Immigrant and Minority Entrepreneurship

The Continuous Rebirth of American Communities

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The Role of the Enclave Economy in Immigrant Adaptation and Community Building: The Case of New York’s Chinatown

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Chinese Americans are by far the largest subgroup of Asian Americans. As a direct result of the liberalization of the U.S. immigration law in 1965, which abolished the national quotas system, they have experienced rapid population growth. Over the past 50 years, the Chinese American population has increased more than 15 times, from 150,005 in 1950 to 1,645,472 in 1990, and to approximately 2.5 million at the dawn of the new millennium. Much of this growth was attributed to immigration. According to the U.S. Immigration and Naturalization Service (1991), a total of 1,261,445 immigrants were admitted to the United States from China, Hong Kong, and Taiwan as permanent residents between 1951 and 1998. The 1990 U.S. Census also attests to the big part played by immigration: Foreign-born persons accounted for 70 percent of Chinese Americans nationwide and almost 80 percent in New York City.

Parallel to the increase in sheer numbers is the changing face of America’s Chinatowns from bachelors’ societies to full-fledged immigrant communities. Most visible has been the phenomenal growth of ethnic enterprises in and out of Chinatowns. From 1977 to 1987, the U.S.
census reported that the number of Chinese-owned firms grew by 286 percent, compared to 238 percent for Asian-owned firms, 93 percent for black-owned firms, and 93 percent for Hispanic-owned firms. Overall, there was approximately 1 ethnic firm for every 18 Chinese, but only 1 ethnic firm for every 71 blacks and 1 for every 53 Hispanics. From 1987 to 1997, the number of Chinese-American-owned businesses continued to grow at a rate of 180 percent (from less than 90,000 to 252,577). As of 1997, there was approximately 1 ethnic firm for every 9 Chinese, compared to 1 ethnic for every 11 Asians, 1 for every 42 blacks, and 1 for every 29 Hispanics. Chinese-American-owned business enterprises made up 9 percent of the total minority-owned business enterprises nationwide, but 19 percent of the total gross receipts (U.S. Bureau of the Census 1991, 1996). This paper explores what enables Chinese immigrants to go into business and how ethnic entrepreneurship has affected immigrant adaptation and community building, based on the case of New York City’s Chinatown.

ETHNIC ENTREPRENEURSHIP: A SURVIVAL STRATEGY VERSUS A CHOSEN MEANS FOR SOCIAL MOBILITY

The creation of entrepreneurial communities by certain immigrant groups and the question of whether these communities represent an involuntary strategy for survival or a chosen means for social mobility have received considerable attention in the past (Bailey & Waldinger, 1991; Butler, 1991; Hurh & Kim, 1984; Light, 1972, 1984; Light & Bonacich, 1988; Min, 1995; Portes & Zhou, 1992, 1996; Zhou, 1992; Zhou & Logan, 1989). Why are some groups more inclined to entrepreneurship than others? Is entrepreneurship a result of social conditions of the host society unfavorable to immigrant groups, of unique immigrant group characteristics, or of the interaction between the two? Three theoretical approaches of ethnic entrepreneurship provide insight.

The Middleman Minority

The middleman-minority approach has been used to describe ethnic minority groups that are in intermediate positions between the ruling elite and the people they rule. The middleman-minority theory posits that the sojourning orientation of ethnic group members, ethnic solidarity, and the hostile environment in the host society contribute to the rise of middleman minorities. Bonacich (1973) has argued that the sojourning orientation of immigrants, interacting with their marginal status as foreigners in the host society, leads them into businesses or occupations that allow them to avoid direct competition with native majority group members. For survival in a hostile new world, sojourners are inclined toward small entrepreneurship in businesses where money can be raised relatively quickly and assets can be easily turned into cash and in areas where businesses may be acquired relatively cheaply and with minimum competition, such as poor minority neighborhoods. As the sojourning entrepreneurs profit from sales to the underprivileged, they are likely to encounter resentment from those around them. The hostility that they encounter at the local and societal levels intensifies their sense of solidarity and the necessity to band together to defend one another, leading to greater cooperation and stronger institutional support, such as the willingness to lend one another money and rotating credit associations.

Bonacich’s middleman-minority explanation seems to fit some Chinese business operations, such as fast-food takeout restaurants, and many Korean businesses, such as grocery, liquor, and other retail stores, in poor minority neighborhoods where owners have no intention to reside. As outsiders, they tend to distance themselves from the people they serve and to retain a strong sense of their own cultural identity. Their role as middleman minorities is explicit: They serve as an effective buffer between absentee white capitalist owners and nonwhite residents living in poor urban areas. Meanwhile, they are either stereotyped by the mainstream society as a “model minority” in denying that racism or racial discrimination adversely affects economic success (Hamamoto, 1992), or blamed for exploiting the urban poor and draining money from poor neighborhoods. The resentment developed through direct contact between middleman business owners and members of minority groups has often escalated into intense interethnic conflicts. The Los Angeles Riots of 1992, for example, caused the loss of about 850 Korean-owned businesses, over half of all business losses, at a cost of $300 million. The conflict between middleman minorities and minority residents in urban ghettos in general, and the Korean-Black conflict in particular, is not so much a cultural misunderstanding as it is “at bottom a displacement of the more fundamental problem: the profoundly disruptive effects of economic inequality” (Hamamoto, 1992). Overall, the middleman minorities tend to use ethnic entrepreneurship as a survival strategy to make quick money and then move out of the middleman position to pursue other, more viable endeavors.

The Ethnic Market Niches

A second theoretical approach has used the idea of market niches to account for immigrant entrepreneurial activity. There are three basic elements to an attempt to understand immigrant business from the
point of view of market niches: opportunity structures, group characteristics, and ethnic strategies (Aldrich & Waldinger, 1990). Opportunity structures are the forms of opportunities presented to an ethnic group by the economy of the host country. Aldrich and Waldinger (1990) point out that there must be a demand for a business’s services in order for the business to arise. The ethnic market may be seen as a “niche,” a position in the economic environment where immigrant businesses have an adaptive advantage.

An ethnic community provides a demand for goods and services that immigrant businesses are uniquely qualified to provide, because immigrant businessmen know the tastes and buying preferences brought from their homeland. The ethnic niches that provide culturally specific products in the ethnic community become the protected sector of ethnic economies (Zhou, 1992). These ethnic market niches are mostly in labor-intensive, low-profit businesses that are shunned by natives, or in unstable businesses that must meet continually changing demands that large, well-established mainstream firms cannot easily handle, such as the garment industry. Other market niches may be those that are not adequately served by the larger mainstream economy, such as inner-city neighborhoods from which large grocery stores, drugstores, and other services have withdrawn, matching the description of the middleman-minority phenomenon. Still other market niches correspond to the demand of the host society for exotic goods, such as ethnic food, clothing, or other goods. These niches are similar to the ones in ethnic enclaves, but larger, because such a demand provides an opportunity to sell goods to a non-co-ethnic clientele.

Though special niches and paths of access are open and created for potential business entrepreneurs, group characteristics are important in answering the question of why particular ethnic groups are so disproportionately concentrated in small business. Group characteristics pertaining to ethnic entrepreneurship include financial capital, human capital, and social capital. Financial, or material, capital—money and properties—is a crucial prerequisite for ethnic entrepreneurs. Many ethnic enterprises are small in size and may be engaged in middleman occupations because they generally require small amounts of initial capital and minimum labor, which can be mobilized within the family and the ethnic community, through family savings, community-based rotating credits and overseas money, and the available pool of cheap co-ethnic labor. Some immigrants may be predisposed to enter business because they possess the education, skills, or cultural traits that incline them to business activities. Others may do well in entrepreneurial activities because they can mobilize resources from their family and social networks and depend on high levels of cooperation within the ethnic community.

Ethnic strategies are developed from a particular combination of opportunity structures and group characteristics. Earlier middlemen, such as Jews, have withdrawn from the inner city after they have been assimilated into mainstream society over the course of several generations, with each of the succeeding generations less and less interested in small business. As an adaptive strategy, some immigrant group members go into business as a way to avoid low-wage menial labor, to prevent the depreciation of their human capital, and to preserve their pre-immigration standard of living (Hurh & Kim, 1984). How effective entrepreneurship is as an adaptive strategy depends on how well potential entrepreneurs are able to develop patterns of trust and cooperation among themselves, and how well they are able to mobilize resources from existing family and ethnic networks that enabled them to obtain sufficient capital and labor to fill the vacant market niches. Consequently, the concentration of certain ethnic groups in particular market niches of successful pioneers may lead to the entry and successful performance of later arrivals. The referral of kin and co-ethnics for these established ethnic businesses, in turn, strengthens intangible ethnic networks and builds a wall around the ethnic labor market against the entry of outsiders. Once an ethnic niche is in place, “the immigrant sector has grown as a self-feeding process. Newcomers take up work in immigrant firms, and workers who have gained skills and experience working for coethnic owners set up a new business of their own” (Bailey & Waldinger, 1991, p. 443).

The Enclave Economies

A third theoretical approach incorporates some major elements of the middleman-minority theory and the ethnic market-niche thesis. The enclave-economy theory consists of both structural and cultural components. On the one hand, it conceptualizes the enclave as an ethnic labor market distinct from the larger labor market, where immigrants are provided with potential benefits, such as opportunities for self-employment and social advancement. On the other hand, it perceives the enclave as an integrated cultural entity maintained by bounded solidarity and enforceable trust—a form of social capital necessary for ethnic entrepreneurship (Portes & Zhou, 1992). Within the enclave, immigrant entrepreneurs and workers are organized around the symbols of a common nationhood, familiar cultural environment, and densely knit networks.

A key feature of the enclave economy is the co-ethnicity of entrepreneurs and workers. An enclave is defined as a spatial concentration of ethnic firms with a wide variety of economic activities (Logan, Alba, & McNulty, 1991; Portes, 1987; Zhou & Logan, 1989). The economic en-
Immigrant and Minority Entrepreneurship

The Role of the Enclave Economy

Immigration and Changes in Chinatown: From a Bachelors' Shelter to a Full-Fledged Ethnic Enclave

Clave provides co-ethnic members with privileged access to a particular supply of raw materials or finished goods, to jobs that require unusual skills, and to a low-wage, reliable co-ethnic workforce. Economic activities in the enclave can include both productive industries and community-based goods and services. In an earlier work, I identified an "enclave protected sector" and an "enclave export sector" in the Chinese enclave economy in New York (Zhou, 1992). The protected sector arises within the ethnic community itself. It represents a captive market, oriented toward ethnic-specific goods and services that are not easily accessible outside the enclave and toward solutions to various adjustment and settlement problems relating to immigration. The enclave export sector contains a nonethic market characteristic of leftover niches of the larger secondary economy, such as the garment industry, but generates income to be circulated back into the ethnic markets and reinvested in both sectors (pp. 110–116). All immigrant groups may likely create a few businesses to serve their own cultural needs, but the rise of full-fledged ethnic enclaves represents an exceptional phenomenon (Portes, 1998).

The enclave economy approach goes beyond the middleman-minority theory and the ethnic market-niche thesis to focus on the implications and social consequences of ethnic entrepreneurship on immigrant adaptation. Although ethnic entrepreneurship may still be motivated by self-interest, it cannot be successful without its roots in the ethnic community bounded by group solidarity and the enforcement capacity of the community. Bounded solidarity and enforceable trust enable employers in ethnic enclaves to demand greater discipline and effort from co-ethnic workers, who, in turn, receive preferential treatment from owners in terms of job offers, promotions, and business training. Although ethnic enclaves may be short-lived and may seldom last beyond the second generation, they create unique opportunity structures to enable group members to incorporate into mainstream society intergenerationally and thus are an effective alternative and a chosen "mobility path compensating for lingering labor market disadvantage" (Portes & Zhou, 1992).

Portes and Zhou (1996) conclude, based on data from the 1980 census and their own surveys, that entrepreneurship represents a major path for individual and collective economic mobility among ethnic minorities. This conclusion is based on four facts: (1) the consistently higher average earnings of the self-employed over employees of the same ethnic background, on both an hourly and yearly basis; (2) the resilience of a positive net self-employment effect on earnings, even after controlling for relevant human capital variables; (3) the finding that insignificant or negative self-employment effects on earnings in regression models employing a logarithmic transformation of earnings is seem-

ingly due to the suppression of positive outliers (high earners), the vast majority of whom are self-employed; (4) historical evidence indicating that the most entrepreneurial immigrant groups in the past have had above-average rates of educational and occupational intergenerational mobility and that their descendants enjoy individual and family incomes superior to the national averages (Portes & Bach, 1985; Portes & Jensen, 1989; Portes & Zhou, 1992, 1996).

In general, there has been an emerging sociological consensus that ethnic entrepreneurship represents both an important phenomenon and a viable path for economic mobility. Next, I use Chinatown as an example to illustrate how ethnic entrepreneurship affects the adaptation of immigrant Chinese and how Chinatowns have been impacted by the growing enclave economy.

Chinese-American entrepreneurship dates back to the 19th century and has its roots in the segregation of immigrant Chinese from other American ethnic groups. The Chinese first came to California as sojourning laborers from the coastal province of Kwangtung (Kwangtung) in the late 1850s in the hope of finding gold in the Gold Mountain to take back to China. Between 1851 and 1860, some 41,000 Chinese arrived in the United States. Upon arrival, they were sent to work in different gold fields in the Sierra Nevada foothills. After surface deposits of gold mines were depleted, forcing white miners to quit mining, Chinese miners remained in these mining areas, working for companies that attempted harder methods of digging for gold. The 1860 U.S. census recorded that almost all Chinese in the United States were concentrated in the state of California, and within the state, 84 percent were in mining counties (Chan, 1991). In the late 1860s, the Central Pacific Company started to recruit Chinese miners and contract laborers from China to work on the western section of the first continental railroad. During this period, 64,000 more Chinese arrived in the United States; about 40,000 came between 1867 and 1870 (Chan, 1991).

Despite the fact that by 1860 the Chinese made up 25 percent of the labor force of California, their distinct physical appearance, dress, and religious and cultural practices kept them identifiably different from the European ethnic groups of the majority population. Although prejudice against Chinese immigrants had always existed, after the Civil War, as the building of the railroads ended and as the United States...
slipped into an economic depression in 1873, competition for jobs made economic discrimination and pressures for the segregation of the Chinese particularly intense. Because the Chinese often worked for relatively low wages, they were perceived as threats to the growing American labor movement, and skilled craft workers began to adopt the slogan “Chinamen must go!” in their efforts to rally white working people and achieve political power (Saxton, 1971). The 1870s and 1880s were marked by anti-Chinese riots and massacres throughout California and in other places in the American West (Chan, 1991). Chinese were generally barred from obtaining American citizenship. In 1882, the U.S. Congress passed the Chinese Exclusion Act, barring the immigration of Chinese laborers. As a result of the widespread mob violence, discrimination, and legal exclusion, the Chinese began to take refuge in their own communities in large towns on the West Coast. Chinatowns in New York City and other large Northeastern cities grew as they absorbed those fleeing the extreme persecution in California (Lee, 1960; Lyman, 1974; Zhou, 1992).

Early Chinatowns were essentially products of exclusion. Although Chinese immigrants were legally excluded from the “gold mountain,” they continued to be motivated by a sojourning goal of making a fortune in America and returning home with gold. In keeping their gold dream alive, they left their families behind in China and were drawn to this community by extensive kinship networks. During the time when legal and institutional exclusion set barriers and when American society made available few options of life to these Chinese sojourners, they had to isolate themselves socially in Chinatown and to work at odd jobs that few Americans wanted. Because they had no families with them and had no intention to stay a long time, they built Chinatown initially as a place of refuge that resembled home.

Chinatown took root in New York City as excluded workers moved eastward in the hope of fulfilling their gold dream. By the 1940s, this Chinatown, still a bachelors’ shelter with a sex ratio of 603 men per 100 women, had grown into a 10-block enclave, accommodating almost all Chinese immigrants in the city. In old Chinatown, immigrant workers could speak their own language, eat their own food, play their own games, exchange news from home, and share common experiences with fellow countrymen day in and day out. For the Chinese, it appeared that small businesses grew out of two main reasons. On the one hand, legal exclusion and labor market discrimination prohibited them from being hired in the mainstream economy and thus pushed them into pursuing small businesses in their own enclave and seeking occupational niches unwanted by natives. On the other hand, ethnic concentration created a tremendous demand for goods and services from the excluded co-ethnics and also an availability of low-wage labor to supply to the emerging ethnic economies. Thus, small businesses grew to meet the needs of the bachelors’ society by creating jobs that would enable both Chinese owners and workers to avoid competition with the larger society. The Chinese laundry business and restaurant business emerged from this situation: Early twentieth-century Chinese went into the laundry business in such large numbers that by 1920 well over a third of Chinese workers in New York (37.5 percent) were occupied in laundry work, and over 300 restaurants and tea houses had opened in the 10-block area of Chinatown by the late 1950s, serving meals for Chinese laborers, most of whom had no families with them, as well as exotic food to non-Chinese tourists (Zhou, 1992). These business establishments opened up a unique structure of opportunities that corresponded to the goals of the sojourning Chinese and strengthened the social basis of the ethnic community.

The repeal of the Chinese Exclusion Act in 1943 and the passage of the War Bride Act in 1945 caused the bachelors’ society to dissolve. Chinese women, who made up more than half of the postwar arrivals from China, were allowed into the United States to join their husbands and families. However, the number of Chinese immigrants entering the United States each year between 1945 and 1965 was quite small because the annual quota was set at 105 (Sung, 1987). After 1965, when Congress amended the immigration law abolishing the national origins quota system, the number of Chinese in the United States increased manyfold. Together with their native-born co-ethnics, the number of ethnic Chinese in New York City grew more than 6 times in just three decades, from 33,000 in 1960 to 239,000 in 1990, and to an estimate of nearly one half million in 1998. The sudden surge of Chinese immigration has been accompanied by a remarkable change: Rather than being trapped in Chinatowns, Chinese-Americans have begun to show levels of educational and occupational achievement and median household income higher than the national average and to be applauded as a model minority. The change does not appear to be associated with the disappearance of Chinatowns, which have actually grown and expanded in new directions, taking over decaying adjacent neighborhoods. New satellite Chinatowns or “ethnoburbs” (a term used to describe suburban Chinese middle-class communities—see Li, 1997) have sprung up outside inner cities and into the suburbs (Fong, 1994; Li, 1997; Zhou, 1992).

Unlike the old-timers who were uniformly unskilled laborers, recent Chinese immigrants have come from more diverse socioeconomic backgrounds. For a variety of reasons, they have been disproportionately drawn from the highly educated and professional segments of the sending societies. Immigrant Chinese from Taiwan, for example, have displayed the highest levels of educational attainment and occupa-
tional achievement compared to their counterparts from mainland China and other parts of the world. The 1990 Census showed that foreign-born Chinese at productive ages (ages 25 to 64) attaining four or more years of college education were almost twice as common as U.S.-born non-Hispanic whites (42 percent versus 21 percent). Foreign-born Chinese holding professional occupations were more common than U.S.-born non-Hispanic whites (35 percent versus 27 percent).

Recent immigrant Chinese are not only more diverse than earlier arrivals, they also come with goals that are vastly different from those of the old-timers, who were here to sojourn with an intention to return to China eventually rather than to settle and to eventually assimilate. They are characterized by their strong desire to become integrated into the mainstream society and to make America their new home. Many of them have immigrated to the United States to secure their already well-established lives, and more important, to provide their children with a future without fear and uncertainty, in which the children can realize their full potential.

Despite the much higher qualifications of the new immigrants, their willingness to assimilate into American society, and the more open society that they encounter, many Chinese still tend to concentrate in Chinatown or to invest in new Chinatowns. Language is a major barrier, as over half of the newcomers speak broken English or no English at all. Another barrier may be the lack of suitable networks linking them to the mainstream society. These initial barriers turn many Chinese immigrants to Chinatowns where they can take advantage of pre-existing community ties and resources to secure a foothold in their new country. Recent studies of Chinatowns and ethnoburbs show that both small business owners and wealthy investors from Hong Kong, Taiwan, and China tend to invest in Chinatowns and ethnoburbs (Li, 1997; Zhou, 1992). Prospective ethnic entrepreneurs often have inadequate information about, and limited access to, mainstream labor and consumer markets, and they also presume racism and fear discrimination in dealing with unfamiliar situations and institutions. Consequently, immigrant entrepreneurs and overseas Chinese investors concentrate their business activities in old Chinatowns or build up certain local areas into the status of new ethnic enclaves, such as Flushing’s new Chinatown and Sunset Park’s Chinatown in New York, and Monterey Park in Los Angeles. Some of the extraordinary development in New York’s Chinatown have attracted the attention of mainstream media. For example, the Wing Ming Building, an 11-story full-service office tower at the center of Manhattan’s Chinatown was constructed by a Hong Kong businessman at a cost of over $6 million (Tobier, 1979; Wang, 1979); The East West Tower in Chinatown, a $21 million, 143-unit project, was entirely financed by overseas Chinese capital from Hong Kong and the Middle East (New York Times, September 20, 1981). In the past 30 years, Chinatown’s enclave economy has experienced steady growth despite several recession cycles that affected the city. Today, various sources of financing in Chinatown, combined with the experience, human capital, and family ties of new Chinese immigrants, have made it possible for immigrants of diverse socioeconomic background, including those of modest class status, to try their hand at entrepreneurship, which has broadened the base for economic development. As a result, ethnic economies in the enclave have become diversified, ranging from traditional services such as restaurants, labor-intensive manufacturing, to various professional services. Illustrated in Table 3-1 is the growth of Chinese-owned businesses in the New York metropolitan area and in a satellite Chinatown in Flushing.

Significant changes can be seen in the growth of restaurants, a traditionally strong ethnic business, and the replacement of laundries with garment factories, a rapidly growing industry in Chinatown. Noticeable also is the diversification of economic activities. Services that rely on an ethnic clientele, such as accounting, insurance, real estate agencies, travel agencies, doctors (including herbalists), beauty salons and barber shops, and entertainment facilities, have experienced tremendous growth since the late 1950s. In Flushing’s Chinatown, the development of ethnic economies is on a similar scale, if not larger. According to a 1982 survey, there were only five grocery stores, three restaurants, one real estate agency, one professional building, one drug and herbal store, and one beauty salon that were owned by the Chinese. Just 10 years later, the area was booming with Chinese-owned businesses.

The numbers presented in Table 3-1 were inconclusive, as they were based on Chinese telephone directories and a small market survey in 1990. Nevertheless, they indicated a trend of ethnic entrepreneurship among Chinese immigrants. Most of these ethnic establishments, except for restaurants, were concentrated in Chinatowns in Lower East Manhattan and Flushing. The actual number in the New York area was much larger. As reported in the Economic Censuses, there were 10,864 Chinese-owned business enterprises based in the New York metropolitan area (accounting for 86 percent of these Chinese-owned firms in the state of New York) in 1987, and that number increased to 19,537 in 1992. In 1987, the enterprises with employees averaged $308,638 in annual sales, a figure comparable to that for all Asian-owned firms in the city, but exceeding by more than $50,000 those of other minority-owned enterprises nationwide (U.S. Bureau of the Census 1991, 1996). The 1990 Census data also revealed that self-employed Chinese workers were distributed in a wide range of economic activities, but with a concentration in retail trade (40 percent of the ethnic labor force), particularly in the restaurant business, and professional services (18 percent). These
TABLE 3-1  Selected Chinese-Owned Businesses: Chinatowns In Lower East Manhattan and Flushing

<table>
<thead>
<tr>
<th>Businesses</th>
<th>1958</th>
<th>1988</th>
<th>Flushing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restaurants</td>
<td>304</td>
<td>781</td>
<td>53</td>
</tr>
<tr>
<td>Restaurant equipment</td>
<td>0</td>
<td>92</td>
<td>na</td>
</tr>
<tr>
<td>Garment factories</td>
<td>0</td>
<td>437</td>
<td>11</td>
</tr>
<tr>
<td>Laundries</td>
<td>na</td>
<td>20</td>
<td>na</td>
</tr>
<tr>
<td>Accountants</td>
<td>3</td>
<td>107</td>
<td>17</td>
</tr>
<tr>
<td>Banks</td>
<td>2</td>
<td>39</td>
<td>22</td>
</tr>
<tr>
<td>Import/export firms</td>
<td>9</td>
<td>164</td>
<td>na</td>
</tr>
<tr>
<td>Insurance, real estate agencies, and stockbrokers</td>
<td>4</td>
<td>320</td>
<td>54</td>
</tr>
<tr>
<td>Law firms</td>
<td>12</td>
<td>186</td>
<td>27</td>
</tr>
<tr>
<td>Travel agencies</td>
<td>2</td>
<td>115</td>
<td>na</td>
</tr>
<tr>
<td>Doctor offices and pharmacies</td>
<td>38</td>
<td>574</td>
<td>123</td>
</tr>
<tr>
<td>Bakeries</td>
<td>4</td>
<td>46</td>
<td>20</td>
</tr>
<tr>
<td>Grocery stores and other food stores</td>
<td>75</td>
<td>303</td>
<td>na</td>
</tr>
<tr>
<td>Beauty salons and barber shops</td>
<td>7</td>
<td>111</td>
<td>33</td>
</tr>
<tr>
<td>Florists, gift shops, and jewelry shops</td>
<td>76</td>
<td>179</td>
<td>na</td>
</tr>
<tr>
<td>Bookstores</td>
<td>0</td>
<td>8</td>
<td>na</td>
</tr>
<tr>
<td>Educational and training centers</td>
<td>na</td>
<td>na</td>
<td>31</td>
</tr>
<tr>
<td>Newspapers and periodicals</td>
<td>5</td>
<td>24</td>
<td>na</td>
</tr>
<tr>
<td>Photo labs and studios</td>
<td>4</td>
<td>19</td>
<td>na</td>
</tr>
<tr>
<td>Television and radio stations</td>
<td>0</td>
<td>12</td>
<td>na</td>
</tr>
<tr>
<td>Theaters and cinemas</td>
<td>5</td>
<td>7</td>
<td>na</td>
</tr>
<tr>
<td>Video rentals</td>
<td>0</td>
<td>41</td>
<td>na</td>
</tr>
<tr>
<td>Total</td>
<td>550</td>
<td>3,585</td>
<td>391</td>
</tr>
</tbody>
</table>

Notes:
1. Adapted from Table 5-1 in Zhou (1992).
2. Adapted from Schuman S. Tu (1990), Market survey and market potential in Flushing, World Journal (December 16).
3. Including non-Chinese bank branches located in Manhattan’s Chinatown, which employ a disproportionate number of Chinese-speaking employees.

and new, have become full-fledged ethnic enclaves—more enticing places for entrepreneurs to do business because of their densely knit networks, familiar cultural environment, and cheap but reliable source of labor.

SOURCES OF ETHNIC ENTREPRENEURSHIP

What enables immigrant Chinese to become entrepreneurs? Part of the answer to this question may be found in the advantages that Chinese immigrants have over other ethnic groups in establishing small enterprises. Among these advantages are the possession of human capital, that is, education and skills; financial capital, or the money needed to establish business enterprises; and social capital, or patterns of cooperation among group members that provide resources. Chinese immigrants have either brought with them these major forms of capital or acquired them after arrival in the United States.

The first source of advantage is human capital, including education and work experience. Having group members with high levels of education and specialized skills can help the group gain information on ethnic economies as well as the larger economy, to accumulate knowledge about markets and government regulations, and to choose the best strategies possible in a situation of limited options. Moreover, having clear intentions to settle in America and to achieve success for themselves and for their families enables the group to make long-term investment decisions. In old Chinatowns, immigrant Chinese did not gravitate to laundries and restaurants by nature, as was often believed at the time. They entered these marginal economic activities mainly as a temporary means to cope with, and survive in, a very difficult environment. Because they had no intention to incorporate into the larger society, they had been depicted for many years as “the unassimilable,” being trapped in a dead-end situation. Today, the demands of new immigrants for speeding up the process of assimilation have brought about important changes in the economic structure of Chinatown, which are seen in the diversification of the enclave economy.

A second source of ethnic entrepreneurship is financial capital, which consists mainly of lifelong savings and foreign capital. Family savings are an important source of financial capital, and they are made possible primarily on frugality. Chinese immigrants, like immigrants from Europe, generally share the value of thrift and delayed gratification. They tend to perceive their present frugality as a means to fulfill future goals. Thus, it is not unusual to find that immigrants spend only on basic things such as housing and food without much on leisure and luxury, and that adult children turn in their income to their parents for family
entrepreneurs conducting economic activities within their own community can avoid intense interethnic conflicts that occur inevitably in middleman phenomena because shared cultural affinities allow coethnic consumers, workers, investors, and entrepreneurs to operate in protected consumer, labor, and capital markets.

Access to family labor and coethnic labor is also crucial for ethnic entrepreneurship. Many immigrant enterprises, especially labor-intensive grocery and food stores, restaurants, and garment factories, depend on unpaid family labor and low-wage immigrant labor. The access to low-cost co-ethnic labor gives ethnic entrepreneurs a clear competitive edge. From the point of view of co-ethnic workers, ethnic businesses offer material and symbolic compensations that cannot be accounted for simply in dollar terms. Although jobs in ethnic enterprises are characterized by low wages, long working hours, and poor working conditions, immigrant workers are provided with a familiar work environment in which they are effectively shielded from deficiencies in language, education, and general knowledge of the larger society. They can obtain first-hand information on employment and business opportunities through their family members, kin, and co-ethnics to avoid the expensive cost of time and effort involved in finding good jobs in the larger market. They are able to work longer hours to quickly accumulate family savings for future plans. They can gain access to rotating credit, clan associations, and the family for financial support and resource mobilization. Finally, they can get job training and cultivate an entrepreneurial spirit at work and, possibly, be prepared for eventual transition to self-employment (Bailey & Waldinger, 1991). It is found that many garment factory and restaurant owners built their businesses on family savings accumulated from wages earned in the garment industry (Zhou, 1992).

For many new immigrants, low-paid menial work is a part of the time-honored path toward economic independence and upward mobility of their families in America. It is the ethnic solidarity and mutual trust between co-ethnic workers and entrepreneurs, combined with human and financial capital, that facilitate ethnic entrepreneurship among Chinese Americans. Next, I examine both positive and negative consequences associated with ethnic entrepreneurship.

CONSEQUENCES OF ETHNIC ENTREPRENEURSHIP

Beneficial Consequences for Co-Ethnic Members

Without doubt, ethnic entrepreneurship can create job opportunities for immigrant group members to compensate for many of their
disadvantages as newcomers to American society. The disadvantages associated with immigrant status, such as lack of English, transferable education and work skills, lack of access to employment networks in the larger society, and racial prejudice and discrimination, often block immigrant workers from entering the labor market of the mainstream economy. Whereas immigrants who have strong human capital may be able to choose to participate in or out of Chinatown, ethnic economies have opened up a viable option with ample financial capital, housing, and employment opportunities for immigrant Chinese and subsequent arrivals, especially for those without adequate human capital. Since the 1980s, Chinatown’s garment industry, for example, has provided jobs for more than 20,000 immigrant Chinese, mostly women. It is estimated that three out of five immigrant Chinese women in Chinatown work in the garment industry. Although the garment industry showed signs of decline in the 1990s, it continued to serve an important source of entrepreneurship and employment for Chinese immigrants. The restaurant business, another backbone industry in Chinatown, has employed at least 15,000 immigrant Chinese workers (Zhou, 1992) and has continued to be the most important component of the enclave economy.

For immigrants with either sufficient human capital and/or financial capital, self-employment is their best strategy to adapt to their new country by minimizing the possibility of downward social mobility: to avoid low-wage menial labor, to prevent depreciation of their capital accumulated before immigration, and to preserve their already established socioeconomic status. Moreover, through ethnic entrepreneurship, immigrants can effectively fight the loss of pride, self-value, and sense of achievement associated with immigrant status and eventually enter the mainstream society with dignity, self-esteem, and a sense of identity. Further, immigrant entrepreneurs can bypass the harmful psychological and social consequences of racial discrimination by creating conditions for their own economic mobility: the improvement of the economic status of families and family savings for purchasing homes or starting up businesses. Table 3-2 shows the median earnings, household incomes, rates of home ownership, and rates of unemployment among self-employed and salaried workers by race or ethnicity, based on 1990 census data.

The data indicate that self-employed workers of all racial/ethnic groups show an absolute earnings advantage over their salaried co-ethnics. In terms of earnings status of the family, self-employed workers have higher median household incomes than their salaried co-ethnics, except for U.S.-born blacks; and without exception, self-employed workers are much more likely than their salaried co-ethnics to live in their own homes regardless of race or ethnicity. These figures coincide with results reported a decade earlier, based on the 1980 Census data (Portes & Zhou, 1996). Noticeable, however, is the fact that both Chinese workers and entrepreneurs, regardless of nativity, have surpassed their non-Hispanic white counterparts in average earnings and household incomes, indicating the successful incorporation of the Chinese beginning in the 1980s.

### TABLE 3-2  Mean Earnings, Median Household Incomes, Rates of Home Ownership, and Rates of Unemployment among Self-Employed and Salaried Workers by Nativity and Race/Ethnicity: 1990

<table>
<thead>
<tr>
<th>Race/Ethnicity</th>
<th>Mean Earnings ($)</th>
<th>Median Household Income ($)</th>
<th>Home Ownership (%)</th>
<th>Unemployment (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign-Born</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chinese workers</td>
<td>24,945</td>
<td>47,751</td>
<td>66.1</td>
<td>3.3</td>
</tr>
<tr>
<td>Chinese entrepreneurs</td>
<td>36,132</td>
<td>51,900</td>
<td>82.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Non-Hispanic black workers</td>
<td>20,911</td>
<td>39,000</td>
<td>44.9</td>
<td>6.1</td>
</tr>
<tr>
<td>Non-Hispanic black entrepreneurs</td>
<td>24,693</td>
<td>40,562</td>
<td>55.8</td>
<td>6.0</td>
</tr>
<tr>
<td>Non-Hispanic white workers</td>
<td>28,962</td>
<td>47,700</td>
<td>69.8</td>
<td>4.0</td>
</tr>
<tr>
<td>Non-Hispanic white entrepreneurs</td>
<td>40,011</td>
<td>51,131</td>
<td>80.2</td>
<td>2.0</td>
</tr>
<tr>
<td>U.S.-Born</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chinese workers</td>
<td>33,268</td>
<td>61,000</td>
<td>77.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Chinese entrepreneurs</td>
<td>47,765</td>
<td>69,360</td>
<td>83.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Non-Hispanic black workers</td>
<td>19,185</td>
<td>32,820</td>
<td>58.0</td>
<td>6.9</td>
</tr>
<tr>
<td>Non-Hispanic black entrepreneurs</td>
<td>22,167</td>
<td>32,590</td>
<td>66.5</td>
<td>6.1</td>
</tr>
<tr>
<td>Non-Hispanic white workers</td>
<td>25,946</td>
<td>41,500</td>
<td>75.9</td>
<td>3.7</td>
</tr>
<tr>
<td>Non-Hispanic white entrepreneurs</td>
<td>34,354</td>
<td>44,300</td>
<td>83.9</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Notes:
1. Including all workers age 25 to 64 and in the labor force.
2. A 10 percent random sample from the 1990 5%-PUMS.
3. A 60 percent random sample from the 1990 5%-PUMS.

Source: U.S. Census of Population and Housing: 1990 PUMS.
Ethnic entrepreneurship may also account in part for the particularly low unemployment rates among foreign-born Chinese workers. For those who are in the labor force, the unemployment rate for foreign-born Chinese workers was only 3.3 percent, compared to 6.9 percent for U.S.-born non-Hispanic black workers, and 4.0 percent for U.S.-born non-Hispanic white workers. It appears that ethnic entrepreneurship benefits not only the self-employed but also immigrant workers, especially those who lack English language ability, transferable education, marketable skills, formal employment networks, and even legal standing to compete in the larger labor market. In large cities where immigrants are disproportionately concentrated, the job situation is often paradoxical: Whereas U.S.-born minority workers are hardest hit by declining manufacturing and eroding employment opportunities, immigrant workers in the same cities have experienced growing economic opportunities. Some analysts argue that immigrants have taken jobs away from U.S.-born minorities. However, a more realistic picture reflects that immigrants simply respond to industrial downsizing by creating their own match between available opportunities and ethnic resources (Light, 1972; Sassen, 1988; Waldinger, 1989). A prime example is the role of Chinatown’s garment industry in creating job opportunities for immigrant Chinese women. In New York City, where the decline of the manufacturing sector has caused severe unemployment among minority workers, immigrant Chinese women, who have little proficiency in English, poor education, and little work experience, display exceptionally high rates of labor force participation. Three quarters of the Chinese women are employed full-time in the labor force, as compared to only 22 percent of Puerto Rican women, who were overrepresented in garment manufacturing before the industry’s decline. More than half of these Chinese women work in Chinatown’s garment industry. Without Chinatown’s garment industry, many immigrant workers might simply be jobless (Zhou & Nordquist, 1994).

Ethnic entrepreneurship, finally, contributes to the accumulation of social capital rooted in the ethnic community and also to community building. Entrepreneurship directly brings about economic prosperity in ethnic enclaves, which in turn feeds into the social structures of the community, as seen in the changing role of traditional social organizations and new establishments of various types of community-based organizations to facilitate immigrant adaptation. By glancing at one of the Chinese business directories in New York, for example, one can easily come up with a list of 100 voluntary associations, 61 community service organizations, 41 community-based employment agencies, 16 daycare centers, 27 career training schools, 28 Chinese and English language schools, and 9 dancing and music schools (Chinatown Today Publishing, 1993. Note: The actual number of community organizations in Chinatown was approximately twice as many as this list because many were not listed in this particular directory). Most of these organizations are located in Manhattan’s Chinatown; some are located in new satellite Chinatowns in Flushing and Sunset Park (Zhou, 1997). These community-based organizations do not function merely to meet the basic needs of fellow countrymen, such as helping workers obtain employment and offering different levels of social support, and to organize economic activities, but also to provide services associated with a wide range of resettlement and adjustment issues, such language and job training, after-school programs, family services, and counseling.

If ethnic communities are interpreted in terms of social capital, it becomes possible to suggest a mechanism by which the adherence to community-based support systems and positive cultural orientations can provide an adaptive advantage for immigrants and their offspring as they strive to achieve their goals in American society. On the one hand, jobs made available in ethnic economies and goods and services provided by the community tend to tie immigrant Chinese and their offspring to Chinatown despite spatial dispersion. These ties have directly or indirectly broadened the base of ethnic interaction and thus increased the degree of ethnic cohesion, which in turn sustains a sense of identity, community, and ethnic solidarity. On the other hand, despite the low wages and long working hours typical of many jobs in Chinatown, immigrants take pride in being able to work and support their families. The work ethic and the capacity for delayed gratification in parents is explicitly or implicitly passed on to children, who are expected by their parents to appreciate the value of schooling as a means to move out of Chinatown. The networks of support and social control mechanisms in Chinatowns, for example, facilitate upward mobility of young Chinese Americans by enabling families to reinforce community values and standards in children and to accumulate funds for education to give the younger generation a jump-start into the American economy. In a recent study on the second generation growing up in Chinatown, I demonstrated the lasting impact of enclave economies on the adaptation of immigrant Chinese and their offspring (Zhou, 1997).

In sum, both co-ethnic workers and employers benefit from a reciprocal relationship. They are both bound by sentiment, trust, and face (implying ethnic obligations) in pursuing each other’s goals. It is true that workers in co-ethnic firms generally work at lower pay. However, they are by no means willingly accepting low wages; rather, they view it as an alternative to possible joblessness, so that they can surmount structural obstacles and lift themselves and their families up socioeconomically.
The Downside of Ethnic Entrepreneurship

The downside of ethnic entrepreneurship may be relative to the issue of interethnic relations and ethnic incorporation. The first problem of business growth in Chinatowns relates to costs that usually have to be incurred by both residents in Chinatown and nonethnic residents in surrounding neighborhoods. The familiar growing pains in rapidly expanding business activities in Chinatowns include traffic congestion, skyrocketing real estate prices, overcrowding, and the displacement of the urban poor. Many longtime residents in new Chinatowns, such as Monterey Park, California, and Flushing, New York, fear that their neighborhoods are turning into microcosms of Hong Kong and Taipei, which are among the most crowded and polluted cities in the world. Longtime residents also sometimes feel that they are being priced out of their homes and businesses by soaring rents and heavy influx of investment funds from Asia.

Relations with other American minority groups pose another problem. Immigrant Chinese and many immigrants from Asia tend to penetrate into declining white working-class or lower-middle-class communities in cities. Because a sizable Chinese concentration is often accompanied by a concentration of ethnic businesses, longtime residents, mostly whites, tend to perceive incoming Chinese as outsiders interested in making money but not in local affairs. The high presence of entrepreneurship in a neighborhood paralleled by poor participation in local politics and community-based affairs by immigrants adds to the tensions and fuels interethnic antagonism (Fong, 1994).

For Chinese businesses that are operated in poor inner-city minority neighborhoods in which Chinese try to avoid residence, the interethnic relations are even more fragile, though the Chinese case may not be as visible as the Korean case. When ethnic entrepreneurs play the role of the middleman minorities, their foreignness and success may be resented by the disadvantaged groups they serve, because they are perceived as invading strangers who do not make special efforts to establish close links with the communities of their customers. When significant numbers of ethnic businesses penetrate into neighborhoods that contain members of other American minorities, ethnic entrepreneurship on the part of entrepreneurs can also lead to friction between the have and the have-nots, and this friction may be intensified by ethnic allegiances, as is often documented in the literature.

A third problem associated with ethnic entrepreneurship may be ethnic exclusion. Until recently, immigrant Chinese, as well as most Asian immigrants, have been portrayed as indifferent to U.S. politics and uninterested in assimilation. This differs sharply from other immigrant groups, such as Cuban Americans. Most immigrant Chi-

ese have remained instead closely connected with events at home and are doing business with their country of origin. The resulting political isolation reinforces the stereotype of Chinese as selfish and clannish. This political isolation tends to be accompanied by a social and psychological isolation. Chinese entrepreneurs often consciously retain a sense of being "Chinese." Because of their intense involvement in their own businesses and their businesses largely depend on bounded solidarity, they may be seen as having no desire to hire nonethnic workers and no desire to incorporate into the mainstream economy, despite the fact that their lives and livelihoods become inseparable from the new land.

CONCLUSION

Ethnic entrepreneurship among Chinese Americans may fit in part the situation of middleman minorities, or that of ethnic market niches, or that of enclave economies. The different theoretical approaches that I have laid out may be seen as emphasizing different reasons that opportunities for ethnic entrepreneurship exist. The middleman-mini-

ority theory draws attention to the fact that immigrant group members, as foreigners, often find positions between relatively privileged and relatively underprivileged groups of Americans and tend to develop high levels of cooperation that enable them to survive in a foreign and often hostile economic environment. The ethnic market-niche thesis examines how the characteristics of immigrant groups may correspond to unmet demands in the economy of the host country. The enclave-economy theory looks at how shared ethnicity may be the basis for a small economy and how small ethnic economies may grow in size and power.

Each of these theoretical approaches provides some of the reasons that immigrant group members may be inclined to business. However, the evidence indicates that ethnic businesses are not simply marginal activities that many immigrants are forced into because of their status as newcomers and members of minorities. Despite the downside, they are composed of a crucial alternative route to upward mobility in American society for immigrant group members. What is more important, then, is the role of entrepreneurship in facilitating immigrant adaptation. In the case of the Chinese, ethnic entrepreneurship is played out in the context of ethnic communities.

Although there is some basis to the stereotypical view of Chinese businesses as small, family firms concentrated mainly in Chinatown, many Chinese-owned businesses have grown in size and diversity in recent years. The Chinese have gone beyond laundries and restaurants
to enter a wide variety of fields of endeavor. Although restaurants do remain an important source of self-employment for Chinese entrepreneurs, many Chinese-owned businesses have become more incorporated into the larger economy and more commonly associated with the majority American population.

As an alternative path to social mobility, both ethnic workers and entrepreneurs may receive benefits from ethnic businesses. For employees, the relatively inexpensive labor of other members of their ethnic group can provide a competitive advantage. Although the self-employed may benefit more from this situation than employees, ethnic businesses do provide newly arrived immigrants with a starting place in America and help them avoid unemployment. They also give new immigrants a familiar work environment, in which the immigrants can amass savings, develop skills, and prepare children for upward mobility. As the Chinese-American population grows, the number, size, diversity, and importance of ethnic businesses in America will also grow, and this growth will be expected to strengthen the ethnic community, which continues to function as a source of support for entrepreneurship and immigrant adaptation.

NOTE

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