

# **Ethnic Entrepreneurship and Migration: A Survey from Developing Countries**

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This paper explores the phenomenon of ethnic entrepreneurship and migration in developing countries. Our focus is on the decision of migrants to choose a particular site for conducting entrepreneurial activities. A survey of literature is presented in the opening section, in which two approaches, the Structural and Cultural approach, have been used as the basis for this paper. We introduce a profit seeking model in which economic and socio-cultural factors are expected to impact on migrants' decisions to engage in entrepreneurial activities at a particular place. Factors such as degree of competition, market accessibility, capital accessibility, niche concentration, cultural hostility, support network, entrepreneurial experience, migration experience, age, education and period of stay all account for the migrants' decision to choose a particular place.

## **1. Introduction**

Labor migration has dominated migration studies until recent years and only scant attention has been given to entrepreneurial migration. The over-representation of the labor perspective in the migration literature is due to the fact that the majority of migrants tends to consist of job seekers. Since the Industrial Revolution, migrants from rural areas poured into the cities and towns of Western Europe for jobs in the manufacturing sector. These movements were primarily motivated by economic considerations. Studies in developing countries reveal similar reasons behind residential change. Besides pull factors to urban location, the push factors also play an important role. Most people were forced into urban areas by socio-economic circumstances in the rural areas, such as poor and unequal distribution of land, natural disaster, population pressure, and unemployment.

During the Industrial Revolution, plenty of jobs were available when the migrants arrived to urban areas, but this was different in developing countries where employment creation lagged behind an increase in the labor force. Not all migrants successfully obtained jobs in the formal sectors. Birth rates were high and governments were short of economic resources to match with the population increase. Those who failed in the labor market were pressed into self-employment activities, such as petty trading, work as street vendors, or household manufacturing. Most of the self-employment activities in developing countries have taken place in the informal sector (Rogerson, 1988). This sector has been considered as a safety valve for unemployed people in many developing countries.

Entrepreneurial migration research has attracted scholars from various fields; these scholars realized that there is a particular type of migrants with characteristics similar to those of entrepreneurs. Instead of queuing for jobs with the locals, they create jobs for themselves or even employ other people as well. The majority of migrants in developed nations come from the developing countries and their numbers are increasing steadily over time. At first, these migrants were sometimes suspected of taking jobs from the natives, but the actual situation was that they were creating jobs for the natives.

That migrants engage in entrepreneurial activities has been recognized in most studies of ethnic entrepreneurs (Kobrin and Speare, 1983; Lewandowski, 1980). The notion of ethnic entrepreneurs is

rather confusing, because ethnicity is used here to indicate the geographic origin of the migrants. When we define ethnicity as cultural traits of particular groups who share common customs, behavior and a common world view, then the notion of ethnic entrepreneurs is misplaced in certain contexts. For example, the Indonesians in the Netherlands are considered as one ethnic group, although in the country of origin each person comes from a different cultural background. This confusion has been reiterated several times in the study of the Moroccan, Turkish, Indian and other ethnic groups residing in Europe (Blaschke et al., 1990). They were introduced in Europe as a single ethnic group, but they actually represent different cultural traits. Thus, the use of the term ethnic entrepreneurs in developed countries ignores cultural particularities and refers more to a generic nationality.

We prefer to put forth the notion of entrepreneurial migrants instead of ethnic entrepreneurs, since ethnic entrepreneurs are generally migrants whose main activities are in entrepreneurial sectors. But for this essay both concepts, entrepreneurial migrants and ethnic entrepreneurs are used together to exhibit a similar process involving migrants in the entrepreneurial sectors.

This paper explores the issue of ethnic entrepreneur or migrant entrepreneur in developing countries. We would like to pursue two main topics; one is related to conditions leading to ethnic entrepreneurial activities, and the second deals with the problems faced and strategies employed by the entrepreneurs in order to survive. In section 2 we discuss conceptual issues concerning entrepreneurial migration and labor migration; in section 3 we focus on the socio-economic structure that gives rise to entrepreneurial activities. Here, we discuss the cultural and structural approaches, two opposing methods in the study of entrepreneurial migration. Sections 4-7 deal with a profit seeking model in which we examine how different factors have given rise to migrants' selection of a destination. We conclude with section 8.

## **2. Ethnic Migration: Conceptual Issues**

A first question to be addressed is whether migration of entrepreneurs and labor migration are identical or if they differ from each other. We have two explanations. In the first, ethnic entrepreneurial is a variant of labor migration, which indicates that both share similar characteristics. Entrepreneurs are indeed self-employed and are bound by the rules which apply to the workers in general. Laborers and entrepreneurs must both work harder to achieve greater income.<sup>1</sup>

As with labor migration, the entrepreneurs were motivated by a similar drive: to improve their economic circumstances upon arrival at a destination. They were attracted by expected income from migration (Harris and Todaro, 1970). They were also subject to the spatial imbalance distribution of factors of production which forced them to leave their place of origin (Wood, 1981 and Guest, 1989; Lansing and Mueller, 1973; Simon, 1986). This is not restricted to labor migration but pertains to migration of entrepreneurs as well. In that sense, entrepreneurial migration is only a variant of labor migration; it is unnecessary to distinguish between the two. Therefore, explanations for labor migration are also valid for migration of entrepreneurs.

The second explanation is that entrepreneurial migration and labor migration do have different characteristics. The entrepreneurs rely more on their management skills; whereas labor migrants attend more to technical skill in performing their jobs. The entrepreneur's motivation for migration is to search for the best place that offers the best opportunity for profit. Labor migration on the other hand, depends on the availability of jobs at a particular region and adequate pay scale. The entrepreneurs ease some of the tensions in the labor market by generating jobs for local people, but the casual migrants aggravate these tensions by competing in the labor market. The entrepreneurs operate in two extremes; in one, if they succeed in business, they can earn big profits, but in the other, when they fail, they lose the money they have invested. The risk for labor migration occurs when they cannot find jobs in their destination area, but once the job is secured their income becomes more stable. It is clear now that ethnic entrepreneurs

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<sup>1</sup> This notion of hardworking is ignored in the Marxist analysis. No attention is given to the concept of the work-alcoholic, as is demonstrated by the Japanese and Korean workers and entrepreneurs. The Marxist is keen on the notion of exploitation which pertains to the power relation.

must be distinguished from labor migration. A separate explanation should be attached to labor and entrepreneurial migration.

### **3. Reasons to Engage in Entrepreneurial Activities: Structural vs Cultural Approach**

A major question related to the migration of entrepreneurs is which factors effect migrants' decisions to engage in entrepreneurial activities. The debate on the prerequisites for entrepreneurial activities has been shaped by socio-cultural arguments whereby we use two approaches, i.e., the Structural and the Cultural approach (Mavratsas, 1997). The Structural approach argues that the situation in the receiving society is a prime cause for migrants engagement in entrepreneurial activities (Cole, 1959). Entrepreneurial skills among specific ethnic groups vary from place to place, since different regional socio-economic structures offer different ranges of opportunities for migrants. Migrants' choice depends on the structure of opportunity the migrants encounter in a receiving society. The notion of opportunity structure relates to social, political and economic circumstances that offer the migrants opportunities to start businesses. They developed an interactive approach in which different factors such as market conditions, ethnic and social networks, degree of accessibility, demand density, government regulation, and social convention facilitate interaction among social groups and in some way impact upon ethnic entrepreneurship (Mulligan and Reeves, 1983; Gouch, 1984; Timmermans, 1986). The migrants might have planned to enter the labor market when they decided to migrate, but changed their minds when they saw opportunity in the entrepreneurial sector. One advantage of self-employment activities is that the migrants can ignore others for their supervision and rely on themselves for decision making. They have confidence within the entrepreneurial sector, because they believe that this sector offers them the possibility to achieve glamorous economic advancement without jeopardizing their social relations with the natives (Razin, 1991; Marger, 1989).

One critical aspect of the opportunity structure is market conditions, where we can include degree of market competition and market accessibility. Competition and accessibility in a market are dependent on the types of consumers migrants serve. The migrants may take advantage of opportunity in an ethnic product (Waldinger, *et al.*, 1990). The concentration of an ethnic group in great numbers within a receiving region increases the demand of an ethnic product. Cultural events and emotional attachment to the home region requires that ethnic goods only be supplied by ethnic groups. The new migrants may see an opportunity to serve ethnic dishes which demand special preparation and cannot necessarily be served by other ethnic groups. For example, most Indonesian restaurants in the Netherlands are operated by the Indonesian Chinese.

Apart from building a business on ethnic products, migrants have opportunities for serving the open market (Waldinger, *et al.*, 1990). The migrants may cater to the general audience beyond their own ethnic backgrounds. Exotic products and foods from their home regions are popular to general consumers and are in high demand. Ethnic products become public consumption and can only be provided by the migrants themselves. The Minangkabau's restaurants, for example, can be found everywhere in Indonesia and Malaysia serving general public consumers. These restaurants are very popular and are closely linked with ethnicity. Another example of ethnic products are wood carvings, paintings and crafts that are often identified with a particular cultural heritage.

They could also enter markets which are under-served or markets that have been abandoned by previous entrepreneurs (Waldinger, *et al.*, 1990). Previous entrepreneurs may move to other sectors or to other places and thus leave a space for new migrants. In this situation migrants grasp the opportunities when they find that the demands in receiving regions are still open and are not yet filled by local entrepreneurs. The entrepreneurs move toward products that are in demand; they do not restrict themselves to ethnic products, but instead may also serve the general audience with varieties of goods.

There have been a large number of moves to entrepreneurship imposed by unfavorable conditions in the destination area, the most common of which is economic dislocation. As the migrants encounter unfavorable situations such as job discrimination and other hardships in the receiving region, they switch to self-employment activities as a safety measure. This often happens to migrants with limited education

or limited skills. This is not a voluntary decision, but it reflects a no-choice, dead-end alternative after job search failure. This line of argument is in accord with the “block mobility” theory, in which they argue that migrants and the local-born workers encountered similar labor market circumstances (Light, 1995). The selection criteria in an ideal sense is based largely on education, merit, and transparent rules, but in practice we also have a hidden rule where ethnicity and nativity are included in labor recruitment, which eliminates migrants’ opportunities to be accepted in the formal sectors. Even the work available was usually low paying jobs, but they still had to compete with local-born workers. The implication is that migrants are forced into entrepreneurial activities, which is not what they have actively chosen to do.

The migrants seek opportunities outside the labor market, and forge social ties among fellow ethnic groups thus developing an “ethnic enclave.” When the numbers of entrepreneurs increase, an ethnic enclave can be established in the receiving region; the enclave is characterized by a concentration of migrants in particular sections of a city or town, and characterized by tight business and social networks. The enclave is maintained to provide new migrants with ethnic flavor of the home region. The ethnic enclave is institutionalized as well in order to incorporate new migrants into the host community. It serves as a development center for promoting ethnic skills of new migrants, which ultimately warrants them the possibility for upward social mobility. Skills nurtured within the enclave are associated with ethnic capital.

The progress of the ethnic enterprise is also related to institutional responses in the host society. A policy of encouraging the informal sector in developing countries will instigate the flow of migration. In a community where there is discrimination in credit access for migrants, there is therefore less willingness for the migrants to remain at that place. Access to credit is important to permanent migrants who seek business expansion in the receiving society.

On the other hand according to the Culturalist approach, values and cultural elements are the essential determinants of entrepreneurial activity. They refute the idea of a structure of opportunities within the receiving society. They believe that each migrant has brought with him an entrepreneurial skill that has been ingrained from an early age, or they think that there are value-laden groups whose skills are cultivated within the family or within the community. These skills are also known as ethnic resources. The family is the primary institution for grooming entrepreneurial skills (Borjas, 1993). Consequently, ethnic resources are regarded as fundamental to ethnic identity. The Jews in Europe, and the Chinese in Southeast Asia are identified with business since the majority of them engage in business activities.

The Culturalist also regards entrepreneurial activities as part of ethnic ideology. Since it is an ideology, it has to be taught, proselytized, and inculcated into children as a way of life. This is why entrepreneurial activities are seen as an expression of one’s faith. There are religious institutions which allow their congregations to engage in entrepreneurial activities, for example, the Mennonites in the United States (Redekop, et al, 1995). There is also the argument that entrepreneurial activities demonstrate a nationalistic spirit of its citizens. Research on Japanese entrepreneurs during the Meiji Restoration (Hirschmeier, 1971) and the Koreans during the Modernization period (Byung-Nak Song, 1997), give us a picture of this tendency.

In the Culturalist group we include the “middleman minority,” theory (Turner and Bonacich, 1980). The minority status is seen as a determinant of entrepreneurial activities. The migrants are only small groups who have been banned from social and political roles in mainstream society due to their minority status. To compensate for this, most minority groups engage in entrepreneurial activities which give them social recognition in the receiving society. The overseas Chinese in Southeast Asia is a good example; ethnic Chinese are banned from activities in politics that therefore compelled them to seek opportunities in business. The business skill is then passed from one generation to the next, and because it is maintained within the community, it is regarded as ethnic capital.

A cultural and religious practice that prevents some groups from engaging in entrepreneurial activities, is known as the “cultural block” theory. The absence of local entrepreneurs due to their cultural and religious practices offers migrants opportunities in business activities. Shortages of local entrepreneurs is very common in many developing countries, since business activities are sometime regarded as undignified, and those who engage in entrepreneurial activities are thought to be disgraceful. This becomes an opportunity when the migrants encounter such a community, and they enter this sector without worrying about the competition with local entrepreneurs. In the past, traditional Javanese society regarded business activities as a dishonorable job and thus allowed the Chinese to enter this sector. As a

consequence, Indonesia had a shortage of professionals after the nationalization of Dutch companies in the late 1950s. To secure the policies of entrepreneurial formation, the government implemented a “*benteng*” (fortress) program to protect the indigenous business (Robison, 1986). This policy failed; very few “indigenous” entrepreneurs succeed in their business. The Chinese entrepreneurs eventually took over these business and made good profit.

Another argument comes from Dijkstra and Van Kampen (1991), who emphasize the role of contextual conditions. According to Dijkstra and Van Kampen, socio-cultural approaches ignore that different contextual conditions offer different results in relation to entrepreneurial activities. In their view, economic, societal, and socio-spatial contexts, affect migrants’ entrepreneurial drive. In other words, migrants respond differently to different socio-spatial conditions. Newly arrived migrants in regions with high job competition, prefer self-employed activities in order to avoid conflict with local people; but in low competition labor markets, the migrants may choose to work for a company rather than enter entrepreneurial activities. Dijkstra and Van Kampen also agree that it is more likely that migrants with lower education and fewer skills are forced into entrepreneurial activities because they cannot meet the requirements set up by the firms. Entrepreneurial activities usually do not require high academic qualifications, but they do require experience in business activities. The authors consider the labor market as the prime target of migration. They ignore the fact that there are migrants who initially move into entrepreneurial activities because of “native” business acumen.

Besides the socio-spatial context, the political economic situation is also seen as having an effect on the rise of business activities among ethnic entrepreneurs in developing countries. Dijkstra and Van Kampen indicate that economic policies which rely on imported raw materials hinder the development of small and medium industries. Small and medium industries employ many people, including migrants. The collapse of these industries forces migrants into entrepreneurial activities. This argument has usually been used in the dependency theory, which blames the structure of the international arrangement as the major opposition to the domestic economy of developing nations.

In short, migrants in the Structuralist perspective are like a blank paper without any writing. Through their experiences in a receiving region, the migrants decide what kinds of marks they wish to inscribe on that paper. In this respect the choice for migrants is only in entrepreneurial activities. In the Structuralist view, entrepreneurial skills can be established through training and experience. The Culturalist, on the other hand, believes that the migrants brought with them an entrepreneurial skill from their home region. In other words, the paper brought by the migrants is full of marks. In their view, entrepreneurial skill has to be born with the individual migrant. It appears that the structural approach has gained more support among scholars (Waldinger, 1990; Cole, 1959; Forbes, 1979). This does not mean that the Culturalist approach is without merit, but that structural factors are more obviously playing a role in entrepreneurial activities in developing countries.

#### **4. Ethnic Entrepreneurs in Developing Countries**

Due to limited data from developing countries, it is not easy to conduct a study on ethnic entrepreneurs, however, ethnic migration is a phenomenon one can easily find in most developing countries. There are a few explanations for this, one of which is from the modernization failure theory (Okpara, 1986:70). According to this theory, industrialization processes in developing countries fail to provide jobs for migrants from the rural areas, thus forcing these people into entrepreneurial activities. Upon arriving in the urban areas the migrants encounter a scarcity of employment. They enter entrepreneurial activities as a survival strategy.

Studies in the developing countries demonstrate that the majority of migrants enter the informal sector (Rogerson, 1988; Forbes, 1979). This sector is regarded as a trash-bin for those who fail to secure jobs in formal sectors; that is why the informal sector is regarded as marginal. Migrants from rural areas prefer the formal sector, since jobs therein are considered to be prestigious, and they warrant a fixed income regardless of whether the work is long-term or short-term. But it is true that ethnic entrepreneurs or entrepreneurial migrants are a common phenomenon in developing countries. Ethnic entrepreneurs are characterized by small and medium businesses; they rely more on co-ethnic or family members as labor recruitment; they exercise control over a particular line of business; they have the tendency to live among fellow migrants; and contact with other groups is restricted to business activities.

It is common that entrepreneurs in developing countries are dominated by a few ethnic groups. Skills are passed from one generation to another, from fellow migrants to each other; the skills are restricted within the group and in the future become the property of the group. Entrepreneurial skills are kept within the group and eventually become ethnic capital. All members are required to keep that secret as much as possible, and those who break that hidden rule are prone to social exclusion. Skill transformations were made within the family and community. Each child in an entrepreneurial family was made to assist his parents as he grew up, and the entrepreneurial children are prepared to run their own business when they reach adulthood. Childrens' involvement in family business can be seen as institutionalized training for future generations to develop required skills (Borjas, 1993).

The ties with the home region encourages the migrants to look for the opportunity to invite their kin-group (Boyd, 1989; Gurack and Cases, 1992; Hugo, 1981). The reason they invite other fellow migrants is to protect a particular line of product or particular business activities from other groups. In other words, they want to protect a niche in the market. Since the niche becomes the center for ethnic business at their destination, it easily becomes saturated with fellow migrants. Earlier migrants became pioneers in a certain line of business; subsequent generations follow the path of their predecessors until the entire niche is fully controlled.

When it is fully controlled by a particular ethnic group, the niche becomes the symbol of an ethnic group. All enterprises within a niche boundary are ethnic enterprises. Each ethnic member is required to promote and maintain these ethnic enterprises. When the niche is totally saturated with migrants of a similar ethnic group, new migrants must build a new niche, which is usually not far from the product line of previous migrants. The whole process develops into an enclave economy in the receiving region.

The niche concentration provides jobs for family members and other relatives. At first, the migrants are alone in the receiving region, but they eventually bring their wives and children to settle with them. As the family becomes established economically, they invite other family members to join. The new migrants begin work in the ethnic enterprise, but they later establish their own businesses also within the boundary of the ethnic enterprise. This process may undergo several repeated steps until it eventually gives rise to chain migration. The first generation encourages the second and the second encourages the third and so forth, in order to reinforce the ethnic enclave in the receiving region (Zoomers, 1986; Okpara, 1986).

## **5. Ethnic Entrepreneurs in a Hostile Environment**

Conflict between migrants and the local people has become a major problem in developing countries. The niche in one sense can save the migrants by separating them from the local people, but it can be a source of potential conflict as well. There are a number of reasons for conflict to erupt between migrants and local people. Conflict arises because migrants are seen as potential contenders in the local job market. Job opportunities are in short supply in several regions and the presence of migrants increases labor stress in the receiving region. Local people view the migrants as strangers who have no right to participate in the local labor market. Such conflict can be detected in the work place whenever there are multi-ethnic co-workers.

Even if the migrants engage in entrepreneurial activities, it does not guarantee freedom from potential conflict. Local people consider the migrants as robber-barons who arrive to steal local wealth and return to their home regions. The minorities who are involved in entrepreneurial activities are usually better-off than the local people in general. This situation aggravates social prejudice among the local people, which occasionally leads to rampant social riots. Local people express xenophobic attitudes, since the migrants' apparently aggressive character threatens their socio-economic position.

The arrival of large numbers of migrants who practice different religions and habits are also perceived as a challenge to the cultural status quo of the receiving society and thus induces social stress. Migrants' religious and cultural practices are perceived as destructive to local culture and should be thwarted. Their cultural practices are seen as the virus spoiling the milk in a bowl that needs to be removed. The migrant might for example, refuse for cultural reasons, to participate in ceremonies held by local people. The exclusion of both sides from any social occasion taking place in each community

increases social tension. This is the attitude one can find in Southeast Asia with its multi-ethnic society (Furnivall, 1944).

Hostile social interaction between migrants and the local people brings us to an important issue, the cultural hostility of the receiving society. This is because migrants and the host population have different social expectations. A hostility structure comes into consideration when the migrants decide upon a destination. Hostility reduces migrants' opportunities in business activities and in turn reduces migrants' motivation to move. Hostility in the receiving society is manifested in the forms of boycott, physical destruction, vandalism, and arson.

Local hostility toward them does not always deteriorate the migrants' desire to remain in a particular region. There are those who risk staying as long as possible to earn money through entrepreneurial activities. In such a hostile situation, the ethnic niche can be perceived as a huge compartment protecting the migrants from potential conflict with local people in the receiving region. The niche isolates the migrants from local people and contact is mostly restricted to market transactions. Since the migrants interact socially more with fellow migrants, physical conflict can be reduced to a minimum.

Social tensions between the migrants and the host population can also be reduced through an assimilation process (Waldorf, 1994). This process is sometimes seen as ethnic reconciliation. The notion of assimilation refers to migrants' involvements in social ceremonies and occasions in the receiving society, or it could be related to residential arrangements or spatial dispersion, in which migrants and the host population live side by side and interact together. For a further discussion on assimilation, there are two important concepts which should be taken into account; one is multiculturalism and the second is the melting-pot (Lipshitz, 1993). The "melting-pot" attitude refers to migrants' willingness to undergo an identical assimilation process with the rest of the society. The migrants avoid residential enclaves and decide to live among the others irrespective of cultural background. The melting-pot society is characterized by the unity where the traces of past cultural qualities disappear and are replaced by new ones. Although they come from different cultural backgrounds, each group has its share in the current cultural blend. The new migrants will be absorbed by contributing part of their cultural artifacts into the melting-pot society. The migrants become a substantive part rather than a marginal part of the total society.

The second concept is multiculturalism, in which the migrants decide to separate from the rest of the society in order to maintain their own identity. Multiculturalism society allows respective ethnic components to maintain their cultural qualities. Each group is allowed to maintain its way of life, cultural traits, and habits. Social interaction is confined within the group, and strict rules are established to hold the group intact. Interaction with other groups is restricted to economic and business dealings. From our previous discussion, it is more likely that multiculturalism can potentially lead to ethnic conflict than might occur with a melting-pot society. The degree of competition in a society with multi-cultures is very intense and can potentially eventually bring them into conflict with other groups.

## **6. Towards a Profit Seeking Model**

The introduction of entrepreneurial migration gives us the opportunity to design a new approach which is built on the "profit seeking" model. The profit seeking concept is discussed here in order to explain entrepreneurial migration in developing countries. The notion of profit seeking is close to *business relocation*, which embodies both economics and spatial components. The profit seeking model attempts to develop a theory by combining the methods of spatial economics and other social sciences to inquire into and make predictions about the entrepreneurial migrants' choice of location. It is also worth examining the location theory in economics.

Economists have delved into several factors as determinants of location choice. Classical location theory tries to explain how firms make their choice among a number of possibilities of an optimum location where they can obtain maximum profit.<sup>2</sup> The optimum location in this regard should give the best opportunity for increased sales and lower costs. Although the location theory in economics was first designed to study industrial establishments in general, it is now also used to explain the optimum location

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<sup>2</sup> However, the relocation theory is commonly used to explain firms mobility in the international context.

choice of a single manufacturing plant in order to determine the minimum cost of production, cost of delivery and cost of transport. The optimum location is essential for the firm to penetrate and dominate the market (Gough, 1984).

The theory itself is based on a number of assumptions such as rational behavior, complete information, and a static situation. But rational behavior is also dependent on perfect knowledge and optimizing behavior. Complete information includes information on how to find raw materials, the market situation, or how to find cheap products. Under these circumstances the firms choose a location that minimizes costs and maximizes sales.

This location theory of the firm can be used to explain entrepreneurial migration in developing countries. Research has been done in which location theory is integrated into neoclassical economic theory. A number of factors such as demand density of consumers, the degree of competition in the market, transportation cost and market accessibility are determinants of the choice of optimum location.

One criticism aimed at the neoclassical assumption comes from behavioral location theorists, who argue that the optimum location selection model provides a framework which sufficiently explains advanced economics based on open market assumptions, however, it is not applicable to most developing countries. The migration process in developing countries is unique because it is rooted in a different social experience and so reflects different social and economic values. Several findings identify a number of local, social, institutional and cultural factors which fail to explain our earlier assumption that maximum profit is the major aim of every entrepreneur. In his study in the United Kingdom, Keeble (1976), found that the profit maximization is not the only concern behind location selection; business continuity is also their concern. Migrant entrepreneurs in some countries in Africa did not have maximized profit as their main goal, but wanted merely a satisfying income at their destination region (Van Dijk, 1983).

Other critics point to the assumption that complete information is difficult to maintain in developing countries. Migrants entrepreneurs do not have complete knowledge; they judge a location based on a limited facts, and by so doing, this eventually gives rise to business uncertainty. In an article of Alonso (1968), he emphasized this point where he saw a wide gap of information among entrepreneurs in developing countries. To reduce uncertainty, the migrants in developing countries create networks in which family and kin act as sources of information. The first sets of migrants may rely on varieties of sources of information such as friends, media, and government brochures. Second generation migrants may rely more on kin group or families as information sources.

Since it is understood that migration is part of an optimal family strategy to cope with household economic problems, other family members are also involved in the migration decision. This is of course, in contrast to the neoclassical model, in which the emphasis is on the individual as the prime decision maker in migration. In our case, migration is actually seen as a human capital investment and as a decision to involve a wide range of family members. They decide about the best location for migration and how to handle financial and social problems of family members at home.

The behaviorists also criticize the neoclassical failure to explain business niches established by the entrepreneurs in the receiving region. Upon arriving in a receiving region, the new migrants engage in the similar service sectors or similar merchandise or related businesses as their kin predecessors. Through a process of on-the-job training, particular skills and knowledge are transmitted from one generation to the next. This process in the long-run perpetuates a traditional apprenticeship system, which results in business dominance in certain merchandise lines by a particular migrant group. This eventually leads to the concentration of specific migrants in a specific entrepreneurial niche.

The niches are then reinforced by networks which serve as channels for new migrants (Portes and Rumbaut, 1990). Moreover, they serve as a route for upward mobility for the following migrants. For new migrants with little experience in certain merchandise lines, the niche serves as an agent of skill formation. Migrants have the opportunities to learn from the mistakes of the previous generation and this learning from others assists them in conducting successful businesses (Reitz, 1990). The niches are maintained so that outsiders have difficulty penetrating within them. It is an obligatory for each member to protect entrepreneurial niches from other groups; intrusion upon the niche is seen as an attack on group interest or group resources. Thus, the niche also serves as a cultural and economic isolator of group members from outside influence.

These factors previously discussed may have played a role in the location decision of entrepreneurial migrants. The concept of optimal location may also create problems in developing



countries. Entrepreneurial migrants with limited knowledge have difficulty assessing the optimal location for their businesses, but it is obvious that they have ideas about a sufficient location that can provide much security (Van Dijk, 1983).

An entrepreneur's favorable destination depends on how a region offers favorable conditions for future businesses. It means that entrepreneurs are free to move their businesses in response to profit earnings. Such an idea has been addressed in the "capital mobility" theory of Salvatore, (1981). There are entrepreneurs who do not give priority to profit making at the early stage of migration, but are interested in the expected profit they can earn over time. A favorable business atmosphere is more important than the profit of the moment. A favorable business atmosphere is primarily measured by the degree of competition at the destination.

Competition is one of the factors which an entrepreneur has to account for, because a market with many participants is not a favorable place for business, and the profit margin would be small. An entrepreneur often tries to establish a monopoly position in the market, but the market as such could not exist without government license. A market with less competition is preferable because it leads to higher business opportunities and higher expected profit. There are several places in developing countries where the entrepreneur could secure the market to near monopoly, particularly in areas where transportation facilities are very limited, or in the remote markets.

Despite government intervention, the market can be secured when the entrepreneur possesses a strong capital position. Those with a strong capital structure are able to drive away their competitors from the current market, usually through price competition. But when the market is secured, they will dictate the price again. The entrepreneur with modest capital can secure a market position by forging a network with other entrepreneurs, usually with friends or people from a similar ethnic background. This is a common practice in Chinese communities throughout East Asia and Southeast Asian countries.

Ethnicity and cultural ties are the basis of such a network; those who stay in the network are by and large from a similar kin group, or from a similar region. They have rules which everyone within the community must obey. Those who break the rules receive heavy penalty and punishment. Each group member is expected to participate in market activities and is responsible for goods and services in a particular market. The Indians in Indonesia control the textile industry which is not always open to other groups. The Chinese in Asia control wholesaling and various kinds of commerce activities through ethnic networks. In the following section we present a profit seeking model.

## **7. Toward an Operational Model**

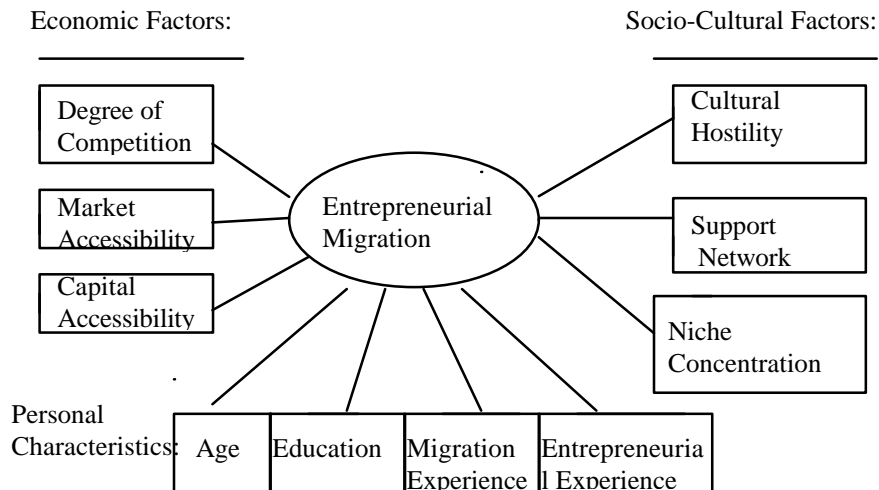
In this section we present a model for the analysis of ethnic entrepreneurship that brings together much of the material in the preceding sections and which has been reformulated to be used for empirical research. We introduce the profit seeking model that is based on an integrated social-economic framework (see Figure 1) and can be applied to the study of entrepreneurial migration in developing countries. Migrants who engage in entrepreneurial activity consider such factors as market competition, market accessibility, niche concentration, capital accessibility, cultural hostility, and support networks before deciding to move. These are factors related to locational characteristics, but there are also personal characteristics such as education, age, entrepreneurial experience, and migration experience which affect the intention to stay. All factors mentioned earlier are the underlying determinants, and the migration variable of interest is the intention to stay in a particular region. Intention to stay refers to the migrants' desire to settle in one particular location after considering its economic and social costs and benefits. From the neoclassical perspective, the selection of a location reflects an optimal decision of migrant preference for a given location, since it offers the best opportunity for profit maximization, or it offers an opportunity to minimize transport cost. But in many developing countries location preference reflects migrants' expectations for a satisfying income. Another factor we should take into account is the length of stay. The length of stay at a particular region refers to the amount of years a migrant lives in a region. The decision to stay at a particular place is dependent upon migrants' perceptions about the security of their entrepreneurial activities after having conducted them. When a place offers very little security the migrants consider other potential locations. To measure this variable, we maintain absolute values. We also discuss the relation of each variable to the dependent variable in Figure 1.

First, we must explore the degree of competition. Degree of competition refers to migrants' perceptions about the ratio of entrepreneurs to consumers in a given product line. Competition may occur within the product niche or outside of the product niche. The entrepreneurs avoid higher degrees of competition and choose markets with lower competition. When a market is saturated, the possibility to realize a profit is very low, and migrants therefore turn to other places for their business activities. It is expected that the relation between degree of competition and intention to stay is negative; the lower the degree of competition at a particular place, the higher the intention to stay.

Second is market accessibility. Market accessibility refers to the migrants' perceptions of the degree of access to the market or consumers. The degree of accessibility is dependent on the local government regulation in dealing with access to strategic locations. A market with easy access is preferable to problematic access. In many instances, access to a particular location is sealed off by previous migrants as a strategy to maintain business security. The recent migrants are forced to seek other markets. Market accessibility has a positive relation with the intention to stay. The higher the degree of access to a particular market, the higher the intention to stay.

The third factor of our study is niche concentration. Market niche refers to the line of product controlled by a particular group at the current location. The concentration is measured by the concentration of people from a particular ethnic group in a given line of product. The more people from a particular group engaged in selling a certain product, the stronger the concentration of the niche. A majority of small and medium entrepreneurs are engaged in the distribution rather than the production sector. The variable niche concentration is thought to have a positive relation to intention to stay. The higher the degree of concentration of a certain product line in a particular market, the higher the intention to stay and the longer the length of stay.

**Figure 1**  
**Factors that Determine Entrepreneurial Migration**



Fourth is capital accessibility. Capital accessibility refers to migrants' perceptions of the chances to acquire credit at the current place. Access to credit institutions is essential for business expansion in the future. Access is different from one region to another due to different bureaucratic and social settings. There are also places where access to credit is very costly because of corruption. The variable capital accessibility has a positive impact on the intention to stay. The higher the access to a capital institution, the higher the intention to stay at the current place and the longer the length of stay.

Fifth is cultural hostility. Cultural hostility refers to the social response toward migrants in a receiving society. Local hostility can be expressed in various forms, from a subtle response such as boycotting to harsh responses such as physical assault. Physical assault is very rare but when it occurs, it

is the expression of a long period of mounting frustration among the local people. The soft hostile response can occur in an everyday form of resistance by the exclusion of migrants from social activities among the local societies. Cultural hostility of this type leads to open conflict as it intensifies. The intensity of cultural hostility has a negative relation to the intention to stay. The higher the intensity of hostility, the lower the intention to stay and the shorter the length of stay.

Sixth is support network. A support network refers to migrants' relations with relatives, family, kin group, or friends in the receiving region. These people provide information or facilities during the process of settlement. Migrants who have family members or kin in a receiving region may reduce the probability of moving from the current place elsewhere. Since the migrants prefer to stay close to other family members or kin group, the larger the concentration of family and kin in a particular place, the greater the likelihood that the new migrants will remain at that place. A variable support network has a positive impact on the intention to stay. The stronger the support from the network, the stronger the intensity to stay, and the longer the length of stay in the receiving region .

Seventh is education. The effect of education depends on the transferability of skills acquired through schooling years (Hay, 1980; Robinson and Tomes, 1982). In this regard, migrants with a commerce vocational background may have a better ability to assess preferable locations and have less of a tendency to repeat migration. Less educated migrants are prone to repeat migrations than are the educated ones (Davanzo, 1983). The educated migrants prefer to remain at a certain place for a period of time before moving again. Education has a positive impact on the intention to stay. It is thought that the higher the level of education, the higher the intensity for the migrant to stay and the longer they want to stay at a particular region.

Our eighth variable is age. Age refers to the age of the migrants at the time the survey was conducted. Migration research consistently demonstrates a strong correlation between age and migration (Miller, 1977). Younger persons are more likely to undergo repeat migrations if they discover that the current place is unsuitable for entrepreneurial activities. They are also likely to travel and experience more of the world before settling in a particular destination. In addition, older migrants usually have family with them; this decreases the possibility to conduct repeat migrations. The variable age has a positive impact on the intention to stay. The higher the age, the stronger the intensity to stay and the longer the length of stay.

Ninth is entrepreneurial experience. Experience refers to the length of time the migrants have engaged in entrepreneurial activities at the time of our survey. Migrants with more experience have a better understanding of the type of location for their businesses. Experienced migrants prefer to stay at a particular place and are compelled to leave only when extreme cases occur, such as ethnic disorder or riots. People with entrepreneurial experience are more aware of socio-economic circumstances than those with less entrepreneurial experience. Those with greater experience are less likely to conduct a repeat migration so they can ostensibly reduce transportation cost. This variable entrepreneurial experience has a positive impact on the intention to stay. The more the experience in entrepreneurial activities, the stronger the intention to settle in a particular place, and the more the experience, the longer the length of stay in the receiving region.

Our tenth variable is migration experience. Migration experience refers to the frequency of moves before the migrants finally settle at the current location. The total number of trips made by migrants from one place to another after the age of eighteen can be used as indicators of migration experience. Migrants with multiple moves are expected to move more than those with less migration experience (Massey, et al., 1993). People from families with migration experience may also be more likely to move than those from families with no migration experience. Migration experience has a negative impact on the intention to stay. The more the migration experience, the lower the intention to settle in a particular place and the shorter the length of stay.

## **8. Conclusion**

In this paper we have presented a profit seeking model to explain migration of entrepreneurs in developing countries. Studies on migration primarily focus on labor migration in which economic factors have become the most important inducements to migrate. This is only a part of the migration process in many developing countries. In fact, we also have another significant consideration of the migration

process, and that is the existence of entrepreneurial migrants in these countries. These migrants are marked by their motivation to engage in business activities, particularly in trading activities. This study has focused on entrepreneurial migrants for which the emphasis is on both economic and socio-cultural factors. The socio-cultural factors play an important role in migration decisions due to the social and political events which very often occur in developing countries, and which reflect unstable social and political circumstances in developing countries.

Two approaches, the Structural and Cultural approach, were used as a starting point to examine entrepreneurship migration. The Structural approach emphasizes structures of opportunity upon arriving at a receiving region, and the Cultural approach emphasizes birthright to business. The Profit seeking model introduced in this paper is essentially based on the structural approach. This model combines social and economic factors to explain migrants' choices of locations for business activities. In the Profit seeking model we have introduced a combination of economic and socio-cultural factors which account for entrepreneurial migration. The economic factors include competition, market accessibility and capital accessibility, whereas the socio-cultural factors include cultural hostility, support network and niche concentration. The rest are personal characteristics which include migration experience, entrepreneurial experience, age, and education. These factors taken altogether will determine migrants' preferences for the best site for entrepreneurial activities.

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