

# Understanding Chinese Immigrants in Prato's Industrial District: Benefits to Local Entrepreneurs

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**Abstract** This chapter provides an encompassing description of Chinese living overseas, particularly immigrant Chinese entrepreneurs, the influence of guanxi, and the vast international Chinese networks they leverage to internationalize. Chinese networks can be a double-edged sword, both enabling and constricting their further development in the host markets. Chinese immigrant networks can form enclaves, such as the one in Prato. While these enclaves support new Chinese immigrants socially and economically, they can be inaccessible to the local entrepreneurs. Thus, there is value in proactively encouraging collaborative opportunities between local entrepreneurs and Chinese immigrants. The international Chinese resources and networks could be valuable to the native entrepreneurs in Italy and to others around the world.

**Keywords** Chinese immigrants · Local policymakers · Native entrepreneurs · Guanxi · Ethnic enclave · Industrial district

## 1 Introduction

China's overseas business community is a major force in Asia's economic growth and increasingly in the global economy. However, research on the internationalization process and on ethnic Chinese immigrant entrepreneurship overwhelmingly focuses on firms from developed countries. An alternative focus, is the Chinese immigrants in Prato's industrial district. Those individuals are part of a global phenomenon of Chinese immigrants some of whom have become transnational entrepreneurs. China's government is interested in maintaining the vibrancy of and

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improving the legitimacy of its overseas communities. The socioeconomic links of the overseas Chinese play a vital role in the influence of China as a leading global player. It is important to understand what drives new ventures from emerging economies such as China to internationalize into developed economies. This chapter presents relevant literature on *guanxi* (ethnic Chinese immigrant networks), and on the enclave economy. We hope such information will provide insights for researchers, policymakers, and industry players as they seek to understand deeply the Chinese business community in Prato.

The social network concept is similar to *guanxi* in the Chinese business community, whereby reciprocity, trust, and interdependencies are highly valued through the effective use of social capital. We use a constructive approach that seeks to highlight the benefits to the local native entrepreneurs of associating with Chinese immigrants by examining background literature on the Chinese and on their overseas Chinese networks. Particularly, the chapter provides new perspectives on social capital between local entrepreneurs and overseas Chinese immigrants. It also suggests how the global phenomenon of Chinese immigrants can assist a local economy, such as Prato.

The Chinese migrants rely on *guanxi* for their social relationships, meaning that those transnational entrepreneurs operate in a distinctive social structure that differs from a Western social network. It is important to understand clearly their impact from a macro-global perspective. Many researchers regard a Chinese immigrant enclave economy as the outcome of an ethnic economy, bounded by co-ethnicity and location—we show why this is not necessarily a negative for the local native community within an industrial district.

The resources of an enclave economy are usually ethnically exclusive; hence, we propose greater efforts by local policymakers, such as in Prato's industrial district, to promote inter-ethnic interactions. We suggest that more exchanges of resources between ethnic groups (such as Chinese immigrants and their native Pratese counterparts) will drive and encourage the international entrepreneurial links between native firms and Chinese firms, into China. Thus, this chapter suggests why a constructive approach that promotes the benefits to the native Pratese entrepreneurs in associating with the Chinese immigrant entrepreneurs will provide new business opportunities as the differences among Chinese immigrant entrepreneurs and their social networks is clarified.

## 2 Ethnic Chinese Networks

Ethnic Chinese networks are among the most dynamic in the world and are rapidly growing economically. Ethnic Chinese networks are:

Built upon ethnic ties... across national boundaries... The powerful networks also explain why... Chinese economies [in South East Asia] performed better than other Asian

economies during the Asian financial crisis... [Ethnic Chinese networks play an] important role in the new millennium and the study of those networks warrants special attention.

Peng (2000, p. 229)

Successful ethnic Chinese businesses thrive in Asia and increasingly in many other parts of the world (Ahlstrom et al. 2010). As an ethnic group, the population of overseas Chinese is larger and culturally more coherent than are the overseas Indians and the other major ethnic diasporas (Peng 2000). Chinese business communities worldwide are perceived as a transnational community with shared tacit knowledge based on mutual trust and a perception of shared culture, common descent, and ethnic affiliation (Dahles 2010).

Much of the success of China and Southeast Asia is attributable to Confucianism (the teachings of Confucius, 551–478 BC) that underlines the determination, thrift, scholarship, and hard work of Confucian societies (Yeung and Tung 1996). One critical Confucian virtue, *ren*, stresses the morality of treating others the way we want to be treated (Storz 1999). Storz (1999) suggested that the reciprocity highlighted in relationships by Confucius is guided by morality, virtue, humanity, and love. Confucianism's emphasis on the individual's virtue, reciprocity in relationships, and harmony in social structures (Ip 2009) has widely influenced Chinese management, business ethics, and activities (Lin and Ho 2009). Confucian dynamism, which reflects the work ethics prescribed by Confucianism, underpins Chinese societies worldwide (Ji and Dimitratos 2013). Confucian dynamism is:

The acceptance of the legitimacy of hierarchy and the valuing of perseverance and thrift, all without undue emphasis on tradition and social obligations which could impede business initiative.

Franke et al. (1991, p. 167)

Confucian dynamism values social structure and order, long-term orientation, respect for tradition, perseverance, and reciprocity (Hofstede and Bond 1988; Minkov and Hofstede 2012). Ji and Dimitratos (2013) found that Confucian dynamism influences the entry mode choices of Chinese private firms. Decision makers with strong Confucian values, such as a preference for stability, thrift, and long-term orientation, tend to favor non-equity modes of market entry with low risk and low commitment levels.

Despite the overseas Chinese business community being viewed as a major force in Asia's economic growth (Dahles 2010) and increasingly in the global economy (Ahlstrom et al. 2010), research on the internationalization process overwhelmingly focuses on firms from developed countries (Liu et al. 2008). Limited research considers how Chinese firms undertake internationalization (Xie and Amine 2009). Chinese internationalization is becoming increasingly relevant and hence warrants further study (Saad and Koh 2010). Yamakawa et al. (2013) called for further research on what drives the new ventures from emerging economies such as China to internationalize into developed economies.

To explain the context of the chapter, the province of Prato, which is located close to Florence in Italy, has the highest concentration of Chinese immigrants of

any Italian province, despite being the smallest province (Johanson et al. 2009). Officially, approximately 12% of Italy's 145,000 Chinese migrants reside in Prato, with the unofficial figure being larger. One estimate suggests that one in five Chinese workers is an undocumented illegal migrant (Nielsen et al. 2012). Prato is an historic center of textile production. In the 1980s, Prato innovated from producing carded wool fabrics of medium quality to producing new fibres and textile materials, such as viscose, silk, and cotton (Dei Ottati 2009a). However, because of international competitive pressure, the number of Pratese textile firms decreased substantially in the period 1991–2005 (Dei Ottati 2009a). In response, some Italian fast fashion firms changed their business model from one relying on the domestic market to one dealing internationally with overseas suppliers and manufacturers (Runfola and Guercini 2013). The international competition led to a reduction in the final product prices. This decreased the subcontractors' prices and resulted in many such businesses becoming unviable (Dei Ottati 2009b).

Negative sentiments toward the Chinese-dominated Pratese fast fashion industry worsened as Prato's textile industry declined (Dei Ottati 2009a). Despite the argument that the Chinese in Prato are “*fundamental to the competitiveness of [the] ‘Made in Italy’ [brand]*” (Denison et al. 2009, p. 10), this community was seen as a threat by many in the local Italian community and as socially and economically unsustainable (Dei Ottati 2009a). Therefore, there is a need to understand Prato's ethnic Chinese business community clearly.

As ethnic Chinese businesses venture abroad, most rely on their elaborate and complex networks and relationships to gain entry to and access resources in foreign markets (Chen and Chen 1998). Relationships and social networks are critical in the facilitation of business operations in a Chinese-based society (Tsang 1998). The social networks of Chinese immigrants are crucial as they internationalize into China, their country of origin (Chung and Tung 2013). The ethnic Chinese relationships, heavily influenced by their history and culture, give rise to unique concepts such as *guanxi* (Dunning and Kim 2007; Su and Littlefield 2001; Yunxia and Allee Mengzi 2007).

Other cultures have concepts similar to *guanxi* because of their emphasis on relationships. Some examples include *wasta* in Arab nations, *jeitinho* in Brazil (Smith et al. 2011), and *blat* in Russia (Michailova and Worm 2003). We first discuss *guanxi* before examining the internationalization of ethnic Chinese businesses and the potential liabilities of ethnic Chinese networks.

## 2.1 *Guanxi*

*Guanxi*, rooted in thousands of years of Chinese tradition, is “*ubiquitous and plays a crucial role in daily life*” (Tsang 1998, p. 65), and significantly affects business activities (Yen et al. 2011). Chinese managers spend considerable time and resources building their networks, and rely on them for their business operations (Wong 1998; Zhao and Hsu 2007).

Despite China's integration into the global economy and the increased adoption of international business practices by Chinese managers (Nolan 2011), the emphasis on *guanxi* is still evident in Chinese international business exchanges (Shuang et al. 2012). Faure and Fang (2008) did not consider China's economic progress as catching up with Western business practices. Rather, they considered it a "... *collection of new cultural elements, sedimentation of those elements within the Chinese system, then digestion and finally re-use within the Chinese metabolism*" (p. 206). As the exchanges between the West and the East increase, we need a greater understanding of *guanxi* (Yen et al. 2011).

Many studies on *guanxi* attempt to dissect and obtain a deep understanding of the concept; however, "... *how guanxi is related to business and what kind of role guanxi plays in business operations remain largely unknown...*" (Fan 2002, p. 374). *Guanxi* is multifaceted and complex (Guo and Chang 2010). Usually conceptualized at the individual level, *guanxi* is also relevant at an organizational level, becoming a valuable organizational resource (Li and Sheng 2011). A "... *plethora of implicit and explicit definitions of guanxi...*" make it difficult to understand and discuss the concept (Chen et al. 2013). For example, Hutchings and Weir (2006) stated that *guanxi* "... *is a relationship between two people expected, more or less to give as good as they get...*" (p. 143). Seung Ho and Luo described *guanxi* as an:

Intricate and pervasive relational network that contains implicit mutual obligations, assurances, and understanding... [that] has been pervasive for centuries in every aspect of Chinese social and organizational activities.

Seung Ho and Luo (2001, p. 455)

Tsui and Farh (1997) suggested that *guanxi* is "*a certain type of interpersonal relationship, one that is personal and built on a particularistic criteria*" (p. 59). However, So and Walker argued that:

A one line definition for *guanxi* is misleading because the very reason the Chinese word *guanxi* is used in English text, instead of saying 'particularistic ties', is because a simple English translation is insufficient to bring out the special nature of *guanxi*.

So and Walker (2006, p. 4)

Guo and Chang (2010) suggested that the *guanxi* concept often becomes unclear in the attempts to define it, because the definitions consider multiple dimensions. Therefore, for the purpose of this chapter, we use the following definition:

*Guanxi* is an evolving Chinese version of social networks that creates and transmits social capital via distinct and complex rules of personal interaction; it is the strategic establishing, developing and maintaining of informal relationships bound by culturally unique forms of trust and reciprocal obligation.

Guo and Chang (2010, p. 14)

Reciprocity, trust, and social obligations underpin *guanxi* primarily (Luo 2007; Tsui and Farh 1997). Table 1 lists the main aspects of *guanxi*: bases, dimensions, and principles (Luo 2007).

**Table 1** Guanxi bases, dimensions, and principles (adapted from Luo 2007)

Bases	Dimensions	Principles
Locality/dialect	Mianzi (face)	Transferable
Kinship	Renqing (unpaid obligations)	Reciprocal
Workplace	Ganqing (affection)	Intangible
Blood	Xinren (trust)	Utilitarian
Social	Kexin (credibility)	Long-term
	Tiaohe (harmony)	Personal
		Contextual

As a further explanation, Barnes et al. pointed out that:

The concept of social networks is very much in congruence with research on guanxi—whereby reciprocity, trust and interdependencies are highly valued through the effective use of social capital.

Barnes et al. (2011, p. 511)

A social exchange perspective highlights the ongoing exchanges between network actors (Chetty and Blankenburg Holm 2000; Hailén et al. 1991) and the process of slowly building relationships with high trust and commitment levels (Sasi and Arenius 2008). However, Gao et al. (2010) argued that, in contrast with Westerners, the Chinese have a stronger emphasis on differentiated relationships and tend to treat people differently based on their relationship status. This cultural tendency frequently translates into Chinese business practices that differ from Western business practices (Boisot and Child 1996). Thus, the emphasis of guanxi on social relationships leads to a distinctive social structure that differs from a Western social network (Guo and Chang 2010).

We argue that because of robust family ties and an accumulation of relational values, the Chinese business networks differ substantially to the European and North American business networks, and even to other Asian business network counterparts, such as the Japanese *keiretsu* and the Korean *chaebol* (Todeva 2007). It takes considerable time to develop relationships with the foreign ethnic Chinese and to learn about the Chinese market (Gao et al. 2012). A guanxi network is an exclusive circle of members, with limited access to both Chinese and non-Chinese members (Gao et al. 2014). Su and Littlefield (2001) suggested that the outsiders to guanxi networks can use intermediaries to enter and develop guanxi networks. Gao et al. (2014) referred to the intermediaries as the guanxi gatekeepers, thereby emphasizing the role that the intermediaries play in bridging the structural holes (guanxi gates) that outsiders often find hard to overcome.

The terms guanxi and trust are sometimes interchangeable in the literature when describing the business practices of Chinese private firms (Qin 2011). Trust is an important factor in business success, especially when there is a difference in how actors perceive trust and act based on trust (Ertug et al. 2013).

There are two main forms of trust: (1) affect-based trust founded on interpersonal concern or care and (2) cognition-based trust founded on the perception of another's reliability and trustworthiness (McAllister 1995). Chinese people only slightly separate their business and personal lives (Kwock et al. 2013). Chua et al. (2009) found that the Chinese are more likely than are the Americans to mix social-emotional concerns with economic behavior. Compared with American managers, Chinese managers place more cognition-based trust on the actors socially embedded in their own networks. In other words, a Chinese manager tends to trust a socially connected actor in business. However, American managers have more separation with any relevant affect-based and cognition-based trust than have Chinese managers (Chua et al. 2009). Additionally, the Chinese managers distribute the affect-based trust broadly across their networks, while the affect-based trust of the American managers tends to be stronger within cohesive groups of friends. Chua et al.'s (2009) study highlights the instrumental aspects that Chinese managers place on social ties and the influences that network members have on the perceived trust of others.

Despite the wealth of literature on *guanxi*, most studies primarily examine *guanxi* among Chinese people or the influence of *guanxi* in China (Chen et al. 2013). However, the influence of *guanxi* on business practices extends not only domestically in China, but also to foreign markets where Chinese people have influence (Chua et al. 2009).

## 2.2 *Internationalization of Ethnic Chinese Businesses*

Chinese outward foreign direct investment increased substantially in the past decade (Gao et al. 2013). Xie and Amine (2009) asserted that *guanxi* is a critical factor in the internationalization of ethnic Chinese firms. Ethnic Chinese networks consist of tens of millions of ethnic Chinese people across the world (Yeung 2006) and have a significant impact on bilateral trade between countries (Rauch and Trindade 2002). However, ethnic Chinese networks are not homogeneous, because many historical and cultural contexts influence their decisions, operations, and outcomes (Ahlstrom et al. 2010). Many perceive the overseas Chinese as a single ethnic group, because of their similar physical appearance and their assumed shared culture, values, and customs. However, they are often distinct because of differences in dialect, region, country of birth, or ancestral origin (Salaff 2005).

Todeva (2007) suggested that there are three main streams of Chinese networks. The streams vary mainly according to their context: business networks in mainland China, business networks formed by overseas Chinese immigrants, and Chinese business networks across regions connecting overseas and mainland Chinese communities. A great diversity is evident within ethnic Chinese networks. Therefore, the distinctions and variations are important despite the literature often clustering them as a single group. While past research emphasizes the cohesiveness

of ethnic networks, Ilhan-Nas et al. (2011) suggested that future studies should examine the conflicts and the differentiations within the ethnic networks.

As outward foreign direct investment from China increases (Luo et al. 2010; Yeung 2006), we need to clearly understand how these firms internationalize (Yamakawa et al. 2008). Xie and Amine (2009) identified the factors that influence internationalization in a qualitative study of eight Chinese entrepreneurs. First, memberships in broad domestic social and business networks provide access to valuable information. The entrepreneurs have exclusive information and benefits from their ethnic Chinese ties that a non-Chinese entrepreneur would not have (Xie and Amine 2009). Second, the Chinese entrepreneurs entering psychically distant markets can overcome the relevant challenges by receiving support from ethnic Chinese ties or from people with whom they have *guanxi*. Finally, Chinese entrepreneurs who enter geographically distant but culturally close ethnic Chinese markets can enhance their position by building their social networks with the local ethnic Chinese. In contrast, in their study of 109 Chinese textile firms, Ciravegna et al. (2014) found that firms gain most foreign market entry opportunities proactively through events such as trade fairs, rather than through social ties. Thus, Chinese-run firms internationalize in a number of ways, influenced by a myriad of factors.

Research also shows that the Chinese sometimes exhibit short-term transactional behaviors, especially toward foreigners, as compared with the time-consuming, *guanxi*-building processes that an ethnic Chinese person often undergoes in relationships with other ethnic Chinese people (Styles and Ambler 2003). *Guanxi* with a fellow ethnic Chinese person may comprise tedious cultural practices that may not always lead to positive outcomes for the business. In contrast, short-term transactions with foreigners might be less time-consuming, yet more fruitful. For example, Seung Ho and Luo (2001) stressed that *guanxi* cultivation can be very costly and may not be worth the time and resources invested. Therefore, in some cases, it may be more advantageous to have a non-ethnic/ethnic interaction than an ethnic/ethnic interaction. Having considered the role of *guanxi* in Chinese business interactions (Gao et al. 2012), we now discuss the literature examining ethnic Chinese immigrant entrepreneurship.

### 3 Ethnic Chinese Immigrant Entrepreneurship

There is a gradual increase in the research on immigrant and ethnic entrepreneurship (Cavusgil et al. 2011). However, despite the increase in the number of immigrant-owned businesses in many countries (Yang and Wang 2011), the literature on immigrant entrepreneurship is still limited (Yang et al. 2012b). The terms ethnic entrepreneurship, immigrant entrepreneurs, and immigrant ethnic entrepreneurship are interchangeable in the literature (Chand and Ghorbani 2011). Ethnic entrepreneurship emphasises the connections and the regular interactions among people of common migration experiences or national background (Waldinger et al. 1990). The ties between these immigrants of common ethnicity



sometimes lead to business ownership, and is termed ethnic entrepreneurship (Valdez 2008). Therefore, ethnic entrepreneurs are actors who start businesses in their countries of settlement and become self-employed (Kloosterman and Rath 2003). Zhou (2004, p. 1040) further defined ethnic entrepreneurs as follows:

Ethnic entrepreneurs are often referred to as simultaneously owners and managers (or operators) of their own businesses, whose group membership is tied to a common cultural heritage or origin and is known to out-group members as having such traits; more importantly, they are intrinsically intertwined in particular social structures in which individual behavior, social relations and economic transactions are constrained.

Zhou (2004, p. 1040)

Thus, embeddedness underlines ethnic entrepreneurship. Embeddedness is the interconnection between the social relationships and the economic actions of common ethnic actors. Research examines the antecedents and the consequences of the emergence of ethnic entrepreneurship (Ilhan-Nas et al. 2011). Immigrants face many market disadvantages, such as exclusion from the mainstream market and the lack of relevant language skills (Zhou 2004). These disadvantages create group cohesion among the ethnic groups and allow them to draw from the pooled resources within the community, resulting in the emergence of ethnic entrepreneurs (Yang et al. 2012a).

Traditionally, ethnic entrepreneurs are the petty traders, merchants, dealers, and shopkeepers who conduct business in restaurants, laundries, newsstands, and taxis (Zhou 2004; Zhou and Cho 2010). However, ethnic entrepreneurs now bypass these traditional occupations and venture into professional services, high-tech industries, and transnational corporations (Fong and Luk 2007; Zhou and Cho 2010). Sometimes the ethnic groups choose to become entrepreneurs, other times they set up small businesses because they cannot find employment (Ibrahim and Galt 2011). Empirical evidence suggests that the Chinese immigrants are more likely to seek self-employment than are the native people in the host country, because of discrimination in the mainstream labor market and because of the disadvantages (such as having poor command of the native language) associated with an immigrant status (Mata and Pendakur 1999). For example, the Filipino immigrants in the United States (US) are more proficient in English than are the Korean immigrants. Thus, the Filipino immigrants assimilate better into mainstream institutions than do the Koreans, leading to fewer incentives for self-employment (Zhou 2004). The immigrants who learn and become fluent in the native language do so for greater economic returns (Zhou 2004).

Ethnic entrepreneurship is an option for addressing unemployment, because it creates job opportunities for individuals, in or out of the ethnic group (Zhou 2004). Additionally, ethnic entrepreneurship can provide a higher earning advantage over other forms of employment, while relieving the pressure on the mainstream labor market by providing employment for the immigrants (Zhou and Cho 2010). The entrepreneurial spirit passes to other ethnic group members as the successful ethnic entrepreneurs become mentors and role models to the aspiring entrepreneurs (Zhou 1992).

Beyond the study of ethnic entrepreneurs as a disadvantaged group, research now investigates the successes of their transnational activities (Ma et al. 2013). Transnational entrepreneurs are those immigrants whose successes are dependent on their connections in another country (Portes et al. 1999). Hence, the research on immigrant transnational businesses needs to examine industrial structures and social networks as part of the context to understand how and why these two processes facilitate immigrant entrepreneurial cross-border cooperation. Additionally, we support the premise that:

Regional industrial structure and embedded social networks, rather than the multinational firm, should be the focus in the study of transnational business. The complementary regional industrial structures allow economic and technological collaboration between these two regions while the social networks help coordinate these transnational (cross-regional) collaborations.

Hsu and Saxenian (2000, p. 1991)

The literature increasingly highlights the importance of ethnic networks for entrepreneurial success (Yang et al. 2012a). Ethnic networks provide entrepreneurs with necessary resources, such as information, opportunities, and loans (Zhou 2004). Immigrant entrepreneurs are increasingly transnational because of their unique social networks and their connections with their country of origin (Ma et al. 2013). Immigrant entrepreneurs often use ethnic ties to identify foreign market opportunities (Smans et al. 2014).

The growing number of ethnic Chinese entrepreneurs evident in many developed countries may be because of the widespread global dispersion of ethnic Chinese networks (Yang and Wang 2011). In response to various institutional environments, ethnic Chinese immigrant entrepreneurs often use *guanxi* to reduce the costs involved in identifying and developing opportunities and for contract enforcement (Yang et al. 2010; Ilhan-Nas et al. 2011). However, *guanxi* can also lead to negative organizational and social consequences, such as market fragmentation and opportunistic behavior (Lin and Si 2010). While *guanxi* drives ethnic Chinese networks, it also comes with potential liabilities.

## 4 Liabilities of Chinese Networks

*Guanxi* or relationships within ethnic Chinese networks may come with liabilities (Chen and Chen 2009; Dahles 2010; Fan 2002; Li et al. 2008; Li and Sheng 2011; Lin and Si 2010; Luo 2008; Zhuang et al. 2010). Similar to the embeddedness concept, *guanxi* has contradictory and paradoxical effects (Chen et al. 2013). *Guanxi* can be both beneficial and detrimental to further business development. The ethnic Chinese networks are both a valued resource for internationalization, and a liability to the broader business economy (Peng 2000).

While *guanxi* can operate as a governance mechanism in the less institutionalized Chinese economy, it has negative aspects (Gu et al. 2008). Chen and Chen (2009) warned that, although *guanxi* often benefits the parties involved, it may have negative consequences for the parties and for those not involved. For example, some Hong Kong managers view *guanxi* as time-consuming, costly and, sometimes, corrupt (Yi and Ellis 2000). *Guanxi* can lead to the overburdening of reciprocal obligations, to overdependence on certain actors, and to overemphasis on group cohesion that reduce the competitiveness of firms (Gu et al. 2008). Actors with good *guanxi* between themselves might cooperate for their own mutual benefits at the expense of outsiders (Chen and Chen 2009). For instance, special connections with officials fostered through *guanxi* can sometimes lead to corruption, which enhances the anti-Chinese sentiments that can lead to violence (Peng 2000). When private and public resources are intermingled in *guanxi* exchanges, acts can be unethical, infringing upon public ethics and the rule of law, benefitting the privileged at the expense of the community (Chen et al. 2013).

Although *guanxi* emphasizes drawing on established connections to secure favors (Luo 2007; Yunxia and Allee Mengzi 2007) and can involve cronyism (Fan 2002), it does not necessarily equate with cronyism and corruption (Chen et al. 2013). *Guanxi* may lead to favoritism, but is not itself favoritism or cronyism (Khatri et al. 2006).

While most literature examines the positive or negative aspects of *guanxi*, Faure and Fang (2008) argued that the ability to manage paradoxes is China's most important cultural characteristic that enables and supports China's prolific economic growth. The double-edged characteristic of *guanxi* needs further research to provide a balanced understanding of *guanxi*'s functions and its consequences that are inherent in ethnic Chinese networks (Chen et al. 2013).

The resources and benefits of ethnic Chinese networks can be limited to insiders (Leung et al. 2008). A high concentration of ethnic networks within a locality could lead to the formation of an enclave economy, such as the Chinese enclave in Prato.

## 5 Enclave Economy

Zhou and Cho (2010, p. 86) explained that "*the enclave economy is a special case of ethnic economy, one that is bounded by coethnicity and location*". Particularly in the early developmental stages, an enclave economy requires a high physical concentration of co-ethnic clientele, a limited level of institutional completeness, and easy access to ethnic resources, such as ethnic labor and access to credit and information (Zhou and Cho 2010). The geographic clustering of economic activities and the diversification of ethnic businesses are some of the main characteristics of an enclave economy. Bounded solidarity, created through the virtue of foreign status, is prominent among immigrants of similar ethnicity (Zhou 2004).

The natives' perception of the foreigners as culturally distant increases the perception of common origin, shared cultural heritage, and mutual obligations among co-ethnic owners, workers, and customers (Portes and Zhou 1992). An enclave economy persists because of the network structures of ethnic and immigrant ties that provide opportunities (Logan et al. 2003). Ilhan-Nas et al. suggest that some ethnic entrepreneurs are:

Forced to demonstrate opportunity-seeking behavior because they have actually been subject to discrimination, language barriers and incompatible education or training.

Ilhan-Nas et al. (2011, p. 623)

In some societies:

Racial exclusion and discrimination erect structural barriers to prevent immigrants from competing with the native born on an equal basis in the mainstream economy.

Zhou (2004, p. 1047)

As a result, the immigrants take up jobs that the locals do not desire or they carve out market niches for themselves (Zhou 2004). The market for ethnic entrepreneurs usually begins within the ethnic community, because ethnic communities have unique needs and preferences best served by people who share and know them (Aldrich and Waldinger 1990). Thus, the needs of the ethnic consumers are usually unmet by the native-owned businesses and thereby become business opportunities for the ethnic entrepreneurs. Additionally, because of the limited availability of low-cost housing to some migrant groups, the ethnic groups geographically concentrate and create geographically clustered ethnic-specific needs (Cologna 2005; Fairchild 2010). The geographically concentrated ethnic market and its ethnic entrepreneurial opportunities facilitate the further clustering of migrants (Aldrich and Waldinger 1990). Thus, ethnic entrepreneurship sometimes results in ethnic enclaves supporting the entrepreneurial activities of their ethnic members, providing them with the necessary resources to “*confront economic discrimination and competition*” (Ilhan-Nas et al. 2011, p. 623).

An enclave economy also has its disadvantages (Ilhan-Nas et al. 2011). The jobs in enclave economies sometimes command low wages and long work hours (Logan et al. 2003). Xie and Gough (2011) studied US legal immigrant data from 2004 and discovered that immigrants working in ethnic enclaves usually have lower overall earnings than do the immigrants working in the mainstream economy.

A successful enclave economy brings about social capital with resources that may not equally benefit another group sharing the same neighborhood (Zhou and Cho 2010). An enclave's labor and capital market may shelter its ethnic group members from competition by other ethnic groups and from government surveillance and regulations (Ilhan-Nas et al. 2011). An underground economy can result from an ethnic enclave (Cologna 2005). As the resources of an enclave economy are usually ethnically exclusive, policymakers are encouraged to promote inter-ethnic

interactions to increase the exchanges of resources between ethnic groups (Zhou and Cho 2010). Although enclave economies provide ethnic entrepreneurs with the strong ties and support needed in the growth stage, resources outside of the ethnic network are necessary for sustained growth (Yang et al. 2012b).

The growth potential of the ethnic businesses can be constrained by the ethnic market itself because of the limited ethnic population (Aldrich and Waldinger 1990). As businesses develop, more weak ties are required to facilitate development through new opportunities. Ethnic entrepreneurs have to leverage customers beyond the ethnic community for continued growth (Aldrich and Waldinger 1990). Studies on immigrant entrepreneurship highlight the issue of immigrant businesses having too many intra-ethnic ties and too few inter-ethnic ties (for example, Danzer and Yaman 2013; Eran 2002; Ndofor and Priem 2011). When there are insufficient new ties leading to new opportunities, then overembeddedness can occur (Uzzi 1997).

Barberis and Aureli (2010) suggested that the Chinese enclave economy in Prato's industrial district is overembedded. The Chinese enclave economy in Prato produces fast fashion garments. The enclave has access to low-cost ethnic labor willing to work long hours, which some argue is unsustainable (Dei Ottati 2009a). Further, social conflicts arise between the enclave economy and the local population. Dei Ottati (2009b) described how insufficient meaningful dialogues between the diverse populations enhance the levels of mistrust and conflict. The separateness of the Chinese enclave economy from the local economy socially and economically makes it challenging for social and economic integration (Dei Ottati 2009a). The intertwined social relationships and economic actions in Prato's industrial district further highlight the value of studying the interactions between distinct networks, including ethnic based networks, using embeddedness.

## 6 Conclusion

To explain the challenges in the interactions between foreign Chinese immigrants in Prato's industrial district and local (host) market networks, this chapter discusses the concepts of immigrant entrepreneurs and the local native community, networks and guanxi, social capital, ethnic enclaves, and future economic and social policy directions. Drawing on a constructive approach that seeks to highlight the benefits to native entrepreneurs in associating with Chinese immigrants, this chapter examines the background literature on the Chinese, and their overseas Chinese networks.

We provide a new perspective of the influence and impact of social capital on native entrepreneurs and on Chinese immigrants. We examine how the global phenomenon of Chinese immigrant entrepreneurs can assist China to benefit economically from inward and outward trade and investment. The emphasis of guanxi on social relationships leads to a distinctive social structure of transnational

entrepreneurs that differs from a Western social network. This helps to explain the impact of Chinese immigrant entrepreneurs from a macro-global perspective. Many regard a Chinese immigrant enclave economy as the outcome of an ethnic economy, bounded by coethnicity and location. We show why this is not necessarily a negative for the local native community.

Finally, as the resources of an enclave economy are usually ethnically exclusive, we propose enhanced efforts by local policymakers, such as in Prato's industrial district, to promote inter-ethnic interactions. This is achievable, for example, through trade-based exhibitions, through informal chamber of commerce seminars and workshops, and through social and cultural exchange activities to encourage positive interactions. Enhancing the exchanges of resources between ethnic groups, such as Chinese immigrants and their local Pratese counterparts, will drive and encourage the international entrepreneurial links between native firms and Chinese firms. The links will extend into China and to other markets where the Chinese diaspora operates. Thus, this chapter shows why a constructive approach that clearly explains the benefits to native entrepreneurs in building social ties and business networks with Chinese immigrant entrepreneurs, will provide new business opportunities, both locally and trans-globally, as the differences among Chinese immigrant entrepreneurs and their social networks become clear.

We offer several limitations of the chapter and provide guidance for future research on Chinese immigrant entrepreneurship within foreign industrial districts. First, while the chapter offers a detailed literature review, we need further research to build and support our body of knowledge, especially from the Chinese and Italian perspectives. We acknowledge that while our literature review is helpful, it is not complete. Future research might consider studies in Chinese on Italy or on Europe, as well as studies in Italian. Those perspectives could provide confirming and contrasting perspectives that would be valuable in explicating the cross-cultural dimensions, especially as they relate to affect-based and cognitive-based trust in ethnic enclaves.

To expand the knowledge base on *guanxi*, comparisons are possible between Italian business practices/models that highlight European practices rather than American practices. Additionally, the Chinese in Prato come from diverse backgrounds and origins, and form diverse groups and associations in Italy. We need further research on associations (their specific purposes and their international linkages) to understand the growth of international entrepreneurship through social ties and ethnic ties outside China and other ethnic Chinese markets. Some research suggests that *guanxi* is an important way to find employment before migration. It would be interesting to consider how that relates to necessity based and opportunity based international immigrant entrepreneurship. Finally, some studies suggest that *guanxi* encourages the perpetuation overseas of fixed Chinese class structures and employment favoritism. It would be interesting to establish whether this is so, and how extensive it is Prato, or whether immigrant entrepreneurship moderates this relationship.

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