

EARLY INSIGHTS INTO CHINESE ENTREPRENEURSHIP IN PRATO, ITALY¹

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Introduction

In 1989, a small number of Chinese from Wenzhou in Zhejiang Province arrived in the traditional Tuscan textile town of Prato. The arrival of 38 Chinese set the foundation for one of Europe's most prominent Chinese enclaves that has evolved into one of the largest Chinese community (Ceccagno 2003). Although the fragmented nature of the enclave and especially the number of undocumented migrants has made it difficult to ascertain the actual size of this community, estimates vary between 14,000 and 25,000 Chinese. For the purpose of comparison, Prato's Chinese community thus accounts for approximately one fifth of the entire Chinese population (100,000) in Italy (Ceccagno 2003). In Prato the Chinese account for approximately ten per cent of a population of 180,000, which is three times the average percentage of the Chinese community in Europe. The majority of the Chinese live in the area around Via Pistoiese (also called *Zhongguo Jie* or China Street) outside the walled-off old center of Prato. It is in this area, the majority of Chinese

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enterprises have emerged to form an industrial cluster, predominantly in the textile and leather industry, but more recently also in the emergent services sector (serving mainly the Chinese clientele). It appears that over the past three years, the growing Chinese community and their successful economic activities have led to increasing tension in the local host society. This renders an inquiry into the nature of the Chinese entrepreneurship desirable, namely in which industries the Chinese businesses in Prato are to be found and their business models, strategies and resources. Since scholarship on Chinese enterprises and entrepreneurship has by and large focused on the United States, Australia and South East Asia (Fitzgerald 2007, Jomo and Folk 2003), this paper makes a modest contribution to a nascent area of the inquiry into Chinese entrepreneurship in Europe via a study of Chinese firms in the Tuscan town of Prato in Northern Italy.

The paper employs Schumpeter's (1950) conceptualization of entrepreneurship as any new combination or allocation of resources that promotes exponential growth and economic efficiency. This paper also sheds light on the prevailing opportunity structure that exists in Prato for the overseas Chinese by drawing on insights gained from Holcombe's work (2003). Prato thus serves as a case study of a Chinese enclave in Europe, where deliberate Chinese seclusion from the Italian host society has led to one of the highest concentrations of new entrepreneurship and unprecedented business growth amongst migrants.

For this research I have employed a qualitative research method based on in-depth interviews with twelve Chinese entrepreneurs and four employees in Prato in early January 2008. The sensitivities surrounding the issue of migration, partly related to the ambiguous line between legal and illegal arrivals from China, called for a less intrusive approach, namely the use of unstructured and informal interviews. These were conducted in Mandarin and lasted between 20 and 45 minutes. One quarter of the interviewees was Wenzhounese textile owners, whom I visited at their showrooms in Macrolotto 1, a newly developed industrial area approximately 5 km outside Prato's city center. The majority of the interviews, however, were undertaken by randomly visiting different business outlets along Via Pistoiese. The paper is organized as follows: in the next section I develop the theoretical framework that I found of particular relevance to my research, namely Schumpeter's (1950) conception of entrepreneurship and Holcombe's

(2003) model of entrepreneurial opportunity. This is followed by a section describing the nature and development of the Chinese enclave economy in Prato with a special emphasis on the entrepreneurial openings for the Chinese in Prato in recent years.

Theoretical Framework

Much of the literature on entrepreneurship is based upon the conceptualization by Joseph Schumpeter. His work has remained valid and highly influential, especially when applied to the context of China's and India's recent economic development (Vicziány and Zhang 2005a, 2005b). In his paradigm of "creative destruction" Schumpeter (1950:132) defined entrepreneurship as:

'...exploiting an invention or, more generally, and untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products, or by reorganizing and industry.'

Thus for Schumpeter, an entrepreneur moves outside of his/her comfort zone and routine, ventures into the unknown and in doing so often goes against the norm of mainstream society. Unsurprisingly, the entrepreneur often faces hostility in her/his endeavors, which nevertheless does not hinder the entrepreneur in her/his resilience and determination. On the contrary, it appears that the entrepreneur copes well, seeks and thrives in an adverse environment. Paradoxically, for migrants, the respective host country often seems to embody an adverse environment, which has often negative impact on their economic and social life, but is arguably conducive to entrepreneurship.

Shane and Venkataraman (2000) point to entrepreneurship as processes resulting in the discovery and exploitation of opportunities that emphasize the role of the actor initiating those processes and acting upon them. The authors advocate the differentiation between the creation of opportunity; exploitation of that opportunity by someone; and the specific actions undertaken to exploit those opportunities. Shane and Venkataraman (2000) agree with Timmons' (1999) model of the entrepreneurial process comprising three key factors, namely the recognition of an entrepreneurial opportunity, the entrepreneurial team as decision maker and the mobilization of resources. In his work on entrepreneurial

opportunities, Holcombe (2003) argues that entrepreneurship embodies the source of new entrepreneurial activities and therefore creates opportunities for other and new entrepreneurs. Holcombe (2003) thus supports Schumpeter's conception of the cumulative impact of entrepreneurship and points out that entrepreneurial opportunities are not recognized by all people in the same way but depend on specific knowledge with place and timing being influential factors. Timmons (1999) and Cheah (1993) emphasize the importance of exogenous components for the forms of entrepreneurship. This is in strong contrast to Schumpeter's model which is largely focused on the motivation and behaviour of the individual 'deviant' entrepreneur.

In this paper, I draw on Schumpeter's (1950) conceptualization of entrepreneurship and Holcombe's (2003) model of entrepreneurial opportunity as these provide insights into the emergence and rapid growth of the Chinese ethnic economy in Prato. The role of the entrepreneur as change agent motivating others and the cumulative impact of entrepreneurship that Schumpeter pointed out, are applicable to Chinese entrepreneurship in Prato. The exponential growth of the Chinese ethnic economy in Prato constitutes the result of Chinese pioneer entrepreneurs attracting a large number of Chinese, many of who aspire to become entrepreneurs. Schumpeter described the latter as 'dormant' entrepreneurs and their firms 'breed' new entrepreneurship.

The Emergence of Prato's Chinese Enclave

China has become renowned as the world's workshop (Eyferth 2006). Besides now producing the world's majority of goods, China has over the past decade also witnessed its largest 'exodus' of people migrating to various parts of the globe. Since the mid-1990s, this movement has gone beyond the traditional destinations for Chinese migrants, namely the USA, Australia and South East Asia, and has extended to Europe. The latter has in particular become a magnet for Chinese migrants from the so-called sending communities (*qioxiang*) in rural Fujian and Zhejiang provinces. Benton and Pieke (1998) refer to this recent wave of Chinese outmigration as 'leave Chinese fever' or *chuguo re*, which has in recent years attracted a growing body of scholarship and coverage in the local media of the host countries (Ceccagno 2003, Ehlers 2006, Giese 2003, Goldsmith 2007, Pieke *et al* 2004).² However, constituting a mere one per cent of the population of most European countries, the Chinese migrants continue to form a small proportion of

their host countries' population, and also the respective immigrant communities. Nevertheless, for the last decade the Chinese communities in Europe have been growing rapidly: in Italy and Germany, for example, the Chinese communities have grown 25 times since the early 1990s and the European Federation of Chinese Organizations estimates that the total number of Chinese in Europe – legal and illegal Chinese migrants - now accounts for close to one million (Laczko 2003).³ Amongst those European countries that have experienced the largest influx of Chinese migrants are Italy, France and Germany with official estimates of 50,000 to 75,000 Chinese migrants in each of these countries. The estimated number of unofficial and undocumented Chinese migrants increases these estimates by at least another 25 per cent (Giese 2003).

Recent developments in Prato have astounded residents, politicians and visitors alike as this traditional textile town now hosts one of the largest Chinese communities in Europe. With at least 14,000 Chinese migrants, approximately one in every ten persons in Prato today comes from China (Ehlers 2006, Goldsmith 2007).⁴ What started with only 38 Chinese residents in Prato in 1989 (Ceccagno 2003) has in less than two decades developed into a burgeoning Chinese enclave that appears unique and unprecedented in European history. Instrumental for the emergence of the Chinese enclave in Prato have been migrants originating from the emigration areas (*qiaoxiang*) in the rural region of Wenzhou (Wu and Zanin, 2007). These areas look back on a tradition of outmigration or chain migration facilitated by family and kin networks over generations.⁵ Over time, however, the profile of these migrants appears to have changed. The early Wenzhounese migrants in their mid 20s to 30s, male, single and largely unskilled have been 'joined' by an increasing number of independent migrants from other parts of China including the North-Eastern provinces of Jilin and Heilongjiang (Ceccagno 2003, Denison et al 2007). I also found that an increasing number of Chinese migrants in Prato today are female. While many of the Chinese women work as employees in the textile and services industry, some also operate their own business – on their own or jointly with their husbands. Thus it seems that Prato's growing Chinese enclave economy has attracted an increasingly more varied group of Chinese migrants whose dream it is to become an entrepreneur, or *xia hai* in Chinese.⁶ One critical factor facilitating this development was

the Italian-Chinese Treaty of 1985 that promoted bilateral economic cooperation by permitting the Chinese to set up enterprises and employ a co-ethnic workforce if they had regular residence permits (Carchedi and Ferri 1998). In addition, several amnesties for illegal migrants issued by the Italian government since 1996 have been crucial in providing Chinese migrants with legal status and thus enabling them to set up their own businesses (Ceccagno 2003).

Chinese Enterprises and Entrepreneurial Aptitude in Prato, Italy

In 2007, more than 2,500 Chinese enterprises had registered in Prato. This clearly documents the growth of Chinese migrants' entrepreneurial aptitude and the Chinese dream of setting up one's own business, for which the Chinese from Wenzhou are especially renowned (Annotico Report 2008, Goldsmith 2007, Kwong 2007, Wu and Zanin 2007). Prato's enclave economy started with several Chinese enterprises in the late 1980s, when the first Chinese arrived in Prato. At that time, the local textile industry, mainly manufacturing heavy woolen fabric, was in severe decline and many Italian textile workers had been laid off. Several small Italian textile firms were thus pleased when the Chinese showed interest in purchasing their machinery. The rapid growth of Chinese enterprises that would follow, i.e. a total of 212 firms within only three years, could not have been forecasted by anyone; neither could have the influx of Chinese labourers into Prato, who would work 12 and more hours, seven days a week. This allowed the Chinese success formula, also better known as *Pronto Moda*, i.e. tailor-made, ready-to-wear 'fast fashion' to materialize. Accessing new resources and using an innovative business model, the Chinese substantially changed the Italian textile industry, which was until then renowned for its design and craftsmanship.

This shift in production and managerial styles is a prime example of Schumpeterian entrepreneurship. Unlike Germany, where immigrant Chinese initially only operated restaurants and later diversified into other industries (Leung 2002), the Chinese in Prato started their economic activity mainly in the manufacturing sector. Within another decade, by 2003, the number of Chinese firms had multiplied seven times to 1,753 officially registered with the House of Commerce in Prato (Kynge 2007:83). Another four years later, an additional 1,000 businesses had been set up. As a result, more than half of the 5,300 Chinese businesses in Tuscany today are based in Prato.

Despite the unprecedented growth in the number of Chinese enterprises, a substantial number of them have nevertheless experienced ‘economic stress’. By the end of 2004, almost 1,800 firms set up by Chinese entrepreneurs had ceased operations, which accounts for 88 per cent of the 2,013 active Chinese businesses (Di Castro and Vicziany 2007).⁷ These closures could have been forced onto the Chinese business community by a severe decrease in orders to the Prato textile firms (Smith 2004). The Chinese enclave economy nevertheless recovered and its dynamic growth today can be seen in the large number of Chinese businesses on sale in the local Chinese press (*Europe China News*, 8 January 2008; *Europe Chinese News*, 3 January 2008). The electronic billboard on display at the heart of the Chinese community along Via Pistoiese also advertises these opportunities to buy Chinese firms in Prato.

In the next section I reflect on the extraordinary entrepreneurial activity of the Chinese in Prato by employing Holcombe’s (2003) model of entrepreneurial opportunity. Rather than looking at the well known textile sector, I focus on the little understood emerging Chinese services sector.⁸

As Chinese involvement in Prato’s textile sector expanded and deepened, the growing Chinese enclave created new demand for services including banking, telephone booths and internet cafés, hairdressers, travel and real estate agencies. Many of these were set up close to potential customers along Via Pistoiese. Although the exact number of these enterprises could not be determined by me, these firms have catered mainly for the daily needs of the Chinese community. From observations and interviews that I undertook in Prato in 2007 and 2008, I could see there were few Italian customers in these Chinese shops. The location also determined who frequented the businesses. Two bars on opposite of the Basilica in the old city center of Prato and thus inside the city walls, for example, belonged to and were operated by Chinese businessmen but they still had a large Italian customer base. This was, however, an exception to what I saw.

Over time it appears that the Chinese services sector has become more diversified as well as sophisticated in catering for the changing needs of the expanding Chinese community. Initially satisfying the basic need of Chinese migrants to communicate with friends and family back in China, access Chinese foodstuffs and send remittances back home, businesses meeting these requirements were amongst the first services that emerged. However, now that the Chinese community includes residents who have been living in Prato for more than a decade, the new service industries owned by the Chinese include doctors, hairdressers, language teachers, photographers, travel and real estate agents.

This diversification happened as a result of the reinvestment of savings. Many Chinese migrants initially work as employees in the leather goods or textile companies of Prato where they obtained training, experience and the capacity to save money. At first, earnings were used to pay off migration debts or it sent back home to relatives, but over time, more money was reinvested in Italy itself and used to set up businesses. As argued by Holcombe (2003), it is the confluence of specific knowledge and other exogenous factors – and not only the venture capital – that decides on whether an entrepreneurial opportunity is exploited. Many Chinese migrants working in Prato's textile firms have gained valuable skills and knowledge working their way up from menial tasks (*zagong*) towards experienced tailor (*shulian chengong*), which would help them in running their own business in the future. However, as one respondent in his mid-40s explained to me, it is not only the Chinese who train their employees. In his case, his Italian employer took him into his work force as a semi-skilled migrant and provided him with the relevant product knowledge and 'tricks of the trade' after he landed in Prato more than ten years ago. Several years later, and now equipped with basic Italian language skills, my respondent had decided to open his own small business selling electrical equipment near one of Prato's ancient gates on Via Pistoiese. This shop had both Chinese and Italian customers.

From the informants that I interviewed in Prato in 2007, I could see the accuracy of an observation made by Wilson and Portes (1980:301) that the Chinese entrepreneurs have followed '...a charted path...leading from hard labor in the firm of another immigrant to gradual promotion culminating in another business concern'. All the Chinese employees I

interviewed confirmed their intention to open their own business in the future, even if it was going to take time to build up the requisite savings.

Another and final example of the new entrepreneurial opportunities in Prato's Chinese economy results from the growth of the Chinese enclave and the need to match labour demand and supply. Digital billboards now advertise the availability of jobs for Chinese labourers. The first electronic display board had been installed inside Xiaolin supermarket on Via Pistoiese. This is an initiative of a Chinese entrepreneur who has replaced advertisements in newspapers and local bulletins with new technology. In order to increase his income and profitability, he also displays regular commercial advertisements.

Conclusion

Chinese enterprises in Prato have developed at a rapid pace since the arrival of the pioneer Chinese entrepreneurs from 1989 onwards. Chinese chain migration has created and thrived on Chinese 'chain entrepreneurship' as more and more Chinese migrants try to realize their dream of running their own businesses. This comes as no surprise given that the Chinese have been long admired for their entrepreneurial aspirations and talent (Bond 1991). The 2007 report by the Global Entrepreneurship Monitor (GEM), for example, confirms that Chinese entrepreneurial aptitude has outperformed its European counterparts. This positive assessment, however, ignores the development of entrepreneurship amongst the overseas Chinese. Had the overseas achievements been included in the GEM report, the contrast with European entrepreneurship would have been even sharper.

This paper is based on my early insights into Chinese migrant entrepreneurship in Europe, specifically in Prato, Italy. The study departs from the growing body of scholarship which focuses on the increasing presence of Chinese multinational companies in Europe (Fishman 2006, Fuchs 2007, Alon 2003). The internationalization of large Chinese firms differs from the enterprises described in this paper. With 80 to 90 per cent of all firms globally operating as small to medium enterprises, more attention to the smaller businesses set up by Chinese migrants in Europe is warranted. This paper is a preliminary step by me in this direction. The doctoral research on which this paper is

based will expand the study into a discussion of Chinese female entrepreneurship in Prato and the businesses established by Chinese migrants returning to China.

NOTES:

¹ For a detailed description of the numbers of Chinese migrants in Europe see Laczko (2003). As a movement from 'below' this outmigration differs substantially from the government induced *zou chu qu* (go overseas), which applies to large Chinese MNCs. For further details see Fuchs (2007).

² This compares to an estimated 120 to 140 million internal migrants in China, also called the *floating population*, see Smyth and Nielsen (2007).

³ Conservative estimates refer to 14,000 Chinese (Comuni di Prato), other sources claim that the number of Chinese migrants might be as high as 25,000 (Goldsmith 2007, Handelsblatt 2007, Kwong 2007).

⁴ Other Chinese emigration areas include Fujian and Guangdong.

⁵ *Xia hai* literally means to go to the sea and refers to Chinese leaving state-owned enterprises in favour of setting up their own businesses. This occurred first in selected cities of China's Eastern seaboard.

⁶ It should be noted that the Chinese textile sector in early 2004 faced what was referred to as a crisis with a large decrease in orders, see Smith (2004).

⁷ In this regard it should be noted that many textile businesses had closed during the time of my fieldwork in early January 2008, due to the Christmas/New Year holidays.

⁸ Until early 2008, the city wall of Prato appeared to form almost an invisible barrier to Chinese enterprises. At that time approximately five Chinese businesses were located inside Prato's old city wall, the majority of them selling clothing.

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