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Local factors and small firms of non-EU immigrants

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Goal of the paper

To describe the characteristics of immigrant firms (ethnics, economic sectors, geographic areas)

To investigate the relationships between firm dynamics and population dynamics (ethnics, economic sectors, geographic areas)

To investigate the entrepreneurial rate, firms/population (ethnics, economic sectors, geographic areas)

Introduction:

- Immigrant entrepreneurs are an important issue: they represent a business opportunity for immigrant population, as well as a potential key factor for renewing economic growth in Italy (mainly at local level)
- Official data from Istat (ASIA) confirm the growth of immigrant small firms
- There is a non-linear relationship between immigrant population and dynamics of immigrant small firms (CNEL, 2011)
- There are some ethnic specializations at geographical level and industry level

There is a non-linear relationships between population growth and firm growth

	population		firms	
	% composition 2009	growth rate 2004-2009	% composition 2009	growth rate 2004-2009
Romania	21.9%	257%	12.9%	130%
Albania	11.5%	47%	12.5%	80%
Morocco	10.6%	46%	8.5%	11%
Russia	8.0%	107%	3.4%	147%
China	7.3%	77%	17.5%	65%
Poland	2.6%	108%	1.6%	63%
Tunisia	2.6%	33%	2.6%	-6%
Egypt	2.0%	55%	3.4%	26%
Africa	4.8%	48%	3.9%	-3%
Eastern Europe	2.1%	207%	1.4%	54%
Latin America	6.8%	50%	6.9%	20%
Asia	6.5%	51%	4.8%	13%
Former Yugoslavia	5.1%	27%	5.4%	13%
Total	100%	80%	100%	42%
Total (value)	4.052.498		160.434	

Entrepreneurial rates differ per economic sectors, geographical area, ethnic culture

	Entrepreneurial rate
Romania	2,3%
Albania	4,3%
Morocco	3,1%
Russia	1,7%
China	9,5%
Poland	2,5%
Tunisia	4,0%
Egypt	6,7%
Africa	3,3%
Eastern Europe	2,7%
Latin America	4,0%
Asia	2,9%
Former Yugoslavia	4,2%
Total	3,9%

Immigrant entrepreneurial rate per province



Ethnic specialization index per economic sector

	Industry	Construction	Commerce	Service
Romania	38	202	29	77
Albania	33	239	18	41
Morocco	40	79	181	45
Russia	44	108	81	141
China	362	3	173	21
Poland	38	100	75	162
Tunisia	70	162	65	71
Egypt	47	115	102	99
Africa	51	32	102	220
Eastern Europe	41	98	76	165
Latin America	59	55	76	218
Asia	39	39	97	221
Former Yugoslavia	43	186	41	81

Ethnic specialization index per geographical area

	East Europe	Africa	Asia	Latin America	Russia	China
Piemonte	156	136	47	91	114	55
Valle d'Aosta	87	146	46	147	88	21
Lombardia	96	135	126	123	102	95
Trentino	113	63	79	110	97	21
Veneto	120	72	76	71	126	118
Friuli	129	48	44	98	69	52
Liguria	126	114	138	183	83	51
Emilia-Romagna	123	110	121	76	169	98
Toscana	121	81	76	56	66	207
Umbria	140	94	73	66	111	46
Marche	116	68	99	109	148	114
Lazio	105	100	185	112	112	72
Abruzzo	71	39	46	178	75	83
Molise	21	84	17	150	37	27
Campania	16	95	84	145	103	97
Puglia	28	62	48	76	18	80
Basilicata	19	48	23	139	42	57
Calabria	20	69	47	87	77	106
Sicilia	14	116	121	89	25	117
Sardegna	27	104	115	46	39	149

Ethnic entrepreneurship, literature (1)

Good opportunity for destination countries:

- It reduces social exclusion of immigrants (Sahin et al., 2011).
- It increases the welfare of minorities and it allows to exploit talents increasing the own satisfaction of immigrants (Clark and Drinkwater, 2010).
- Immigrant entrepreneurs play a key role in many traditional and labor intensive sectors (Waldinger et al., 1990)
- It contributes to the creation of the so-called “cultural networks”, increasing the social capital (Portes, 1998)
- Transaction costs could be lower within ethnic groups due to the transmission of non-market information, easier under the same traditions and beliefs (Ibrahim and Galt, 2011)
- In this sense ethnic groups are seen as “efficient, low cost, cultural transmission units” (Landa, 1991)

Ethnic entrepreneurship, literature (2)

Differences across ethnic groups matter:

- Cultural heritage, traditions and beliefs influence propensity toward entrepreneurship (Light and Rosenstein, 1995)
- A dynamic economy of their host country creates more opportunities for ethnic entrepreneurs (Coughlin and Wall, 2011)
- Parker (2004) observes, for the UK case, significant ethnic differences for the access to formal financial sources
- Ethnic groups are specialized in economic sectors (Bates 1999 in the US; Sahin et al., 2011 in Germany)
- Local geographical factors could influence the localization choice of ethnic entrepreneurs, such as the perceived level of racial discrimination (Fairchild, 2008)
- Many interactions between local context and the presence of ethnic entrepreneurship are highlighted by Wang and Li (2007¹⁰).

Data & methodology (1):

- Data for each Italian province, 2004-2009 period
- Observation unit: provinces
- Two data source: ISTAT and ASIA
- Only individual firms are considered (relevant for immigrants)
- Dependent variables:
 - Ethnic entrepreneurial rate: ratio between the number of ethnic firms and the ethnic provincial population
 - Ethnic growth rate: growth rate of the number of ethnic firms at provincial level
- Econometric tools: panel analysis, $103 \times 6 = 618$ observations;
- Two specifications for each model: with and without time fixed effects

Data & methodology (2):

Empirical strategy:

- If immigrant shares (population) interact differently with dependent variables
 - **The presence of certain minority groups influences the entrepreneurial rate or the growth rate**

- Ethnics variables:
 - Local openness to immigrants (immigrants over population)
 - Shares of each ethnic group for each province, in each year

- Control variables included to clean heterogeneity:
 - Global entrepreneurial rate
 - Structure of population (share 20-65)
 - Unemployment rate
 - Share of each economic sector (number of firms)
 - Dummy for South Italy

	(1)	(2)	(3)	(4)
	Ethnic Entrepreneurial Rate		Ethnic Firms growth	
General entrepreneurial rate	0.944***	0.952***	1.497***	2.196***
Active population	-0.336***	-0.345***	-0.481	-0.0147
Local foreign openness	-0.230***	-0.267***	-1.089***	-2.820***
Unemployment rate	0.00122***	0.00108***	-0.000856	-0.000231
Industrial sector	-0.0198	-0.00363	0.00387	0.893***
Construction sector	0.0394	0.0337	0.530***	0.311
Venezuela	2.291***	2.285***	-3.744***	-3.198**
Tunisia	-0.0299***	-0.0279***	-0.0283	0.0417
Senegal	0.0886***	0.0890***	-0.159	-0.332*
Russia	-0.0843***	-0.0854***	-0.0485	-0.0885
Romania	-0.0133	-0.0156*	0.141***	-0.0285
Poland	0.00496	0.0140	0.0874	0.150
Pakistan	-0.0508	-0.0518	0.228	0.123
Nigeria	0.288***	0.303***	1.025**	1.854***
Morocco	0.000296	0.00197	-0.0720	-0.00753
Former Yugoslavia	0.0315***	0.0334***	-0.0455	0.0689
Egypt	0.0831**	0.0972***	0.440**	1.066***
South Africa	-0.0470**	-0.0436**	0.143	0.205
China	0.0874***	0.0864***	0.0435	-0.159
Brazil	-0.0972	-0.0744	-0.123	-0.00625
Bangladesh	0.0319	0.0341	0.338*	0.209
Albany	-0.0310***	-0.0299***	0.0422	0.0556
Year fixed effect	YES	NO	YES	NO
South Italy	0.00807**	0.00751**	-0.0366**	-0.0952***
Constant	0.174***	0.184***	0.116	-0.0275
Observations	618	618	618	618
R-squared	0.584	0.577	0.632	0.290

*** p<0.01, ** p<0.05, * p<0.1

Results: propensity to entrepreneurship

- Unemployment rate: positive sign (according to theory)
- Provincial openness: negative sign, due to family rejoining population increases more than firms
- South dummy: positive sign. Even if immigrant firms are not so spread in the South of Italy, the foreign entrepreneurial rate is higher than in the North (maybe, due to high labor discrimination)
- Huge differences across ethnic groups, 3 situations:
 - High entrepreneurial rate (Venezuela, Senegal, Nigeria, former Yugoslavia, Egypt and China)
if population increases → increase ethnic entrepreneurship
 - Low entrepreneurial rate: Tunisia, Africa and Russia (former URSS)
 - the third one is the control group, with an average propensity
- The evidences are robust to two model specifications, with and without controlling for fixed effects (years)

Results: growth rate of immigrant firms

- Evidence is less clear:
 - maybe growth rates are related to history of migration flows (path dependence)
- Ethnic firms increase where the level of global entrepreneurship is high
- Provincial openness, negative sign (due to family rejoining)
- Industrial specialization, different dynamics across years:
 - Increase in construction during booming years, the positive effect disappears removing year dummies
 - In general, positive dynamics for ethnic entrepreneurs within industry (without time fixed effects)
- Presence of specific ethnic effects:
 - maybe, more linked to history of migration flows rather than to local factors and opportunities.**
- The set up of new firms seems to be more problematic in the¹⁵ South of Italy

Conclusions

- There is an ethnic specialization at economic and geographical levels
- The econometric part confirms previous findings (disadvantage theory) and underlines huge differences across ethnic groups (measured here by their share on the total foreign population)
- No clear positive attraction of new ethnic firms by existing communities (family-reunion effect is larger)
- Foreign entrepreneurial rate seems higher in the South, maybe due to labor discrimination