Transnational Iranian entrepreneurs in the import/export industry of Los Angeles

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Abstract: Immigrants perform better in import/export industries than generally in independent business. The usual explanation addresses their overseas social networks. Extensive network connections abroad enable immigrants to reduce the daunting transaction costs that otherwise bedevil SMEs in international trade. Accepting that prevailing view, this research obtains evidence regarding the actual social network ties that Iranian immigrant entrepreneurs in Los Angeles had with trading partners abroad. However, instead of looking at connections between the Iranians and their homeland, we examined instead their social connections with other locations in the Iranian international diaspora. Although preliminary and sketchy, this evidence tends to confirm the importance of personal social contacts abroad, but it also shows that Iranian traders still reported many collection problems overseas and, as a result, had undertaken legal strategies of self-protection.

Keywords: transnational; Iranians; entrepreneur; international trade; social capital; immigrants; Los Angeles; USA.

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1 Introduction

International trade is a difficult and risky business. It is difficult because importers and exporters need to find suppliers and markets abroad, and finding them requires market and cultural knowledge that are difficult to acquire and expensive and awkward to rent. It is risky because of its inherent exposure to opportunistic exploitation under awkward circumstances. If a trading partner abroad does not pay her/his bill or reneges on contractual obligations, the cheated party has limited resources for restitution. Of course, a plaintiff can in principle sue an overseas business partner in a foreign court, but the complications, delays, and costs of doing so are high, and the likelihood of success low.

Because of the ever-present risk of opportunism and the difficulties of collection, international traders confront extraordinarily high transaction costs (Williamson, 1985). Large companies reduce transaction costs by globe-spanning bureaucracies that internalise it. That is, their hierarchy establishes subsidiaries on both sides of the ocean, and, if the subsidiaries do not internalise transaction costs, which they often accomplish, they provide at least representatives on the ground abroad. These representatives can handle negotiation with or lawsuits against a trading partner. Thus, for example, in case of trade dispute with trading partners in China, Walmart turns to its foreign representatives abroad. Walmart's Chinese suppliers in China negotiate with a China-based subsidiary of Walmart that is responsible to the corporate parent in Arkansas. The subsidiary has plenty of cultural knowledge and political influence in China and so can take effective action in China that would not be possible for monolingual English speakers operating out of Walmart's corporate headquarters in Arkansas.

By definition, small and medium trading enterprises (SMTEs) lack the globe-spanning organisation that permits multinational corporations to control transaction costs. This solution small and medium firms cannot use without becoming big firms. Instead, the SMTEs of the import/export industry have actually to deal with independent firms abroad, assuming whatever transaction costs and risks long-distance, market-based relationships impose [Girma and Yu, (2007), pp.2–3; Istrate et al., (2010), p.4]. This requirement helps to explain why small and medium enterprises have long been relatively unsuccessful in import/export industry and still are. In 2007, SMEs did not make the same contribution in import/export industry that they made generally in the US economy. Representing about half of all employment and economic activity in the US economy, SMEs were 97% of exporting firms, but they produced only one third of 'total export value' [Brookings Institution, (2012), p.7]. It is apparent from this statistic that international trade was a lopsidedly big business industry in 2007 when compared to the rest of the US economy, and the usual explanation is fear of non-payment. In the words of Hochberg (2011), Chairman of the Export-Import Bank of the USA, "What stops small business from exporting is … fear of non-payment … I hear it all the time."

To be sure, the underperformance of small business in international trade is the product of several independent causes. Important as it is, Hochberg's 'fear of non-payment' does not trump all other problems that SMEs encounter in import/export industry, and that also tend to explain their relative disadvantage. These problems include the favourable attention large firms' contracts receive from national governments that ignore the needs and complaints of SMEs as well as the favourable attention banks and lenders give to big traders relative to small ones [Brookings Institution, (2012), p.11]. But they also include lack of information about foreign markets, lack of foreign language skills, and lack of interest in business, all social contexts of economic action rather than commodities [Export-Import Bank of the United States, 2010; Rauch and Watson, (2004), p.69].

The general and much-lamented weakness of SMEs in international trade has a major exception among immigrants and ethnic minorities. Within the import/export sector, SMEs owned by persons of ethnic minority derivation are appreciably larger and more successful than SMEs whose owners are of majority ethnic derivation, and they occupy a larger share of the total business population. In a path-breaking combination of hitherto unpublished sources, the US Census Bureau (2007) and US Census (2012c) reported that exports accounted for 14.4% of total receipts of minority-owned firms in the USA compared with 5.4% of total receipts for non-minority-owned firms. Generally, marginal and struggling in American business, minority-owned firms are most successful in international trade.

Minority-owned exporting firms were also larger than their non-exporting minority-owned counterparts in terms of receipt size and employment. Average receipts for minority-owned exporting firms were $7.4 million; for minority-owned non-exporting firms, $141,776. The average number of employees for minority-owned exporting employer firms was 21; the comparable number for minority-owned non-exporting employer firms was 7. Average productivity for minority-owned employer exporters (i.e., receipts per employee) was $407,592; the comparable calculation for minority-owned employer non-exporters was $122,545.

2 Hispanic and Asian-owned firms

The US Census provided special coverage of Hispanic-owned and Asian-owned firms, and found the same patterns repeated in this category that existed more generally among minority-owned firms. Hispanic-owned exporters were larger than Hispanic-owned firms in general. Average receipts for Hispanic-owned exporting firms were $7.2 million compared with $124,418 for Hispanic-owned non-exporting firms. Hispanic owned employer firms in the export industry were almost three times larger than Hispanic-owned employer firms in all other industries. The average number of employees for Hispanic-owned exporting employer firms was 19, but the comparable number for Hispanic-owned non-exporting employer firms was 7. Average productivity for Hispanic-owned employer exporters (i.e., receipts per employee) was $443,632; the comparable calculation for Hispanic-owned non-exporting employer firms was $119,869.

Hispanic firms specialised in exporting to Latin America, and Hispanic firms exported more to these markets than did non-Hispanic firms. In 2007, average export value for Hispanic-owned exporting firms to 20 Latin American countries was $1.1 million. Non-minority-owned exporting firms' average export value to the same 20 countries was $553,725. Trade with these 20 Latin American countries accounted for 81.1% of the total export value accounted for by Hispanic-owned exporting firms. The corresponding number for non-minority-owned exporting firms was 15.1%.

Asian minorities had a comparable advantage in trade with Asia. In 2007, average export value for Asian-owned exporting firms to Pacific Rim countries was $1.3 million, while average export value to the same region by non-minority-owned firms was $651,264. Trade with the Pacific Rim countries accounted for 56.9% of the total export value generated by Asian-owned exporting firms; the corresponding num for non-minority-owned firms was 21.9%.

3 Hypotheses

In a major contribution to knowledge, White (2010) pulled together the fragmentary research on immigrants and international trade. He found international evidence that corroborated the role that immigrants play in expediting international trade. This evidence mainly consisted of statistical associations between the presence or appearance of immigrants in a host country and subsequent expansion of international trade to their countries of origin. After the immigrants arrived, trade with their countries of origin increased, which implies that immigrants increased international trade with their counties of origin. Despite the known risk of a *post hoc*, *propter hoc fallacy*, in the current state of knowledge the evidence of temporal coincidence is persuasive enough to require follow-up research.

When White (2010, p.3) sought to explain why such a temporal coincidence existed, the current state of knowledge required him to resort to conjecture. That is, these causes were 'thought to result' from "immigrants' knowledge of host and home country customs and business practices, their language abilities and understanding of informal contracting structures, and their connections to business and social networks that act to reduce trade-related transaction costs." Our review of subsequent literature suggested as well that White's conclusion still depends upon conjecture. The conjecture is plausible, but it is still only conjecture, not direct evidence.

Following White and many others in this literature [Smallbone and Welter, (2013), pp.96–98; Blount et al., 2013], we also hypothesise that the success of ethnic minorities and immigrants in international trade derives from their exploitation of cultural skills, like language, their cultural knowledge, like foreign countries' laws and markets, and the personal social networks that link them abroad. In a way, the SMTEs have an advantage of the multi-national traders that must 'create trust' that small and medium firms simply inherit thanks to existing social networks (Matthews and Stokes, 2013). That is our presumption too. We propose in this modest and preliminary study to acquire direct information that bears on what is only a presumption. To this end, we interviewed immigrant entrepreneurs in international trade within Los Angeles County, and asked them about their linkages abroad, their strategies for risk-reduction, and the location of their international contacts. To our knowledge, we are the first to address this topic directly rather than indirectly.

Our research departs from the existing cannon in one significant respect. The existing literature addresses linkages between immigrants and their *countries of origin*. Thanks to all the prior research on this topic, this linkage can now be declared reliably present. Immigrants increase trade most with their country of origin. That proposition does not require additional documentation. In contrast, we asked immigrant entrepreneurs about their social relationships with trading partners *in countries not their home country.* It is not intuitively obvious that immigrant entrepreneurs would enjoy cultural or social capital in countries other than their home country, but it is plausible, on the strength of diaspora research (Light et al., 2013; Honig et al., 2010; Light, 2001, 2010; Rezaei, 2009) to hypothesise that they probably do. That is, immigrants are linked by social networks to co-ethnics in their diaspora, not just to those in the homeland. Therefore, they might exploit relationships of kinship, provenance, and co-religiosity with peers scattered abroad, not just those living in their homeland. If so, a linkage result would suggest a new and additional way in which immigrant entrepreneurs strengthen the performance of SMEs in international trade.

4 Sample and characteristics

Los Angeles ranks first nationally in total metropolitan exports, and it is also the nation's number one port centre, based on trade volume [Brookings Institution, (2012), p.3]. The USA contains one-quarter of the 1,035,000 Iranians abroad in the world, and Los Angeles contains the largest concentration of Iranians abroad of any city in the world. The US Census Bureau's American Communities Survey of 2013 counted 126,506 Iranian-born persons in Los Angeles County. Generally speaking, the Iranians of Los Angeles constitute a prosperous highly-educated community with high and stable incomes. We interviewed 17 Iranian business owners during the first six months of 2013. All resided in Los Angeles County, and all owned and operated SMEs in the international import/export trade. Yeung (2002, p.37) defines transnational entrepreneurs as social actors "capable of bearing risks and taking strategic initiatives to establish, integrate, and sustain foreign operations." Thus defined, all of our respondents were transnational entrepreneurs. To find these entrepreneurs we utilised snowball sampling, starting with a single known business owner, and progressing from him by sequential referrals to the list of 17 (Salganik and Heckathorn, 2004). We stopped the sampling process when we began to get referrals to business owners to whom we had already spoken. No association of Iranian business owners exists in Los Angeles County but the self-employment rate is approximately 20%. According to the business owners whom we interviewed, approximately 35 Iranian-born persons operate firms that trade internationally. In that case, our snowball sample would represent approximately half of the total population of Iran-born international traders In Los Angeles County. Our interviews were introduced in English and Farsi, and six were conducted in both languages, and one exclusively in Farsi. The other interviews were all conducted in English. This choice was always the respondent's, and all the respondents were fluent in English, but, given a choice, some preferred to speak their native language.

Our structured questionnaire contained 25 questions the last of which was a request for another contact name. But, the structured portion completed, we asked Rs to tell us in their own words about their business, and recorded the results. We also asked Rs for their business website, and we consulted the website when questions arose as to the interpretation of their questionnaire results. Our interviewer is prominent in Iranian community civic affairs. As a result, she was known to Rs by reputation, and could readily obtain referrals within a community that rarely opens private doors to unknown parties.

Of the 17 interviewed, all but one were male. Their mean age was 58 years, and they had resided on average 30 years in the USA. Most arrived in the USA during the peak years of the exodus from Iran that followed the establishment of the current Islamic Republic in 1979. Non-Islamic surnames were appreciably more common among these business owners than among the contemporary population of Teheran. These non-Muslim respondents were Armenians, Jews, and Zoroastrians. Their industries spanned a wide range but 'general merchandise' and 'house wares' were the two most prominent designations. Twelve business owners described themselves as import service providers in part. That means that some portion of their business consisted in helping others import or export whether by specialised knowledge, brokerage, or social networks. The respondents' businesses were by SME standards medium in size. Six firms had one to five employees; nine firms had six to 50 employees, and two firms had more than 50 employees. Eleven Iranian traders reported that they borrowed from the export/import bank or another US Government agency. Five had utilised credit extended to them by overseas trading partners. Only four said that they settled obligations in cash without borrowing or lending.

5 Trading partners

Because international trade is so financially perilous, we hypothesised that small and medium Iranian firms would reduce or control the peril by trading with known people abroad. We asked the Iranian traders only about their connections to countries other than Iran, their home country. We did not ask them about trade with Iran because US law prohibits trade with Iran, but also because we wanted to examine an immigrant minority's trading patterns with partners *not located in their country of origin*. The stronger their social network ties with overseas partners, we reasoned, the more secure against opportunism the Iranian traders would feel themselves. To find out, we asked traders what relationships they had with overseas trading partners. Of the 16 traders who answered this question, only one declared no social relationship with any overseas trading partners. Of the other 15, 12 told us that they had personally met their overseas trading partners. Three reported that overseas partners were related to them by blood or marriage. Four declared that their overseas trading partners were personal friends. Three stated that overseas trading partners were friends of friends. Three traders acknowledged that overseas partners were born in Iran. In seven cases of the 17, respondents maintained more than one kind of social relationship with their overseas trading partners. For example, a trader might report that he had both a relationship by marriage with an overseas partner as well as a personal friendship. We called these multiplex business relationships, and nearly half the traders had them.

Even though nearly all respondents maintained social connections with trading partners abroad, and outside Iran, they had not experienced trouble-free trading histories. Of 17 traders, only two said that they 'never' experienced collection problems or contractual violations with overseas trading partners. In contrast, 11 Iranian traders said that they 'often' had such problems, and two said they 'sometimes' had them. In other words, nearly all reported collection problems or contractual violations from trading partners despite their personal often multiplex social ties with their foreign trading partners.

We expected that Iranian traders would rely on diasporic social capital to protect them against opportunism from foreign trading partners. The expectation proved somewhat correct but overly simple. We found that Iranian traders did not often inherit social networks in the diaspora. They had commonly been required to create trust with overseas partners early in their trading careers. Attending trade fairs was the method they most commonly mentioned for doing so. Trade fairs permitted Iranian exporters and importers to make personal contact with counterparts abroad. China was the Los Angeles Iranians' biggest trade partner. Fewer than one thousand Iranians abroad live in China, but, as one trader said, our family business 'has many good friends and partners in China'. The business retained these friends and partners 'after dad died'.

We also asked traders about their methods of collection and self-protection. Of 15 entrepreneurs, 12 used attorneys in the USA or abroad when setting up trade contracts. Only five dispensed with the services of attorneys. Five is almost a third, but it falls far short of everyone. Only three entrepreneurs acknowledged doing business on the basis of 'handshake agreements' with overseas partners or with simple 'letters of agreement'. In view of the entrepreneurs' frequent mention of collection and contractual problems abroad, their utilisation of attorneys is contextually appropriate, but all the evidence we have suggests that social capital facilitated their business relationships, but it was insufficient to guarantee the security of international contracts. That does not mean social capital was useless, but it does underline the severity of the trust problem that international trade imposes on anyone who undertakes it. Diasporic social capital is helpful, but it is neither a necessary nor a sufficient condition for the creation of the requisite international trust.

6 Location of trading partners abroad

We asked the Iranian-born traders to rank order the four top destinations to which they shipped merchandise exports and from which they imported. A comparison of these results with known destinations would identify discrepancies between the partners of traders in the USA, in California, in Iraq, and our sample of Iranian traders. In general, the less the overlap between the Los Angeles sample's lists and other lists, the more the Iranian traders diversified California's export directions. Conversely, if the Los Angeles Iranians' trade partners were identical with those of California and the USA, the Iranians would not diversify the trading profiles of either California or the USA.

Our comparative evidence is regrettably rough. We obtained only a rank-order list of top four partners from our sample, and did not obtain dollar value estimates of trade they conducted with various countries. Also, we could not discriminate import and export partners for our sample of Iranian traders, and we were compelled to use the same rank order for both. Following through despite this limitation, Table 1 shows the results. Comparing export destinations, California's list exhibits 100% compatibility with USA's export destinations. California did not diversify the USA's export profile. Conversely, our sample of Los Angeles-based Iranian traders exhibits 50% overlap with the top-four trading partners of both the USA and with California. The Iranian traders in Los Angeles exported relatively more to Panama and to India than did either the USA or California and less to Canada and Japan. As a result, the Iranians' exports tended to diversify the export profiles of both California and the USA.

Comparing import sources, the Iranian traders in Los Angeles' list shows 50% overlap with the USA list, and 25% overlap with California's. The Iranian traders in Los Angeles traded relatively more with India and Panama than did California and less with Canada and Japan, thus tending to diversify California's trade partners. The Iranian traders traded relatively more with Mexico, India, and Panama than did the USA and less with Canada and Japan so their import business tended to diversify the import partners list of the USA as well.

China was the number one trading partner of the Iranian traders in Los Angeles, but Mexico was the number one export and import partner for California firms. The discrepancy deserves a brief comment because, in the course of the research, we acquired unexpected information from Iranian business circles in Beijing thanks to the assiduous field work of a Persian informant there. Many Iranian traders in Beijing believed that China imported goods from the USA that China then exported them to Iran. This device permitted Iran to circumvent the USA embargo on trade with the Islamic Republic. If this be so, some of the trade between Los Angeles and China was actually trade between Los Angeles and Iran, but an intervening step had been added to circumvent the US embargo. Such a process would involve no violation of American law, but it does raise the possibility that China's *entrepot* role mediated and thus disguised Los Angeles traders' ethnic links with the Iranian homeland. We cannot address that speculative possibility with evidence.

Table 1 Top export and import destinations: USA, California, Los Angeles sample

Four top export destinations of:			
	All	*All*	*Iranians*
	USA	*California*	*LA sample*
1	Canada	Mexico	China
2	Mexico	Canada	Mexico
3	China	China	India
4	Japan	Japan	Panama
Four top import sources:			
1	China	Mexico	China
2	Japan	Canada	Mexico
3	Germany	China	India
4	S. Korea	Japan	Panama

Source: US Census (2012a, 2012b, 2013a, 2013b)

7 Summary and conclusions

Because immigrants are more numerous and successful in the import/export trade than generally in independent business, and because trade with their homeland increases after immigrants arrive, prior researchers have plausibly conjectured that transnational immigrant entrepreneurs have social network contacts abroad that enable them to reduce the otherwise daunting transaction costs of international trade. We share that plausible hypothesis, but note that it is based on conjecture because one-to-one linkages between immigrant traders and overseas counterparts are still missing from the existing literature. These linkages need to be in evidence before we can safely conclude that international social networks provide the necessary connection that links cause and effect.

Additionally, the existing literature has addressed only the social networks that link immigrants with their overseas homelands. Taking a leaf from diaspora studies, we proposed that immigrants would have social links to other countries in their national diaspora not just with their ethnic homeland. If so, the social networks that link immigrants with their homelands should also open into social networks that link immigrants to other countries. In our small and pioneering project, we examined this hypothesis with information obtained from 17 Iranian-born traders in Los Angeles. We tried specifically to ascertain the extent to which Iranian traders in Los Angeles connected with markets *other than* Iran on the basis of social connections.

Although admittedly preliminary, our results offer some encouragement to the hypothesis, but also a plausible modification. We found that the Iranian traders in Los Angeles made extensive, indeed, almost universal use of personal social connections with trading partners overseas. This result confirmed the importance of social capital in the international trade of SMEs. On the other hand, the social capital did not enable the Iranian traders to throw caution to the winds when making commercial agreements with foreign counterparts. The Iranian traders all reported experience with overseas trading partners who did not pay their bills, and they used lawyers to draw up contracts rather than relying on handshakes. From these results, we conclude that international social capital reduced but did not eliminate the transaction cost problems of these transnational immigrant entrepreneurs. Possibly, there is a difference here between the way social capital links immigrants with their homelands and the way it links immigrants with their national diaspora. Further research would be required to pursue this possibility.

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