

# Place of Origin and Labour Market Outcomes Among Migrant Workers in Urban China

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## Abstract

The localistic enclave is a special kind of enclave in urban China, which is characterised by a high concentration of rural migrants from the same place of origin. Prior research has documented that rural migrants work in these localistic enclaves, but the significance of participation in them for labour market outcomes among migrant workers has yet to be determined. In this article, it is argued that localistic economic enclaves may improve the labour force outcomes of rural-to-urban migrants. Results are reported from a study of the social determinants and consequences of working in localistic enclaves, based on data from a 2010 survey of migrant workers in the Pearl River and the Yangzi River deltas. The results provide limited support for the hypothesis: localistic enclaves enable migrant workers to earn higher earnings overall, but the earnings returns to human capital in an enclave are limited.

Since the late 1980s, China has been marked by the extensive migration to urban areas of rural populations attracted by job opportunities (Liang, 2001). This massive wave of rural-to-urban migration has been driven by the demand for labour in urban China and facilitated by the relaxation of the government's control through the household registration system (*hukou*). In 2010, over 220 million persons left their registered

places of residence (National Bureau of Statistics of China, 2011). Most of them were rural migrants who sought employment in urban areas. A common misconception is that this rural-to-urban migration has been disorderly, characterised by unorganised individual migrants being driven by their own economic interests (Ma and Xiang, 1998). For example, popular media once portrayed such migration as 'blind

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flow' (Florence, 2006; Yang and Cai, 2007; Zhan, 2003). However, in-depth studies have rejected this stereotyped image and have revealed instead that migration in today's China is actually socially organised by families, village clans and township governments. Among many formal and informal social institutions that affect migrants, the localistic network (or *laoxiang* network), a social network based on place of origin, has emerged as one of the most widespread and most effective mechanisms in organising and facilitating the rural-to-urban migration in China today.

Prior studies of rural-to-urban migration have not only documented the existence of localistic networks but also have described their function in terms of favouritism. Rural migrants are more willing to offer assistance to migrants who share their own places of origin in finding jobs, obtaining housing and otherwise adapting to urban life. On the factory floor, the localistic network penetrates power relations involving managers, foremen and migrant workers. Opportunities for desirable jobs and promotions are sometimes controlled and distributed through localistic networks (Lee, 1998). In this literature, many scholars have emphasised dyadic *laoxiang* ties involving two persons from the same place of origin who engage in reciprocal favouritism (Lee, 1998; Wang and Tong, 2004; Wang *et al.*, 2002).

Researchers have also studied localistic networks defined as migrant communities. Rural migrants from the same place of origin often aggregate: they tend to reside in the same neighbourhoods, specialise in the same occupations and/or work for the same employers. When their concentration in a place passes a critical point, the place may be called a migrant localistic enclave. Several studies have already documented the formation and operation of these localistic enclaves in urban China (Liu, 2002;

Ma and Xiang, 1998; Wang, 1995; Wang and Yang, 2008; Yang and Wang, 2008). Researchers taking this approach are concerned primarily with the emergence of a localistic enclave and the evolution of its social structure and operation.

Previous studies of localistic enclaves have been mainly descriptive in documenting the phenomenon of localistic networks in urban China. To be sure, the significance of localistic networks for labour market outcomes among migrant workers has been recognised in the existing literature. For example, migrant enclaves have been described as emphasising the 'power of place' in providing rural migrants with resources and opportunities that would otherwise be unavailable to them (Ma and Xiang, 1998). However, no empirical research has actually evaluated the impact of participation in localistic enclaves for migrants' labour force outcomes. To help fill this knowledge gap, our study addresses three research questions. What kind of rural migrants are more likely than others to work in localistic enclaves? Does working in localistic enclaves bring higher wages to migrant workers compared with those working in the open economy? Are earnings returns to human capital higher in localistic enclaves than in the open economy?

Our article is divided into four sections. In the first section, we introduce the significance of native-place ethnicity in the history of internal migration in China and place the issue of localistic enclaves within this tradition. We also review empirical findings on localistic enclaves in contemporary urban China in light of the enclave-effect debate in the immigration literature in the US. In the second section, we propose specific hypotheses regarding enclave effects in China's rural-to-urban migration context. To test our hypotheses, in the third section we analyse survey data collected in the Pearl River and Yangzi River deltas in 2010, with two

measures of enclave participation. Finally, we conclude that our study lends limited support to the proposition that a localistic enclave improves migrant workers' labour force outcomes: localistic enclaves enable migrant workers to earn higher earnings overall, although the earnings return to human capital in an enclave is limited.

### **Native-place Ethnicity: Historical and Contemporary Significance**

The organisation of migrants according to place of origin is a well-known phenomenon in the history of internal migration in China. Despite the pretence of a common culture, *Han*, Chinese people from different places of origin vary greatly in terms of customs, spoken language, habits, manners and, above all, social identity. Chinese people tend to differentiate themselves in terms of place of origin to the extent that identities and relationships in terms of place of origin can be considered ethnic (Honig, 1992). Ethnicity here, as defined by Honig, results from a heightened recognition of cultural distinctiveness for social significance. The social significance of localistic ethnicity is enhanced by massive migration, which enables people to mix with those who come from different places, speak different dialects, practice different customs or belong to different cultures. In her ethnographic study of migrants from northern Jiangsu (i.e. Subei) province to Shanghai from 1950 to 1980, Honig (1992) documented that, before moving to Shanghai, people in northern Jiangsu province never identified themselves as members of the Subei group. Once they came to Shanghai, they formed the Subei ethnic group based on their common place of origin. One consequence of this was that localistic ethnicity provided bases for the occupational segregation of migrants. For example, during the

period 1850–1940, migrants in Shanghai's labour market were segregated by their places of origin: migrants from southern Jiangsu in textile mills, migrants from northern Jiangsu as dock coolies or rickshaw pullers and Yangzhou migrants as bathhouse attendants (Honig, 1992). An institutional manifestation of localistic ethnicity was the widespread existence in urban China of native-place associations (*tongxiang hui*), the purpose of which was to strengthen solidarity among migrants, providing financial support, education and welfare *only* to co-ethnics (Cole 1996).

After the People's Republic of China was founded in 1949, the government tried to eliminate all native-place associations and imposed restrictions on migration through the household registration (*hukou*) system. These government efforts substantially weakened the influence of native-place ethnicities in employment, although ethnicity-based discrimination in ordinary lives persisted (Honig, 1992). However, the revival of internal migration after the initiation of the economic reform in 1978 has restored the social significance of native-place ethnicities. As before, migrant workers in urban China today tend not only to rely on their localistic networks to find urban jobs but also to segregate along these lines, occupationally and/or residentially. Many past studies have thoroughly documented the existence of localistic enclaves in urban China: Pingjiang Cun in Shenzhen (Liu, 2002) and Zhejiang Cun (Ma and Xiang, 1998; Wang, 1995) and Xinjiang Cun in Beijing (Wang and Yang, 2008; Yang and Wang, 2008). While these ethnographic studies reveal vividly the actual operation of localistic enclaves, they are primarily concerned with the role of the *hukou* system as a structural barrier segmenting the urban market into two unequal ones: an open market for native urbanites and another market with limited opportunities for rural migrants.

Ma and Xiang's (1998) study focuses on migrant workers in localistic enclaves in Beijing. Their study rejects the stereotyped image of rural migrants as being disorderly and hopeless and emphasises instead the positive influence of localistic enclaves on migrants' experiences. Although rural migrants often face discrimination by local governments withholding certain resources from them, they can resort to localistic enclaves as an alternative channel for resources. Such ethnographic works as Ma and Xiang's contain vivid illustrations of migrants in localistic enclaves starting their own businesses or obtaining employment with the help of their fellow co-ethnics in the same enclave, collectively confronting local government officials over treatments they feel are unfair, or co-operating to triumph competitively over other localistic ethnic groups and ending up monopolising certain industries. However, while consistent with the assumption that localistic enclaves have positive influences on migrant workers, such success stories do not constitute empirical proof of enclave effects. The problem is one of heterogeneity: localistic enclaves are all different and have different effects on different migrant workers. If we wish to assess the impact of localistic enclaves on the labour force outcomes of migrant workers, it is necessary systematically to compare migrant workers in enclaves to those not in enclaves.

A similar debate has developed in studies of immigrants to the US. The debate was motivated by the recognition that the new wave, post-1965 immigrants to the US are different from the earlier wave of immigrants before 1910 in terms of both the immigrants themselves and America as a host society (Portes and Zhou, 1993). The new immigrants have come primarily from Latin America and Asia and thus are culturally more distinct from mainstream American society than earlier immigrants, who came primarily from Europe. The new

immigrants have also faced a different economy, due to deindustrialisation in the US in recent decades, which affords them limited opportunities for economic assimilation through well-paid manufacturing jobs. To make matters worse, immigrant children, who often live in inner cities upon entering the US, are vulnerable to the adversarial sub-cultures of inner-city native-born minorities and, therefore, are at risk for downward assimilation into the lower classes (Zhou, 1997). One possible way to protect immigrants and their children against downward assimilation is the preservation of native culture, or partial assimilation. This perspective emphasising the benefit of preserving immigrants' own culture is called segmented assimilation theory (Portes and Zhou, 1993).

Proponents of segmented assimilation stress the importance of social resources offered by co-ethnics in the ethnic community. For economic outcomes, the theory predicts that participation in an enclave economy is an alternative way for immigrants to achieve economic advancement or to capitalise more effectively on their pre-immigration human capital (Portes and Bach, 1985; Portes and Jensen, 1987, 1989). Xie and Gough (2011) call this prediction the 'enclave thesis'. Despite its theoretical appeal, several studies have failed to find empirical support for the enclave thesis (Nee *et al.*, 1994; Sanders and Nee, 1987; Xie and Gough, 2011). In fact, the aforementioned studies have found immigrants working in enclaves to be disadvantaged in earnings, or their earnings returns to human capital to be lower than those of immigrants working in the open economy. The longer they reside at their destination, the more likely immigrants are to move into the open labour market and the less likely they are to use ethnic ties to find jobs (Nee *et al.*, 1994). One argument against the enclave thesis is that the isolation of working in an enclave

economy can delay the long-term assimilation of immigrants (Xie and Gough, 2011) and enclave employers may exploit co-ethnic workers under the mask of ethnic solidarity (Bonacich, 1987).

Before we abandon the enclave thesis, however, it is important to realise a methodological limitation of the existing studies that have found empirical evidence against the thesis: reliance on poor measures of enclave participation (Portes and Jensen, 1987, 1992). In most studies that attempt to evaluate the enclave thesis, enclave participation is poorly measured, based on such characteristics as location of workplace or residency (Portes and Jensen, 1989; Sanders and Nee, 1987; Semyonov, 1988; Xie and Gough, 2011), language used in the workplace (Xie and Gough, 2011) or ethnic industries (Zhou and Logan, 1989). According to the original formulation of the enclave thesis, employer-based measures are preferred. Besides problems in measurement, another shortcoming of previous enclave studies is that they seldom ask what characteristics of migrants/immigrants may be associated with participation in enclave economies. Enclave participation can be selective. If ethnic enclaves are attractive only to immigrants (or migrants) whose skills are too limited for employment in the open economy, their earnings in enclave economies should also be limited by their lack of skills. In this case, however, we cannot conclude that there is no enclave effect, since workers who seek shelter in an enclave would face additional disadvantages if they had moved into the open economy.

This paper attempts to contribute to the enclave literature by studying the effects of a localistic enclave on the labour force outcomes of migrant workers in urban China. Our method of achieving this was to devise some innovative items on a 2010 social survey of migrant workers in nine cities in the Pearl River delta and 10 cities in the

Yangzi River delta. From the survey items, we constructed two measures of localistic (*laoxiang*) enclaves which we believe are superior to measures in previous studies evaluating the enclave thesis.

## The Research Questions

According to the previous literature, an enclave economy can be beneficial in three respects. First, it can serve as a shelter for weak workers, those who lack skills needed to secure employment in the open economy. Secondly, it can benefit all migrant workers by offering resources and information to rural migrants within the same localistic network. Thirdly, it can provide migrants with better employment opportunities, because co-ethnic employers in enclaves may value migrants' pre-migration human capital more than employers in the open economy. Reflecting on these three benefits, our research addresses three corresponding research questions.

First, are migrant workers with low human capital more likely than other migrants to find employment in enclave firms? Some migrant workers may lack adequate skills, such as speaking Mandarin Chinese, to be competitive in the urban open labour market. By using ties with people from the same place of origin, however, they may find employment within enclaves. This beneficial aspect of enclaves focuses on their protective function for weaker workers. For this group, the primary concern is employment, rather than the level of earnings or returns to human capital. Motivated by this question, we examine what characteristics of migrant workers may predict their participation in enclave economies. If an enclave is a shelter for the weak, a migrant worker's human capital should be negatively associated with the likelihood of working in an enclave.

Secondly, do migrant workers employed in enclave firms enjoy overall higher earnings than migrant workers employed in non-enclave firms? Social networks based on kinship, friendship or cultural identification are known to be important in transmitting valuable information and resources and thus facilitating economic activities (Burt, 1992; Coleman, 1988; Granovetter, 1973; Lin, 2001; Portes, 1998). A localistic enclave in China behaves in the same way, as it contains dense networks connecting rural migrants of the same origin. Wang (1995) attributes Zhejiang migrants' competitiveness in the apparel industry in Beijing to their migrant community, where information about the industry spreads quickly. Lee (1998) describes concentrations of migrant workers of the same origin in certain factory positions with relatively high wage rates because their foremen intentionally assigned these positions to workers who share their own places of origin. If an enclave acts as a network mechanism channelling information and resources as expected, the overall effect of working in an enclave should be positive.

Thirdly, are the earnings returns to human capital for migrant workers higher in enclave firms than in non-enclave firms? Another beneficial aspect of an enclave is its potential protective effects against devaluation of pre-immigrant human capital possessed by immigrants in the open economy. Due to discrimination and/or low transferability of pre-migration skills, the human capital that immigrants had acquired prior to immigration (i.e. education, language, skills) may be discounted in the labour market of the host society (Friedberg, 2000; Zeng and Xie, 2004). To catch up with the natives, immigrants either accumulate additional human capital in the host society or work initially in enclaves (Akresh, 2007; Duleep and Regets, 1999; Friedberg, 2000; Hu, 2000; Xie and Gough, 2011). One reason for the

second option is that co-ethnic employers may find the pre-immigration human capital of immigrants valuable (Light, 1984; Portes and Bach, 1985; Portes and Jensen, 1987, 1989; Waldinger, 1987). We borrow the same reasoning in our study of the effects of localistic enclaves for rural migrants in China and propose that working in an enclave may yield a higher return on migrants' human capital, regardless of whether or not their overall earnings are higher. In contrast with our second research question, which concerns the main effect of enclave participation, the third question aims to test the interactive effect of enclave participation and human capital. We expect that migrant workers in localistic enclaves enjoy better opportunities because co-ethnic employers value their pre-migration education, training and work experience more highly than their counterparts in the open economy.

## Research Design

The data used in this study come from a social survey of rural migrants.<sup>1</sup> In this survey, we designed a few items to measure the ethnicities of both employers and co-workers. We construct two measures of enclave participation from these survey items.

The survey interviewed migrant workers in nine cities in the Pearl River delta and ten cities in the Yangzi River delta.<sup>2</sup> Since a sampling frame of migrant workers was unavailable, quota sampling was applied, using the quota calculated from official statistical yearbooks.<sup>3</sup> Migrant workers were screened as persons who were rural *hukou* holders, without college education, having experienced cross- or within-province migration and being employed fulltime.

To address the three research questions posed earlier, we conduct the statistical analyses of the survey data in three stages. In the



first stage, the dependent variable is an indicator of whether or not a migrant worker is employed in an enclave economy—i.e. enclave participation. Independent variables include the level of human capital and personal characteristics of migrant workers, as well as measures of social ties and contextual factors. The dependent variable in the second stage is the natural logarithm of monthly income. We assess the main effect of enclave participation on earnings net of human capital, personal characteristics and work-related factors. The third stage is an extension of the stage-two analysis, with interaction terms of enclave participation and human capital variables added to test whether human capital yields higher earnings returns in enclaves.

Enclave participation is a key variable in our study. We construct two measures of enclave participation from three survey questions:

- (1) “Does your current employer come from the same place of origin as yourself?”
- (2) “Does your direct supervisor in your workplace come from the same place of origin as yourself?”
- (3) “Are more than 50 per cent of co-workers in your workplace from the same place of origin as yourself?”

Here, ‘place of origin’ is defined at three levels: the village level, the county/city level and the provincial level. If respondents answered that the employer, the direct supervisor or over 50 per cent of their co-workers in the workplace are their co-ethnics, they are further asked about the nature of the co-ethnicity in terms of the same village, the same county/city or the same province. Our first operationalisation of enclave participation requires that both the employer and the direct supervisor be from the same place of origin as the

respondent. For the second operationalisation, enclave participation is defined as more than 50 per cent of the respondent’s co-workers sharing the same place of origin as the respondent. Because the meaning of localistic co-ethnicity varies by context (Lee, 1998), we define the boundaries of localistic enclaves flexibly, depending on both the place of origin and the place of destination. For cross-provincial migrants, the co-ethnic in-group boundary for the operationalisation of enclaves is defined at the province level. For cross-city/county migrants within a province, the co-ethnic in-group boundary is defined at the city/county level. For migrants within a city/county, the co-ethnic in-group boundary is further reduced to the village level. From these procedures, we obtain two dichotomous variables for two alternative measures of enclave participation—i.e. employer/supervisor-based and co-worker-based, coded 1 if yes and 0 if no.

In the first-stage analysis, we address the first research question by estimating logistic models for enclave participation, separately for the two alternative measures. Personal characteristics include gender and age at the time of entering current job. Level of human capital is measured by years of schooling and years of prior work experience. We obtain the years of prior work experience by subtracting beginning year of the first urban job from year of entering the current job. We measure a migrant worker’s prior connection to an enclave by whether or not the current job was acquired by using kinship or friendship ties, coded 1 if yes and 0 if no. We include two contextual factors in the study. One contextual variable is the geographical location of the firms at the province level: Jiangsu, Zhejiang, Guangdong and Shanghai. Another contextual variable is concerned with the origin province of migrants. We conjecture that the origin province affects enclave

participation mainly through the prevalence of migrants from an origin province. This is because an enclave is unlikely to evolve if the migrant population from an origin is too small. However, it is also possible that enclaves are less socially significant and thus less protective if the migration population from a province is very large. Thus, instead of origin-specific fixed effects, we include in our analysis a measure of the relative size of out-migration from each province. We utilise data from the 2010 China population census to construct proportions of the migrant population from each origin province over the total migrant population residing in each destination province.<sup>4</sup>

In the second and third stages, we estimate OLS regression models with the dependent variable being the natural logarithm of monthly income. In stage two, we use the two alternative measures of enclave participation as the key explanatory variable. Other independent variables are human capital variables and variables of personal and job characteristics. The level of human capital of migrant workers is measured in terms of three aspects: formal education, work experience and occupational skills. Formal education is measured by years of schooling. Work experience is measured by years of urban work since initiation of rural-to-urban migration. We include a squared term of work experience to capture its curvilinear effects on the dependent variable. Occupational skills are measured by whether migrant workers obtain any occupational certificates, with no occupational certificates as the reference category. We also measure migration history with a variable indicating whether the migrant is the first-time migrant. We control for the size of the firm, which is an ordered variable, and the geographical location at the province level. The firm size is included because a larger firm could offer better earnings (Kalleberg and van Buren,

1996), but enclave firms are underrepresented among large firms. Variables for the third-stage analysis are the same, except that interaction terms between enclave participation and human capital variables are added to the analysis.

After deleting cases with missing values, we have a sample of 3303 migrant workers from the survey. We present the descriptive statistics of the variables in the Appendix.

## Results

In Table 1, we present the results of the first stage of analysis to address the first research question. Logistic coefficients (in both original and exponentiated forms), standard errors of logistic coefficients and statistical significance for the null hypothesis of the logistic coefficients being zero are given. A positive logistic coefficient indicates that its corresponding variable increases the likelihood, measured in log-odds, of working in an enclave, and vice versa. The exponentiated form can be interpreted in terms of its multiplicative effect on the odds of enclave participation. In model 1, we use the employer/supervisor-based definition of enclaves. In model 2, we use the alternative, co-worker-based definition.

From the table, we observe that our measures of localistic networks strongly affect enclave participation. Finding employment at the current job through kinship or friendship ties increases the odds of participating in an employer/supervisor-based enclave by 3.7 times and in a co-worker-based enclave by 1.9 times. Concerning gender difference, men are significantly more likely than women to work in employer/supervisor-based enclaves, but not in co-worker-based enclaves. Age has almost no effect on enclave participation.

Confirming our expectation regarding enclaves as a shelter for the weak, measures



**Table 1.** Logistic regression on enclave participation ( $N = 3303$ )

Variables	Model 1: employer-based		Model 2: co-worker-based	
	$\beta$	$exp(\beta)$	$\beta$	$exp(\beta)$
Male	0.513** (0.153)	1.670	0.164 (0.110)	1.178
Years of schooling	0.025 (0.031)	1.025	-0.092** (0.024)	0.912
Age when got current job	0.009 (0.009)	1.009	-0.002 (0.007)	0.998
Work experience before current job	-0.004 (0.014)	0.996	-0.008 (0.010)	0.992
<i>Destination</i>				
Shanghai	0.258 (0.216)	1.295	0.228 (0.163)	1.256
Jiangsu	-0.541* (0.245)	0.582	0.025 (0.166)	1.025
Zhejiang	-0.169 (0.206)	0.845	-0.074 (0.148)	0.929
Prevalence rate of migrants	0.012 (0.006)	1.012	-0.010* (0.005)	0.990
Find job via kinship/friendship ties	1.324** (0.171)	3.760	0.636** (0.112)	1.889
Constant	-4.408** (0.473)	0.016	-1.301** (0.340)	0.342
Log likelihood	-742.52047		-1203.2221	
LR chi <sup>2</sup>	94.71		71.29	
Degrees of freedom	9		9	

Notes: numbers in parentheses are standard errors. \*  $p < 0.05$ ; \*\*  $p < 0.01$ . Omitted variables as the reference category are: female, Guangdong as the destination, finding job through market or other channels.

of human capital generally have negative effects on enclave participation. Years of schooling significantly lower the likelihood of working in an enclave defined by the ethnicity of co-workers, but this effect is insignificant if we use the measure of enclaves based on the employer/supervisor's ethnicity. Years of prior work experience slightly reduce the likelihood of enclave participation, but the effect of this variable is not statistically significant in either model.

Contextual factors also affect enclave participation. Migrant workers in Jiangsu

province are less likely to work in employer/supervisor-based enclaves than those in Guangdong.<sup>5</sup> Interestingly, migrant workers from a place of origin with a larger migrant population in the destination province are more likely to participate in employer/supervisor-based enclaves,<sup>6</sup> but less likely to participate in co-worker-based enclaves. This suggests different processes at work for the two types of enclave: a localistic ethnic population fosters the employment of the group by firms owned by co-ethnic entrepreneurs, but the social bond due to a

**Table 2.** OLS regression on log monthly wages in additive models ( $N = 3303$ )

Variables	Model 3: employer-based		Model 4: co-worker-based	
	$\beta$	S.E.( $\beta$ )	$\beta$	S.E.( $\beta$ )
Male	0.198**	0.012	0.199**	0.012
Age	-0.007**	0.001	-0.007**	0.001
Years of schooling	0.026**	0.003	0.027**	0.003
Work experience	0.043**	0.003	0.043**	0.003
Work experience <sup>2</sup>	-0.001**	0.000	-0.001**	0.000
Certificate	0.071**	0.017	0.070**	0.017
<i>Firm size</i>				
10–29 persons	0.094**	0.030	0.083**	0.030
30–99 persons	0.115**	0.028	0.101**	0.028
100–299 persons	0.124**	0.027	0.109**	0.027
300–999 persons	0.161**	0.027	0.146**	0.027
1000–2999 persons	0.168**	0.029	0.153**	0.029
Above 3000 persons	0.203**	0.030	0.188**	0.029
First job	0.062**	0.014	0.063**	0.014
<i>Destination</i>				
Jiangshu	-0.068**	0.022	-0.067**	0.022
Zhejiang	-0.024	0.022	-0.024	0.022
Guangdong	-0.115**	0.019	-0.113**	0.019
Enclave	0.096**	0.024	0.065**	0.018
Constant	6.996**	0.046	6.999**	0.046
$R^2$	0.227		0.227	

Notes: \*  $p < 0.05$ ; \*\*  $p < 0.01$ . Omitted variables as the reference category are: female, do not have occupational certificates, firm size below 10 persons, not the first job, Shanghai as the destination, and not in an enclave firm.

common localistic ethnic identity may well be stronger when the ethnic population in a destination is smaller. This may explain the observed negative effect of the prevalence rate of migrants on participation in localistic enclaves defined by a high concentration of co-ethnic co-workers.

We now shift to addressing the second research question by assessing the labour market outcome of enclave participation. In Table 2, we present the results of the second stage of analysis—testing the overall effect of enclave participation on logged monthly income. Models 3 and 4 are parallel models, with two alternative measures of enclave participation.

We observe a positive and significant coefficient of enclave participation in both model 3 and model 4, confirming the beneficial effect of working in enclaves. After controlling for other variables, working in an employer/supervisor-based enclave increases monthly income by 10 per cent and working in a co-worker-based enclave increases monthly income by 6 per cent.

An overall beneficial effect of enclave participation, however, does not answer our third research question. We next examine how earnings returns to human capital vary by whether migrant workers work in enclaves or the open economy. For this purpose, we present models 5 and 6 in

Table 3, which are interactive models with interaction terms between enclave participation and three human capital variables. Model 5 is an extension of model 3, with an employer/supervisor-based measure of enclaves. Model 6 is developed from model 4, with a co-worker-based measure of enclaves. Among interaction terms in model 5, only *enclave*  $\times$  *work experience* has a significant positive effect, indicating that earnings returns to work experience are slightly higher in employer/supervisor-based enclaves than in the open economy. In model 6, the only significant interaction term is *enclave*  $\times$  *schooling*, but the effect is unexpectedly negative, suggesting that the earnings return to schooling in co-worker-based enclaves is even lower than in the open economy. Taken together, however, it seems that enclave participation does not systematically affect earnings returns to human capital.

Earlier, in discussing results reported in Table 1, we observed the differences between the two alternative measures of localistic enclaves. The interaction models 5 and 6 shown in Table 3 now shed additional light on the importance of using the two different measures of enclaves. It appears that when the employer/supervisor is from the same place of origin as the migrant workers, the enclave offers more opportunities to migrant workers because their human capital is valued more. These results suggest differences between localistic enclaves defined by employer/supervisor's ethnicity versus localistic enclaves defined by co-workers' ethnicity. In the former, certain migrant entrepreneurs may favour co-ethnic migrant workers from the same places of origin and are able to act on their favouritism through their power in the relatively small firms they own and/or manage. In addition, such employers are likely to specialise and thus are able to utilise the human capital of the co-ethnic group.<sup>7</sup> In

the latter, co-worker-based enclaves are usually within relatively large firms. These firms mainly use the native-place network of employees to recruit cheap labour to fill in labour-intensive manual jobs that do not reward human capital.

## Conclusion

Are localistic enclaves beneficial to migrant workers in China? Our answer is a qualified yes. We reached this conclusion through statistical analyses of survey data collected in 2010 on migrant workers in the Pearl River and Yangzi River deltas. The analyses capitalised on two alternative operationalisations of localistic enclaves based on whether the employer/supervisor came from the same place of origin as the migrant worker, and on whether a majority of co-workers came from the same place of origin as the migrant worker.

Our study yields three concrete findings. First, there is some evidence in support of the sheltering hypothesis that localistic enclaves characterised by concentrations of co-workers from the same places of origin provide employment opportunities to migrant workers who would otherwise have difficulties competing in the open economy. Secondly, migrant workers in localistic enclaves overall enjoy higher earnings than their counterparts in the open economy. Thirdly, earnings returns to human capital do not differ much by enclave participation.

The second finding lends support to the 'enclave thesis' in the literature on immigrants' experiences in the US—i.e. immigrants benefit from working in ethnic enclaves (Portes and Bach, 1985; Portes and Jensen, 1987). While several earlier works have found no empirical evidence in support of this thesis (for example, Nee *et al.*, 1994; Sanders and Nee, 1987; Xie and Gough, 2011), these studies have the

**Table 3.** OLS regression on log monthly wages in interaction models ( $N = 3303$ )

Variables	Model 5: employer-based		Model 6: co-worker-based	
	$\beta$	S.E.( $\beta$ )	$\beta$	S.E.( $\beta$ )
Male	0.198**	0.012	0.200**	0.012
Age	-0.007**	0.001	-0.007**	0.001
Years of schooling	0.027**	0.003	0.028**	0.003
Work experience	0.043**	0.003	0.042**	0.000
Work experience <sup>2</sup>	-0.001**	0.000	-0.001**	0.000
Certificate	0.064**	0.017	0.072**	0.018
<i>Firm size</i>				
10-29 persons	0.098**	0.030	0.083**	0.030
30-99 persons	0.118**	0.028	0.104**	0.028
100-299 persons	0.127**	0.027	0.111**	0.027
300-999 persons	0.162**	0.027	0.147**	0.027
1000-2999 persons	0.168**	0.029	0.154**	0.029
Above 3000 persons	0.203**	0.030	0.189**	0.029
First job	0.064**	0.014	0.062**	0.014
<i>Destination</i>				
Jiangshu	-0.069**	0.022	-0.072**	0.022
Zhejiang	-0.023	0.022	-0.025	0.022
Guangdong	-0.113**	0.019	-0.116**	0.019
Enclave	0.156	0.102	0.167*	0.078
Enclave $\times$ experience	0.009**	0.003	0.005	0.003
Enclave $\times$ certificate	0.092	0.000	-0.038	0.000
Enclave $\times$ schooling	-0.015	0.009	-0.015*	0.007
Constant	6.985**	0.047	6.987**	0.047
$R^2$	0.230		0.229	

Notes: \*  $p < 0.05$ ; \*\*  $p < 0.01$ . Omitted variables as the reference category are: female, do not have occupational certificates, firm size below 10 persons, not the first job, Shanghai as the destination, and not in an enclave firm.

limitation of using relatively poor measures of ethnic enclaves. To overcome this methodological difficulty, we collected richer information on workplace in the 2010 survey and constructed two measures of localistic enclaves based on the characteristics of the workplace.

The third finding of no higher returns to human capital in enclaves than in the open economy does not surprise us. Similar results were reported by Xie and Gough (2011) for the experiences of immigrants in

the US. However, it has been found that the returns to Arabs' schooling in Israel are higher in Arab enclaves than in the open economy (Semyonov, 1988; Lewin-Epstein and Semyonov, 1994). This benefit is realised by minorities (Arabs in this case) filling high-status, well-paid positions in an independent and specialised labour market for products and services based on ethnic tastes. In contemporary urban China, as in the contemporary US, however, localistic enclaves mainly offer low-status, manual

jobs that are not qualitatively different from comparable jobs in the open economy. Moreover, there is an insufficient demand for products and services specifically tailored for native-place ethnicities. In such enclaves, ethnic-specific human capital is not highly rewarded.

Our study highlights once again the social significance of place of origin for broad issues such as urbanisation, discrimination and social inequality in today's China. As Honig (1992) stated, internal migrations in China's past were always organised by ethnicities based on place of origin. It has been proposed that native-place ethnicity has re-emerged mainly for cultural reasons (Ma and Xiang, 1998). Our work shows instead the practical utility of native-place ethnicity, as migrant workers derive economic benefits from localistic enclaves. In other words, the reliance of migrants on ties and enclaves may well reflect their rational responses to unfavorable opportunities and regulations they face in the urban open labour market. Regardless of their cultural values, localistic enclaves do have economic value to migrant workers.

Our finding that rural migrants benefit from working in localistic enclaves suggests that rural migrants working in the open economy are subject to experiencing potential discrimination. Thus, one policy implication from this study is the need for urban governments to provide a fair employment environment to all workers, perhaps by removing the institutional barriers between rural and urban *hukou* holders, and between local and non-local *hukou* holders. Removing institutional barriers will offer rural migrants better employment opportunities in the open economy as well as opportunities of assimilation to urbanites economically, socially and culturally. When migrant workers are no longer disadvantaged in the open economy, they will no

longer enjoy benefits working in localistic enclaves.

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## Notes

1. See Acknowledgements for further details.
2. More specifically, the nine cities in the Pearl River delta are Guangzhou, Shenzhen, Zhuhai, Foshan, Zhaoqing, Dongguan, Huizhou, Zhongshan, and Jiangmen. The ten cities in the Yangzi River delta are Shanghai, Nanjing, Suzhou, Wuxi, Changzhou, Nantong, Hangzhou, Ningbo, Jiaxing, and Shaoxing.
3. The survey was conducted during the summer of 2010. The interviewers were college students in Guangzhou, Shanghai, Nanjing and Hangzhou. They located eligible respondents in labour-intensive firms and migrant communities. Among migrants who were interviewed, 98 per cent in the Pearl River delta and 97 per cent in the Yangzi River delta completed the questionnaire.
4. Data are obtained from Population Census Office, 2012, Tables T8-03 and T1-04.
5. The Pearl River delta and Yangzi River delta are different in many aspects, such as industrial structure, source of investment and composition of migrant labour. To examine potential differences in results between the two destination regions, we also included an

interaction term between region and enclave participation but did not find the enclave effect to vary significantly by region. In region-specific models, we found the estimated effect of participation in an employer/supervisor-based enclave to be 0.079 (S.E. = 0.033) for the Pearl River delta and 0.120 (S.E. = 0.036) for the Yangzi River delta. The estimated effect of participation in a co-worker-based enclave is 0.077 (S.E. = 0.025) for the Pearl River delta and 0.055 (S.E. = 0.025) for the Yangzi River delta.

6. The effect of prevalence rate of migrant population is marginally significant in employer/supervisor-based enclave participation (coefficient/S.E. = 1.91,  $p = 0.056$ ).
7. We have no direct information about what kinds of products and services were offered and where they were sold by the firms, but it is possible that employer/supervisor-based enclaves are firms more likely to conduct business transactions with their native places or co-ethnic migrant communities. If true, this may be the reason why migrants in these kinds of enclave are more likely to have their experience rewarded.

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## Appendix

**Table A1.** Summary of variables ( $N = 3303$ )

	<i>Mean</i>	<i>S.D.</i>	<i>Percentage</i>
Log monthly wage	7.476	0.376	
Enclave defined by employer/supervisor	0.064	0.246	
Enclave defined by co-workers	0.124	0.330	
Male (female = 0)	0.536	0.499	
Age	30.211	9.615	
Age when got current job	26.225	8.720	
Years of schooling	9.860	2.582	
Work experience (years of urban work)	7.998	6.530	
Work experience before current job	4.556	5.692	
Certificate (do not have = 0)	0.162	0.368	
First job (not = 0)	0.324	0.468	
Find job via kinship/friendship ties (Find job via market/other channel = 0)	0.500	0.500	
<i>Firm size</i>			
Below 10 persons			5.92
10–29 persons			9.55
30–99 persons			16.10
100–299 persons			23.09
300–999 persons			20.59
1000–2999 persons			12.74
Above 3000 persons			12.01
<i>Destination</i>			
Shanghai			11.24
Jiangsu			20.21
Zhejiang			17.96
Guangdong			50.60