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**Article**

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# Ethnic networks and location choice of immigrants

## Ethnic capital produced by local concentration of immigrants generates greater economic activity

Keywords: migrants, ethnic capital, networks, economic resources, location choices

### ELEVATOR PITCH

Immigrants can initially face significant difficulties integrating into the economy of the host country, due to information gaps about the local labor market, limited language proficiency, and unfamiliarity with the local culture. Settlement in a region where economic and social networks based on familiar cultural or language factors (“ethnic capital”) exist provides an effective strategy for economic integration. As international migration into culturally diverse countries increases, ethnic networks will be important considerations in managing immigration selection, language proficiency requirements, and regional economic policies.

### KEY FINDINGS

#### Pros

- ⊕ Immigrants consider existing resources and networks created by their ethnic or cultural enclaves for location choices.
- ⊕ Ethnic concentration reduces information costs and provides employment opportunities in immigrant-owned enterprises, as well as opportunities for people with low language skills.
- ⊕ Ethnic concentration is particularly beneficial to immigrants with greater language and cultural differences to the host country.
- ⊕ Ethnic networks provide financial resources and business opportunities for specialized products and services in a secure market.
- ⊕ Ethnic capital and location choices can help immigrants integrate into the labor market.

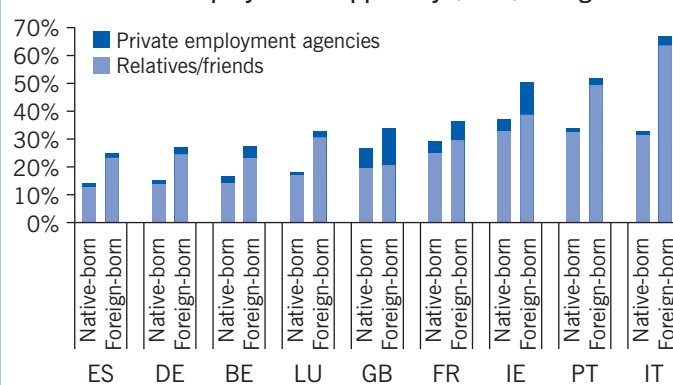
#### Cons

- ⊖ Secured ethnic jobs and markets can impede social integration and slow gains in language proficiency.
- ⊖ Immigrants with minimal language skills risk being trapped in low-paid jobs based on ethnic employment.
- ⊖ Policies that favor settlement in regions away from existing ethnic enclaves may create new ethnic networks, but the effect may be temporary due to re-settlement into larger enclaves.
- ⊖ Immigration policies with language-proficiency requirements are important for facilitating the economic and social integration of immigrants.

### AUTHOR'S MAIN MESSAGE

Ethnic enclaves facilitate the economic integration of new immigrants by providing social networks and economic resources. Research shows that ethnic networks provide employment and self-employment opportunities for immigrants within the specialized ethnic economy, leading to added economic activity. Accordingly, immigration selection policies based on highly-skilled or business criteria, language proficiency, and diversity of origin countries are more likely to strengthen ethnic communities and thus lead to greater economic activity and enhanced long-term economic and social integration of immigrants.

Sources of employment support by (non-)immigrants



Source: Based on [1]; Figure 2.24.

## MOTIVATION

It is generally accepted in migration research that new immigrants can face disadvantages in finding a job in their new country. In contrast to the native-born population, immigrants may typically lack local language skills, social networks, knowledge of customs, and information about job opportunities and local employers [2], [3]. It is also widely accepted that the location choices and employment outcomes of immigrants are important factors that influence their social integration and economic success. A further key factor is the strength of social networks and economic resources that immigrants can access within the broader ethnic diaspora [4], [5]. Co-settlement of immigrants (i.e. the settlement of a group of immigrants in the same location) in alignment with linguistic or cultural factors can result in several ethnic enclaves in immigrant-receiving countries.

Recognizing the effect of ethnic networks and resources on immigrant settlement choices, and their economic integration, has significant relevance for economic assessment and policies of immigrant-receiving countries, such as selection criteria, choice of countries of origin, and language proficiency requirements.

## DISCUSSION OF PROS AND CONS

A large and increasing proportion of the world's population, particularly the proportion of the population in developed countries, are migrants. The United Nations Population Fund (UNFPA) estimates the world's immigrant population at 232 million people, or nearly 3.2% of the world's population [6].

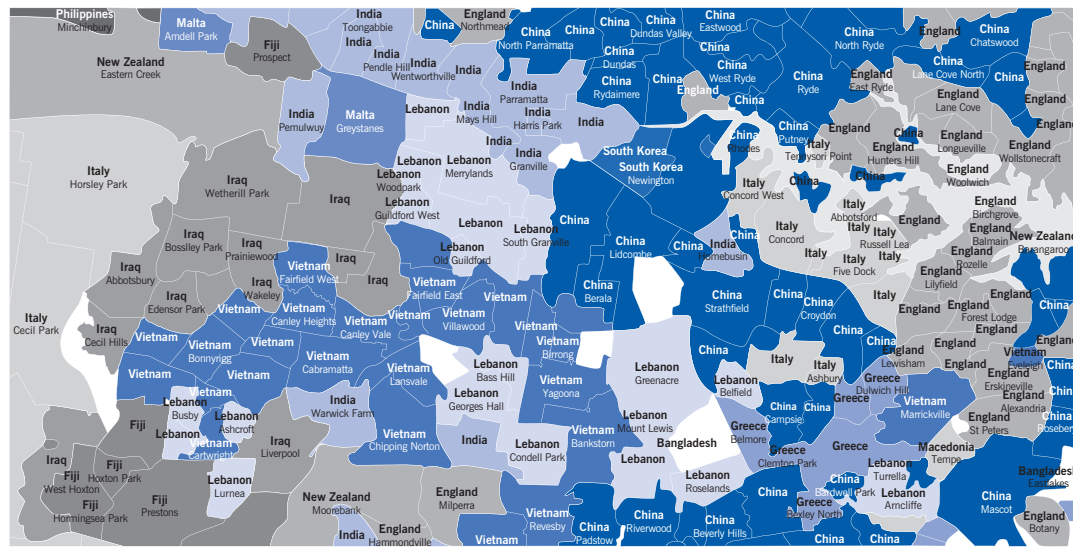
Research confirms that ethnic networks play a vital role in immigrants' location choices and their employment prospects [4], [5], [7]. This line of research considers ethnicity and cultural background as a kind of "capital" for immigrants. The results highlight that through location choices, immigrants enhance their economic opportunities for integration in their host country. For example, Figures 1 and 2 show that in Australia, Sydney and Melbourne contain ethnic enclaves of immigrants from China, Vietnam, Greece, Italy, England, and other countries. While Sydney has a greater co-settlement of immigrants from the Middle East and Vietnam, Melbourne has a greater concentration of immigrants from Italy and Greece. Co-settlement patterns also show that an existing settlement by an ethnic group attracts greater geographic co-settlement by that group.

The main labor market and related economic mechanisms that attract immigrants to settle in locations with an ethnic enclave are: easier and less-costly access to information about the local labor market; opportunities of employment in immigrant-owned businesses; secure and specialized markets for ethnic products; availability of start-up capital for self-employment; and a gradual move into the mainstream economy by serving the needs of the immigrant population. A growing body of literature [3], [4], [7], including recent research [5], [8], provides evidence to support these outcomes.

### **Ethnic capital: Theory and evidence**

The concept of "social capital" has a long history in the social sciences, dating back to the 1890s, and has received significantly increased attention in recent decades. It describes the networks of social connections that exist between people, based on shared values

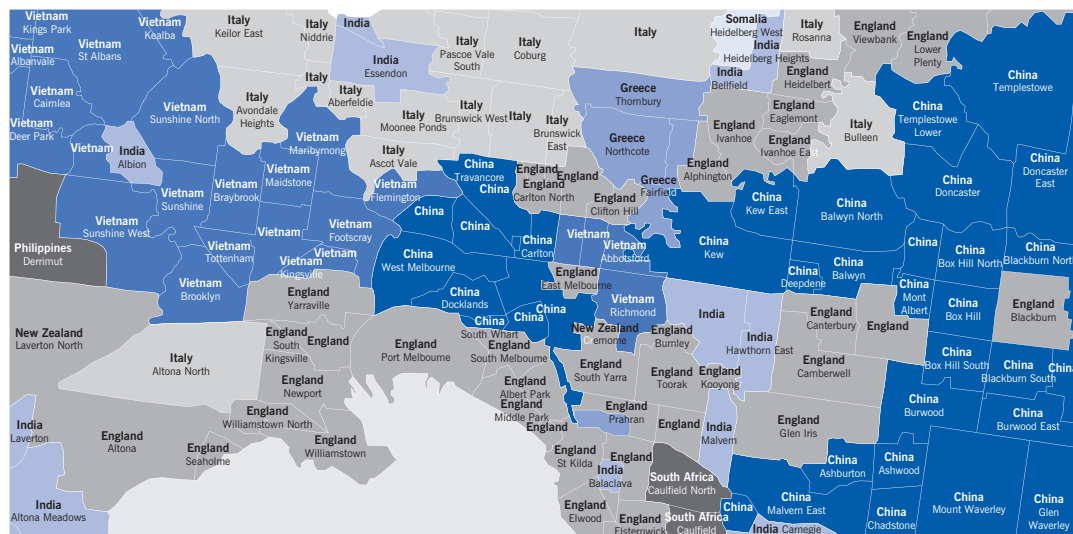
Figure 1. Ethnicity distribution in Sydney



Note: Map shows the top birthplace for immigrants in each suburb.

Source: Australian Bureau of Statistics, 2011 Census. Online at: <http://www.sbs.com.au/news/map/where-australias-immigrants-were-born-sydney>

Figure 2. Ethnicity distribution in Melbourne



Note: Map shows the top birthplace for immigrants in each suburb.

Source: Australian Bureau of Statistics, 2011 Census. Online at: <http://www.sbs.com.au/news/map/where-australias-immigrants-were-born-melbourne>

and norms of behavior, that engender trust and encourage mutually advantageous social cooperation. The concept of “ethnic capital,” however, was first introduced in the economics literature in the 1990s [2]. Ethnic capital was considered in the context of immigrant economic integration, noting that the skills of the second generation (the

children) of immigrants, significantly depend on parental inputs, as well as on the quality (i.e. the concentration and degree of education and economic resources) of the ethnic environment. This effect is supported empirically [2].

The literature on the impacts of ethnic group co-location generally adopts either ethnic concentration [9] or linguistic concentration [3] as the proxy for the immigrants' ethnic network in the host country's labor market. A recent paper extends this definition of ethnic capital to include a broader set of socio-economic variables based on cultural and social capital, such as social networks, shared beliefs, group resources, and markets generated by geographic concentration [8]. In this broader definition, ethnic capital refers to the economic strength of ethnic networks and the resources they offer, as well as geographic proximity to one's ethnic network.

This broader definition of ethnic capital expands the economic analytical framework for immigration and location choice studies. In particular, augmenting the analyses of immigrant employment and earnings outcomes with the geographic (spatial) features of immigrant ethnic networks and location choices, makes economic models more realistic and increases their explanatory power [5]. Research based on a new longitudinal data set of immigrant location choices in New Zealand reveals that ethnic capital significantly influences immigrant location choices, and that the economic resources owned by the ethnic group in the settlement locality positively and significantly influence the economic integration of immigrants [5], [8].

### **Ethnic concentration**

Earlier studies disagree as to whether immigrant settlement in locations that offer a strong linguistic or ethnic concentration is beneficial or harmful to immigrant economic success [3], [4], [9], [10]. Yet, in practice, ethnic concentration is a prominent feature in immigrant-receiving countries. Given the global trend of increasing migration [6], this question is worth close examination across immigrant-receiving countries. It is also of significant relevance as immigrant-receiving countries review their economic and immigration labor market policies.

The decision to locate in an ethnic enclave area ultimately depends on whether the "complementary" mechanisms of co-settlement outweigh the "substitution" effects of the increased local labor supply. It is increasingly recognized that immigrants are potentially both "complements" and "substitutes" for each other [8]. A concentration of immigrants can result in complementary mechanisms, where greater job opportunities are created, encouraging further concentration and economic integration; or alternatively, it may result in substitution mechanisms that reduce job opportunities for new immigrants. Complementary mechanisms (such as a market for ethnic products, employment opportunities, and provision of financial resources) positively assist immigrants in their economic integration [8]. However, substitution mechanisms (e.g. competition in business or for employment) negatively influence immigrants' economic outcomes. Therefore, immigrants benefit from concentrating geographically by ethnicity once the complementary mechanisms dominate the substitution mechanisms [8]. The fact that immigrant ethnic enclaves tend to grow indicates that this is indeed the case, as will be discussed below.

## **Immigrant network effects**

Immigrants often depend on their social networks in order to be economically integrated, principally because they usually have less knowledge of the host country's labor market than those born in the host country or earlier immigrants. In this context, social networks may operate through different channels.

### ***Settlement***

According to ethnic network hypotheses [7], ethnic networks assist new immigrants to adjust to the environment in the host country based on a shared culture, language, and social norms [8]. Research confirms that recent immigrants tend to move to a common region rather than disperse throughout the country, and that ethnic networks, in particular, encourage immigrants to be concentrated spatially [5], [7]. Beyond the initial settlement, and in a familiar ethnic environment, new immigrants gradually adapt to the new environment and blend into the local community [8].

### ***Employment***

Ethnic concentrations of immigrants from similar countries generate resources that result in greater employment for newly-arrived immigrants. These greater socio-economic resources (including financial assistance, information, and demand from other immigrants), facilitate immigrants' employment in the local ethnic community, provide opportunities for self-employment, and for gradual employment in the mainstream economy [8]. In addition, research shows that networks may be the most profitable avenue of job search for immigrants [10]. Networks can reduce the costs of obtaining employment for immigrants and offer higher paying jobs by engaging immigrants in the ethnic economy where their ethnic-specific skills would be more readily marketable [11].

Employment in immigrant-owned businesses can potentially attract new immigrants by lowering language barriers and by removing information asymmetries that may exist in the host country's labor market about the education level and work experience of newly-arriving immigrants. As such, lower language proficiency contributes to the immigrant's decision to settle in areas of high ethnic concentration.

### ***Self-employment***

Recent research highlights the fact that immigration influences both the host country's product and labor markets [8]. Immigration provides both demand for goods and services of interest to immigrants and labor supply to meet that demand. Immigrant-owned businesses emerge and co-settlement facilitates new ethnic-based business opportunities.

Therefore, with co-settlement, rather than seeking employment in the waged sector, immigrants may be more inclined to choose self-employment [8] in order to avoid the information asymmetries and labor market disadvantages. A number of international studies have found an increasing number of immigrant-owned businesses in countries that traditionally accept immigrants [8], [12]. For example, research on the history of self-employment finds that immigrants have been more likely than natives to be self-employed over at least the past century [12].

The immigrant market is described as a “protected market,” due to immigrants’ demand for ethnic-specific goods and services [8], [13]. This demand increases with the size of the ethnic group in a specific area. In addition, immigrant entrepreneurs have a comparative advantage in meeting this ethnic-oriented demand, due to greater knowledge of their ethnic group’s preferences, demand, culture, and customs, relative to other local businesses [8]. Therefore, with a larger ethnic enclave, more business opportunities can be generated for immigrant entrepreneurs [8]. Co-settlement in ethnic enclaves also provides other resources for immigrant businesses, including a larger and potentially cheaper labor force, and potential assistance with management by experienced members of the ethnic enclave [8], [13].

Most studies indicate that ethnic concentration has positive (complementary) influences on immigrants’ self-employment [4], [8]. For example, by being employed in an ethnic enclave, immigrants are selected for and offered more training opportunities that qualify them for entrepreneurship.

### ***Start-up financial capital***

Empirical research suggests that ethnic networks help immigrant entrepreneurs to secure start-up financial capital [12]. This assistance may include matching immigrant businesses’ required investment funds with financial resources from the ethnic enclave. In addition, the ethnic network can work as an informal financial sector to provide funds for immigrant businesses [8], [12]. From the point of view of immigrants, borrowing through this informal financial sector is often much more efficient than the formal financial sector, and immigrant entrepreneurs prefer to seek financial resources from within the informal ethnic network [8]. Notably, the informal financial sector lowers the costs of information, search, and monitoring for immigrants. These effects generate greater opportunities for immigrants to perform better economically [8].

### ***Integration in the mainstream economy***

As the size of an ethnic enclave increases, the immigrant demand for non-ethnic products and services, such as housing, food, and healthcare, becomes a substantial market in the host country [8]. This leads local businesses where ethnic enclaves live to hire immigrants with ethnic cultural knowledge to serve and develop the immigrant market, creating job opportunities for immigrants in the wider host-country economy [8].

It is noteworthy that this research recognizes the positive economic activity generated by immigrant ethnic capital within larger cities and regions in the host country, and it does not advocate racial or ethnic segregation. The research on ethnic enclaves and added economic production, reviewed in this contribution, is based on cities or regions where diverse ethnic enclaves have evolved and co-exist with freedom of location choice.

### ***Differences in group results***

The economic settlement and integration of immigrants are expected to differ across immigrant groups, even when they possess similar education or personal characteristics, which is due in part to differences in their ethnic capital (i.e. the size and the economic resources of their network) [2]. These differences in economic resources can explain why

different ethnic groups experience different rates of economic integration into the host country. Recent research confirms that there is a significant relationship in the employment and self-employment rates of immigrants and the economic resources in their ethnic enclave group [5], [8].

In addition, group language proficiency and skills comprise a part of the group ethnic resources and can lead to differences in group economic performances. For example, individual language proficiency is essential for economic and social integration in the host country. In addition, ethnic concentration under skill-based immigration policies is expected to generate greater positive socio-economic resources in terms of employment opportunities, investment funds, and a higher-spending ethnic economy, compared to countries that receive less-skilled immigrants. Therefore, in cases of ethnic concentrations of less-skilled immigrants it is plausible that, if coupled with lower employment opportunities, group economic success would be slowed.

### ***Language proficiency and language cultural distance***

Both the language proficiency of individual immigrants, and ethnic group language and cultural differences from the host country influence location choices in ethnic enclaves. Immigrants with less language proficiency find it more beneficial to locate in ethnic enclaves. In addition, the benefits of locating in a city or region with a high concentration of other immigrants with the same language and cultural background differ according to the linguistic and cultural distance to the host country. The greater the differences, the higher the costs of language fluency, knowledge of customs, or information on employment opportunities, and the greater the potential gain from specialized ethnic and cultural goods and services, and entry into related labor markets [8].

Two recent studies of immigrants in New Zealand that examine these effects and control for the characteristics of immigrants and locations (potential endogeneity) of immigrant choices confirm that cultural and language distance to the host country is a key factor in determining immigrants' location decisions [5], [8]. These studies further verify that co-settlement choices of immigrants, based on ethnic concentration and ethnic capital, are more pronounced for immigrants from non-English-speaking countries [5], [8]. For example, recent immigrants from Asian countries are ten times more likely than English-speaking immigrants to locate in a major ethnic enclave in their English-speaking host country, supporting the hypothesis of greater co-location when cultural and language differences are greater [5]. The results also indicate that for this group of immigrants, living in their ethnic enclave leads to better employment outcomes, whereas for immigrants from English-speaking countries such as the UK and Ireland the employment gain is not present [5]. In contrast, for immigrants from the UK and Ireland, who share a similar cultural background to the host-country population, the ethnic network effect to locate in a major ethnic enclave is weak.

## **LIMITATIONS AND GAPS**

The existing research shows that ethnic concentration and ethnic resources attract immigrants through protected markets to gradually integrate with the mainstream economy. However, living and working within an ethnic enclave may slow language proficiency and social integration of first-generation immigrants especially.



Protected ethnic jobs and markets may also impede social integration. In addition, lower-skilled immigrants who do not gain language proficiency would be at risk of being trapped in low-paid jobs. This observation has not yet received the attention it requires in research or in widespread immigration policies. However, due to the above reasons, economic policies that directly address immigrant language proficiency can play an important role in the economic integration of immigrants. An example of this is Australia, which has an immigration selection policy that is based on a points system and allocates points for English-language proficiency. Alternatively, Canada and New Zealand have established minimum English-language proficiency requirements for permanent residency.

Finally, immigration policies that assign favorable points for selection in regions away from existing ethnic enclaves can create new productive ethnic networks, but the effect may be temporary due to re-settlement in larger enclaves that offer greater economic resources and immigrant markets.

## SUMMARY AND POLICY ADVICE

Much of the earlier research on location choices and ethnic concentration of immigrants has not directly incorporated the strength of enclave resources and provides mixed results that are not easy to interpret. More recent studies, however, that account for the ethnic enclave resources and network effects show a strong positive effect of co-settlement on economic outcomes within ethnic enclaves [5], [8].

Immigrant ethnic enclaves are organic and naturally developing economic networks that assist immigrants to be successful through better employment and entrepreneurial opportunities. They also generate new economic activity and assist immigrants in their economic integration in the host country. Based on evidence on ethnic capital and ethnic concentration, it is expected that immigrant enclaves attract greater numbers of immigrants from similar source countries.

In this context, two factors influence the settlement decisions of immigrants, within or outside ethnic enclaves. First, the strength of positive economic activity generated from ethnic enclaves, attracting further settlement, depends on the group's economic resources and the strength of the ethnic capital (i.e. the level of resources and benefits from co-settlement). Hence, ethnic enclaves are expected to generate greater economic resources where selection policies are based on highly skilled or business immigration criteria, resulting in greater initial financial and human capital resources by immigrants.

Second, immigrants with lower proficiency in the language of the host country are more likely to settle in major ethnic enclaves, which can delay language acquisition, making them less marketable in the mainstream economy and resulting in less integration within the host society.

In conclusion, highly-skilled and business immigration selection policies, coupled with immigration from diverse countries of origin are expected to generate ethnic enclaves that lead to enhanced new immigrant markets, ethnic-based economic activity, and increased employment opportunities for immigrants. In addition, policy settings that incorporate language-proficiency requirements for immigration selection or for permanent residency (as implemented in Australia, New Zealand, and Canada, for example) leverage an important policy tool for greater long-term economic and social integration of immigrants.

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### Competing interests

The IZA World of Labor project is committed to the *IZA Guiding Principles of Research Integrity*. The author declares to have observed these principles.

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### Further reading

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