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CHAPTER 22

MIGRATION OF ENTREPRENEURS

ANDREW GODLEY

In the classical and neoclassical economists' development of the theory of entrepreneurship, little role was allocated to one of the more obvious empirical observations of entrepreneurial behaviour: entrepreneurs have always been highly mobile individuals. This omission may of course have been because the focus of so much attention among nineteenth century economists was on the dramatic events then unfolding in the industrializing regions of Britain and the United States, before then spreading further afield. Smith, Ricardo, Mill, Marx and Marshall were therefore more concerned with explaining the development of industrial activities in specific locations than the movement of key individuals (see Ricketts in Ch. 2 of this Handbook). Even Schumpeter and Knight in heralding the modern theory of entrepreneurship, were more taken by the newly emerging corporate structures (Casson and Godley, 2005). But the sheer extent of geographic mobility among entrepreneurs needs to be underlined before any theoretical explanation is offered. This chapter therefore reviews the literature on immigrant entrepreneurship, focusing especially on recently published investigations of historic cases, before making some theoretical observations and suggesting areas for further research.

Nathan Mayer Rothschild is widely recognised as having been the most successful entrepreneur in history and so might be a plausible candidate for the most prominent immigrant entrepreneur ever (Ferguson, 1998). He was born in 1777, in the Jewish ghetto in Frankfurt, Germany, and he arrived in England in 1808 or 1809. After a few years as a textile merchant in Manchester, he rose spectacularly to become the dominant figure in British and then global finance from the 1820s, almost single-handedly creating the modern bond market. However, the far less well-known Armenian merchant, Khwaja Wajid, may well run Nathan Mayer Rothschild close. Wajid moved to Bengal and experienced no less a spectacular rise as Rothschild, becoming the monopoly supplier of the entire saltpetre (a critical component then for the manufacturing of gunpowder) and salt monopolies in the North East India sub-continent. While Rothschild's career has been covered in Ferguson's majesterial family history, Wajid, born in Patna, the son of an influential Armenian immigrant merchant in Kashmir (Choudhury, 2005) remains yet a shadowy figure.

The Armenian entrepreneurial Diaspora was a demographic by-product of the raw silk produced on the shores of the Caspian Sea. In early modern times most European silk came from the Caspian, Caucasus and Iran. As European demand grew, Iran became ever more the dominant producer, but in fact several dozen Armenian families dominated its distribution and sale. The privileged position of the most prominent Armenian merchants in the global silk trade was cemented after winning the auction for the Shah's silk monopoly of 1617 (Baghdiantz McCabe, 2005).

Early modern Iran was an autocratic feudal state, with the Shah visciously competing with regional lords for power. The granting of such a profitable monopoly to outsiders was a convenient solution to ensuring that no other faction at court would gain additional power and so become more of a threat. But the Armenians, while aware of the greater power politics at stake, were nevertheless willing to pay more for the silk monopoly than any other competitor because they alone could generate more profit.

The leading families of Armenian merchants had developed extensive trading networks with the principal European and Asian markets over several generations. (Curtin, 1984, Braudel, 1984). During the seventeenth century these trading networks expanded, as silk exports increased. The Armenian trading networks were based on extended family units. Family members dispersed as far away as Amsterdam to Surat in Indonesia were able to act as global silk merchants, managing transactions efficiently across a vast geographical range. They were eager to diversify into other areas, maximizing profits on their market-making skills. In consequence, they prospered.

In the late seventeenth and early eighteenth centuries, the fastest growing market in the world was not north-western Europe—the Industrial revolution came later—but northeast India. Several Armenian families immigrated to Bengal to follow this market (Baghdiantz McCabe, 1999). Wajid was a scion of one of these Armenian immigrant merchant families. While the contours of Wajid's early career are unclear, his family background in Persia would have given him a good grounding in business and an especial appreciation of the profitability of royal monopolies. This must have been useful because the Bengali court exercised a jurisdiction over key trades similar to the Shah.

Wajid entered the Bengali Royal Court in 1741. Evidently his personality enabled him to extend his influence at court rapidly. By the late 1740s he had gained 'virtual control of the economy of Bihar' and its famed saltpetre production (Chaudhuri, 2005: 6). By 1753, he had gained monopoly control of the entire saltpetre trade and was master of the Bengali defence industry. Furthermore Wajid also went on to win the contract for the Bengali salt monopoly, which was profitably farmed by him from 1752 onwards (salt was hugely valuable in the sweaty tropical and sub-tropical climates). With further diversification into shipping, banking and opium, at his peak Wajid could easily have been the richest man in the world. His business empire was based on privileged access to the centre of political and economic authority in these feudal economies. While he exploited the traditional Armenian trading networks and his own extended family to ensure the profitability of his monopolies, his prosperity was dependent on the incumbent regime both remaining on good terms with him, and staying in power. After the British victory at the Battle of Plessey in 1757, Wajid's days were numbered. The British, under the auspices of the East India Company, were in no mood to tolerate their long time competitor in the region. Company servants simply seized control of the salt and saltpetre monopolies. Robert Clive ensured Wajid's downfall and he apparently poisoned himself in jail in 1759.

This close association between an ethnic minority, like Wajid's Armenian immigrant mercantile families in India, and the successful exploitation of one specific niche within a large political unit, like the Persian or Bengali empires, was repeated among other Diaspora groups. In the Ancient world, the Phoenicians built trading networks from Spain to Babylon, and the Assyrians governed vast movements of international trade and farmed out monopolies. In medieval times, the banking dynasties in Italy and South Germany similarly developed vast trading networks, benefiting from access to monopolies of some kind or other. Venetian merchants were renowned throughout Asia. Carmel Vassalo (2005) has recently shown how Maltese traders in sixteenth-century Spain benefited from their island's close association with the Catholic Order of St John. This religious association opened up the Spanish Empire to Maltese traders, who exploited their geographic position to become intermediaries between the Catholic Spanish and the Muslim Ottoman empires, and eventually were given the privileged status of carrying the valuable cotton transhipment trade.

Greek merchants also benefited from their geographical position on the western fringe of the Ottoman Empire. Indeed the Greeks, in contrast to the Maltese, were actually Ottoman subjects. Because they were the most European of his subjects, Greek shipping families became the Caliph's *dragoman*, or representatives to the European courts, enabling them to develop, and almost monopolize, the Ottoman European trading axis from the sixteenth century onwards (Fusaro, 2005).

By the nineteenth century, the leading Greek merchant families were able to control the Black Sea grain trade and, ultimately, to develop into the leading entrepreneurs in the global shipping industry (Harlaftis, 1996). And in the train of these examples of relatively powerful outsider families exploiting some privileged position, several dozen more families were able to develop more minor international business links, as lesser (though still very significant) traders in the nineteenth and twentieth centuries.

From ancient to modern times, whether it was Jewish immigrants such as Rothschild, Armenians such as Wajid, or Maltese or Greeks, there has been a strong correspondence between migration and entrepreneurship. Perhaps the best way of understanding the disposition for entrepreneurs to migrate is to apply the conventional international labour market model to the migration of entrepreneurs as is used to explain the international migration of unskilled labour (Hatton and Williamson, 1998). Here the critical determinant of the rate of migration is the relative reward between home and host economies. Applications of the model invariably use relative wages, but in order to explain the international migration of entrepreneurs, attention would need to focus on relative profits. The migration of men like Rothschild, Wajid and others then becomes easier to understand. Whether it was to Manchester in the 1800s or Calcutta in the 1740s, the booming local economies attracted men on the make.

But the evidence of entrepreneurs clustering in areas of rapid economic change from before the industrial revolution to the present simply suggests that there is a correlation between profits and entrepreneurs. Such an observation doesn't particularly assist us to gain a greater theoretical hold on the subject. Simply applying any of Knight's focus on uncertainty, or Kirzner's concern for entrepreneurial alertness, or Casson's definition of the entrepreneur as a judgemental decision-maker, or even Schumpeter's dramatic notion of creative destruction, will not particularly assist us further in understanding the greater tendency for entrepreneurs to migrate. A clearer understanding of the concept is needed first. For immigrant entrepreneurship as a concept is surely about more than those exceptional immigrants with the Midas touch.

Any survey of the conceptual literature is hardly assisted by a conflation between the terms ethnic entrepreneurship and immigrant entrepreneurship. But any survey of immigrant entrepreneurship through history would, for example, be unlikely to include examples like Andrew Carnegie (the Scottish-born founder of US Steel) and Cecil Rhodes (the plunderer of southern Africa, Ferguson 2003), for while Carnegie in the United States and the rapacious Rhodes in pre-colonial Africa were immigrants, and were spectacularly successful fortune-hunters, they should not be included as immigrant entrepreneurs, because to do so would render the concept meaningless. The interest of the concept is surely that immigrants have overcome some degree of adversity through their entrepreneurial endeavours. Bonacich (1973), for example, in a classic statement on ethnic entrepreneurship, emphasized that for migrant entrepreneurs to be included in her model of middlemen minorities, they needed to face some hostility from the host community.

Consider two recent examples of entrepreneurial minorities, the East African Asians in Britain and the offshore Chinese in Malaysia and Indonesia. In 1972 President Idi Amin expelled the Asian population of Uganda, the acme of a more substantial departure of Asians disenchanted with post-colonial East Africa; 155,000 arrived in the UK (Panayi 1999). Out of a total population of over 1 million immigrants from India, Pakistan and Bangladesh, they consist of only a relatively small percentage of the total. But they have had a disproportionate impact on entrepreneurship and entrepreneurial success among the Asians in Britain (Basu, 1998).

These East African Asian immigrants in Britain are in fact third-or fourth-generation migrant population, with the majority of population originating from Gujarat, especially the Kutch region, and emigrating to British East Africa in the final quarter of the nineteenth century. They emigrated because they were encouraged by the British imperial government to go and provide commercial infrastructure, which was largely absent then in East Africa. After two generations of small-scale retailing and commerce, the British withdrew from East Africa, and the Asian population suddenly became vulnerable to post-colonial nationalistic forces. Many left to settle in Canada, the United States and, of course, Britain, where they went on to reconstitute business and meet with disproportionate success. The important observation to make is that Gujarati Hindu immigrant entrepreneurs in Africa were offering entrepreneurial services in an economic region where the indigenous population was largely unwilling to offer entrepreneurship.

A similar conclusion can be drawn about the offshore Chinese entrepreneurs, who have experienced such success in South East Asia since the 1960s. In total the ethnic Chinese in South East Asia remain a tiny minority, perhaps only 3 percent of the total population there. But they dominate South East Asian business. In Indonesia, for example, Chinese business represents 73 percent of the Indonesian corporate sector, by market capitalization (Brown, 2000). Unlike those in Taiwan and Hong Kong, the overwhelming majority of Chinese families in Singapore, Malaysia, Indonesia, Thailand and the rest of South East Asia, left China, not in response to the Communist Revolution, but earlier during the period from roughly 1870 to 1920. Moreover the offshore Chinese in South East Asia were economic rather than political migrants, and came mostly from Guangdong and Fujian provinces and Hainan Island, on the south-eastern corner of China.

They were economic migrants because in the final quarter of the nineteenth century, economic conditions in southeastern China were relatively poor. And the barriers to moving to tin mines, rubber plantations to, say, in Malaysia, were just as considerable as moving to the Mandarin-speaking north and west. Analysis of the dialects spoken by these offshore Chinese suggests a very strong propensity for chain migration, with prominent dialects among the Chinese population in certain regions of South East Asia coming from only very small regions of southeastern

China. *Hokkien*, for example, is a dialect originating from the south of the Fujian province. It is the dominant ancestral dialect of the Singaporean and Filipino Chinese and prominent among the Malay Chinese. *Teochin*, to take another example, originates from the Shantou area of northern Guangdong. Perhaps 80 percent of Thai Chinese population are *Teochin* speakers (Bachman and Butler, 2003). By contrast, Cantonese, which is the dominant dialect in Hong Kong (which became known for entrepreneurial exceptionalism only after the Communist revolution) is otherwise much less prominent outside small Chinese communities in Kuala Lumpur and Saigon.

These Chinese entrepreneurs participated fully in the boom years of South East Asian globalization, from the 1880s to the 1920s, and then suffered in the years of global depression, war and reconstruction (Brown, 2000). But the move to post-colonial independence in South East Asia had just as powerful an effect on Chinese entrepreneurs there as it did with the Indian entrepreneurs in East Africa, but this time mostly positive. For in contrast to East Africa, newly appointed governments in independent Malaysia and Indonesia depended increasingly on Chinese entrepreneurs, especially in nationalistic attempts to exclude western capital in the 1960s.

It follows that the entrepreneurial activities of the East African Asians in Britain, the offshore Chinese in South East Asia, just like the island Greek, and Maltese traders, and Armenian merchants (also the Lebanese and Syrian traders and others) are all examples of geographically mobile entrepreneurial minorities. These immigrants have offered entrepreneurial services in regions where the indigenous population was either reluctant or unable to do so.

The legion of examples of successful immigrant entrepreneurs in the past could be expanded, but for the purposes of surveying entrepreneurial mobility of ethnic minorities in western nations today, the relevance of these historic examples needs to be drawn out. Entrepreneurial minorities were after all very common in the past, but typically in economic regions where the indigenous population were either unwilling or unable to supply entrepreneurship themselves. This was sometime for religious or socio-cultural reasons.

In the Middle Ages, a ban on usury in Christian communities allowed Jewish money lenders to corner private banking. Seventeenth-century Persian Shahs were so suspicious of their rivals that Armenian Christian merchants were given valuable trading opportunities. Timur Kuran's thesis on Islamic economic retardation emphasizes the link between the sense of the Koran being the complete and final revelation form God and entrepreneurial inertia (Kuran, 1997). This allowed non-Muslims in the Ottoman empire to prosper, like the Greeks, Lebanese, and other Christian and Jewish minorities. The prominence of the Baghdadi Jews in the Persian empire may have owed similar origins (Plüss, 2005).

The historic prominence of certain entrepreneurial minorities therefore appears to be strongly associated with political constraints imposed on entrepreneurial activities among the indigenous population. While this might have been a profitable niche for entrepreneurial ethnic minorities to pursue in the past, it clearly does not represent an optimal political environment for promoting economic development more generally. Ultimately competition between political systems has mostly led to successful systems in the main, replacing the less successful ones (Jones, 2003). Almost all political restrictions on indigenous participation in entrepreneurial activities are no longer in force. In consequence, however, the scope for entrepreneurial minorities to pursue their previously profitable niches free from competition has substantially diminished (see Rubinstein, 2000 for a similar argument focusing on modern corporate structures).

Moreover, where ethnic minorities continue to pursue profitable entrepreneurial niches in open economies, the explanation is more typically found to lie in skills or attributes specific to that minority population. Two apparently successful immigrant communities in the United States in recent times are illustrative here.

By the 1970s, the Cuban émigré community was renowned already for its colour and verve but research identified what was previously unknown: that a high proportion of the Cuban immigrants had become successful entrepreneurs (Portes and Bach, 1985). Their route into the market was often via competitive immigrant sectors. But unlike other Hispanic immigrant communities in the United States, the Cubans had very high rates of self-employment and enjoyed very significant income gains. Portes's explanation emphasized the role of Cuban self-help and cultural values operating effectively within what he described as ethnic enclaves. And so, according to Portes, with sufficiently strong initial conditions, particularly associated with strong communal or cultural values (what has since been termed as 'social capital'), the Cuban émigrés were able to build businesses and industries.

Further evidence of other successful entrepreneurship strategies emerged after Portes's seminal contribution. In particular, it became clear that Korean immigrants in the United States, since the late 1960s, had been able to develop successful retail operations. Once these were investigated further, it appeared that Korean entrepreneurs also benefited disproportionately from communal services, with revolving credit societies being only the most well-known example.

The focus of attention on the role played by strong cultures in developing these self-help solutions to immigrant mobility led to the identification of the value of strong ties within the tightly bound networks in immigrant communities. Thus the two contemporary examples of Cuban and Korean ethnic entrepreneurs appeared to confirm that policy initiatives ought to be targeted at stimulating self-employment among all immigrant groups.

More recent research on the 'ethnic enclave' route to upward mobility and assimilation has, however, been more equivocal in the advantages generated from this route to assimilation, with 'evidence for the advantages and disadvantages of participating in co-ethnic economies as opposed to mainstream primary and secondary sectors has been far from conclusive' (Morawska 1990: 203). The Cuban, and Korean routes remain exceptional. The reason for this is two-fold: First, the hypothesis that strong ties in immigrant network economies were responsible for success, does not hold with the generally accepted model that successful networks tend to be based on 'weak ties' not strong ones.

Secondly, and more importantly, the interpretation of Cuban and Korean 'entrepreneurial success' is, as recent research has shown, actually better interpreted as 'failure'. This is because both the Cuban refugees and the Korean immigrants were populations disproportionately composed of professionals and entrepreneurs in their home countries (Morawska, 1990, Waldinger, Aldrich and Ward, 1990). With such strong advantages in terms of their skills background and knowledge on arrival, it is less surprising that they have proven to be relatively successful in the years since. Indeed from the perspective of the actors themselves, arriving from professional or established business backgrounds in Cuba and Korea, their self-perception is typically more of status-loss and of relative failure (Morawska, 1990).

Any survey of immigration and entrepreneurship is likely to be overwhelmed by the sheer abundance of evidence, and while this summary has, at the margin, preferred to emphasize the less well-known cases over the more famous, the general conclusions remain the same. Historically, there has been a strong association between ethnic minority entrepreneurship and political restrictions on the indigenous populations. These restrictions may have arisen for political or for cultural and religious reasons (Jones, 2003; Kuran, 1997). But the resulting distribution of knowledge about merchanting skills and opportunities has exaggerated any unevenness. And so the experience of different ethnic minorities in recent years in nations like the United States and the United Kingdom has been for those immigrant populations with relatively advantaged human capital endowments to prosper, and those without to suffer.

This is where the greatest impact of further research would be felt. For while there are now many micro-studies of ethnic minority experience in Britain and America and elsewhere few are comparative, and few have incorporated any understanding of the ethnic minority human capital endowments (although see good examples in Altinay, 2005; Rath, 2002).

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