigrant entrepreneurs are part and parcel of this development. These immigrants are affecting advanced urban economies in various ways as, for example, by revitalizing formerly derelict shopping streets, introducing of new ('exotic') products or by fostering the emergence of new spatial forms of social cohesion. These processes are not confined to the formal economy in the strict sense of the term, but sometimes go beyond its boundaries. Here, we focus on both formal and informal economic activities of immigrants as they may have significant implications for the process of socio-economic integration of newcomers and, thus, of the social cohesion of the societies involved in general.



By informal activities, we mean activities aimed at producing a positive effect on income (for the person executing the activities and/or for the person receiving the results), for which the terms of legislation and regulations (planning requirements, social security legislation, collective labor agreements, and the like) applicable to the activities are not being met. Immigrant businesses engaged in informal economic activities exemplify the double-edged sword that these activities inherently represent. They are, on the one hand, by definition a breach of the law and may, eventually, undermine the moral and legal underpinning of the welfare state. On the other hand, informal activities may provide immigrants – many of whom have difficulties getting access to regular jobs – with better economic opportunities and, hence, constitute an important, albeit illegal stepping stone in their social and economic advancement.



Notwithstanding the apparent diversity of both the origins of the entrepreneurs and the types of businesses they have established in the various countries, there seems to be similar underlying processes. These common processes also have a strong bearing upon the *type* as well as the *extent* of informal economic activities in which immigrants may be involved. Most immigrant entrepreneurs are funneled towards markets at the lower end. Lacking in most cases access to significant funds of (financial) capital and also deemed lacking in appropriate educational qualifications, most fledgling immigrant entrepreneurs can, in principle, only set up shop in markets with low barriers of entry in terms of capital outlays and required educational qualifications. In these markets, production is mainly small-scale, usually very labor-intensive and low in added value, while cutthroat competition reigns. Accordingly, many firms fail but due to the low barriers of entry, there are also many new start-ups. Cutting costs is an obvious strategy in these markets. This can be done in formal ways, but the scope being rather limited, many firms (especially recent start-ups) may revert to informal practices by cutting corners with respect to taxes, labor regulations, minimum wages, employing workers who are not allowed to work (e.g. children, undocumented immigrants), and also, possibly, by engaging in other, illicit, transactions. Following this, it is likely that immigrant entrepreneurs are over-represented in specific economic markets and specific kinds of informal economic activities.

Although the necessary conditions are present in most advanced economies, it is likely that informal economic activities manifest themselves in distinct ways in the different member states. Differences between these states exist, for instance, with regard to policies towards immigration, traditions of immigration and insertion of immigrants, paths of economic development and, also, with respect to the regulatory frameworks (especially the welfare state and its concomitant arrangement of socio-economic rules and regulations) and the associated enforcement regimes. These differences will generate different trajectories of opportunities for informal activities resulting in, probably widely diverging chances of being integrated in the mainstream economy in the long run for the immigrants involved. Governments will thus be confronted with quite distinct sets of social, economic and political costs with respect to policies dealing with informal economic activities.



The rise of immigrant entrepreneurship and its relationship with informal economic activities is a very complex and, in some respects, rather



opaque process involving important questions from both a scientific as well as a policy perspective. Seen from a policy maker's point of view, the most crucial questions center, eventually, on the dilemma of giving priority to enforcing rules on economic activities (upholding the rule of law) versus allowing certain activities in order to facilitate the process of socio-economic incorporation of immigrants, which is essential to maintain and promote social cohesion. This latter option may encompass changing the regulatory framework (a formal change of rules, as is the case in so-called economic development zones), or tolerating, in principle, unlawful activities (a change in enforcement), or upgrading the skills of the entrepreneur and thereby increasing the competitive edge. To be able to grasp this dilemma on a higher level, a more profound understanding of the dynamics behind the involvement of immigrant entrepreneurs in these informal economic activities in its complex socio-economic context is imperative.

Immigrant entrepreneurship and the informal practices of immigrant entrepreneurs have been the subject of a number of studies in various EU countries. However, the overall results have contributed to a rather fragmented and, in a certain sense, skewed pool of knowledge as most researchers have confined their analyses solely to one country, its welfare state and its regulatory framework and have emphasized cultural practices and preferences of immigrant ethnic entrepreneurs, and more or less ignored the dynamics of markets in advanced economies. The next step, therefore, is research and exchange of knowledge on the emergence of immigrant entrepreneurs on the fringes of the formal economy from an international comparative perspective that will explicitly address the processes of economic change as well as the institutional arrangements.

The objective of our network programme *Working on the Fringes* is to establish an international network to compare informal economic activities by taking immigrant entrepreneurship as the strategic starting point. The project entails a comparison of the role of immigrant businesses in the underground economy as well as an assessment and evaluation of rules and regulations and existing policy approaches related to informal and criminal economic activities in European Union member states and an affiliated member. By initiating a thorough cross-border comparison, the general underlying dynamics as well national specifics with regard to the role of immigrant businesses in the underground economy and the relationship with the formal economy will be analyzed. Juxtaposing the



different policies (both the official and the enforced) with respect to informal activities and their outcomes embedded within their respective national political and socio-economic contexts will enable us to construct a range of policy options and best practices from a critical perspective. This broad, theoretically underpinned, evaluation will significantly contribute to both the formulation and the implementation of fruitful, effective and feasible policies towards informal economic activities. Policy makers and other practitioners will, therefore, be prominent among the end-users benefiting from these research endeavors.

The rationale of our network lies in our critique of the traditional neo-classical model. It seems so obvious in this model. Opportunities for businesses occur and entrepreneurs seize them, since setting up shop in this or that line of business has become more rewarding than any alternative use of their resources. In this view, a completely transparent opportunity structure is assumed as well as economically rational, profit-seeking actors. In addition, resources can be transferred easily from one economic activity to another and no obstacles in the form of closed shops or cartels, rules and regulations, branding or marketing hampers the entry of new entrepreneurs. Markets, as always, will clear and a blissful equilibrium will return once more. This comforting situation encompasses all economic actors, indigenous as well as immigrants.

The world in which we live, however, does not always comply with such neat schemes (cf. Shane and Venkataraman, 2000). The demand and the supply side and the eventual matching process in this fictitious entrepreneurial market are much more problematic than is assumed in the basic neo-classical model. Self-employment is anything but self-evident (Light and Rosenstein, 1995). This holds true for indigenous aspiring entrepreneurs and, arguably, even more so for immigrants from less-developed countries who have moved to advanced economies. Many researchers, highlighting the role of immigrant entrepreneurs, have focused on the problematic of the supply side. They have explored the differences in proclivity towards entrepreneurship between certain groups of immigrants, the way 'ethnicity' impinges on the resources of immigrant entrepreneurs and, especially, their embeddedness in social networks (see Rath, 2000; Rath and Kloosterman, 2000).

These studies do, however, tend to neglect the two other crucial aspects of this fictitious entrepreneurial market: the *demand side* and the *match-*

ing process between entrepreneurs and potential openings for new businesses. First, there have to be opportunities on the demand side of this fictitious market to run a business in an economically sensible way (i.e. generating a surplus that, in the longer run, is deemed as at least sufficient by the entrepreneur concerned). Secondly, these opportunities have to be *accessible* for the aspiring entrepreneurs. They can be blocked due to very high minimum efficiency scales requiring large outlays of capital (as is the case, for example, in many types of manufacturing). Even if there are economically feasible opportunities for aspiring entrepreneurs, they can still be blocked. Entry to markets for newcomers may be blocked directly by rules and regulations stemming from public or semi-public (corporatist) origin. Thirdly, opportunities to start a business that will generate a sufficient income have to be perceived or, perhaps more to the point, surmised by would-be entrepreneurs (Shane and Venkatamaran, 2000: 221). Fourthly, these opportunities have to be seized in a palpable way: i.e. by actually starting their own businesses.

If one wants to transcend the specificity of one case study and to understand the insertion of immigrant entrepreneurs in advanced urban economies from a comparative perspective, this so-called *opportunity structure* has to be explored in a more systematic way. We use a more comprehensive approach that will enable us to internationally compare patterns of immigrant entrepreneurship in a theoretically founded way. We want to understand the socio-economic position of immigrant entrepreneurs by taking into account not only their rather concrete embeddedness in social networks of immigrants but also their more abstract embeddedness in the socio-economic and politico-institutional environment of the country of settlement (Kloosterman et al., 1999; Rath, 2001). We also look at the embeddedness of the immigrant entrepreneurs in social networks, but we do this by explicitly relating this to the opportunity structure in which these entrepreneurs have to find possibilities to start a business and subsequently maintain or expand that business. We have dubbed this approach *mixed embeddedness*. This ambitious, long-term international research project is still under way and a comprehensive edited volume, which surveys immigrant entrepreneurs in advanced economies from a comparative perspective, is forthcoming (Kloosterman and Rath, 2002).

In the meetings of the International Network Working on the Fringes this mixed-embeddedness approach was further elaborated, focusing es-

pecially on the demand side of the equation. This entails, first, a more theoretical exploration of the opportunity structure. The actors themselves – the immigrant entrepreneurs – and their social embeddedness are obviously very important, but other authors have dealt with these parameters fairly extensively elsewhere (cf. Granovetter, 1985, 1990, 1995; Portes and Sensenbrenner, 1993; Waldinger, 1996). It therefore makes sense to explore below the too-often-neglected demand side to flesh out the mixed-embeddedness approach in more detail.

Already a decade ago, important initiatives were taken to bring the research on immigrant entrepreneurship one step further by comparing the phenomenon in different countries (Body-Gendrot and Ma Mung, 1992; Waldinger et al., 1990a). The contributions to these initiatives were mainly rather disparate case studies focusing on the actors – the immigrant entrepreneurs – themselves. There was, however, the introductory chapter by Roger Waldinger, Howard Aldrich and Robin Ward (Waldinger et al., 1990b) in which they propounded a more comprehensive framework that did include the opportunity structure. This opportunity structure was seen to consist of *market conditions* ('ethnic consumer products' and 'non-ethnic/open markets') and of *access to ownership* ('business vacancies', 'competition for vacancies', and 'government policies'). Unfortunately, they did not elaborate this innovative approach to immigrant entrepreneurship much further (Rath, 2000 and 2001). To be able to analyze different cases of immigrant entrepreneurship from a comparative perspective, we explicitly dissect the opportunity structure from a more theoretical point of view. Before we turn to the unpacking of the somewhat elusive concept of opportunity structure, two points have to be clarified.



Firstly, the composition of immigrant entrepreneurs from less-developed countries is rather different from that of the indigenous population. The newcomers tend to differ in the bundle of resources (human, financial, social and cultural capital) at their disposal when compared to their indigenous counterparts. They are, therefore, on the whole, dependent on other segments of the opportunity structure. For them it is mainly segments that usually require only small outlays of capital and relatively low levels of education where they can set up shop. At these lower ends of markets, immigrants can stretch or even challenge the conventional meaning of entrepreneurship, as in the case of the day-laborers in Los Angeles described by Valenzuela (2001). Mainly low-skilled day-laborers

from Latin America behave as so-called *survivalist* entrepreneurs (contractors) because (lacking documents or proficiency in English) they face significant barriers on the regular labor market. By becoming self-employed they are able to circumvent these barriers.

Although the typical immigrant entrepreneur from less-developed economies basically still fits this picture of someone relatively lacking in financial and educational resources, we have seen more recently the emergence of a rather new type of immigrant entrepreneur. In many advanced economies, and especially in the United States, the number of very highly skilled immigrant entrepreneurs from *emerging*, albeit still less-developed, economies is rapidly growing. Software specialists from China and India have become very important entrepreneurs in Silicon Valley (Clarke, 1998: 190; Saxenian, 1999). Elsewhere, in Hamburg, Germany, Chinese (Taiwanese) entrepreneurs in the computer business in Hamburg exploit their privileged links with computer manufacturers in Taiwan by means of transnational networks (Leung, 2001). With the broadening and deepening integration of emerging economies in the global network, high-skilled immigrant entrepreneurs from Third World countries may become much more prominent in the near future.

Our second point concerns the nature of the relationship between the immigrant entrepreneurs (the actors) and the opportunity structure. Entrepreneurs are not just responding to static opportunity structures, but are able to change and mould them through innovative behavior and thereby create opportunities that up till then did not exist. It is this typically Schumpeterian entrepreneur who gets much attention in literature on entrepreneurship; the lone hero who comes up with a brilliant new combination of resources and, against all odds, makes a fortune out of it. Although undoubtedly very important for advanced economies and the fate of capitalism in general, many entrepreneurs – indigenous and immigrants alike – do not fit this description (Light and Rosenstein, 1995:1–3). They may be opening up new horizons, but in a much more modest way – for instance by introducing Indian foods to a white population (Barrett, Jones and McEvoy, 2001). They may even be much more modest by opening the umpteenth Indian restaurant in a neighborhood where South Asians are heavily over-represented.

There are, in other words, a small number of pioneers and a large number of followers (Carroll, 1997). However, the boundary between these two



types is, in practice, not always easily drawn and is very much contingent on the specific context. The first Bangladeshi immigrant, who senses a wider market for Indian foods and subsequently translates this into starting a restaurant in predominantly white neighborhood, can be seen as a consciously innovative entrepreneur. Others, however, may start as pure copy-cats but eventually turn out to be rather innovative when, for instance, demand for foreign foodstuffs rises due to the increase in overseas traveling on the part of the indigenous population. A large majority of the immigrant entrepreneurs, arguably, has to accept the existing opportunity structure – at least in the short run.

Central in our understanding of the opportunity structure in market economies are, inevitably, *markets*. A market constitutes the concrete economic locus where entrepreneurs, combining different resources in a specific way (adding value), have to sell their products to clients. Opportunities for aspiring entrepreneurs, hence, have to be found or created in markets for consumers, other producers or (semi-)public organizations. If, for instance, due to ubiquitous economies of scale, only very large-scale businesses can succeed, then chances for new entrepreneurs to start their own business will be very slim indeed. They would need access to substantial amounts of money and other resources such as labor to set up shop.

It seemed for quite some time that advanced economies were moving in this direction and that self-employment would, eventually, become almost extinct as small firms were apparently doomed (Kloosterman and van der Leun, 1999; Light and Rosenstein, 1995; Rath, 2001). However, advanced economies took a somewhat different turn and the room for small firms in manufacturing as well as in the rapidly expanding service sector turned out to be significantly greater than was assumed. The economic landscape in advanced economies is, of course, still dominated by a small number of giant firms and in some lines of business, notably car manufacturing, cross-border mergers are increasing the average size of firms even further. After crossing the ‘Second Industrial Divide’ (Piore and Sabel, 1984), there is, however, little doubt about the structural viability and the long-term economic importance of small firms and, concomitantly, of self-employment. Several underlying factors are important in this process. The wide availability of cheap computing power brings it within the reach of small businesses (Castells, 1996: 221). The fragmentation of markets as consumers look for more ‘individual’ (e.g.

fashion) or group-specific (e.g. 'ethnic music') products erodes thereby the possibilities for economies of scale and, hence, favors more flexible small businesses. The greater need of innovation and the focusing on core skills stimulated by intensifying (global) competition have opened up new possibilities for small firms in manufacturing. Moreover, the rapid expansion of service activities in advanced economies has created a whole new array of opportunities for small businesses, as economies of scale are hard to achieve in a number of producer- and, especially, consumer-services (e.g. child-care, house-cleaning, catering etc.).

The opening up of new opportunities for small businesses in the emerging post-industrial or post-Fordist economies has thus put an end to the hitherto reverse relationship between the economic cycle and new business start-ups. Even in times of a prolonged economic boom, business start-ups are on the rise. Starting your own business has become a first choice for many young aspiring entrepreneurs and not just a second-best option when jobs are hard to find – although the latter may still hold for many immigrants who may face all kinds of barriers on the labor market. In general, the set of openings into markets for setting up new (small) firms – the so-called *opportunity structure* – in advanced economies outside of agriculture has been gradually expanding (Blackford, 1999; Light and Rosenstein, 1995; OECD 1992; Scranton, 1999). In other words, due to underlying structural developments with respect to technology, consumer demand, business strategies and the shift to services, the *minimum efficient scale* for doing business has been decreasing in many markets. This has, accordingly, increased the opportunities for aspiring entrepreneurs in general.

Notwithstanding the near-universal character of these underlying trends, this does not at all imply that opportunity structures are the same in advanced economies or even in regions or cities within one country. Contrary to what some economists seem to think, markets are not metaphysical phenomena that transcend mere social realities, the same everywhere at any time. Quite the reverse, markets, and therefore opportunity structures, are thoroughly social phenomena and thus very much *embedded* in wider social and political contexts that may differ according to time and place (Scott, 1998; Storper, 1997).

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