

# Do Networks Do the Works? Towards Recognising (and Solving) a Migration-Entrepreneurship Conundrum

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*On the one hand, research shows that immigrant entrepreneurs find support for their business among other immigrants, within immigrant enclaves. On the other hand, the economic theory of industrial organisation clearly suggests that business concentration is detrimental to profits, which in turn creates disincentives for potential newcomers. This article aims to find an answer to this conundrum. It asks three questions: is business competition present at all among immigrants? If yes, then is it the market mechanism that reconciles the existence of immigrant business solidarity with immigrant business competition? And what determines the fine line between generating positive and negative externalities for other immigrant businesses? Through an analysis of migration networks among immigrant businessmen, this research concludes that both processes might in fact occur. The factor that determines whether it is one or the other is the specificity of the industry in which a given business operates.*

*Keywords: immigration, entrepreneurship, migration networks, industrial organisation, competition*

## Introduction

There exists a conundrum in the literature on the economics of immigrant entrepreneurship, arising from the opposing implications of two strands of literature. One is the discourse on ethnic entrepreneurship found in socio-economic studies of migration. The second is the grand economic theory of industrial organisation. Both perspectives consider the effects of high concentrations of businesses on new business creation. Each offers a different intuition as to the directionality of this relationship, however.

Works in the field of immigrant entrepreneurship propose that relatively high concentrations of co-ethnics in given localities (labelled as ethnic enclaves, niches, or economies) allow entrepreneurs to gain access to labour and financing, which are prerequisites for a successful start-up. People of common cultural heritage can also be a possible source of increased demand for traditional products and services. Some authors have relaxed the spatial concentration requirement. They claim that enclaves do not necessarily need to denote a place, but may consist of ‘networks of communal solidarity’ (Auster, Aldrich 1984: 53) that can be spread

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out across distant areas. This communal solidarity could increase survival rates of immigrant businesses by providing support and stability in the form of preferential loans, business sites, supplies, etc.

In the context of favourable, business enabling, and stimulating interconnections between enterprises, the theory of industrial organisation provides counterarguments to those posed by theorists of ethnic entrepreneurship. Models of competitive markets imply that the more competition a firm faces, the smaller is its market power, i.e. the ability to set the price above marginal costs and gain substantial profits (Carlton, Perloff 2005). The opportunity of making a profit creates an incentive for other companies to enter the market. In the long run, assuming that all the incumbents and entrants are identical in terms of their marginal and average cost of production and that they employ only a small fraction of the factors of production, an equilibrium price is reached which implies zero profits. Incentives to enter the market disappear.

Though empirical studies recognise the notion of immigrant solidarity, immigrant business competition is a much less researched topic. Thus, in light of the conceptual paradox described above, this article asks the following questions: does business competition occur at all among immigrants? If yes, then is it the market mechanism that reconciles the existence of immigrant business solidarity with immigrant business competition? And what determines the fine line between generating positive and negative externalities for other immigrant businesses? Given the vast array of possible interweaving factors which affect the market-cum-social behaviour of entrepreneurs, it is beyond the scope of this study to provide a complete answer to the posed questions. The paper rather focuses on market-related opportunity structures which are considered a critical, though of course not the only relevant circumstance.

In seeking to answer these questions, this article will take a migration networks perspective. This approach is well suited for the task, as it considers a mechanism that is indirectly though strongly related to the notion of immigrant business clustering. By exploring whether migration networks are in operation in the immigrant business environment, it is possible to gain insight into both the support systems hypothesised by migration researchers and into the potential competition effects envisaged in economic theory. Importantly, researching migration networks rather than the structure of industries and modes of business operation is methodologically feasible.

I limit the scope of the research to exploring case studies of the incorporation of Indian immigrants on two foreign markets, in Poland and in Belgium. The choice of Indian immigrants is determined by their long-lasting migration traditions which nowadays result in a large and active Indian diaspora. In such a context, exploring migration networks need not consider the level of their development, a factor which could affect the results. What is more, existing empirical observations concerning the Indian community abroad point to their relatively strong involvement in entrepreneurial activity (Aldrich, Waldinger 1990; Bates 1994). Examining Poland and Belgium as host markets for Indian entrepreneurs was also dictated by methodological considerations. On the one hand, these two countries are similar in terms of being non-English speaking and to a similarly large extent creating an alien environment for Indian immigrants. On the other hand, they are very different in terms of socio-economic development levels, including market maturity and social attitudes towards foreigners. The similarities and differences between the two considered markets enabled the identification of the role of structure and agency in the outcomes of Indian immigrant entrepreneurs residing in these countries. The nature of the research topic reinforced the need to use qualitative research methods. Field work consisted of 30 semi-structured interviews, half of which were carried out in Belgium and the other half in Poland. Due to the specific geographic context of the presented research, the conclusions derived from this study should be treated with some caution, however.

What I primarily observed in the case of the two destination countries was that the existence of networks varied across different groups of Indian entrepreneurs. Nevertheless, immigrant business competition was generally present in both countries. However, some respondents stressed the importance of support, solidari-

ty and relational contracting, while others emphasised the power of the market as the main determinant of success in business. Despite the fact that business profitability seemed of secondary importance in the former case, the strategy was actually found to be purely business-oriented. In the latter strategy, though immigrant solidarity seemed of lesser value, enterprises were nevertheless established in close proximity. The conducted interviews showed that business sector specificity is the factor responsible for these outcomes.

The following section will present a review of literature which associates the theories of ethnic enclaves and of industrial organisation with migration networks. Further, I will describe the conceptual details of the beneficial and detrimental role of networks for immigrant business start-ups. A section discussing the methodology of the conducted study will follow. The next section will present qualitative evidence pointing to a possible solution to the said conundrum in the studies on immigrant entrepreneurship. A brief summary and concluding remarks close the text.

### **Theoretical approach**

This paper builds upon two strands of literature concerning: 1) migration as a process of international mobility associated with recognisable settlement patterns of entrepreneurs, and 2) entrepreneurship as the acquisition and management of scarce and rivalrous resources. The common denominator for these streams of thought is the concept of migration networks. Though there is little mention of networks in the first context, they inevitably form what are known as immigrant (ethnic) enclaves. In turn, ethnic enclaves potentially operate under the condition of market competition, i.e. competing for greater market shares. This section will thus first describe the notions of ethnic enclaves<sup>1</sup> and market competition, to then move to conceptualising the link between networks and these two notions.

#### *The enclave economy*

The enclave economy hypothesis was developed by Wilson and Portes (1980), on the basis of a claim that there exists a third alternative to the postulated primary and secondary labour markets (see: Doeringer, Piore 1971; Piore 1979). Wilson and Portes claim that, from the immigrant entrepreneurs' point of view, hiring labour from within the same immigrant community results in opportunities for expansion due to privileged access to markets and labour or immigrant solidarity and the obligation of reciprocity. The authors say that two conditions need to be fulfilled for the development of immigrant enclaves to occur: 1) access to sufficient start-up capital (either through immigrant linkages or through connections with the home country) and the presence of entrepreneurial skills among some people belonging to the immigrant population, and 2) the renewal of the labour force within the enclave through immigration. It is here that the first link between enclave economies and migration networks appears.

Auster and Aldrich (1984) revise Wilson's and Portes' (1980) approach, considering enclaves as spatial entities on the one hand (where the entrepreneurs can, better than mainstream businessmen, respond to the local customers' ethnic tastes), and on the other hand, as 'networks of communal solidarity' (Auster, Aldrich 1984: 53). In yet another empirical revision of the original concept, Sanders and Nee (1987) confirm that, indeed, functioning within an enclave economy may be beneficial for immigrant entrepreneurs. The idea that within immigrant enclaves, people can benefit from the opportunities that exist within the network of co-ethnics was also present in the work of Zhou and Logan (1989), who have further studied the enclave economy by exploring the case of the Chinese in New York City. They find support for the positive view of the enclaves' role, specifically with regard to the upward mobility of immigrants *via* enhanced opportunities for self-employment. Waldinger (1993) again points out the role of networks in enclave formation and opera-

tion. He proposes including ‘training systems’ (Waldinger 1993: 447) as a critical feature, which allows both ethnic employers and employees to reduce the risks of investing in worker training *via* network hiring.

More recently, Werbner (2001) has highlighted the enclave economy hypothesis. She sets aside the relative wage, human capital and labour market issues to focus instead on the organisational and industrial features of the enclave economy. Referring to theories of industrial clustering, Werbner proposes to define the enclave economy as a networked cluster of ethnic-owned firms producing certain goods, together with other ethnic-owned firms which provide services to the cluster. Thus, as she claims, the firms do not need to be spatially concentrated in the strict sense of space, but it is sufficient that they exist within a common social space of networks and flows of goods and services (ref.: Greve, Salaff 2005). Precisely this link between the operation of immigrant economies and the clustering of immigrant firms is the topic under investigation in this paper. For the design of the research, it is important to consider the nature of the goods that ethnic economies specialise in, as this seems crucial to understand how these economies operate and might hold the key to explaining the contradictory findings. Werbner also adds to the enclave economy hypothesis the idea that just as enclaves may support entrepreneurship and enhance opportunities for business development, they may also make the economy more vulnerable to market shocks.

### *Market competition*

On the one hand, the economics of immigration recognises the phenomenon of clustering of immigrant firms, including physical clustering. It concludes that such clustering creates conditions beneficial for the development of businesses. The economics of industrial organisation, on the other hand, claims that the clustering of businesses is detrimental to profits, and accordingly creates disincentives for business enterprise. Having outlined the rationale behind the first statement above, the following section will describe the logic of industrial organisation. In doing so, this section will rely on a standard economic model of a competitive market (based on Carlton, Perloff 2005).

The presumption that higher competition decreases firms’ incentives to enter the market is deduced from a standard economic analysis of a competitive market. A representative firm in such a market is a price-taker, i.e. it takes the market price as given and decides only on the quantity to be produced, factoring in its costs of production. In deciding on the quantity to be produced, the firm aims to maximise the difference between its revenue and its costs. If the price is high enough, in the short run the firm can make substantial profits.

Attainable profits create incentives for other firms to enter the market. As they do so, the supply rises and prices fall. Under such circumstances, firms that were already present in the market need to reduce their production to avoid incurring loss. The decrease in production is at the expense of the (excess) profits. The process of new firms entering the market is expected to continue as long as the market price is higher than the costs of production. At the point where no profit can be made and the price equals average costs of production, incentives for new entrants cease to exist. At that point a long-term equilibrium is reached where no firm wants to enter the market, and none of the incumbents wants to shut down. Supply matches demand. It is in this long-term scenario that this paper seeks the intuition underlying the posed research questions.

Despite its quite straightforward prediction that business congestion on a given market results in a price-cutting effect that can potentially discourage incumbents from creating a network effect, i.e. discouraging other firms to enter the market, what rationale does the theory of industrial organisation find behind the empirically observed existence of immigrant enclaves? First, a given market might exhibit the properties of what is known as a competitive fringe (Carlton, Perloff 2005). Second, cluster-like spatial distributions of firms could result from the existence of a market size effect, due to consumers’ taste uncertainty (Konishi 2005).

The first case assumes that there exists a structure with a dominant firm which is a price setter. Other firms, being price takers and behaving as in a regular competitive environment, constitute the competitive fringe. In such a scenario, especially the dominant firm might have incentives to encourage minor new companies to enter the market as that could strengthen its position and at the same time diffuse the market power of the competitive fringe.

The second case finds the rationale behind the fact that consumers are not conscious about their exact preferences as to the products they want to buy. They may also have incomplete information about the possible substitutes offered on the market. In either case, consumers may find it beneficial to have a number of firms offering similar products in one place as this increases the probability that they will actually find the product they are interested in. Examples of such clusters can be shopping malls, groupings of car dealers, warehouses with construction materials, etc. Given certain travel expenses, the larger a market offering substitutable products, the higher the probability that an undecided buyer will find the sought-after good. This increases the pool of potential customers and may lead to relatively high profits, even if the market is diffused among a relatively large number of companies.

What is important for this research is that neither the idea of a competitive fringe nor the market size effect rejects the fact that competition is detrimental to profits. This leaves the main question behind this research unanswered: what determines the fine line between generating positive and negative externalities to other immigrant businesses?

### *Migration networks*

On the one hand, the theory of industrial organisation clearly does not recognise the specificity of immigrants and their potential needs during the process of incorporation into the destination economy. On the other hand, the immigrant enclave hypothesis seems to neglect the notion of business competition, creating a picture of immigrants as cooperative rather than competitive businessmen. There are three reasons why immigrants could be more cooperative than natives: 1) immigrants, as newcomers socialised into a different business culture, require more support and have a greater need for information which is most successfully satisfied by other immigrants; 2) immigrants may treat the native businessmen as 'the other' with whom they engage in competition over the market, strengthening at the same time their intra-community ties; 3) due to limited resources, immigrants may be inclined to engage in relational contracting, i.e. to create internalised incentives for parties to commit to a business agreement (Glaeser, Laibson, Sacerdote 2002). By pursuing all three of these strategies, immigrants hypothetically take advantage of migration networks.

The role of networks in the process of migration is widely recognised. The facilitating role of such webs has been emphasised by e.g. Choldin (1973) and later by Massey, Arango, Hugo, Kouaouci, Pellegrino, Taylor (1993). A formal model of network formation and operation has been developed by Chau (1997). In these conceptualisations, migration networks are defined as ties between migrants, non-migrants and former migrants. The inter-relations can be based on familial, ethnic or other types of group belonging. Networks are said to facilitate mobility because they lower the risks and costs associated with migration and at the same time increase the potential net returns to migration (Choldin 1973; Massey *et al.* 1993; Baycan-Levent, Gülümser, Kundak, Nijkamp, Sahin 2006). Social capital obtained through membership in a migration network can be utilised by migrants to gain support in the destination country. Networks also provide access to information prior to departure and may be influential in migrants' decision-making process.

It has been noticed that migration networks strengthen the characteristic of self-perpetuation of a migration flow. Every additional person involved in the network will provide a number of extra links to other individuals, thereby increasing the social capital of the network as a whole. Non-migrants within these structures

represent potential subsequent movement, as they can rely on the friendship, kinship and other linkages in the destination country for assistance and access to job opportunities. Following this concept, Massey *et al.* (1993) argue that migration should be thought of as a self-sustaining diffusion process. Opposed to general equilibrium theories, migration dynamics understood in such a manner yield quite different outcomes.

As stated: *once begun, international migration tends to expand over time until network connections have diffused so widely in a sending region that all people who wish to migrate can do so without difficulty; then migration begins to decelerate* (Massey *et al.*, 1993: 449-450). However, by following the entrepreneurship-oriented approach the statement above may be developed further. It seems possible that if migration is for some reason facilitated, then the threshold of a decreased momentum would be set at the level of host market saturation, in terms of a given sector. The emphasis would not be on the supply side, but rather on the demand side of a migration process. The intuition behind taking such a perspective lies in the fact that, in terms of the development and institutionalisation of networks, current research recognises that with time, cross-border migration becomes more and more independent of the structural and/or personal factors which initiated the process (Massey *et al.* 1993: 450). In case of immigrant self-employment, the main pull-factor for international mobility is found in certain business opportunities in the sense that they are a necessary, though clearly not a sufficient factor of business creation. Locations that stop creating incentives to establish an enterprise are potentially on a short list of unattractive migration destinations.

Aside from the benefits of migrant networks, such networks may also play a limiting role. It is commonly described as 'channelling', due to the fact that a network may narrow the scope of options that a potential migrant can choose from, possibly leading to a suboptimal solution. Some argue, however, that the cost of obtaining full (or more complete) information on one's alternative opportunities abroad is so high, that becoming informed about a less profitable destination but at a very low cost remains a rational choice.

In the context of networks as a source of information, they may be highly significant in the case of migrant self-employment (Baycan-Levent *et al.*, 2006). This can be due to the entrepreneurs' need for more extensive knowledge concerning the destination and support necessary to establish a business in a foreign country. Whether this actually happens, though, is determined by the notion of competition among immigrant firms, as sharing knowledge may disfavour the informant in relation to the person he or she supports, as has already been indicated in the context of the theory of industrial organisation.

Given the role that networks potentially play in forming ethnic economies on the one hand and in creating market competition on the other, and seeing how networks are easily operationalised as meaningful interconnections (having practical implications) between immigrants, it is through the lens of migration networks that the posed research questions will be answered.

## **Data and methodology**

For the purpose of this study, following the approach of Greenfield *et al.* (1979; in: Aldrich, Waldinger 1990) entrepreneurs are defined operationally as owners (co-owners) and, at the same time, as managers of a business. The scope of the research is limited to exploring case studies of the incorporation of Indian immigrants in two foreign markets, in Poland and in Belgium. As indicated in the introduction, the choice of Indian immigrants is determined, first, by their longstanding migration traditions and the development of a large and active Indian diaspora. Second, the Indian diaspora has been recognised for its strong involvement in entrepreneurial activity (Aldrich, Waldinger 1990; Bates 1994). Poland and Belgium were selected as the destination countries on account of their diverse opportunities, which allows the interpretation of the results to go slightly beyond a simple case study. The nature of the research topic reinforced the need to use qualitative research methods. Field work consisted of 30 semi-structured interviews, half of which were car-

ried out in Belgium and the other half in Poland. The interviewees were purposefully selected and therefore one cannot assume the properties of large-scale representative studies.

Poland and Belgium differ from each other in terms of their business climate, which is much friendlier in the latter country. They are also different in that Belgium has a much larger Indian community, specialising to a large extent in the diamond industry. Indians in Poland operate mainly in the textile business, especially in the trade of textiles, and at the time of the research not more than a few hundred Indian nationals were residing in the country. Contrary to Belgium, Poland is also to a much lesser extent English speaking, though this observation mainly applies in relation to the Flemish part of Belgium. Belgium's geographical position in Europe can also be viewed as an advantage. The more 'peripheral' position of Poland implies a larger potential for business development, however. A much less mature market and a relatively poorer level of integration with the global economy create opportunities for business development which have already been taken advantage of in countries such as Belgium. Aside from these differences, from the perspective of India as a sending country, Poland and Belgium share some common features as well. Their geographic distance from India is fairly similar and so are their immigration policies, especially since Poland joined the Schengen Area in May 2007. Embedded in a European socio-cultural context, Poland and Belgium may be also perceived as equally distant from India on a socio-cultural level.<sup>2</sup>

The process of finding respondents was similar in both locations, though it was much more difficult to establish contacts in Belgium. One of the reasons is that Indians in Belgium are clustered in the diamond industry, the nature of which makes potential respondents cautious as to with whom they talk and about what. Interviewees were mainly found through contacts provided by the Indian Embassies and Indian associations in Poland and Belgium. Contacts with some respondents were established through personal relations with third persons. Further connections were generated by means of a snow-ball sampling technique. In order to prevent a situation in which all the contacts came from a single source, different starting points were used (Antoniewski, Górny, Koryś, Kosmala 2000). The final sample represents the weight of at least the major industries of economic activity of the selected group quite well. The results were analysed in the search for common characteristics, yet without disregarding traits not falling into the scheme.

The main research method used is an individual structured interview. The approach of Babbie (1997) was followed in designing the interview guide. The interview was carefully composed in view of the main research questions, namely: under what conditions do Indian entrepreneurs in Belgium and Poland use the functions of networks? The interview guide was divided into several sections, each dedicated to a specific stage of the migration process and inquiring into the role of migration networks at that stage: 1) destination selection, i.e. push and pull factors for migration, motivation, potential channelling role of migration networks; 2) the migrant's personal relations with other migrants and non-migrants (both natives and persons in the country of origin) and how these relations affect the process of business establishment at the destination; 3) the migrant's business strategy in light of the obtained information and support, including individual strategies of dealing with threats and taking advantage of opportunities on the local market.

## **Results**

The first observation from the analysis of the gathered qualitative material was that the utilisation of networks in Poland and Belgium differs greatly. In Poland networks are almost absent in the process of the immigrants' incorporation into the host labour market:

*They [incumbent Indian entrepreneurs] were not helpful. They thought that I am a new guy and I will compete with them. That was what I expected. The same was in Moscow, it was the same response (Interviewee 5, Poland).*

*No, the Indian community never helped me, they treat me as a competitor (...). If you spoke to Indians at that time, they were discouraging (Interviewee 2, Poland)*

*I do not see the Indians here in that way [helping]. They rather told me that I came too late. I preferred not to do it that way. I thought they are misleading me (Interviewee 6, Poland).*

In contrast to the Polish case, in Belgium most of the respondents took advantage of network support:

*I think it was only the first pioneer who had the problem to settle here, but the next people had someone to guide them (Interviewee 6, Belgium).*

*When I came here there were already some Indian families here, so I had some friends who helped me out with business. We had a lot of contacts before I came, it was not that difficult to get around. (...) Through these Indian families I got acquainted with other businesses (Interviewee 7, Belgium).*

*I knew a few friends here. Some of them who came before and were quite well settled. This motivated me also. Because for sure one has to have links with some people (Interviewee 3, Belgium).*

This finding, as simple as it is, provided an answer to the first of the posed research questions: is business competition at all present among immigrants? The answer is positive, but it clearly requires further inquiry into the determinants of when cooperation dominates competition and when it is the reverse. The simplest demarcation could be drawn based on destination country specificity.

The fact that Poland is the country where networks were not in operation as far as labour market incorporation is concerned, while Belgium was the country where they were quite active, seems counter-intuitive. After all, it is Poland that seems to pose a hostile environment for immigrant entrepreneurs. Under such circumstances it is precisely a migration network – specifically, contacts with incumbents – that could help overcome the initial difficulties. The respondents recognised the difficulties, especially in Poland:

*Language was a big problem, I never knew this Polish language (...) as I said – I hired a translator. Slowly he arranged everything. I hired two girls who could speak English (Interviewee 2, Poland).*

*I had no translator. I had to pick up on my own. It was a bit hard in the beginning, but I bought books with pictures and translations. So interest helped me. Younger people knew English (Interviewee 6, Poland).*

*There was no banking system in those times. When you wanted to withdraw money you had to write a check in Polish and there could be no mistake (Interviewee 11, Poland).*

In line with general expectations, Belgium was a much friendlier place for newcomers:



*I came here and I found that people are very trade oriented, international, linguistic, receptive to new ideas, hardworking; so I thought that this is the place where I should start, and it is the centre of Europe (Interviewee 15, Belgium).*

*It was easy because people spoke English. I tried in Spain and in Germany later, but it was not so easy (Interviewee 4, Belgium).*

Of course, where these recollections are concerned, the respondents had no opportunity to experience the opposite (national) situation. Nonetheless, the gathered evidence does not permit receiving country differences to be treated as actual determinants of network operation. In both cases there was an Indian community present at the destination at the time when most of the respondents arrived. They therefore had the opportunity to take advantage of network support. Especially in the case of Poland they also had a need for assistance. Yet despite these circumstances, networks were not utilised as expected.

The relatively lower level of network development in Poland in comparison to the Belgian case should be factored in when interpreting these results. The probable directionality of this relation is difficult to determine, though. On the one hand we could expect that a small, poorly established network creates fewer opportunities for interpersonal connections. On the other hand, the fact that few other co-ethnics operate on a given market may imply that there is still a relatively large piece of the economic pie available for others. If this is the case, then providing potential competitors with information could seem less threatening or even beneficial, leading to the establishment of relatively more business networking within smaller ethnic populations.

Following the above argument and given that it is not the socio-cultural characteristics at the destination that determine whether migrant networks are used or not, the analysis can focus on understanding whether it is the common ethnic background that induces cooperation, or whether it is the market mechanisms that make cooperation profitable. As networks were predominantly present in Belgium, an answer to the second research question – whether it is the market mechanism that reconciles the existence of immigrant business solidarity with immigrant business competition – was sought mainly in that context.

The interviewees gave clear indications as to the objectives of their migration and the reasons behind settling in a given place:

*That was the main reason why I came to Belgium – no family, nothing, just business (...). I knew that if I want to do it well and in a proper way, then (...) I have to settle here. Then, in '95/'96, I decided that I want to spend all my energy on my business (Interviewee 9, Belgium).*

*Antwerp is the source of rough supply. All the diamonds from Africa come and are sold here. On the other hand there is business for polished diamonds, so the ones which are used by jewellers in Europe (Interviewee 4, Belgium).*

*In England I heard there are a lot of people who are doing different kinds of business to India. My value addition may not be as substantial as it would be here in Belgium. My business is recyclables. (...) I knew that if I settle here, I can add value (Interviewee 15, Belgium).*

It seems that, for the interviewed entrepreneurs, migration networks are used very consciously and definitely do not have a channelling effect. The reasons behind settling in a given place were not based on co-ethnic considerations, but rather on the optimality of the location in business terms. The market clustering of immigrant businesses in certain areas is more related to the 'business' aspects of their operation than the 'immi-

grant' ones. In Belgium a clear cluster developed in Antwerp, in the diamond district. Antwerp is a global centre of the world's diamond industry. Having an office there offers easy access to other traders, accountants, shipping agencies, banks, etc.:

*The good thing is that all of them [diamond traders] are located here (...). It made life easier, all you have to do is knock on doors (Interviewee 4, Belgium).*

It seems that in terms of location, considered either from an international or domestic perspective, the primary driver of the migrants' decisions is the market. They saw the benefits of operating in relatively large markets located on the crossroads of world trade. This, again, must not be treated as a sufficient pull-factor, but it surely is a necessary one. In the Polish case, the same emerged:

*I came here for business and the only reason why I could move out would be for business as well – for bigger money (Interviewee 15, Poland).*

*I had to be close to the customer, to have a bigger turnover (...). There are very few countries in the world which are popular for stitching. Poland is popular (Interviewee 8, Poland).*

Despite the above-mentioned benefits and market-related pull factors at both destinations, there still remains the question why, in the case of Belgium, these pull factors were further strengthened by personal relations, while in Poland such relations were non-existent in the migrants' entrepreneurial activities. The effort to determine the fine line between generating positive and negative externalities to other immigrant businesses led to identifying the sector of business operation as such a factor. Specifically, the conducted research revealed that the type of good one offers on the market, whether it is standardised or not, is a critical factor. In Belgium, most of the interviewed entrepreneurs were in the diamond business:

*The diamond business is closely held. It is probably people who are related to each other, or who know each other. If you came here to sell or buy, no one would work with you, because I know nothing about you (...). You convince people with your connections. Diamonds is more about relationships than anything else. Products do sell, but the product is not as important as the person. Say – gold. Gold is simple – 24 carat gold is the same all over the world so you can buy from anyone without even having to think. But with diamonds it is different. The value you perceive can be different between individuals. It is not standardised (Interviewee 4, Belgium).*

*I was somebody, whose father they knew (...). The diamond business is all about trust – you need a family member here. If I go with you to all the offices to buy goods, they know you, so they buy from me. If after 20 years they know you, then you can stop with the middleman (Interviewee 10, Belgium).*

*Whenever a problem came up we used the help of the professionals and the diamond community. The diamond community in Antwerp is a tightly knit community (Interviewee 7, Belgium).*

If entrepreneurs lack such social connections, then they know they need to look for opportunities in other sectors:

*I did not want to do diamonds, there was no way I could add value to it. I have no knowledge in diamonds, it is too personalised (Interviewee 15, Belgium).*

*My type of business is not one in which you need contacts, at least not in those days (Interviewee 8, Belgium).*

In Poland, Indian entrepreneurs were predominantly present in the textile industry. In contrast to diamonds, textiles are a fairly standardised good. The quality of a whole bale of cloth will be very similar to any sample taken from that bale. For this reason personal connections and trust are not necessary to becoming a lynchpin in the trade:

*Let's put it this way – they will never throw you out. But they will help only so that you don't get into trouble. The thing is that he was there and he wants to protect his piece of pie. Trade secrets are not to let go (Interviewee 14, Poland).*

One may wonder whether even family-based networks are completely absent in the Polish case. Indeed, family- or friendship-based network support was not recognised as a common strategy in Poland. This may be due to the immaturity of the Indian community (thus also its size) in Poland. At the time of arrival, newcomers simply did not have any relatives or friends there, and in this sense they were pioneers of their potential sub-networks based on kinship and friendship ties. The one recognised exception concerned two brothers, each of whom operated in a distinct industry. Of course, when understanding migrant networks in the broadest possible sense, the textile traders most probably had the support of family on the export side. From their responses it could be deduced that they were embedded in a family tradition of textile manufacturing and trade:

*I have no idea about any other business, so I have to be in this branch (...). My father taught me textile only. We are four brothers, we are all in textiles (Interviewee 12, Poland).*

It is difficult to determine to what extent these ties can be classified as a migration network and to what extent these are purely business-related, leaving a family member's 'migration incident' irrelevant as to whether support was provided or not.

The general lack of network support among Indian entrepreneurs in Poland had to be overcome by means of contacts with other parties, on a regular market basis, free from relational contracting:

*I gather information from Panorama Firm [Polish Yellow Pages]. It has information in English. And it is common sense what you need to see and who you have to see (...). Then I stayed here another few weeks – I contacted a lawyer, a customs agent (Interviewee 6, Poland).*

*Lawyers, Polish lawyers – they know the regulations, they are the people who help you (Interviewee 2, Poland).*

On the one hand, the very strong market orientation of Indian entrepreneurs in Poland resulted in high competitiveness among them, and a general lack of support in terms of labour market incorporation. On the other

hand, however, as soon as their activities ceased to be business-related or did not threaten the secrets of trade, they networked and actually formed a community:

*We only had a starting problem – a mafia problem you could say. There was many many attacks. I had a problem, seven people came with guns, they took money, so it was scary. But (...) we have the Indian Association of Poland. So we had a meeting, we talked to the police and now there is no problem (Interviewee 12, Poland).*

*We are a community, we help each other, but only after office hours. If it is my business, then it is my problem and I will tackle it. After work we are friends (Interviewee 8, Poland).*

The conducted research and analysis of qualitative material gathered through 30 semi-structured interviews leads to the finding that the network-based clustering of immigrant entrepreneurs in enclaves does not mean that they do not compete with each other. The rationale behind such seemingly irrational behaviour is at least twofold. First, one cannot neglect the market size effect, which affects immigrant and native entrepreneurs alike. Second, and also related to the market mechanism, one must acknowledge the specificity of certain sectors and the associated necessity for networking with a view to business establishment.

The idea of maximising the local market size results in a spatial clustering of businesses. That these businesses are also operated by immigrants may be due to the competitive advantages they bring from their countries of origin. Thus, the fact that we find specialised immigrant enclaves in which a variety of substitutable products or services are offered results from a purely economic calculation related to the strategic significance of a given location, on the one hand, and to the immigrants' specialisation in a given trade on the other. In this way immigrant entrepreneurs may take advantage of an enclave's market size effect. Importantly, an increased market size must not only be beneficial in terms of the volume of sales, but also in terms of providing access to firms offering complementary goods and services, making it profitable to operate in close proximity to such an enclave or cluster. Naturally, we may expect there to be a tipping point at which the benefits of a larger enclave, i.e. of encouraging more newcomers to operate in that area, no longer outweigh the economic costs related to increased competition. The identification of such a point greatly exceeds the scope of this study, however.

The fact that in some sectors business operation is inherently connected to trust also results in the formation of enclaves, especially understood as personal inter-linkages between the members of a certain group. Here again, the connection between enclaves and immigrant communities seems spurious. That interpersonal cooperation exists and that it is a certain immigrant group that dominates in a given sector both have an economic rationale. In the studied case, having connections was a prerequisite to starting a firm. Without participating in an enclave the interviewed entrepreneurs would not be in business at all. When it comes to explaining why it is the Indian community that specialises in textiles (in Poland) or in diamonds (in Belgium), the reason is that India is a major player on the world market in those sectors. In case of textiles it has access to region-specific and highly demanded fabrics such as silk, jute, wool, man-made fibres, and cotton. In terms of the diamond industry India has taken over the diamond polishing business thanks to its relatively low labour costs. Thus it is Indian nationals who have a comparative advantage in trading these goods internationally.

## **Summary and conclusions**

This study sought to determine a possible solution to a conundrum encountered on the intersection of two strands of literature. On the one hand the enclave economy hypothesis, a concept widely known in the field of migration studies, suggests that immigrants support one another in the process of incorporation into the destination labour market, resulting in the formation of what are known as immigrant enclaves. On the other hand, the theory of industrial organisation stresses the competition effects that occur in such settings.

The conceptual clashes identified between these concepts led to the formulation of three research questions: 1) is business competition at all present among immigrants? If yes, then 2) is it the market mechanism that reconciles the existence of immigrant business solidarity with immigrant business competition? And finally, 3) what determines the fine line between generating positive and negative externalities to other immigrant businesses? To answer these questions, the research took the perspective of migration networks. The paper argued that determining whether or not immigrant entrepreneurs utilise migration networks will help to disentangle the mechanisms of enclave formation and market competition.

The collected qualitative material enabled a consideration of enclaves in terms of both geographic and social space. In both cases, a sound economic rationale was found behind the functioning of immigrant enclaves. The spatial clustering of immigrants was found to result from the need to create a significant market size effect. The social interconnections between immigrant entrepreneurs were identified only in case of sectors where non-standardised goods are involved. In light of the two conceptual approaches juxtaposed in this paper, the distinction between standardised and non-standardised goods can be translated into the notions of perfect and incomplete information, respectively. According to the theory of industrial organisation, it is under the condition of perfect information that competition may be anticipated. Not coincidentally, competition was empirically observed among traders of a standardised good which entails that both parties possess a contract with complete information as to the quality of the good in question. In case of non-standardised goods, such as diamonds, parties must deal with highly incomplete information. Securing a contract under such circumstances requires additional assurances as to the quality of the goods which are to be traded. Such assurances can be obtained by means of relational contracting, i.e. networking, where one's credibility is vouched for by other members of the network. Obtaining such a level of contract security by means of market mechanisms would be very expensive, or even impossible.

Put simply, based on an analysis of first-generation Indian immigrant entrepreneurs in Poland and Belgium, this paper claims that immigrant entrepreneurs form enclaves, be it on a spatial or social level, not because they are immigrants (needing support to access the market in the destination country), but because they are businesspeople operating in industries that favour (or even necessitate) such spatial and social structures. Given the limitations of a case-based study, however, further inquiries in line with this argument, which could either support or refine it, are called for.

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## Notes

<sup>1</sup> This subsection borrows from Nestorowicz (2012).

<sup>2</sup> A detailed description of the formal visa requirements for persons who want to start business operations in Poland or Belgium, the business climate in both countries (based on the World Bank's Doing Business report), the countries' socio-cultural characteristics, and the scale and general characteristics of Indian immigration to Poland and Belgium have been described in Nestorowicz (2008) and for clarity's sake will not be repeated here.

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