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## Immigrant Entrepreneurs for Europe

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### **Tapping the potential of immigrant entrepreneurs**

If European economies could encourage immigrant entrepreneurship, the high unemployment figures among foreign born would drop. Immigrant businesses are particularly sensitive to complicated regulations and public bureaucracy, both during start-up and during management of business. They are also particularly sensitive to labour market regulations. Reducing red tape and opening up the labour market are reforms that would encourage businesses in general but specifically benefit immigrant businesses. Were such reforms to be implemented, immigrants businesses could play an important role in filling the entrepreneurial gap that exists in Europe - and indeed in making Europe come stronger from the recession.

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## Addressing two important challenges

Immigrant businesses can address two important socioeconomic challenges facing European societies:

- First, an entrepreneurial gap. A survey conducted for the European Commission in 2007 has shown that 50 percent of Europeans prefer working as a dependent employee whereas only 45 percent prefer to be self-employed. In comparison, 61 percent of the US population prefer being self-employed whilst only 37 percent prefer being dependent employees.<sup>1</sup>

Many groups of immigrants come from cultures that put great emphasis on entrepreneurship. In Britain for example, it has been shown that ethnic minorities have a more positive attitude towards entrepreneurship and are 66 percent more likely to start an entrepreneurial career.<sup>2</sup> If greater opportunities and incentives existed for immigrants to run businesses in the rest of Europe, it is likely that immigrants could at least partially address the entrepreneurial gap. The need to tap the potential of immigrant entrepreneurs is particularly strong in European nations that, contrary to the UK, have a generally low level of entrepreneurial activity.

- Second, unemployment is high in many groups of immigrants in the EU, particularly immigrants from Asia, Africa and South America. Unemployment among non-EU nationals is twice as high as EU nationals. Not least in countries with high taxes, generous welfare policies and rigid labour markets – such as France and Sweden – many immigrants rely on welfare systems rather than work.<sup>3</sup> In France, for example, the unemployment figure is 16.5 percent among immigrants, compared to 8 percent in the group of native born.<sup>4</sup> There is a lack of studies centering on specific groups of immigrants, but clearly the unemployment is focused to non-Europeans. In 1990, for example, it was shown that the unemployment rate for African women in France was as high as 45 percent.<sup>5</sup> Immigrant entrepreneurs can help reduce the high unemployment, by creating employment opportunities for themselves and often also for other immigrants.

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<sup>1</sup> Entrepreneurship Survey of the EU (25 Member States), United States, Iceland and Norway, Flash barometer, European Commission, 2007

<sup>2</sup> "United Kingdom GEM 2005 National Report", Global Entrepreneurship Monitor, 2005

<sup>3</sup> "Employment in Europe 2003 - Recent Trends and Prospects", Chapter 6, Directorate-General for Employment and Social Affairs, European Commission, 2003.

<sup>4</sup> Romain Aeberhardt et al., "Wages and Employment of French Workers with African Origin", Working paper series No. 2898, Forschungsinstitut zur Zukunft der Arbeit, 2007.

<sup>5</sup> Helene Trauner, "Dimensions of West-African immigration to France: Malian immigrant women in Paris", Wiener Zeitschrift für kritische Afrikastudien Nr. 8/2005, 2005.

## Canada and the US inspiring examples

Before discussing what policy reforms might open up entrepreneurial activity amongst immigrants residing in the EU, it is worth emphasising the fact that general economic policy has a strong effect on how well integration of immigrants works. In countries with open labour markets, strong incentives to work and generally business friendly climates, the integration of immigrants in the labour market is typically more successful than in more rigid economic environments. Again, a comparison with the US might be useful. In the year 2000, the labour incomes of individuals born in Turkey and Iran residing in the US was 14 respectively 36 percent higher than that of native US born individuals. In Sweden, the work incomes for the same groups of immigrants during the period 1993-2000 was 26 respectively 39 percent lower of that of native Swedes.<sup>6</sup> Sweden may in many ways be a reformist country, but he labour market is still highly regulated.

Groups that successfully integrate into the US economy, such as South Asian and Middle Eastern immigrants, often have a strong entrepreneurial culture. The Iranian immigrant Omid Kordestani, who was the Senior Vice President for worldwide sales and operations of Google until mid April 2009, is an illustrative example of the important role that foreign-born entrepreneurs play in the US. Although very few businessmen reach the success level of Kordestani, he is not a rare example.

Over half of the engineering- and technology companies founded in Silicon Valley between 1995 and 2005 had one or more immigrants as a key founder. Particularly Indian immigrants play an important role in this development; having founded more engineering and technology firms than immigrants from the UK, China, Taiwan and Japan combined during this period in the US as a whole.<sup>7</sup> Much of this success can be attributed to the fact that foreign graduate students who study in the US choose to remain there to work and in many cases to start up technological firms.

Another nation that succeeds in integrating large groups of immigrants is Canada. Almost a fifth of the Canadian population of 31 million are today foreign born.<sup>8</sup> Since the end of the 1980s between half and two thirds of the immigrants to Canada have come from Asian nations such as China, India and the Philippines.<sup>9</sup> Historically, those who have immigrated to Canada have with time caught up with and surpassed the native born in income. Among those migrating to Canada between 1980-84, the income from full time work was 3 percent lower among women and 4 percent lower among men compared to the native born in the year 2000. In the group of those who had immigrated five years earlier (1975-

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<sup>6</sup> N, Sanandaji, "Mellanförskap", Captus, 2009.

<sup>7</sup> "America's New Immigrant Entrepreneurs", US Berkeley School of Information, 2007.

<sup>8</sup> "One in five Canadians foreign-born, highest proportion in 75 years", National Post, Statistics Canada, 2007-12-04

<sup>9</sup> "Report on the Demographic Situation in Canada 2005 and 2006", Statistics Canada, 2008

79) the income was 7 percent higher for both genders compared to the native born.<sup>10</sup>

Similarly to the US and the UK, immigrant minorities in Canada have a significantly higher level of entrepreneurship than the native born.<sup>11</sup> Canada also attracts many business immigrants, who come with the purpose of funding a new business, helping to manage an existing business or invest in an existing business.<sup>12</sup> The point is not that integration works a hundred percent perfect in the US or Canada (or the UK) – integration is a challenge depending also on for example the education background of the immigrant group. But the combination of strong incentives to work, free labour markets and good conditions for entrepreneurship leads to better possibilities for integration in the US and Canada compared to in most European nations.

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<sup>10</sup> “Will They Ever Converge? Earnings of Immigrant and Canadian-Born Workers Over the Last Two Decades”, analytical Studies Research Paper, no. 215, Statistics Canada, 2003.

<sup>11</sup> “Global Entrepreneurship Monitor 2005, The Irish Report”, Global Entrepreneurship Monitor, 2005.

<sup>12</sup> See for example: Wong L L, “Taiwanese Immigrant Entrepreneurs in Canada and Transnational Social Space”, *International Migration*, vol. 42:2, 2004.

## How can we open up for immigrant businesses?

A strong link clearly exists between successful immigrant businesses and integration. At the same time, the EU would benefit greatly if immigrant businesses could shoulder the need for entrepreneurial development and create work opportunities amongst immigrant communities. But how are the best opportunities for immigrant businesses created? A comparison between the opportunities and the success of immigrant businesses in Sweden, the UK and Canada shows the following:

- Immigrants tend to have a greater preference for self-employment and entrepreneurship in all three countries compared to the native born. The reason for Sweden having a much lower percentage of immigrants running a business (both in absolute terms and in relation to the native born) seems to be connected to economic (labour market) policy.
- Research studies from the 1980s show that the efforts of the British government to stimulate immigrant businesses through special programs, such as public partnerships and special public advisors, were unsuccessful. The business friendly reforms enacted during the same time were however highly successful in stimulating entrepreneurship amongst minorities.
- Immigrant businesses tend to be particularly sensitive to complicated rules and public bureaucracy, both during start-up and during management of a business.
- Immigrant businesses also seem to be particularly sensitive to labour market regulations.<sup>13</sup>

It is perhaps not surprising that the bureaucratic red tape which is challenging to handle even for native born entrepreneurs is particularly troublesome for those born in other countries. Immigrants typically have more limited knowledge about specific regulations, and more limited experience about how to deal with the public bureaucracy in general. It is similarly not surprising that immigrant businesses, who often rely on hiring family members to circumvent labour market regulations, could have better chances of expanding if there were less regulations affecting the deals made between employer and employee.

Reducing red tape and freeing up the labour market are reforms that would stimulate the economy as a whole. While they seem to be particularly beneficent to immigrant businesses, they are not costly reforms, but rather reforms that we have good reasons to implement anyway. Special aid from the public sector to immigrant businesses is however not a desirable idea: Partially since research shows that such programs are inefficient, partially since such aid would affect the competition by non-immigrant businesses, and also since we should promote immigrant businesses that can stand on their own legs in the long term rather than being dependent on aid from the public sector.

Europe should focus on opening up the potential for immigrant businesses, focusing not only on

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<sup>13</sup> N, Sanandaji, "Integration och företagande", Swedish Federation of Business Owners, 2009

the immigrants residing today or those coming in the near future, but also encouraging foreign born students and researchers in European universities to stay and pursue a business career. Perhaps the next Omid Kordestani can help found a competitive technology enterprise in Copenhagen or Paris?



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