

Ethnic Entrepreneurship and Ethnic Enclaves

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**Abstract**

Immigration has been known to have many effects like externalities on the natives and potential welfare to family back home. An already existing diaspora from a certain country of origin belonging to a certain ethnicity in the destination country has also been linked with having positive and negative impacts on a fresh flux of immigrants. The primary aim of my paper is to weigh different reasons as to how such diasporas that form ethnic enclaves can be helpful or not. To be more specific, this is a summary of how living in areas of concentrated individuals from an ethnic group affects employment trajectory of the immigrants. And, Whether entrepreneurs in the network of these refugees from the same origin help them enter the labour market. While such enclaves get networks jobs and support, however long-term earnings growth is slower for those who remain in them. The reasons start from limited language or skill development and isolation from broader labour markets. There is also a negative impact of employees of the same origin in a network. Our results are somewhat balanced with a mixed effect of enclaves for the economics of immigration.

**Introduction**

Immigrants form a vital part of the economy, they can have substantial benefits on the destination country depending on the skill level they bring. They partake in a decent part of the labour market, forming the basis of standard wages, work culture, and overall health of the economy. Resettling in a new country comes with obstacles regarding job prospects, earning growth, language barriers, new culture, difficulties adapting, etc. Even though in most classical theories, migration of labour is immobile, globalisation has been a pillar of a boosting migration which has tripled since 1970s from 84 million to 258 million now, forming roughly 3.6% of the global population.

The assimilation and integration of immigrants from different ethnicities has no formula to it. But, a lot of them choose to reside or work in places where they find a higher concentration of their people. Not only immigrants as a group are residentially segregated, but that different types of immigrants tend to become segregated in different places, and this sorting of types of immigrants has given rise to Ethnic Enclaves **(Borjas, 2000, Ethnic Enclaves and assimilation)**. So, to define them we can say A bunch of people from a similar ethnicity living in the same residential area form ethnic enclaves. For instance Indians/ South Asians residing in big groups in Brampton, Canada. These immigrants form a disproportionately large group in the destination country.

This brings us to the focus of my topic, how are ethnic enclaves help new immigrants with labour market outcomes. Resettling has its own hardships, but ethnic enclaves give people a warmer embrace. Although it might be easier to integrate, there has been a significant decline in the relative entry wages of new immigrants in the long term **(Borjas, 1985)**. So, immigrant waves have had a certain disadvantage in comparison to their ancestory. However, it has also been noticed that moving costs go down due to pre-existing network settled in the country of destination **(Carrington, Detragiache, Vishwanathan, 1996)**.

In this paper, I try to explore these contrasting opinions and analysis that examine hoe ethnic ethnic enclave and entrepreneurs can facilitate or hinder immigrants’ entries into the job market. To start, we will go through present literature, some relevant analysis. And, to end it we’ll look into some policy implications to see what destination countries can change to better assimilate immigrants while also benefitting.

**Review of Literature**

Migration can be a gain for the destination and loss for the country of origin. Concepts like brain-drain, ethnic enclaves, trade relations with destination countries have been a focal point in studying the social and economic impacts of migration There has been tonnes of research on ethnic enclaves as they embody an important part in making labour market policies. In this review we set a stage to and examine varying perspectives on ethnic enclaves.

The talks for ethnic enclaves were initially seen when **Wilson and Porter 1980** used the term to explain how Cuban immigrants resided in parts of USA. The coined the concept of “enclave effects” or how enclaves offer opportunities to new immigrants that are coethnic in nature. **Porter and Manning, 1968** further developed the idea to theories that suggested how these enclaves help assimilation of immigrants outside mainstream labour markets. Ethnic enclaves have been a crucial part for immigrants to integrate within an economy without completely having to assimilate culturally.

Ethnic enclaves have been a factor of trust and embedded relationship responsible for its stability and efficiency **(Portes,1998)**. USA has been severally called the land of immigrants, and is the perfect example of strong ethnic diasporas like Jewish, Japanese, and Koreans. These areas of concentrated ethnicities also become an agglomeration of enterprises, labour force, and capital facilitating a ground for economic development.

Ethnic entrepreneurship also lead to improved labour market outcomes. Entrepreneurs provide job opportunities and valuable information about the labour market, reducing the initial barriers refugees face when integrating into the workforce. Entrepreneurs help with job placements, higher employment rates, high wages. Especially pronounced results for those with skill and language gaps.

But, that was the good part. Ethnic enclaves have also seen significant drawbacks**, Chiswick and Miller (2002a, 2002b)** studied The Effects of linguistic concentration on earnings.

Their results show a negative impact of home language on earnings, plus low proficiency.

US census data also resulted in a negative relationship between local population that speaks the same minority language and the probability that English is learnt. Sticking to the ethnic enclave can lead to a slow progress trajectory and assimilation in the real job market.

Black American enclaves also have low high school graduation rate, higher single motherhood incidence, while it had a small positive impact on white women.

**Clark and Drinkwater (2002)**: Ethnic enclaves do not help immigrants in England and Wales and have a negative impact on labour market. Ethnic enclaves also have a negative impact on self-employment. **Zhou (1992)** et al find that ethnic enclaves often limit interaction with bigger labour markets, and can cut off higher paying opportunities. Sander and Nee also argue that entrepreneurs in ethnic enclaves pay lower wages to new immigrants, as a result of co-ethnic labour dependence and willingness to accept any job for security.

Another major downside is that ethnic enclaves may trap skilled immigrants in low-paying jobs. **Portes and Bach (1985)** found that even well-educated immigrants often work in low-skilled positions within their ethnic networks, as their qualifications may not be recognized by employers in the broader market. successful entrepreneurs or early arrivals to the enclave may dominate resources and labour, creating disparities in power and wealth **(Waldinger, 1994)**. Such cases can lead to internal hierarchies and inequalities. Waldinger also explored the idea of dependency on the enclave, an obligation to support family, leading to feeling trapped instead of dipping into broader markets.

Finally, coming onto some researchers that discovered no or neutral effects. **Xie and Gough 2011**, suggested that there might be an initial push that ethnic enclaves provide but overtime immigrants align their economic trajectories with the general market. Further they do not provide any advantage to those already possessing skills to directly integrate in labour markets. **Studie by Edin et al 2003** that controlled for factors like education and work experience showed wage differences as being minimal or statistically insignificant. Oreopoulos (2003) found a non-significant relationship between enclaves and earnings.

Further, when it comes to entrepreneurship, **Aldrich and Waldinger** add that even entrepreneurs can have a positive impact on new immigrants, but a lot of these new entrepreneurial ventures close down in a long run due to competition, limited customers and lack of capital. **Pinkster 2007**, talks about the ethnic enclave paradox, where the impact of ethnic enclaves on social mobility is neutral with no clear effects.

So, the literature when it comes to ethnic enclaves and entrepreneurships are multifaceted, with opportunities and limitations. There have been mostly short-term advantages and long-term disadvantages. We can say that ethnic enclaves are not a monolithic force.

**Review of Papers**

We analyse a working paper to understand the **impact of living in ethnic enclaves for Canada using data- 1981-2000 Censuses**. As per previous researches the impact of living in ethnic enclaves had been negative in USA, on women and adults migrating at a young age. And there is also a negative impact on high skilled males receiving ed from outside Canada, and in general language skills were hindered.

Canadian Job market have been deteriorated as recent immigrant cohorts have not assimilated as well as the previous ones. Also, successive female cohorts have had a smaller earning.

Reasons for this decline can be: change in visa class composition of immigrants, change in composition of sending countries from EU, Asia, and Africa. Change in human capital of immigrants. Fall in returns of foreign work exp. Clustering can inhibit acquisition of skills, and immigrants usually cluster in urban areas in Canada. Competition between sending countries due to change in Canadian Immigration Policy (preferential treatment for Canada similar countries). Those who got preferential treatment would find it easier to assimilate, an don’t be a part of enclaves. Other cohorts may be isolated and would lack necessary skills for Canadian job market.

Ethnic communities are also way more welcoming, which could make assimilating easier for a new immigrant, but the success level depends on availability of opportunities. Following the same language and culture could disable the immigrant from obtaining many other Canadian skill requirements, (the argument is that both require different set of skills and not that one is better than other). This would make it harder for an enclave immigrant to earn as much as a Canadian or other normal immigrants. There is always a dominant Language barrier. Segregation has a statistically significant negative effect on wage growth. So, the paper studies the impact of ethnic enclaves on immigrant earnings.

**Specification of Enclaves in this analysis**

Classification was done in terms of Country of Birth: The exposure Index (fraction of the population between the ages of 18 and 64 in each Census Metropolitan Area (CMA) by country of birth). This is irrespective of labour market status for men and women. CMA level help eliminate problems that could arise with smaller units, like controlling interaction between two small ethnic groups. The second index is the *relative cluster index*, which deflates the exposure index by dividing it by the percentage of the total population studied that each country of birth group makes up. This adjusts the exposure index by the proportion of the group *i* in the population studied. If the clustering index is equal to one, then the proportion of people from origin group *i* living in metropolitan area *j* would equal to what would be predicted if the group was randomly assigned to the studied CMAs based on a CMA’s population. If the relative index is greater than one, then the group is overrepresented in the CMA, while if the relative index is less then one, the group is underrepresented.

**Model Specification**

synthetic cohort approach is used where the earnings growth is calculated for the sample of foreign-born workers who come from country *i*, live in metropolitan area *j*, and arrived in Canada in calendar year *k* and is estimated by:



The empirical results for earnings growth in the context of ethnic enclaves reveal several key findings:

To start with the **Growth of Mean Earnings**: The exposure index (a measure of ethnic concentration) has shown negative effect on earnings growth, particularly for females. For males, the impact is most evident in the 15-year growth model, and becomes stronger when base-year earnings are controlled for. Including base-year earnings demonstrates earnings convergence: immigrants with higher initial earnings experience lower earnings growth, consistent with earlier studies **(Duleep and Regets, 1997; Borjas, 2000a,b).**

Further the results for the Earnings Measure Sensitivity are relatively consistent when different measures of earnings (hourly wage, weekly earnings, or annual earnings) are used. However, the 10-year growth model for males becomes insignificant when hourly wage or yearly earnings are used, and the 20-year growth model for males becomes more negative and statistically significant when the hourly wage is used. The results of this study in comparison with U.S. data also show a negative effects of ethnic enclaves on earnings growth **(Borjas, 2000)**. These negative results are more pronounced in adults than those who arrived as children. This difference is particularly stark for females.

We can not overlook the skill levels. The impact of ethnic enclaves on a N individual varies based on their skill levels. The negative effects of ethnic enclaves are faced by the low- skilled immigrants, which aligns with **Borjas' (2000)** conclusion that low-skilled workers may end up having limited opportunities within the enclave. However , consistent to all research, high skilled immigrants don’t show any effects. But, in brief this analysis says that ethnic enclaves can negatively affect earnings trajectory, especially for those who immigrate as adults, females, and low-skilled workers.

As per the paper, ethnic enclaves seem to have also a negative impact on the language learning progress. One reason cited is that residing in an enclave reduces exposure to the host country’s cultural and linguistic environment, hindering the accumulation of skills that are crucial for labor market success, such as language proficiency. Language ability, as a key component of human capital, is directly linked to better earnings and other labor market outcomes. For example, **Chiswick and Miller (2002)** find that immigrants fluent in English have 14% higher earnings than those who can’t speak English.

Using a probit regression, and withdrawing from the Canadian Databases the model, the study measure the effect of enclaves on learning the official local language (English in English-speaking cities, French in French-speaking cities, or either one language in bilingual regions). The analysis shows that a one percentage point increase in exposure to one’s own ethnic group decreases the probability of knowing the local language by 1.2% for males and 1.9% for females. Such a negative effect is seen more in people or immigrants from a low background of the country’s language. For such groups, the probability of learning the language goes down by 2.8% for males and 4.25% for females, with both results being statistically significant.

**Review of Paper**

To come to the second paper that matters to us , **The Labor Market Integration of Refugees in the United States: Do Entrepreneurs in the Network Help?** We investigate whether entrepreneurs in the network of refugees from the same country of origin help refugees enter the labour market by hiring them. The study is centring on refugees who were resettled in the USA between 2005 and 2010 without any existing ties to the country of destination. The analysis also takes into account challenges faces bythe immigrants, like being alloted by resettlement agents or failing in the labour market, while ensuring that these factors do not affect the results.

The study finds that: The number of entrepreneurs or business owners from the same country in a refugee's network positively impacts their probablity of being employed within 90 days. However, the amount of network residents working as employees negatively impacts the probability of employment, due to the obvious competition between these individuals and the new immigrants.

To take an example comparison: A refugee from Vietnam, with an average of 244 entrepreneurs in their network, has a **4** percentage points higher chance of employment compared to a refugee from Liberia, who has an average of only 1 entrepreneur. Conversely, a Vietnamese refugee, with 1,465 employees in the network, has a 10 percent lower chance of being employed against a Liberian refugee with simply 210 employees. So, entrepreneurs do get immigrants jobs, but other immigrants cause competition.

**Methodology & Identification Strategy:**

In order to avoid biases due to refugee sorting, Refugees without U.S. ties are placed by resettlement agencies without being able to choose their destination location. These agencies do not meet the refugees before placement, meaning refugees do not self-select into labor markets.

Secondly there is a control for location characteristics. Agencies may place refugees based on local characteristics (e.g., availability of community programs), which could affect results. These location-specific factors are addressed using fixed effects.

**Results**

A one standard deviation increase in the number of business owners raises the probability of employment by 3.5 percentage points, which is an 11% increase given the average employment rate of 31%. Conversely, a higher number of employees in the network reduces the probability of employment by 4.4 percentage points, representing a 14% decrease. This suggests that while entrepreneurs provide job opportunities, competition from other employees in the network hinders employment prospects.

### ****A Case Study on The Somalian Enclave in Minneapolis, USA****

Minneapolis has the largest Somali population in the USA al lot of them resettled there due to civil conflicts in the country. The Somalian enclaves has made it easy for these immigrants to access religious institutions, employee network, housing help, and a social support in general. The enclave faculiA good initial breaker for the the immigrants in America, but it has it’s economic advantages and drawbacks. Cultural familiarity and religious institutions, such as mosques, give a sense of belonging and emotional security, which is essential for newly arrived refugees.

Minneapolis's Somali community has produced a flourishing business community. A large number of Somalis have launched small enterprises, especially in industries like retail and transportation (such as taxi services). The Cedar-Riverside neighbourhood's Somali-owned companies have thrived, generating employment and boosting the local economy.

Despite the entrepreneurial success, many Somali immigrants find themselves segregated into low-wage jobs within the enclave’s economy. This segmentation restricts opportunities for upward mobility in the broader labour market, as many Somali workers remain in low-skill positions, such as taxi drivers or low-paid retail workers.

Like in other ethnic enclaves, Somali immigrants face challenges with English language acquisition. The enclave’s insularity can limit interaction with non-Somali residents, reducing opportunities to improve language skills and hindering employment in higher-wage sectors. This has contributed to persistent poverty levels within the Somali community.

It is even tougher for the younger generations or the children who were brought at an early age to intigrate in the American norms. They usually have to face issues lile poverty, discrimination, and school bullies, while the locals have an easy career or professional journey

As per reference S, Somalians earn less than any other immigrants and also have high unemployment rate. There are areas of high or low Somalian enclaves in USA leading to residential segregation. And, these immigrants are tied to their enclaves due to high discrimination and cost of housing.

**Policy Implications**

In order to target language learning, Governments of destination countries could initiate language training programs for free of cost, especially for immigrant students it could be made obligatory. Such programs can be integrated for employees in the community learning centres. **Chiswick and Miller (2002)** emphasized that improved language acquisition directly correlates with higher earnings.

It is also pivotal for firms in destination countries to recognize foreign work experience and education credentials. **Borjas (2000)** pointed out that the non-recognition of foreign qualifications, especially when the education was received outside of Canada, causes highly skilled immigrants to see a decrease in salary growth. This traps them in enclaves. By establishing simpler channels for equivalent certification and having easier transfer of overseas work experience, the governments can make progress in the process of recognizing international qualifications. Priority should be given to special bridging programs and expedited credential evaluations for highly skilled immigrants. It is vital to recognize skill-job mismatch to help high sickled employees residing in these enclaves to escape wage stagnation.

Lower wages and integration are also pronounced in females than males which is an issue that must be sorted out. Policies to cater to it must be implemented, like courses on job preparedness, mentors, and training for female entrepreneurs or employees specifically designed for women in ethnic enclaves. In order to help women balance their obligations at home and at work, this should also include childcare assistance services.

It is also important to set a stage for dispersing these clusters. It is important have incentive programs that encourage settlement outside of the ethnic enclave in urban areas. In such cases, financial support program like housing aids, unemployment aids can help.

Additionally, community based support systems can help immigrants integrate. It can be important to close the gap between enclave jobs and mainstream job by providing job fairs, networking, etc.  
Addressing the recent dropping of incomes of immigrant is also crucial. To help recent immigrants integrate into the mainstream economy more rapidly and prevent wage stagnation in enclave-dominated industries, policies should include job matching services, vocational training, and upskilling programs.

### Conclusion

There are clearly a Balance of advantages and disadvantages of the enclaves. They are an obstacle to economic mobility, but they offer new immigrants a welcome environment. These enclaves may have a negative impact on earnings development

, and impede language acquisition, which is essential for success in the job market.

In the future, policies must prioritize better language learning initiatives, cross-cultural exchanges, and increasing the economic opportunities accessible to immigrants. Specific assistance is also needed for immigrant groups who are particularly at risk to battle difficulties associated with assimilation.

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