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The higher rate of self-employment relative to the general population of the US among such immigrant groups as the Chinese, Cubans, and Koreans has been a major main research focus of specialists in immigrant communities. Researchers of immigrant entrepreneurship have been interested in explaining why certain immigrant groups have outperformed others in self-employment and why these newcomers have been capable of establishing an independent enterprise, often within a short period of time after their arrival in a foreign country. Subsequent research has shown that ethnic resources embedded in the immigrant community facilitate the process of entrepreneurship. Contributing to this research tradition, this paper adopts a recently developed approach relating the immigrant entrepreneurship to such important concepts in economic sociology as "social capital" and "structural embeddedness" to study Chinese immigrant entrepreneurship in Los Angeles. Evidence from this study supports the argument that an immigrant enterprise is not an exclusive product of individual achievement, but also one deeply embedded in the ethnic community.

Key words: immigrant entrepreneurship, ethnic resources, social capital, Chinese enterprises

在美國，某些移民社群比如韓裔、華裔、古巴裔比一般人有較高的創業率，這種現象一直是研究移民學者的主要興趣之一，這些研究企圖瞭解為什麼創業傾向因不同移民族群而異，以及為什麼這些新移民可以很快地在一個陌生的國度中創業。目前許多的研究證據指出移民的創業過程相當程度受惠於蘊藏在移民社區中的“族群資源”，本研究即是立基於此，企圖以對華人移民企業的研究來分析族群內部的結構性資源以及它們如何被運用以利於創業的過程，研究結果顯示移民企業的產生並非只是個別企業家的成就，也是移民族群的集體創作，本文嘗試將這樣的探討關連到經濟社會學晚近發展的概念如結構的鑲嵌性以及社會資本，以進一步結合經濟社會學與移民社會學的研究領域。正當目前經濟社會學領域重新得到學界對其理論與概念的重視，它的進一步發展也因與其他領域相關日益密切而得到活力，移民的社會學研究即為此相關領域之一，其中移民創業過程的研究尤其為所謂的“新經濟社會學”概念與假設的發展提供許多經驗素材。

關鍵字：創業過程、族群資源、社會資本、華人企業

Introduction

The Chicago school of sociology established the sociological tradition of investigating immigrant communities. However, their concern was with such social aspects of the community as housing problems, the formation of neighborhood, and collective consumption. The major practical questions about immigrant communities have recently shifted from social lives to the dynamics of the production system and their role in the growth, reproduction, stagnation, and decay of immigrant communities. Scholars of immigrant studies provide accounts of not only how and where immigrants live, raise their families, and socialize with their neighbors, but also of the central problems of their work and livelihoods in modern industrial capitalism.

Economic adaptation is often the most difficult challenge of immigrant life. Prior to their arrival, most immigrants believe that the host country offers better economic opportunities for themselves and their children than their home countries. However, because of language barrier, unfamiliarity with the new culture, and untransferable human capital, new arrivals often find that there are only limited economic opportunities available to them. As a result, most are forced to settle for lower-skilled jobs or unemployment. Many are confined to the secondary job market, and even to unemployment, for a lifetime. Those who are not able to find an acceptable place in the host economy may eventually become members of an underclass, adding a burden to the host society. However, some immigrants take another approach to economic incorporation. Special opportunities are available if the host country has an established coethnic population. The immigrant may begin to climb the ladder of upward mobility by starting up a business which caters to the consumption needs of compatriots, or by working for a coethnic business

owner. The economic entity formed by entrepreneurs and coethnic workers was described as an "ethnic economy" by Bonacich and Modell (1980:45). Some ethnic groups have a larger ethnic economy than others. Regardless of the size of ethnic economy, many researchers have found that an ethnic economy is greatly facilitated by formal and informal networks (Light and Bonacich 1988; Light et al. 1994; Portes and Bach 1985; Zhou 1992). The ethnic economy originally offers self-support for coethnics,¹ but its influence may not be limited to the ethnic community. Instead, it may grow to dominate the general economy. One example is the Cuban dominance in Miami's economy (Portes and Stepick 1993).

The ethnic economy has been a significant mode of economic incorporation for many immigrant minorities in the U.S. and western European cities (Light 1972; Portes and Bach 1985; Zhou 1992; Light et al. 1994). It has enabled many immigrant minorities to avoid unemployment and poverty. Ethnic economies play an important role in shaping the economic well-being of ethnic members, be they self-employed or employed by coethnics (Portes and Zhou 1992). Generally speaking, the vitality and size of an ethnic economy determines the economic performance of ethnic communities, and the strength of an ethnic economy lies in ethnic entrepreneurship.

Ethnic Resources and Entrepreneurship

Entrepreneurship is often considered to be a fourth factor of production, along with land, labor, and capital. However, there is no general agreement on the defining characteristics of an entrepreneur. Among the various definitions offered to date, Leibenstein's (1968:72) is probably the most commonly referred. According to

1 The term of "coethnics" is used to refer people who share the same ethnic background.

him, an entrepreneur is: "an individual or group of individuals with four characteristics: he connects different markets, he is capable of making up for market deficiencies (gap-filling), he is an "input completer," and he creates or expands time-binding input-transforming entities (i.e., firms)." (1968:72) Viewed in this light, the fewer the market deficiencies, the less likely entrepreneurs are to find a niche to connect markets. In other words, incomplete and imperfect markets give rise to entrepreneurship. This partially explains why, in advanced industrial countries, entrepreneurship is not as important than in less developed countries (Landa 1990:62).

Marxists have long predicted that as big capitalists become stronger and stronger, there will be fewer chances for individuals to succeed as entrepreneurs in mature capitalist societies. The historical development of entrepreneurship in western industrial societies had until recently followed this forecast. In the U.S., for example, the proportion of self-employed in the non-farm economy fell to less than seven percent between 1950 and 1972. However, there has since been a resurgence of American entrepreneurship. Between 1972 and 1984, the self-employment rate increased from 6.8 to 8.3 percent of the non-farm labor force, then stabilized. Light and Bonacich (1988: 13) suggest that renewed immigration contributed to the resurgence of the self-employment rate. However, not every immigrant group possesses an entrepreneurial propensity. It is a now familiar sociological observation that considerable disparities exist in the rates of self-employment among various ethnic groups in industrial societies (Waldinger et al. 1990). For example, the Cubans in Miami and the Koreans in Los Angeles, Chicago, and Atlanta have created their own economic enclaves which offer tremendous opportunities for coethnic business and employment (Light and Bonacich 1987; Min 1988; Portes and Bach 1985).

What explains the higher self-employment rate among certain ethnic groups? There is no doubt that individual attributes—motiva-

tion, knowledge, and skill—decisively affect whether individuals will gain entry into entrepreneurship. However, individual characteristics cannot explain the disparities between rates of self-employment. We must turn to social, structural, or cultural conditions for an adequate explanation of immigrant entrepreneurship.

In explaining the differences in economic success among ethnic groups, sociologists following the Weberian tradition² have asserted that different ethnic groups are endowed with different cultural qualities which affect their economic incorporation (Light 1972, 1984; Bonacich and Modell 1980; Reitz 1980; Semyonov 1981). Light (1972), for example, as a pioneer in this field, studied the ethnic economies among Chinese, Japanese, and Blacks. He argues that pre-war immigrants to the United States from southern China and Japan employed various cultural strategies, e.g. traditional rotating credit associations, as their principal devices for establishing small businesses. Because Blacks had no such comparable cultural strategies, they were unable to form a strong business class in their community. Therefore, the rotating credit association as a specific tradition in certain Far East Asian business traditions partially accounts for the different results in business ownership between Blacks and Asian Americans. In contrast to the assimilation theory, this cultural model suggests that certain ethnic groups managed well economi-

2 Discussion of the affinity between economy and ethno-religious culture is one of the major themes in Max Weber's sociological inquiry. Weber contends that economic characteristics vary among different ethnic groups. Thus he can describe some groups as "economically active groups". According to Guenther Roth (1978: XXIII), Weber, in his work *Economy and Society*, uses the term "society" to describe general kinds of human groups. This allowed him deal with economy and society as inseparable—part of the same fabric. These human groups—household, neighborhood, kin group, ethnic group, religious group, political community—are found to be economically important at various levels of historical development. From his point of view, culturally important groups, especially those persistent ones, developed their cultural ways to meet their economic needs. Protestants, Jews, and Indian Parsees are a few examples of these persistent groups which are economically distinctive from other groups.

cally because they chose to hold on to their common cultural practices rather than to assimilate. In this view, the ethnic cultural enclave can be seen to have a positive impact on its group members.

Assimilation theorists have regarded the ethnic cultural enclave, which provided residential segregation and economic isolation, as an obstacle to assimilation and prosperity (Burgess 1923; Lieberman 1963; Gordon 1964; Hodge and Hodge 1965). According to them, therefore, assimilation is a process that every minority must undergo to achieve economic progress. However, this assimilationist point of view has lost its prominence since it fails to explain how some ethnic groups have been able to work their way up without becoming fully assimilated into the mainstream society, such as the German and Russian Jews in the U.S. before world War II and Cubans, Chinese, and Koreans in the post-war period. Departing from the previously dominant assimilation theory, the ethnic economy theory offers an alternative view and has become central to the theoretical concerns of immigrant and ethnic communities studies since the 1970s.

Besides cultural explanations, several theories have been proposed to explain the differential propensity for entrepreneurship. Several researchers note that there is an empirical connection between disadvantage in the labor market and self-employment. Disadvantage theories postulate that the proliferation of the ethnic enterprise in North America has been linked historically with institutional discrimination (Light 1979; Min 1988). According to their theory, the size of an ethnic business sector develops in relation to the scale of racial disadvantage which the minority experiences in the wider economy. However, the disadvantage theory can only explain the reality that anyone in need has the tendency to become self-employed. It fails to address the fact that needy people without resources cannot create businesses. The resources needed for establishing businesses include financial capital, information, skills, values and attitudes, motivations, contact networks, and markets, etc.

Light (1984) resolved this difficulty by pointing out that the kinds and quantities of resources people possessed greatly affected their chance of becoming self-employed. In order to assess the different resources which immigrants drew upon, Light also made a distinction between two types of entrepreneurial resources: ethnic and class resources. Ethnic resources are socio-cultural features possessed by the whole group which coethnic entrepreneurs actively draw upon or from which their business passively benefits (Light and Karageorgis 1995). Ethnic resources include such cultural endowments as the kinship and marriage system, a middleman heritage, religion, language, and ethnic solidarity (Light 1984; Chen and Cheung 1985; Kim and Hurh 1985; Light and Bonacich 1988). Class resources, on the other hand, are defined by ownership of private property, access to the means of production and distribution, human capital, money to invest, bourgeois values, attitudes, and knowledge and skills transmitted intergenerationally (Light and Karageorgis 1995). Although empirically pure ethnic and class resources are difficult to measure, the theoretical distinction of these two types of resource remains critical. As Waldinger and Aldrich note, this distinction "emphasizes the strong continuity between studies of small business in general and ethnic enterprise in particular" (1990:127). Immigrant entrepreneurs differ from general business owners because they are endowed with ethnic resources. In other words, not only are they bourgeois, they are also ethnic bourgeois.

Embeddedness, Social Capital, and Entrepreneurship

The ethnic resources argument offers an opportunity to link the research of immigrant entrepreneurship with the recent discussion within the field of the "new economic sociology". The new economic sociology employs a theoretical framework that incorporates

self-seeking and opportunistic behavior along with the social conditioning of such behavior (Friedland and Robertson 1990). This approach requires an analysis of how social structure interacts with social and economic motives. The research of immigrant entrepreneurship provides vital empirical materials for new economic sociologists to generate and refine their theoretical concepts and hypotheses such as embeddedness and social capital. The concept of "embeddedness" was developed by Granovetter (1985) to refer to the fact that economic transactions in pre-market as well as in capitalist societies exist within social structures that give them their shape and influence their outcomes. Social structures consist of a set of social relations in which economic actors act to fulfill expectations (Granovetter 1985). The argument that immigrant entrepreneurs have available to them resources inherent in social relations of the ethnic community offers direct support for Granovetter's discussion of embeddedness. Portes and Sensenbrenner (1993:1322-3) claimed that foreign-born communities represent one of the clearest examples of the bearing embeddedness can have on individual economic action.

In a later work, Granovetter distinguished between "relational" embeddedness, or economic actors' personal relations, and "structural" embeddedness, or the overall structure of the network of relations, e.g., an ethnic community (1990:98). Portes (1995:14) argues that structural embeddedness offers a stronger basis for the fulfillment of expectations than relational embeddedness. The mechanism at play is what he called the "enforceable trust" enforced by collective sanctions. According to him, "insofar as the ease with which transactions, concessions, and gifts are made among members of the same community is undergirded by certainty that no one will shirk their eventual repayment" (1995:14). Agreeing with his view, I argue that in discussing immigrant entrepreneurship, the concept of structural embeddedness is especially important, because it refers to

the broader network of social relations to which immigrant entrepreneurs belong. It is the structural embeddedness in which immigrant entrepreneurs are situated that characterizes the ethnic dimension of their entrepreneurship.

Another concept related to immigrant entrepreneurship is that of "social capital" as developed by James Coleman (1988). Social capital refers to the capacity of individuals to mobilize resources because of their membership in networks or community. Social capital is closely related to embeddedness. Resources acquired through social capital are often less expensive or even free and often carry with them the expectation of reciprocity. Closure of the social structure is important in facilitating the fulfillment of such reciprocity. According to Coleman, the social capital all consist of some aspect of social structures, namely, structure of relations. This is the reason why Portes compared these two concepts and argues that the "social capital is a product of embeddedness" (1995:13). An ethnic community typifies such closure of social relations, and thus offers an opportunity to see how social capital works. The theory of ethnic resources argues that immigrant entrepreneurship largely depends upon social resources available from group support networks, i.e. social capital, for its development. The self-help network of supportive kinship, and community subgroups provides many resources critical to the development of immigrant entrepreneurship: role models, training, financial support, sources of labor and clientele, attitudes/values, business contacts and advice. In this view, some immigrant groups are more dependent on social capital than others, and this is the primary source of the group difference in business participation.

The following analysis, based on a study of Chinese entrepreneurs in Los Angeles,³ aims to show that the process of entre-

³ The self-employment rate for Chinese immigrants is among the highest compared

preneurship is greatly facilitated by ethnic resources embedded within the Chinese community. Of the many issues regarding the entrepreneurial process, I will focus only on the following: capital access, industrial clustering, and business organization. Based on empirical findings from the study of how Chinese entrepreneurs finance their businesses, how they choose a particular industry, and how they organize themselves, we will see how ethnicity makes many business arrangements more advantageous.

Capital Access

Capital access is one of the very first problems an entrepreneur has to solve in order to establish and expand his or her business. Capital is easily treated as a standard economic variable. However, even some economists acknowledge that capital access is sometimes inexplicable in terms of ordinary economic theory (Arrow 1990). In many cases, the financial arrangement of businesses is socially and culturally embedded. In his study on rotating credit associations among Chinese and Japanese, Light (1972) asserted that such associations, which offer financial aid, are economic strategies with cultural heritage. In other words, they are not universalistic financial institutions available to people in general. Only certain ethnic groups utilize them to gain access to capital. In my study of Chinese immigrant entrepreneurs, two types of capital access can be seen as ethnic

with that of native residents and other minority/immigrant groups (Borjas 1990). However, the level of entrepreneurship among Chinese varies depending on the localities where they take up residence. For example, the self-employment rate is higher among Chinese immigrants in Los Angeles than their San Francisco and New York counterparts (Razin 1988; Waldinger and Tseng 1992). Consequently, Los Angeles has been the growth center of Chinese enterprises. In the mid-1980s, Los Angeles replaced San Francisco as the single largest Chinese business center in the U.S. The number of Chinese firms more than doubled from 1982 to 1987, and the gross receipt has grown by 160% (Tseng 1994). For detailed backgrounds of Chinese immigrants and their businesses in Los Angeles, please refer to my other works (Tseng 1994, 1995).

resources: family financing and ethnic banking. The Chinese, like other immigrants, faced with the difficulty of acquiring access to a loan from American banks. They accumulate capital through self-help efforts: either financial aid from family members, or loans from coethnic-owned banks. Undoubtedly, these financial arrangements can easily be perceived as class resources. If one comes from a family with a higher social class background, he or she can obtain or borrow a larger amount of capital from their family members, and may obtain bank loans more easily. The following analysis, however, is intended to prove that financial arrangements, both formal and informal, adopted by ethnic entrepreneurs are also ethnic resources. Data for the analysis comes from in-depth interviews and my Chinese Business Survey conducted in Los Angeles.⁴

Family Financing

According to the Chinese Business Survey, the median start up capital for Chinese entrepreneurs is \$45,000, though great variation exists from business to business. Forty-three percent of the owners did not need to borrow funds to start their firms, comparable to the proportion of mainstream entrepreneurs who can rely fully on their own capital (U.S. Bureau of Census 1987). Among those who did borrow, a great majority (73%) obtained loans from family members or relatives, and 17% borrowed from friends. The dependency on family sources for Chinese is very evident, while only about one-third of mainstream business owners borrowed from their kin, seventy-

4 The Chinese Business Survey was a telephone survey conducted in 1992. The sample frame was all firms listed in the 1992 Chinese Business Directory. I used a proportional stratified sampling method based on industry type. One thousand firms were chosen from the list, but 210 firms were eliminated. Consequently, 790 business owners were interviewed and 352 valid questionnaires gathered. Although the response rate of 45 percent is not considered to be a good one, it confirmed the difficulty previous researchers of ethnic economies have faced (Light and Bonacich 1988). The issue of representativeness, however, requires a cautious interpretation of the survey results.

three percent of Chinese business owners relied on their family members for the major financial resources during start-up (U.S. Bureau of Census 1992b). The predominant source of loans for general businesses is commercial banks. Table 1 compared the financing of Chinese vs. general entrepreneurs.

The above statistics prove that the Chinese are more likely to finance their businesses with capital borrowing from parents and relatives than the general population. Even among those who did not need to borrow, capital was very likely gift from family members. A young entrepreneur in his twenties who received start-up capital as a gift from his parents said:⁵

Some of my American friends from my college years were amazed when they learned that my father simply gave me the money to begin the business. They probably wouldn't have been surprised if they were Chinese. My father thought that his money will be mine eventually, you know what I mean, so why didn't he give me the money when I was in need of it. But I have to fulfill a lot of expectations from him. Chinese parents are like this, they think they give you a lot, so they can still keep you in surveillance.

(Interview 11/20/93)

Another interviewee reflected on the motives of his uncle in offering loans to help him to start up the business:

My uncle (the youngest brother of my father) told me that he would be happy to give me loans whenever I needed them. He always told me that my father had helped to pay his tuition through college. Now that my father has passed away, he felt the only

5 All in-depth interviews were conducted in Mandarin. I translated them from Mandarin to English.

Table 1 Characteristics of Chinese-Owned Firms Vs Nonminority Male-Owned Firms

Characteristics	Chinese Business	Male-Nonminority Owned
Median Starting Capital	\$45,000	na*
No Loan to Start the Business	43%	42%
Source of Loan**		
Family Members	73%	30%
Friends	17	7
Government***	0	2
Commercial Bank	6	53
Other	10	32
Total Cases	352	8,755,252

* na: not available

** The total percentage is over 100 because respondents may have more than one loan source.

*** Local, state, or federal government.

Sources: My own survey, 1992; 1987 Characteristics of Business Owners, Department of Commerce, (Washington D.C.: USGPO, 1992)

way to thank my father was to take care of me. When I started my business, the interest-free loan from him really helped a lot.

(Interview 12/5/93)

This type of reciprocity is common within the extended family. The expectation to fulfill obligations often carries over generations. Family support not only offers access to capital: the terms of the loan are usually better than those from commercial banks. Sometimes they come as gifts without any expectation of being paid back. Occasionally, the financial aid comes as credit rather than cash. As one interviewee said:

An uncle on my mother's side is a furniture manufacturer in Taiwan. I began my business to sell his products to the U.S. market. He supported me by giving me a more extended credit line. Until I started to make money, I gave him the payments for the first few months of orders. I guess he was willing to do it partly because my business can boost the sale of his products, but I really feel that he also wanted to help.

(Interview 10/30/93)

Sanders and Nee (1996) have stressed the significance of family support among immigrants over the common ethnicity. Family financing seems to offer a good example to back up their assertion. However, gaining capital as loans or gifts from family members is culturally rooted because Chinese familism obliges parents or senior members in extended families to finance their next generations in need (Goldberg 1985). Under this tradition, the next generation has to follow the guidance of their senior family members. This is a kin system at work. Viewed in this light, the extensive utilization on kin networks for capital is an ethnic culture. Therefore, family financing is not simply an economic behavior supported by family as an institution; it is also a culturally-based economic behavior.

Ethnic Banking

According to the Chinese Business Survey, only 6 percent of all surveyed business owners used loans from banks to start their businesses. However, many did need to borrow from commercial banks along the growth of their businesses. Typically, immigrant entrepreneurs have difficulty in borrowing from banks because they lack a formal credit history. Coethnic-owned banks can therefore be a very helpful source of finance. The Chinese in Los Angeles are well endowed with Chinese-owned banks. By 1992, there were at

least 23 Chinese-owned banks⁶ (commercial banks as well as Savings and Loans) in greater Los Angeles with at least 80 branches; three of them ranked among the top thirty banks in California. Although these 80 or more banking establishments account for only 3% of all banks in Los Angeles, the Chinese enjoy disproportionate access to their financial institutions. While there are 2.7 banking institutions (commercial and Savings and Loans) per 10,000 people in Los Angeles, there are 3.3 banking institutions per 10,000 Chinese (U. S. Department of Commerce 1991). The combined assets and deposits of these 23 banks are approximately \$4.8 billion and \$4.7 billion respectively (Zhou 1995). The sum of their total assets is roughly equivalent to that of the ninth largest California bank.

These figures only show the financial capability of Chinese banking institutions. But if Chinese banks operated like other banks, then Chinese business owners would still have difficulty in gaining access to capital. From interviews with various Chinese bankers, mainly those who are in charge of commercial loan applications, I found that Chinese banks employ very different strategies in approving the loan applications. Due to an aggressive banking reform, the loan decisions of American banks have been made outside the local community with an increasing reliance on uniform standard (Pollard 1995). As a result, American banks rely almost exclusively on analyzing applications, especially when dealing with such newcomers as immigrant entrepreneurs who tend to have shorter credit histories and who are involved in industries with low profit margins and a high business risk (Waldinger et al. 1990). Such backgrounds make immigrant entrepreneurs less appealing to American banks. However, Chinese banks have more ways to determine the liability and credibility of a Chinese newcomer than do American

6 There are two types of Chinese ownership. The first is ownership by Chinese financial conglomerates in Taiwan, Hong Kong, and Southeast Asia. The second type is based on the capital of Chinese Americans.

banks. One banker says:

We understand more about Chinese business culture, and this understanding helps us to deal with them. For example, the Chinese do not distinguish between ownership and management. The chief executive officers are usually the owners themselves or their family members. Therefore, when we give them a loan, we usually require the owners to be personal guarantors, so we have a better way to guarantee our loans. This is a strategy unknown to most of the American-owned banks.

(Interview 7/8/92)

Chinese banks often use their connections in Hong Kong, Taiwan, China and Southeast Asia to run a background check on Chinese loan applicants before approving their loans. Thus, Chinese entrepreneurs who own properties and businesses or have established some credit history in their country of origin often turn to Chinese-owned banks, which can offer them a more flexible credit line. According to one Chinese banker, some of the loans handed to Chinese business owners in Los Angeles are backed by letters of credit issued overseas. He illustrated this practice:

If you have money in Taiwan and don't want to use it to finance your business here, you want to borrow from us instead. I will suggest you use your savings in a Taiwan bank as a guarantee and issue a letter of credit to us. With that letter of credit to back you up, we can give you a loan here. This way, you can transfer your credit in Taiwan to here. Even if it is not you, but rather your family members who have money or credit in Taiwan, they can do the same to finance your business. I don't know of any American bank that would be willing to do this. Some Japanese banks have followed our strategies, but they don't have the good

connections with Taiwan banks that we do.

(Interview 8/9/92)

Chinese banks are much more aggressive in approaching Chinese entrepreneurs. Sometimes they compile lists of names and profiles of potential clients by contacting immigration attorneys, travel agents, realtors, accountants, etc. In fact, Chinese banks are in fierce competition to award loans to qualified businesses and are sometimes even willing to take higher risks to give loans to less qualified Chinese businesses. As a newspaper reported:

There are way too many Chinese banks in Los Angeles. There are always several banks competing for a business loan application. Chinese entrepreneurs are frequently visited by managers from Chinese banks. Recently, even those business loans with bad credit histories are welcomed by Chinese banks. As a result of competition, Chinese banks now are taking higher risks and have lower profit rates.

(*World Journal*, 2/4/96:C1)

One might wonder why Chinese banks heavily lend to their coethnic business owners. To answer this question, we have to look at Chinese banks as immigrant enterprises. As newcomers to the banking market, they encounter difficulties in expanding businesses beyond coethnics. First, Chinese loan managers have no other channels to determine the loan applications by non-coethnics besides financial statements. On the contrary, they acquire information valuable to their lending decisions by socializing with coethnic customers. Second, Chinese banks like other minority-owned banks, are considered community-based, not so much in geographical than ethnic sense. With their ethnic characteristics, they have less appeal to other ethnic groups. As a result of this, Chinese banks are often

accused of violating the Community Reinvestment Act (CRA) which requires banks to serve their immediate communities according to the ethnic composition surrounding their locations. However, after marketing efforts in English and Hispanic, many Chinese banks still fail to meet the requirements (Song 1992).

The above shows that the availability of capital from Chinese banks is one of the ethnic resources which the Chinese business community can utilize. This can be considered as an ethnic resource because outsiders don't have access to this banking system. According to Zhou's (1995) study, the great majority of loan customers of most Chinese banks are Chinese, as are the majority of deposits. Compared to other immigrant groups which lack access to ethnic banking, Chinese entrepreneurs can do better in participating in business ownership. Portes and Stepick (1993) observed similar ethnic banking among Cubans. Cuban bankers use a practice known as "character" lending which allows Cuban exiles to access loans based not on their balance sheet or on collateral, but on his or her business reputation in Cuba. These loans were handled by Cuban bankers who were experienced and had well-established networks to evaluate the applicants' positions in the pre-Castro Cuban economy. The reason why this type of ethnic banking is possible is that both the banks and the entrepreneurs belong to the same community. The banks have ways to look for the right people to lend to, and they also have collective sanctions available to punish those who fail to fulfill the expectations and obligations. According to one banker, "if a Chinese client defaults, he or she would have no chance for business success because the entire Chinese community would know" (Interview 9/27/92). Therefore, ethnic banking is backed not only by a written promise, but also by a kind of enforceable trust inherent in the ethnic community due to the closed nature of its social structure. This is an example of what Coleman labels "closure" of social relations as an important precondition of enforcing the reciprocity. From the

above evidence, we can see how ethnic ties affect the ways in which banking capital is raised and how financial capital is gained through action within an ethnic collectivity. In his study on Chinese capital, Mitchell (1995) even suggests that the Chinese have an advantage in gaining global access to capital through ethnically-linked institutions worldwide. In light of this, the Chinese banking system operates within a broader ethnic community across national boundaries.

Industrial Clustering

Ethnic/immigrant businesses cluster within an industry. Light and Bonacich (1988:19) define industrial clustering as the overrepresentation of ethnic firms in certain industries and the under- or non-representation in others. Waldinger and Aldrich (1990:57) further confirm the fact that minority-owned businesses in general are greatly overrepresented in the retail and service sectors and underrepresented in manufacturing and the finance-insurance-real estate sectors. However, different ethnic groups have different economic niches within the retail and service sectors. In New York City, for example, Korean immigrants control the green grocer sector while Asian Indians are heavily concentrated in newsstand businesses (Waldinger et al. 1990). Some ethnic groups even go beyond retail and services businesses. Chinese businesses in Los Angeles, for example, cluster in a wide range of industries. According to the 1990 census, Chinese entrepreneurs were overrepresented in manufacturing, wholesale trade, retail trade, finance, real estate, and insurance. Table 2 shows the detailed industrial activities in which self-employed Chinese were overrepresented. Besides traditional Chinese businesses, i.e., restaurants, garment factories, and grocery stores, such economic niches as computer, manufacturing, air transportation, computer (commercial equipment) wholesalers, security and commodity brokerage, hotels and motels, accounting, data-

Table 2 Industries Where the Chinese Entrepreneurs were Overrepresented, 1990

Industries	Chinese	All Entrepreneurs	Index
Manufacturing			
Apparel & Accessories	715	6730	342
Printing & Publishing	300	7086	136
Computers and Related	85	705	388
Aircrafts and Parts	65	605	346
Wholesale Trade			
Apparel	257	2628	315
Groceries	240	2495	309
Commercial Equipment	215	848	817
Electrical Goods	96	1248	233
Retail Trade			
Eating & Drinking	1726	17896	311
Gift Shop	241	1897	409
Grocery Store	230	6151	120
Computer	224	2270	318
Jewry Store	197	3099	205
Fire			
Real Estate	1144	30340	121
Security & Commodity	287	4756	194
Personal Services			
Hotels and Motels	395	1612	790
Laundry	357	3970	290
Total Cases	16,625	528,896	

Index: $a = \text{Chinese entrepreneurs} / \text{LA entrepreneurs}$, $b = \text{Chinese in certain industry} / \text{All LA population in certain industry}$. $\text{Index} = b/a \times 100$, if $\text{index} = 100$, that means $a = b$, if $\text{index} < 100$, Chinese are underrepresented, if $\text{index} > 100$, Chinese are overrepresented.

Sources: U.S. Bureau of Census, Census of Population and Housing, 1990, 5% Public Use Microdata Sample.

processing, engineering services, etc., have emerged.

Industrial clustering can be partly explained for by a purely economic reason: industrial clustering arises because isolated entrepreneurs independently make the same decisions to commit themselves to industrial involvement. However, this economic model fails to

explain why different ethnic groups have different patterns of industrial clustering. Why have they responded to industrial opportunities in different ways? One possible explanation is that ethnic entrepreneurs are collectively influenced by ethnic resources unavailable to out-group members. However, there is little empirical evidence to support the assertion that ethnic resources facilitate the emergence of economic niches. In this section, using Chinese clustering in the lodging business as an example, I contend that information through coethnics plays an important role in both establishing and operating businesses. The main reason for choosing hotel and motel businesses to analyze is because this is the industry in which Chinese were most overrepresented (see Table 2). It would be interesting to offer a sociological explanation for the heavy clustering in this industry. The analysis is based on data from in-depth interviews with business owners and documents including *Chinese Business Directories*, annual reports, and newsletters of industrial organizations, and Chinese-language newspapers.

Hotels and Motels

According to the 1990 U.S. Census, there were 395 Chinese hotel and motel owners, accounting for almost a quarter of all lodging business owners in Los Angeles. If you consider that self-employed Chinese only account for 3 percent of all self-employed people in Los Angeles County, then the overrepresentation of Chinese lodging businesses is very significant. Why does this industry have such a special appeal to Chinese immigrants? The clustering of Chinese immigrants in hotel and motel business among Chinese immigrants began in the 1970s and accelerated during the 1980s. In early 1970, only a handful of Chinese, mainly Taiwanese, were in this business. In 1974, about 30 Taiwanese hotel and motel owners established the Taiwanese Innkeepers Association of Southern California (TIASC), to discuss problems arising from their operations. This organiza-

tion subsequently became the primary facilitator in enlisting Taiwanese immigrants to become involved in this business by helping fellow newcomers to locate suitable hotels or motels to purchase and by providing free consultation regarding their business operation. Since the pioneers in this industry all come from Taiwan, they can, through their networks, attract more fellow countrymen to join the industry. A veteran of the motel business talked about his experience:

In 1979, I sold my business in Taiwan to come here. I wanted to invest in a good business. I had to ask for advice from other fellow Taiwanese. At that time, several famous leaders in the Taiwanese community happen to be motel owners. They told me the many advantages of motel business for a newcomer like myself. I followed their advice, and with \$50,000, I bought a ten-unit motel. Two years later, I sold it to another Taiwanese immigrant and the profit was huge. I continued to be involved in the buying and selling of motels. During the 80s, the purchasing price of a motel skyrocketed. By now, it costs \$50,000 per unit.

(Interview 3/6/94)

This was a typical story. Many bought hotels and motels in order to sell to newcomers. Through their ethnic ties, some new immigrants made the decision prior to their arrival to enter the motel business. According to one of the informants,

It is common for Taiwanese to buy motels or hotels even before they immigrate here. They rely totally on relatives or friends who have been involved in this business to find suitable deals. Many of them spent their first night in Los Angeles in their own hotels after arriving in Los Angeles. (Interview 2/5/94)

Various Chinese business and community directories, which have a wide circulation among Chinese immigrants, also serve as a means to promote hotels and motels as an ideal investment for Chinese immigrants with capital. In 1980, an article in the *Chinese Business Directory* entitled "Where Should Your Money Go?", recommended the lodging business as one of the best industries in which to invest. According to the article, the hotel and motel business has the following characteristics, which are particularly attractive to Chinese immigrants:

First, to run a hotel or motel requires only minimum English language skills. Second, many innkeepers and family members live in the manager's quarters, thus combining their residence and business functions in the same location. With this arrangement, housing expenses are greatly reduced and living expenses can be reported as business expenses for tax purposes. Third, motels and hotels do not require as much hard work as restaurants do. Family members can take care of the business and work out a flexible work schedule for their own activities. It is very common for children to do their school homework and at the same time take care of the business. This arrangement leaves the adults free to handle another business, for example, an import and export business, from their motel/home, as well as manage the operation of the hotel. Last, but not least, Chinese prefer property investment. There is a famous saying: "you can't be prosperous unless you own a piece of land." Purchasing hotels and motels gives you land ownership.

(Asia Media System 1985:3)

Throughout the early 1980s, the same directory devoted a series of articles to discuss various aspects of running a motel or hotel business. Many of the stories on successful entrepreneurs reported by the directory concerned hotels and motels business owners.

In summary, the process of Chinese clustering in the lodging businesses requires such ethnic ties as formal organizations, informal networks, and information circulated within the Chinese community through newspapers or Chinese community directories. Consequently, the phenomenon of the Taiwanese clustering in the hotel and motel sector is borne out statistically. In 1990, 68% of the 395 Chinese innkeepers in Los Angeles County were born in Taiwan. This process of industrial clustering is not exclusively economic in the sense that everyone independently made their decision to enter the industry. It depends heavily on group-specific information channels. Korean immigrants who came in during the 1970s, for example, didn't enter hotel and motel businesses despite this industry offers the various advantages to immigrants in general. Instead, they clustered in liquor business. We can therefore conclude that social more than economic processes help to explain the different patterns of industrial clustering seen among different immigrant groups. This case study provides evidence to show how social capital in forms of role models, business contacts and advice among coethnics, facilitate business decision on investment and operation.

Ethnic Business Associations

Ethnic clustering in specific industries can mean competition as well as cooperation. On the one hand, evidence shows that, once ethnic group members concentrate in particular sectors, internal competition among them is very damaging (Kim 1981; Kim and Hur 1985; Wong 1987). On the other hand, many researchers argue that concentration in specific business sectors has positive effects on ethnic solidarity (Bonacich and Modell 1980; Chan and Cheung 1985; Light and Bonacich 1988; Min 1993). Whether industrial clustering leads to competition or cooperation, ethnic business and industrial organizations are usually set up to mediate this competition, orga-

nize cooperation, and exchange information within the community. Some ethnic groups are better able to mediate and consolidate the interests of coethnic business owners than others. The vitality of business and industrial organizations can serve as one of the indicators of ethnic solidarity. In the following analysis, I will be interested in the extent to which Chinese trade associations help moderate competition or exchange information and mutual aid.

In traditional Chinatown, various kinds of associations have influenced commercial activities. In prewar U.S. Chinatowns, clan and surname associations administered the rules of business registration and goodwill. According to Light (1972:90), "Businessmen who complied only with American law did not thereby come to possess a title to property recognized by the Chinatown associations." Social pressure and boycott were the sanctions these clan and surname associations used to punish those who violated their rules.

Trade guilds were organized for the major industries in which Chinese were then extensively engaged, such as the Chinese American Restaurant Association, and the Chinese Hand Laundry Alliance. These associations actively intervened in commerce, regulating wages, working conditions, terms of apprenticeship, competition, and prices. Light (1972) observes that they exerted more active influence on the daily conduct of Chinese businesses than did the other Chinese associations. However, clan, surname, and trade associations were all under the supervision of the Consolidated Chinese Benevolent Association (CCBA) (Wong 1982). These associations therefore had formed a hierarchical relationship with one another.

This type of organizational pattern is changing in today's Chinatowns, especially within newly formed Chinese communities in Flushing, Toronto, and Monterey Park (Chen 1992; Thompson 1985; Fong 1994). Today, none of the older, pre-existing associations exert much influence on Chinese business communities. Due to the

increasing number of newcomers from very diverse geographical and class backgrounds, the community has become too fragmented to be held together by clan or surname associations. Clan or trade associations can no longer impose their social sanctions against those who do not join them or violate their rules. Once this supervisory structure becomes difficult to enforce, it is no longer possible to maintain a powerful organization.

New types of business and industrial organizations based on mutual benefits have emerged to replace older trade guilds and clan associations. Professional and industrial organizations are two major types. The following section offers an analysis of how Chinese businesses organize themselves and the extent to which they have benefited from ethnic organizations. Among 29 business associations listed in various Chinese directories, I excluded those that existed mostly on paper and therefore lacked real membership support and which had sponsored few activities within the previous two years. This left 10 organizations as vital and active; I conducted in-depth interviews with their leaders or staff. In the process of screening these associations, I relied mainly on my daily reading of the Chinese-language newspapers to determine which were the active organizations. In this paper, only three of the most active organizations are analyzed.

The Taiwanese Innkeeper Association of Southern California (TIASC) is probably the most active and successful Chinese industrial organization in greater Los Angeles. Originally founded in 1974 by a group of 30 innkeepers, TIASC has since grown to current membership of 600, from an estimated Chinese innkeeper population of 800. TIASC is a powerful purchasing group. It sponsors an annual meeting which often attracts many Chinese as well as American companies to participate. Members of TIASC enjoy many discount benefits from sponsored vendors, which include top lodging chains, bankers, lawyers, accountants, lodging suppliers, telephone

companies etc.

In addition, TIASC offers assistance with solving typical problems which innkeepers encounter. Competition among them is not a concern since Chinese-owned hotels and motels are dispersed throughout Southern California and serve the general population. However, there are other problems associated with this industry. According to the president of TIASC, there are two main difficulties confronting Chinese hotels and motels owners. First, they lack adequate language skills to communicate with police and government agencies. The police visit hotels and motels to make sure there is no drug dealing or prostitution going on. Government agencies such as health, building, and fire departments, come to inspect sanitation and security. Taiwanese innkeepers often run into troubles due to communication problems. TIASC frequently communicates with government agencies and police departments on behalf of its members. A second problem, according to the TIASC president, is that due to the serious economic recession, many Taiwanese innkeepers face bankruptcy because several banks now intend to withdraw loans from many hotel and motel businesses. TIASC has offered seminars inviting bankers, lawyers, and accountants to discuss strategies to avoid bankruptcy. A group of senior officers in TIASC even made a trip to Taiwan to ask for special loan assistance to Taiwanese innkeepers in Southern California.

The second largest Chinese industrial organization is The Southern California Chinese Computer Association (SCCCA). The combined annual sales volume of their members exceeds two billion U.S. dollars (SCCCA newsletter 1994). The computer industry is one of the fastest growing sectors in which Chinese entrepreneurs in Los Angeles have become involved.⁷ Competition among coethnics is a

⁷ By compiling data from the *Dun & Brad Street Directory*, the *Chinese Business Directory*, and the membership of Southern California Chinese Computer Association, Zhou (1994) identifies 590 Chinese-owned computer firms in Los Angeles County.

big problem for the Chinese computer industry. According to the president of SCCCA, Chinese computer companies often cut their prices to enlarge the market share. In the end, the SCCCA president notes, "it only hurts everyone in this industry. The profit rate has been going down." SCCCA has attempted to regulate competition, but in the absence of sanction measures, the attempt has failed. Despite this, Chinese computer businesses still benefit from organizing themselves

First, every year, SCCCA distributes 10,000 copies of its membership directory throughout the general market as a direct source for dealers, and among computer manufacturers in Taiwan, Hong Kong, and China as a source of distributors in the American PC market. Second, the SCCCA offers its members benefit packages which include business credit information, customer check insurance, air express service, telecommunication, seminars, and collection services. Acting as a group purchasing power, the association offers the same discount offered by vendors to its members. Third, it often represents its members when dealing with related non-Chinese companies, especially during disputes. In 1994, for example, the SCCCA reached an agreement with Microsoft to resolve a long-standing dispute between Microsoft and Chinese computer dealers. Many Chinese computer dealers had been sued by Microsoft for purchasing software through illegal channels. Since many Chinese computer dealers rely on price cutting to gain a competitive edge, they are dependent on illegal suppliers to lower the cost and did not buy directly from big companies such as Microsoft. The SCCCA sent representatives to negotiate with Microsoft in order to obtain better prices for its members. Microsoft finally agreed to treat the SCCCA as a large purchasing group and to give its members the best whole-

This figure is very likely an underestimate, since her data exclude those not listed in the above sources.

sale price. More importantly, Microsoft also agreed to consult with the SCCCA before taking SCCCA members to court. After their successful negotiation with Microsoft, the organization can now move on with greater confidence to negotiate with other computer giants like Intel, Novell, and IBM to solve similar disputes.

The Organization of Chinese Entrepreneurial Advisory Networks (OCEAN) was founded by a veteran high-technology entrepreneur to facilitate networking among the Chinese high-technology companies.⁸ The main purpose of the OCEAN is to bring together successful high-technology entrepreneurs, especially those in the aircraft industry, to serve as consultants and mentors in assisting members to establish or improve their companies. Moreover, with many Taiwan venture capitalists as associate members, the organization often links capital and technology across national boundaries. The OCEAN publishes newsletters and sponsors seminars and joint events with organizations such as the Chinese American Scientists and Engineers Association.

The need for smaller producers in the area of specialized parts manufacturing has encouraged more Chinese engineers and scientists originally employed in the aerospace and the defense industries to set up their own companies. Chinese engineers still working in large firms like TRW and Hughes, often help their coethnic suppliers to gain contracts. Through seminars, for example, they often come together to exchange information regarding the business opportunities in the aerospace industry. In 1994, the OCEAN hosted a one-day conference which I attended, issues surrounding self-employment opportunities for components suppliers in the aerospace industry were discussed. The conference was conducted mainly in Chinese.

8 Chinese are overrepresented in high-technology industry. According to the 1990 Census, in Los Angeles alone, there were 85 self-employed Chinese in computer manufacturing, 65 in the aircraft and parts, 16 in guided missiles, 20 in the medical and optical equipment, and 59 in the electrical machinery.

The speakers included Chinese engineers from Hughes and TRW, who discussed the development of new products in both companies and the implications for business opportunities. Such information is valuable for Chinese high-tech entrepreneurs to prepare their future production plan. As foreign-born engineers are heavily present in Southern Californian high-tech industry (Scott 1994), we can infer that similar information exchange might exist between engineers and high-tech entrepreneurs of other ethnicity, e.g., Asian Indians.

From the discussion of three trade associations, I contend that Chinese immigrants' concentration in a limited variety of small businesses has enhanced their ethnic solidarity through organizing along the industrial line. This ethnic solidarity facilitates collective actions or strategies which members of an ethnic group use to protect their common interests. The bounded solidarity has further fostered the development of social capital that can be used by group members. Via ethnic trade organizations, small business owners group together as a quasi-conglomerate with purchasing power to get discounts from their suppliers, which greatly reduces their operation costs. The strength of ethnic organizations as ethnic resources is evident also when they mediate between people and firms outside the Chinese community and when they organize themselves to facilitate the flow of information. Information which would cost money if obtained through other professional sources is provided to members. Many business services professionals, for example, often associate with various trade associations, which gives Chinese business owners valuable contacts for future assistance. As a lawyer associated with TIASC stated: "Many people asked me a number of legal questions and I charged nothing, at least the first few times" (Interview/9/94).

To illustrate the pervasiveness of business and professional associations among Chinese, I compare the number of such associations with the listing of organizations compiled by the County Business Pattern. Table 3 compares data obtained from the *1990 County*

Business Pattern with comparable results from the *1990 Chinese Business Directory*. The comparative number of organization per 10,000 people suggests that the Chinese formed almost four times more business organizations, and three times more professional organizations, than did County residents in general. This evidence indicates that the Chinese are provided with more business and professional organizations than non-Chinese. Ethnic entrepreneurs often belong to both ethnic and non-ethnic trade associations at the same time, so they have access to more channels of information than entrepreneurs in general. Consequently, organizations based on ethnicity confer advantages to ethnic entrepreneurs in their business activity.

**Table 3 Nonprofit Organizations in Los Angeles County:
Chinese v.s. All Persons**

Organizations	All		Chinese	
	Number	Rate	Number	Rate
Business	297	.3	29	1.1
Profession	152	.2	14	.6
Labor	381	.4	1	.0
Civic and Social	897	1.0	41	1.7
Political	35	.0	2	.0

* Per 10,000 people; rate=(number/population) x 10,000

Sources: U.S. Bureau of Census, *County Business Patterns* 1990, California CBP-78-6 (Washington, D.C.: USGPO, 1992), Table 2; *Chinese Business Directory* 1990, Asia Media System Inc. Los Angeles.

Conclusion

The higher rate of self-employment, when compared to general population of the US among such immigrant groups as the Chinese, Cubans, and Koreans, has been one of the main research focus of

specialists in immigrant community. Economic sociological approach to economic behavior treats immigrant entrepreneurship as a group phenomenon. Researchers of immigrant entrepreneurship have confirmed that immigrant business owners' economic activities depend heavily on the structures and characters of their own ethnic community. The theory of ethnic resources holds that communal solidarity in the immigrant community is a collective resource upon which ethnic group members can draw. From the case of Chinese in Los Angeles, we have seen how the ethnic community to which immigrants belong offers support networks, i.e., social capital exclusively for their utilization. In this view, an ethnic enterprise is not only the exclusive product of individual achievement but also one accomplished within the structural embeddedness of an ethnic community.

The findings of this study offer an opportunity to debate with the argument made by Sanders and Nee in their recent work. Sanders and Nee (1996:233) argued that when opportunities are available outside the ethnic community, dependence on resources controlled by ethnic institutions declines. They believe this is exactly the situation going on in the American society where the institutional environment of the post civil rights era, legal equality and state regulations secured broad rights in the mainstream economy and society for immigrant minorities. Therefore, they turn their attention to social capital available through family support instead of ethnic community. What this study shows is that ethnic ties still play significant role in several aspects of immigrant business operation. As a matter of fact, few instances of economic actions in a rational market system can be found that are more embedded than immigrant entrepreneurship. Although I agree with their argument that immigrant family is an important social base for organizing group resources in the entrepreneurial pursuit, the availability of group resources itself requires a better understanding too. It requires

more evidence to support the assertion that ethnic community as a somewhat separate economic unit from the general economy. This is the reason why we should distinguish the social capital arisen from relational embeddedness such as household's social relations with the capital available through structural embeddedness such as the context of relational networks bounded by ethnic lines.

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