

REVITALIZING CHINATOWN BUSINESSES: CHALLENGES AND OPPORTUNITIES

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A REPORT FROM **THE ASIAN AMERICAN FEDERATION**



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MAY 2008

Foreword

In the six years since the September 11th attacks deeply affected New York City and the nation, much has been done to help those who suffered from the tragedy. Manhattan's Chinatown, near the World Trade Center, felt the devastation psychologically and economically. Thanks to public, community and philanthropic support, Chinatown's economy has begun improving.

However, the Chinatown business environment remains fragile and has not recovered to the extent of the New York City economy as a whole. The impact of September 11th is part of a larger, deep-seated picture. Since before the tragedy, Chinatown's business community has been undergoing significant changes that continue to unfold. Examples include declines in garment manufacturing and retail trade, growth of banking and other industries, shifts in Chinatown's customer base, an increase in luxury condominium development, and a steep rise in commercial rents.

In this changing economic scene, the Federation stepped forward to study reasons behind the vulnerability of Chinatown small businesses and ways to strengthen them. The Federation research team analyzed government and administrative data, surveyed a cross section of community businesses, and interviewed business leaders and economic development experts to produce this report.

Revitalizing Chinatown Businesses: Challenges and Opportunities examines key challenges facing Chinatown businesses and looks at emerging opportunities in the evolving environment of Chinatown and Lower Manhattan. The following pages capture valuable insights of a number of highly-respected Chinatown business leaders on how businesses should adapt to changes and help themselves, as well as on how Chinatown can enhance its business climate by capitalizing on the community's cultural and economic assets. The report also incorporates the view of several economic development experts that Chinatown needs to pursue transformational projects with potential for long-term economic improvement.

Chinatown historically has been a way station for working-class immigrants and immigrant entrepreneurs. A balanced economic development approach will stimulate growth while benefiting instead of displacing residents and local businesses. Such an approach also will shore up rather than destroy the gateway for future generations of immigrants. From this perspective, the Federation is proposing a set of recommendations for business development, adaptation to changes and maintenance of continuity in Chinatown.

This report is the culmination of dedicated work by our research staff and volunteers, along with our field-work team, Jack Ho and Andy Lun of Toto Group. The Federation also would like to thank our Advisory Committee and The Ralph and Goldy Lewis Center for Regional Policy Studies of UCLA for their indispensable input and encouragement. This study would not have been possible without the contributions of the lead funder, Carnegie Corporation of New York, and several others.

Chinatown bears the promise of a vibrant and inviting commercial hub and cultural destination. With appropriate support from government, local businesses can help themselves and become competitive. The community also will benefit from collaboration among its stakeholders toward realizing a shared vision of Chinatown's future.

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The views expressed in this report are those of the Asian American Federation and do not necessarily reflect the views or positions of the sponsors of this report, the advisory committee, or the interviewees of our study.

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Executive Summary

Overview

As the Asian American Federation documented in two earlier research reports, the September 11, 2001 attacks dealt a devastating blow to Chinatown's economy, exacerbating downward trends already under way. Since then, government, community and philanthropic assistance has brought improvements.

However, it was clear several years later that the Chinatown economy had not regained its vibrancy or benefited fully from the economic revival and resurgence of tourism in New York City. There was widespread concern that the small businesses that dominate Chinatown's economy were continuing to struggle.

This study was conceived to investigate what has contributed to Chinatown's economic vulnerability and what needs to be done to promote business growth and sustainability.

Revitalizing Chinatown Businesses: Challenges and Opportunities examines Chinatown's business environment, changes it is undergoing, challenges to economic development, and opportunities for renewal. It explores multiple factors – some longstanding and others of newer origin – that are hindering Chinatown's economic progress.

In addition, the report recommends steps for Chinatown business owners, community leaders, and policy-makers to take to stimulate long-term improvement and stability. While the report touches on related economic development issues, involving infrastructure, zoning and real estate, the focus is on business development issues.

The report reflects analysis of government data; results of a survey of more than 300 businesses; and interviews with community, business and economic development leaders.

Key Findings

Current Conditions

The Chinatown economy has not returned to pre-September 11th levels or shared fully in the city's economic recovery.

- **Overall in Chinatown, from the second quarter of 2001 to the second quarter of 2004:**

- The total number of businesses increased 4 percent, from 6,505 to 6,737.
- The total number of jobs decreased 5 percent, from 136,179 to 129,338. Employment declined steadily and sharply from 2001 to 2003 and then increased slightly from 2003 to 2004.
- The average wage rose 10 percent, just exceeding the 9 percent rise in the consumer price index for the New York metropolitan area. Wages per employee dipped from 2001 to 2002 but then climbed continually and rapidly.

Not reflected in these overall numbers and perhaps more significant for Chinatown's economy, the size and strength of various industry segments have changed.

- **Traditional pillars of the Chinatown economy that have been primary sources of immigrant jobs, are shrinking or struggling.**

- The manufacturing segment lost 33 percent, or 205, of its establishments, as well as 42 percent, or 4,965, of its jobs from second quarter 2001 to second quarter 2004. Apparel, food manufacturing, and printing are the largest categories in this sector. The number of garment factories in Chinatown decreased 57 percent, from 246 to 105, from before September 11, 2001 to June 2005, according to a survey by the Garment Industry Development Corporation.
- For the retail trade sector, which remains Chinatown's largest industry in terms of establishments and jobs, the number of businesses decreased 2 percent and employment dropped 6 percent from 2001 to 2004. Clothing and jewelry stores are most prevalent in this segment.
- The accommodations and food services segment, consisting mainly of restaurants, experienced slower sales despite modest 2001-2004 growth in establish-

ments, jobs and average wages. In a Federation business survey, 43 percent of restaurants reported revenue losses and only 10 percent reported steady or rising revenue from 2001 to 2005.

- **At the same time, other Chinatown industries are growing.** From second quarter 2001 to second quarter 2004:
 - The health care and social assistance segment and other services sector, which includes barber shops, beauty salons and laundry services among others, both showed a 13 percent increase in establishments. Average wages in the health care and social assistance industry, concentrated in physicians' offices, advanced 21 percent. Within the other services sector, personal-care businesses, such as nail and beauty salons, generally are faring well, although signs of oversaturation are emerging.
 - The number of arts, entertainment and recreation establishments rose 12 percent.
 - The professional, scientific and technical services sector experienced a 4 percent increase in establishments and a 35 percent jump in average wages.
 - The finance and insurance industry, including insurance agencies and banks, saw gains of 8 percent in the number of establishments and 12 percent in employment.

Changes, Challenges and Opportunities

Chinatown businesses face a complex set of circumstances, involving a changing customer base, multiple challenges and emerging opportunities. Economic recovery will require adapting to change, overcoming obstacles and leveraging new possibilities.

- **Chinatown's customer base has shifted in several key ways.**
 - Immigrants from China's Fujian province, Chinese American professionals, new non-Chinese residents are diversifying Chinatown's residential population, and some affluent and older Chinese immigrants returning from suburbs, which traditionally has been Cantonese and Toishanese working-class. Many long-established Chinatown businesses not targeting these newer segments have experienced sluggish sales. However, some newer businesses, including Fujianese-owned establishments along East Broadway, are catering to new customers' preferences and succeeding.
 - The drop in Chinatown manufacturing employment

has reduced the number of working-class Chinese who patronize Chinatown restaurants and retail shops during the day. Many former factory employees now work outside of Chinatown.

- The diversified commercial development in faster-growing Chinese immigrant enclaves in the New York metropolitan area, such as Flushing, Queens and Sunset Park, Brooklyn, has significantly reduced the need of those residents to go to Manhattan's Chinatown for products and services.
- **Three major categories of barriers are hampering Chinatown's business growth.**
 - A negative image of Chinatown makes it difficult for businesses to attract customers. Causes of unfavorable perceptions include an unattractive, inconvenient physical environment, with dirty, crowded streets and traffic and parking problems, as well as unfriendly business treatment of customers, marked by gruffness, limited English ability and cash-only sales.
 - Deficiencies in Chinatown's building stock, plus related zoning, land-use and real estate issues, constrain business expansion. Specific deterrents include a scarcity of high-quality, appropriate commercial space; zoning restrictions; fragmented property ownership; and rising rents and building values. Condominium development and conversions have worsened the situation.
 - Growth-constraining business practices impede competitiveness in light of the changing business environment. For example, similar businesses competing only on price leads to businesses cutting quality and wages to survive. At the extreme, fierce unprofitable competition results in unsustainable businesses while raising serious consumer safety concerns. The dearth of business and marketing plans results in oversaturation of markets. Too many businesses open without consideration of whether there is sufficient market demand for their services. Noncompliance with tax and labor laws creates legal and economic vulnerability, poor working conditions, and unfavorable impressions of Chinatown.
- **Yet Chinatown also has growing opportunities to recharge its economy. Businesses can capitalize on the community's location, cultural heritage, and economic assets, along with population and economic trends.**
 - Chinatown's location in Lower Manhattan offers entrée to that area's rapidly-growing, prosperous and

increasingly-Asian residential population. According to a special study of U.S. Census Bureau information for Lower Manhattan by the New York City Department of City Planning, from 2000 to 2005, the area's household population grew almost 26 percent; median household income rose 20 percent, to \$98,100; and Asian population increased by one-third.

- Daytime populations in neighborhoods surrounding Chinatown, such as the SoHo, Tribeca, City Hall and Financial District areas, are an important potential source of customers. Lower Manhattan has eight times as many workers as residents, and large numbers of these employees work in stable or well-paying sectors.
- Chinatown's central location and industry mix position the community to re-establish itself as a commercial hub. Chinatown already has become a major banking center with more than \$6 billion in deposits. The success of bank branches in Chinatown indicates demand for culturally tailored services among Chinese customers living elsewhere. Improved cleanliness, customer sensitivity and service can help Chinatown businesses build on traditional strengths in restaurants and in wholesale and retail food to draw more customers.
- Major Lower Manhattan development projects will bring more people to the area. If Chinatown becomes a compelling destination, associated increased traffic will provide a new source of prospective customers. Projects planned or under way include the World Trade Center redevelopment, the September 11th memorial, the Fulton Street transportation hub, waterfront restoration, and hotel construction. Four new hotels in Chinatown and six others in Lower Manhattan will give Chinatown businesses an opportunity to feed and entertain these hotels' guests.
- A growing presence of employees and clients of China-based businesses in Manhattan, as some of these firms establish U.S. offices, is creating another potential market for Chinatown businesses. Chinatown can provide hotels, restaurants and entertainment catering to expatriates, business travelers and tourists from China.
- Chinatown's rich cultural heritage is an advantage businesses could tap to differentiate their offerings. Businesses could develop goods and services to showcase such distinguishing points as authentic cuisine and ethnic celebrations.

Recommendations

This report proposes six major recommendations to spark Chinatown's economic renewal. These immediate and long-range strategies would:

- Help Chinatown become an inviting commercial hub, building on its economic and cultural assets.
- Increase Chinatown's economic potential while retaining the community's unique character and raising its quality of life.

The Federation recommends these steps for Chinatown:

- **Change Chinatown business strategies** to serve a diverse customer base better.
 - Chinatown businesses need to break from price-only competition and stress quality and uniqueness in their products and services.
 - New businesses in particular should take into account market demand for their products and services.
 - Business and trade associations could play a productive role in facilitating healthy business competition and cooperation.
- **Improve business practices** to make Chinatown more appealing to prospective customers and benefit businesses in other ways.
 - Chinatown businesses should focus on being consumer-friendly. For example, greater use of English and being polite and helpful make a business more inviting.
 - Businesses should follow legal and regulatory requirements, including tax and labor laws. Operating legally can offer access to government assistance, tax credits and mainstream capital markets. Better working conditions also can elevate employee morale and productivity. Furthermore, greater attention to consumer protection and safety would upgrade the image of Chinatown.
- **Provide targeted assistance** to help businesses enhance their strategies and practices. Programs should be available to provide the enabling support necessary to transform Chinatown businesses. These programs could incorporate the following elements:
 - Offering access to capital for investment in business improvements.
 - Advising and assisting business owners on business strategy, market research and marketing, better busi-

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- ness practices, employee wages and benefits, and compliance issues.
- Educating business owners and employees on cleanliness, customer service orientation, compliance issues and civic responsibilities.
- Increasing the use of English in businesses.
- Strengthening and professionalizing business and trade associations.
- **Sustain environmental and business improvement efforts** to raise the community's image and stimulate business growth.
 - Sustaining the Chinatown Partnership Local Development Corporation (CPLDC) beyond its initial funding is vital. Besides continuing its street cleaning and marketing efforts, CPLDC can implement further neighborhood enhancements, such as lighting and directional signage (way-finding), as well as coordinate new economic development initiatives.
 - Feasibility of a Business Improvement District (BID) should be explored. BIDs have worked in many neighborhoods in New York City, including Flushing. The feasibility assessment should take into consideration any serious negative impact on the already struggling businesses that a BID may cause as well as identify possible interim remedies that would ease the immediate burden of these businesses and create the necessary economic conditions for a BID in Chinatown.
 - Other forms of community support as alternatives to a BID for sustaining the CPLDC should also be investigated.
 - Property owners should share responsibility for upgrading Chinatown's appearance, for example, by repairing and cleaning sidewalks.
- **Resolve parking and transportation issues** to make it easier for customers to patronize Chinatown businesses.
 - Establishing another municipal parking garage in or near Chinatown would help offset the post-September 11th closure of the Police Plaza garage to the public.
 - The New York City Department of Transportation should consider implementing other proposals for street improvements, as well as issues related to commuter vans and intercity buses and enhanced access between Chinatown and the rest of Lower Manhattan.
- **Pursue transformational development projects** that could strengthen Chinatown's cultural and economic assets, spur an economic resurgence, and receive broad community support.
 - City planning and economic development officials, Chinatown leaders, community development organizations, and private developers should explore the viability of such projects in and around Chinatown.
 - Several potential projects include a Pacific Rim office center, a cultural and performing arts center, an ethnic and/or gourmet food destination, comparable to San Francisco's Ferry Terminal, Boston' Faneuil Hall or Seattle's Pike Place Market, and one or more major high-quality restaurants with the capacity to support business functions.

Introduction

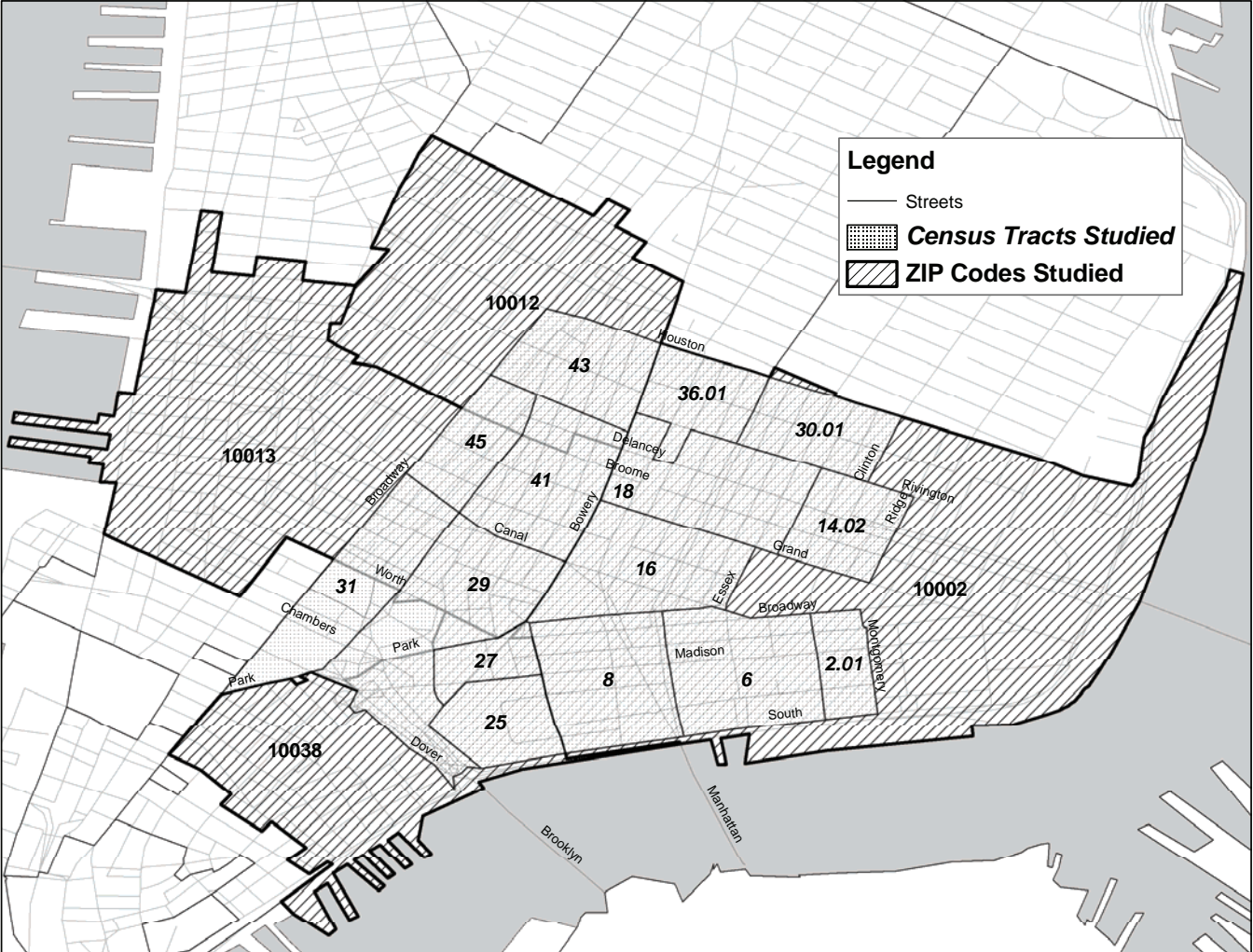
In 2002, the Asian American Federation released two landmark studies that documented unprecedented business, job and wage losses in Manhattan’s Chinatown following the September 11, 2001 attacks on the World Trade Center. The reports described how after-effects of the tragedy had exacerbated existing physical and economic infrastructure weaknesses. In addition, the reports identified most adversely affected industries and occupations, cited unmet needs, and made recommendations for disaster relief and community rebuilding.

Since the release of the reports, public and private entities have taken significant steps consistent with the reports’ recommendations. Asian Americans for Equality convened the Rebuild Chinatown Initiative in November 2002, initiating an unprecedented community-based planning process that provides a framework and vision for Chinatown’s future development. As a

result of this effort, in 2005, the Chinatown Partnership Local Development Corporation (CPLDC) was established with funds administered through the Lower Manhattan Development Corporation (LMDC). In January 2006, Chinatown and the Lower East Side were designated an Empire Zone, making qualified businesses operating in the zone eligible for state tax incentives.

While many direct effects of the tragedy have abated in the six years since September 11, 2001, the media and the community continue to report on struggling Chinatown businesses. Chinatown still faces major challenges to its economic stability on several fronts. This study identifies those challenges and their underlying issues, as well as examines economic opportunities. The report recommends actions for business owners, community leaders and policy-makers to consider to improve the business climate, enable long-term economic devel-

Figure 1: Map of Areas Studied



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opment, and strengthen Chinatown's cultural foundations.

The study integrates data from government sources; field surveys of businesses; and interviews with community, business and economic development leaders.

Government records were used to quantify changes in the distribution of businesses and employment across industries. A field survey of more than 300 restaurants, retail establishments and personal-care service businesses gathered information on the current status and plans of those businesses.

Given the variety of sources, this report does not cover a specific study area. Field survey data and Reference USA business directory data were collected based on an area similar to that studied in the two previous Federation reports on Chinatown. This area covered 15 census tracts, as shown in Figure 1. Thirteen of those tracts were selected because each of them had more than 500 Asian residents and a more than 25 percent-Asian population. The remaining two tracts were chosen because they had a significant number of garment factories.

Employment information from the New York State Department of Labor was available only by ZIP code. Chinatown is covered by four ZIP codes – 10002, 10012, 10013 and 10038. However, most of Chinatown is located in two ZIP codes, 10002 and 10013, referred to together in this report as the Core ZIP Codes Area.

The report's contents are as follows:

- **Chapter 1** describes the current state of Chinatown's economy, overall and by industry sector. It draws on data from Federation surveys and government sources.
- **Chapter 2** assesses marketplace shifts, as well as challenges and opportunities for Chinatown businesses. It also considers implications of these factors. Material is based largely on a survey of Chinatown businesses, along with a series of interviews with business and community leaders and development experts.
- **Chapter 3** recommends steps business leaders and policy-makers can take to help Chinatown's economy overcome obstacles and realize its potential.

Chapter 1: Current Status of Chinatown Economy

This chapter covers the current state of Chinatown's economy. After a short summary of findings, the first section reports on industries represented in Chinatown, quantifies Chinese ownership by industry group, and provides revenue data. The second section describes the state of the major industry sectors in Chinatown. The final section analyzes employment and total wage data

for Chinatown-based businesses.

Statistics on Chinatown businesses came from two sources: the Quarterly Census of Employment and Wages (also known as ES202) data from the New York State Department of Labor and the Reference USA business directory published by InfoUSA.¹

Table 1: Summary of Findings in Core ZIP Codes Area (10002 and 10013)

Industry Sector	Industry Concentration	Ratio of Chinese to Non-Chinese Ownership	Number of Establishments	Employment	Average Wages
Manufacturing	Apparel manufacturing, food manufacturing, and printing	0.87	-33 %	-42 %	+ 15 %
Wholesale Trade	Apparel, grocery and jewelry	1.06	-5 %	+ 5 %	+ 17 %
Retail Trade	Clothing, jewelry, and food and beverage stores	0.91	-2 %	-6 %	+ 3 %
Finance and Insurance	Insurance agencies and brokerages, commercial banking, and investment firms	1.43	+ 8 %	+ 12 %	-6 %
Real Estate	Real estate brokers	0.69	+ 7 %	-13 %	-26 %
Professional, Scientific and Technical Services	Law and accounting firms	0.39	+ 4 %	-4 %	+ 35 %
Health Care and Social Assistance	Physicians' offices	1.65	+ 13 %	Unchanged	+ 21 %
Accommodations and Food Services	Restaurants	0.88	+ 5 %	+ 5 %	+ 6 %
Other Services	Personal care businesses, and religious, grantmaking, civic, professional and similar organizations	1.30	+ 13 %	+ 14 %	+ 4 %

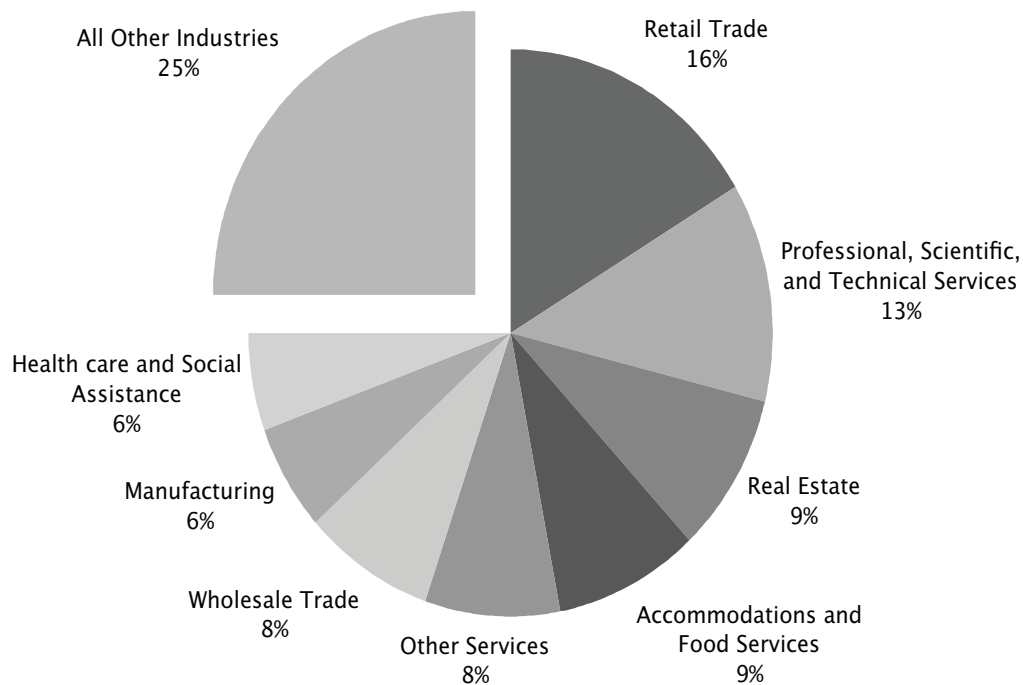
Table 2: Number of Businesses in the Core ZIP Codes Area of Chinatown, 10002 and 10013

Industry	2nd Quarter 2001	2nd Quarter 2004	Change from 2001-2004
Retail Trade	1,124	1,101	-2 %
Professional, Scientific and Technical Services	819	849	+ 4 %
Real Estate	575	613	+ 7 %
Accommodations and Food Services	572	602	+ 5 %
Other Services	495	557	+ 13 %
Wholesale Trade	568	542	-5 %
Manufacturing	615	410	-33 %
Health Care and Social Assistance	331	373	+ 13 %
Information	244	238	-2 %
Administrative Services	233	227	-3 %
Construction	220	226	+ 3 %
Finance and Insurance	164	177	+ 8 %
Arts, Entertainment and Recreation	130	145	+ 12 %
Transportation and Warehousing	90	75	-17 %
Education	69	73	+ 6 %
Public Administration	16	15	-6 %
Management of Companies and Enterprises	0	11	N/A
TOTAL	6,505	6,737	4 %

Source: New York State Department of Labor, ES202 Data. Numbers of establishments listed for industries do not add up to totals because some businesses were not classified by industry.

Figure 2: Share of Chinatown Businesses by Industry in 2Q 2004

Businesses in Two Core Zip Codes of Chinatown 2nd Quarter 2004



Source: New York State Department of Labor, ES202 Data.

In addition to examining government and other existing data, the Federation relied on three forms of primary research to inform this chapter:

- One-on-one interviews with leaders and key contacts of restaurant and retail businesses and industry associations, on the current economic climate, as well as growth potential of existing and emerging industries.
- A survey of 300 Chinatown businesses about existing economic conditions.
- Interviews with economic development experts on ways to encourage Chinatown economic development.

Summary of Findings

Government data reveal these diverse trends in Chinatown's economy from second quarter of 2001 to the second quarter of 2004:

- The total number of business establishmentsⁱⁱ in Chinatown increased slightly.
- However, the number of businesses in two traditionally important sectors, manufacturing and retail trade,

declined while other segments grew, producing changes in Chinatown's business mix.

- Employment in Chinatown businesses as a whole fell slightly. The number of jobs decreased substantially in the manufacturing and retail sectors, while rising in other industry segments.
- Average wages overall increased slightly more than inflation, but average wages in retail trade and accommodations and food services, which employ many new immigrants, did not keep pace with inflation.

The table below summarizes the status of the key industry sectors of Chinatown from second quarter 2001 to second quarter 2004. Industry segments that had a high share of Chinese ownership of businesses or provided a large percentage of jobs to Chinese Americans are identified as key industries.

Numbers and Types of Businesses in Chinatown

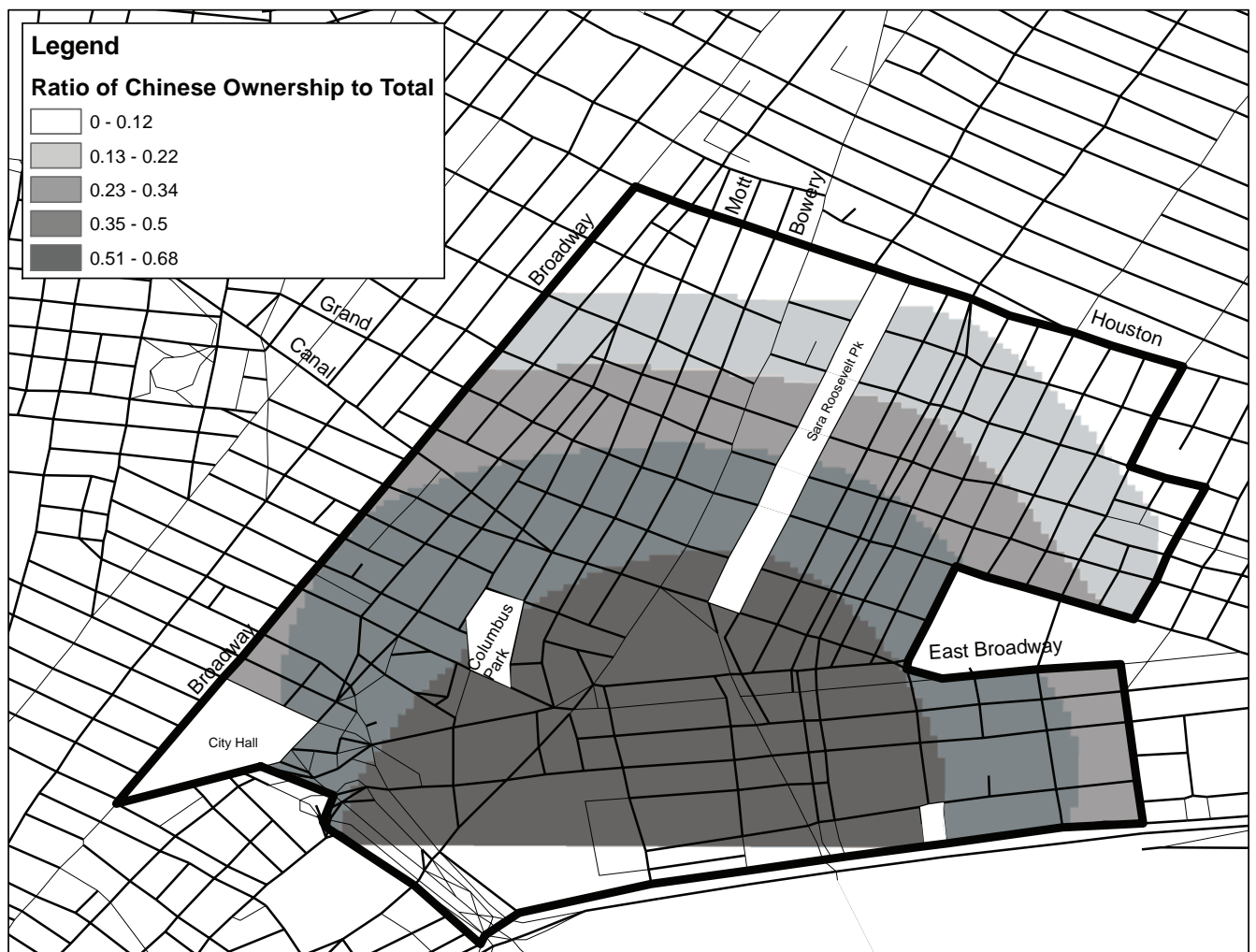
The total number of businesses in the Core ZIP Codes Area of Chinatown grew by 4 percent from second quarter 2001 to second quarter 2004. The share of businesses

Table 3: Ratio of Chinese to Non-Chinese Ownership Among Chinatown Businesses

	Ownership			Ratio of Chinese to Non-Chinese Owners
	Non-Chinese	Chinese	Unknown	
Health Care and Social Assistance	34%	56%	10%	1.65
Administrative Services	20%	33%	47%	1.63
Finance and Insurance	33%	47%	20%	1.43
Other Services	35%	46%	19%	1.30
Wholesale Trade	38%	40%	22%	1.06
Retail Trade	43%	39%	19%	0.91
Accommodations and Food Services	50%	43%	7%	0.88
Manufacturing	43%	38%	20%	0.87
Education	45%	38%	17%	0.83
Transportation and Warehousing	7%	5%	88%	0.73
Real Estate	41%	28%	31%	0.69
Construction	42%	26%	33%	0.62
Professional, Scientific and Technical Services	61%	23%	16%	0.39
Information	63%	19%	18%	0.30
Management of Companies and Enterprises	50%	13%	38%	0.25
Arts, Entertainment and Recreation	70%	12%	18%	0.17

Source: 2006 Reference USA Directory

Figure 3: Map of Chinese-Owned Businesses



in each industry group also shifted as Chinatown’s economy became less reliant on light manufacturing and more dependent on services.

As shown in Table 2, in the Core ZIP Codes Area, the largest industry segments by number of establishments in second quarter 2004 were, in descending order, retail trade (1,101 establishments); professional, scientific and technical services (849); real estate (613); accommodations and food services (602); other services (557); wholesale trade (542); manufacturing (410); and health care and social assistance (373).

Numerical growth from second quarter 2001 to second quarter 2004 occurred mainly in health care and social assistance (including nonprofit organizations); other services (including repair and maintenance; personal-care; and laundry businesses); real estate; arts, entertainment and recreation (including nonprofits); and accommodations and food services. The number of manufac-

turing businesses – especially in the apparel industry – continued to decline.

Reference USA data reveal that, within broad categories, Chinatown businesses in 2006 were concentrated in a few industries: apparel manufacturers, apparel wholesalers, jewelry wholesalers, clothing stores, jewelry stores, food service, and personal-care businesses.

Reference USA information on specific industries and locations of listed businesses was used to examine the types of businesses in each broader industry group, producing this information:

- Of retail trade businesses, 23 percent were clothing stores; 14 percent were jewelry stores; 11 percent were food and beverage stores; and 5 percent were gift, novelty and souvenir stores.
- Professional, scientific and technical services businesses included law firms (35 percent of establishments in

this category), architectural firms (13 percent), graphic design firms (7 percent), and accounting firms (6 percent). Chinese-owned professional services businesses were concentrated in law (39 percent) and accounting (20 percent), compared with non-Chinese-owned businesses, 47 percent of which were law firms and 17 percent of which were architectural firms.

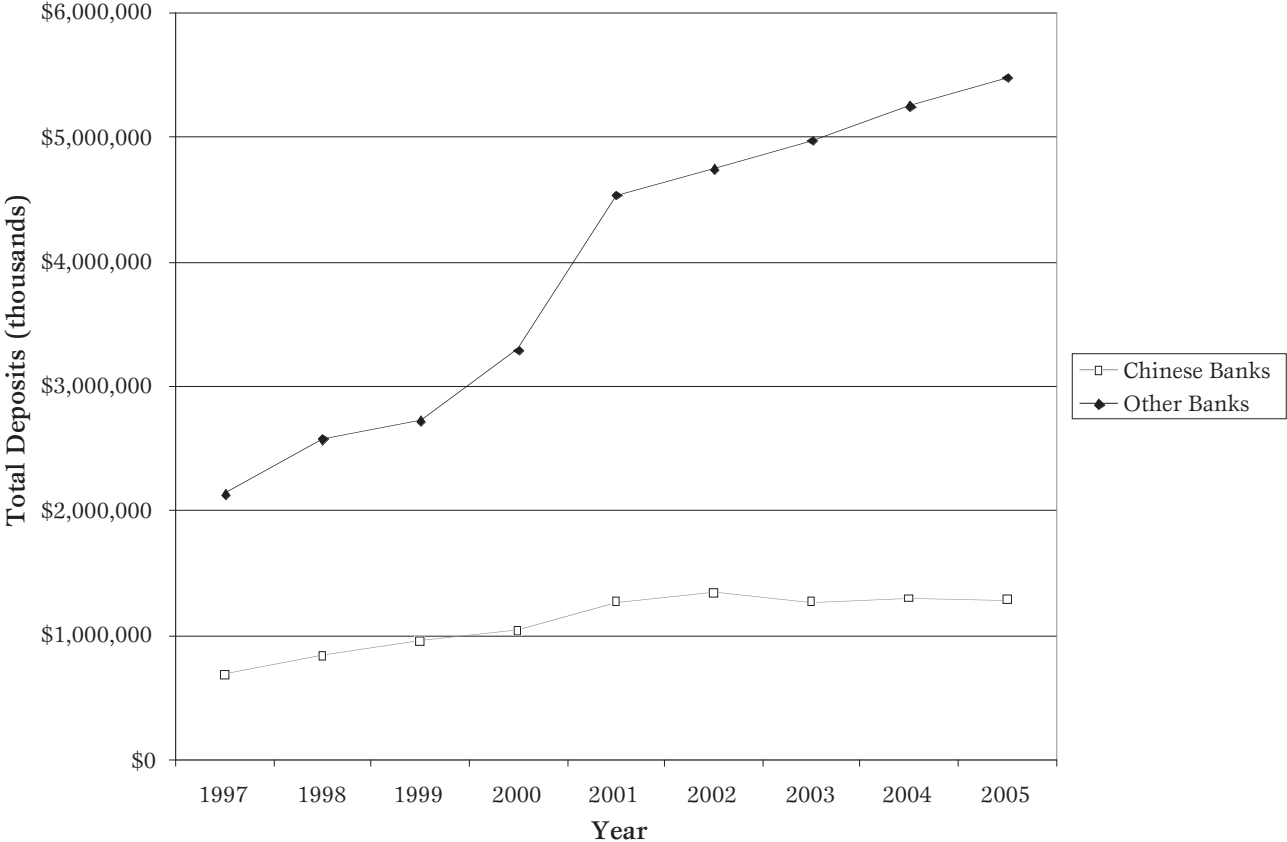
- Real estate agents represented 80 percent of the real estate sector, with the remaining firms in property management and leasing.
- Of accommodations and food services establishments, 98 percent were food service-related and 2 percent provided accommodations.
- For the other services sector, 35 percent of businesses (including nail and hair salons) provided personal care, while another 35 percent of establishments were associations and community organizations.ⁱⁱⁱ Among Chinese-led businesses in this sector, 48 percent were personal-care providers and 34 percent were community organizations.
- Segments for wholesalers were apparel wholesale

(19 percent of firms in this category), jewelry wholesale (13 percent), and grocery wholesale (12 percent). Among Chinese-owned wholesalers, 23 percent were in grocery wholesale, 15 percent were in apparel, and 6 percent were in the jewelry sector.

Again from Table 2, health care and social assistance; other services; and arts, entertainment and recreation sectors had the highest percentage growth in the number of establishments in Chinatown. Reference USA data provide more detail on health care and social assistance and arts, entertainment and recreation sectors. The “other services” industry was discussed previously. As of 2006 Reference USA, for health care and social assistance, 87 percent of businesses (about half of which were physician’s offices) were in health care, and the remaining 13 percent offered social assistance. Arts, entertainment and recreation establishments were spread among theater and performing arts companies (34 percent of establishments); independent artists, writers and performers (22 percent); museums (18 percent); and fitness and recreational sports centers (13 percent).

Manufacturing, and transportation and warehousing

Figure 4: Deposits in Chinese and Non-Chinese Banks in Chinatown, 1997-2005



Source: Federal Deposit Insurance Corporation

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industry groups showed significant decreases in numbers of establishments, while numbers of firms for other industry sectors held relatively steady. The number of manufacturing establishments plunged by about one-third, and transportation and warehousing firms dropped by 17 percent for the Core ZIP Codes Area.

According to Reference USA data, the manufacturing sector was concentrated in apparel manufacturing (22 percent of manufacturing businesses), food manufacturing (21 percent), and printing (14 percent). Among Chinese-owned manufacturers listed, 40 percent were in food manufacturing, 25 percent were in printing, and 11 percent were in apparel manufacturing.

Industries in Chinatown with more Chinese-owned establishments than non-Chinese owned businesses (a ratio of Chinese-owned to non-Chinese owned businesses greater than 1.0) were health care and social assistance, administrative services, finance and insurance, other services, and wholesale trade. Wholesalers were clustered in sectors roughly reflecting the mix of retail businesses in Chinatown: 19 percent in apparel, 12 percent in the grocery segment, and 13 percent in the jewelry sector.

Industry categories with substantial but not majority Chinese ownership (ratios greater than 0.8) were retail trade, accommodations and food services, manufacturing, and education.

While a large number of Chinatown businesses in second quarter 2004 were in professional, scientific and technical services, this industry group had a smaller share of businesses identified as Chinese-owned than the other prominent Chinatown industries. This sector was dominated by law and architectural firms, most of which had non-Chinese owners. However, the ratio of Chinese to non-Chinese accounting firms was 4.26.

An analysis of the locations of businesses in Chinatown from the 2006 Reference USA shows that Chinese-owned businesses were concentrated south of Hester Street and east of Lafayette Street, as shown in Figure 3.

Annual revenue data for some businesses listed in Reference USA demonstrate that small businesses prevail in Chinatown. Slightly more than half, or 52 percent, of firms earned less than \$500,000 per year; 25 percent earned from \$500,000 to \$999,999; 13 percent earned from \$1 million to \$2,499,999, 6 percent earned from \$2.5 million to \$4,999,999; and the remainder earned \$5 million or more.

Key Industries

Chinatown's economy is facing a major shift in the mix of businesses. In general, individual businesses that recognize and adapt to evolving marketplace demands are holding their own or achieving success. As traditional pillars of the Chinatown economy shrink or struggle, growing industries must meet challenges to further growth to stabilize or revitalize the economy.

The traditional backbones of the Chinatown economy, apparel manufacturing and restaurants, face mounting challenges, research reveals. More than half of the garment factories existing before the terrorist attacks have closed, and remaining clothing manufacturers are struggling. A survey conducted by the Garment Industry Development Corporation (GIDC) found that the number of garment factories in Chinatown decreased by 57 percent, from 246 to 105, from before September 11, 2001 to June 2005. As the garment industry stabilizes, remaining businesses are looking for new market niches. One area of opportunity is fast-turnaround manufacturing to meet the ever-changing demands of the fashion industry. On the positive side, average wages for Chinatown garment workers rose from 2001 to 2004, which suggests that garment employees as a whole in 2004 were more skilled than pre-9/11 workers. The decline in the garment industry has hit Chinatown especially hard because the industry has long been an important source of Chinatown jobs and retail consumers.

The restaurant industry continues to be a tough business. A Federation survey of local businesses showed that 43 percent of restaurants reported a steady decline in business from 2001 to 2005, with 36 percent reporting unsteady performance and only 10 percent experiencing steady or growing business. The remainder of restaurants did not respond to the question.

Workers' wages did not keep up with inflation from 2001 to 2004, indicating that competitive pressure among restaurants remains fierce. A lack of nightlife in Chinatown also makes it difficult for restaurants to attract evening business, and garment-industry job losses and relocations have reduced restaurants' traditional customer base. However, restaurants catering to Chinatown's growing Fujianese population report brisk business.

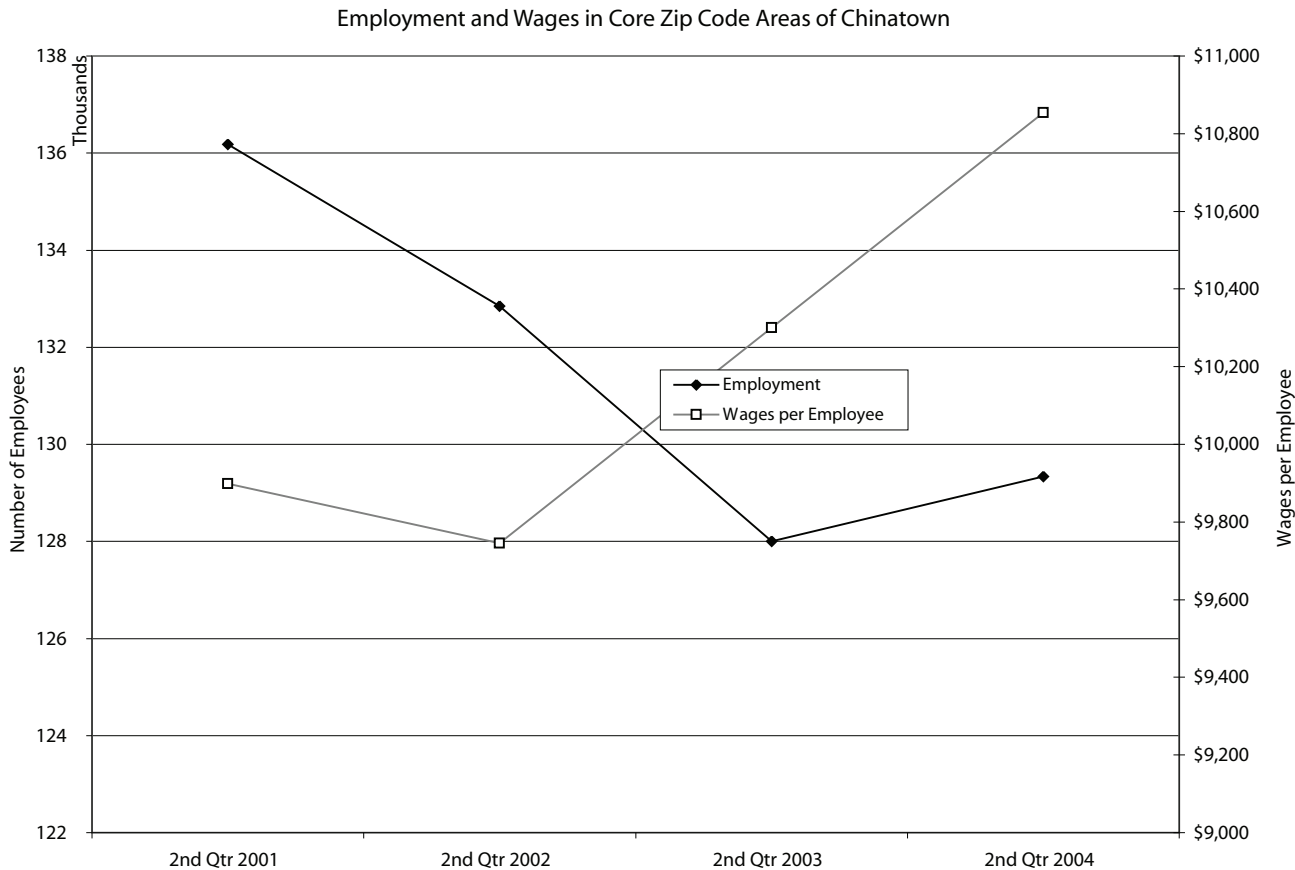
Like the restaurant industry, most of Chinatown's retail businesses also suffer from intense price competition, a negative image regarding service and quality, and relatively little tourism. Numbers of businesses and work-

ers, as well as wages, have dropped for the retail trade. Personal-care businesses, including nail and beauty salons, have increased in number and reportedly are faring well. Many of these businesses are drawing customers from outside of Chinatown and serving non-Chinese clients. However, wages fell from 2001 to 2004 as competition mounted.

in this segment's growth. Real estate prices are being driven by demand for residential developments in all of Manhattan. However, government data show real estate employment and average wages declined from 2001 to 2004 in the Core ZIP Codes Area.

According to interviewees with real estate developers, Chinese-owned construction companies also have bene-

Figure 5: Employment and Wages in Chinatown, 2Q 2001 - 2Q 2004



Source: New York State Department of Labor, ES202 Data

On the other hand, several industries in Chinatown have seen increases in the number of businesses and sometimes jobs. The climate for these businesses generally is perceived to be positive. Large numbers of professional services and health-care firms are responding to expanding demand for their services. According to industry experts, many Chinese-speaking clients living outside of Chinatown continue to come to the area for professional services because they are more comfortable with a familiar language and culture.

A real estate industry representative interviewed stated that real estate brokers based in Chinatown were doing more business outside of Chinatown, suggesting a factor

fited from the building and renovation market in Chinatown. These developers have begun to take on jobs outside of Chinatown, following the migration of Chinese residences and businesses to the outer boroughs and suburbs. The number of firms has not changed much, but employment and wages rose from 2001 to 2004.

Financial services establishments, especially banks opening branches, have grown in Chinatown in the past few years. Bank representatives said banks market to new Chinese immigrants because of their higher savings rate. Many Chinese customers continue to bank in Chinatown after moving their homes or businesses from

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the neighborhood. One Chinatown bank interviewee stated that most new commercial accounts with large balances are opened by businesses based in Brooklyn, Queens and New Jersey.

The Federal Deposit Insurance Corporation publishes data on deposit levels by branch for banks it insures. Overall, deposits increased about 2.4 times – from \$2.9 billion to \$6.8 billion – from 1997 to 2005 for bank branches in Chinatown. However, the proportion of those deposits going into Chinese-owned banks decreased steadily, from 25 percent of deposits in 1997 to 19 percent of deposits in 2005.

By contrast, while the rate of increase of deposits in non-Chinese banks has diminished somewhat since 2001, it has risen every year. Much of this trend can be attributed to branch openings and aggressive marketing to the Chinese market by mainstream banks.

Employment and Wages

This section looks at overall and industry trends in numbers of jobs and average wages from 2001 to 2004.

As a whole, employment in Chinatown plunged after September 11, 2001 and had not quite returned to pre-9/11 levels by 2004, ES202 data show. For the Core ZIP

Table 4: Employment by Industry in Core ZIP Codes Area, 2Q 2001- 2Q 2004

Industry	2nd Quarter 2001	2nd Quarter 2004	Change from 2001- 2004
Public Administration	67,824	64,844	-4 %
Health Care and Social Assistance	11,518	11,516	0 %
Manufacturing	11,728	6,763	-42 %
Accommodations and Food Services	6,421	6,738	+ 5 %
Professional, Scientific and Technical Services	6,435	6,203	-4 %
Retail Trade	6,136	5,765	-6 %
Finance and Insurance	3,176	3,551	+ 12 %
Administrative Services	2,901	3,415	+ 18 %
Wholesale Trade	3,087	3,230	+ 5 %
Information	3,758	3,003	-20 %
Other Services	2,203	2,506	+ 14 %
Construction	2,106	2,355	+ 12 %
Education	1,648	2,006	+ 22 %
Real Estate	2,276	1,984	-13 %
Transportation and Warehousing	1,600	1,238	-23 %
Arts, Entertainment and Recreation	564	685	+ 21 %
Management of Companies and Enterprises	0	443	N/A
Unclassified	331	557	+ 68 %
TOTAL	136,179	129,338	12 %

Source: New York State Department of Labor, ES202 Data

Figure 1 illustrates trends for Chinese and non-Chinese banks. Since 2001, deposits in Chinese banks have remained relatively constant, with a slight peak in 2002.

Codes Area (10002 and 10013), employment dropped 5 percent from 136,179 in second quarter 2001 to 129,338 in second quarter 2004. Manufacturing lost about 5,000

Table 5: Ratio of Average Real Wages, 2Q 2004 to 2Q 2001

Industry	Ratio of Average Wages in 2Q 2004 to 2Q 2001
Professional, Scientific and Technical Services	1.35
Health Care and Social Assistance	1.21
Education	1.18
Wholesale Trade	1.17
Manufacturing	1.15
Construction	1.13
Public Administration	1.07
Accommodations and Food Services	1.06
Transportation and Warehousing	1.05
Other Services	1.04
Retail Trade	1.03
Information	1.03
Administrative Services	1.01
Finance and Insurance	0.94
Real Estate	0.74
Arts, Entertainment and Recreation	0.74
Management of Companies and Enterprises	N/A
Unclassified	0.93
All Industries	1.10
Rise in Inflation from 2Q 2001 to 2Q 2004	1.09

Source: New York State Department of Labor, ES202 Data

jobs, or more than 40 percent of its workforce, during this period, offsetting job gains in some other industry segments.

ES202 data also include total wages paid by reporting establishments. Dividing total reported wages for each industry sector by total employment in that industry produced an average wage per employee for each industry. From second quarter 2001 to the same quarter in 2004, the average wage for the Core ZIP Codes Area rose by 10 percent. That increase just surpassed the 9 percent rise in the Consumer Price Index for the New York Metropolitan Area from the first half of 2001 to the first half of 2004.

Figure 3 illustrates contrasting patterns for second-quarter employment and average wages in Chinatown over the three-year period examined. It reveals the total number of jobs reported in Chinatown businesses dropped from 2001 to 2003 and then increased slightly. In the same time frame, following a dip after 2001, wages per

employee climbed steadily from 2002 to 2004.

Following is a portrait of top industry employers in second quarter 2004. The public sector employed the most people in the Core ZIP Codes Area, largely because of the presence of federal, state and local government agencies. However, most of these employers were in parts of ZIP code areas outside of Chinatown, and few public-sector workers were Chinese.

The second-largest industry by employment was health care and social assistance. While total employment in the industry was dominated by large health-care institutions, the bulk of business units were doctors' offices, a substantial number of which catered to Chinese patients. Many employees worked for Gouverneur Healthcare Services in the 10002 ZIP code and the Charles B. Wang Community Health Center in the 10013 ZIP code. Within this industry, 56 percent of Reference USA listings had Chinese owners or chief executives and 87 percent of listings were health care-

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related, while the remaining 13 percent provided social assistance. The vast majority of listings were for physicians' offices.

The three next-largest employers were the manufacturing; accommodations and food services; and professional, scientific and technical services sectors. Retail trade, which had the largest number of business units in second quarter 2004, ranked sixth in total employment.

Several industry sectors experienced employment growth – totaling about 1,500 jobs – in the Core ZIP Codes Area from second quarter 2001 to second quarter 2004. In descending order, they were construction; management of companies and enterprises (not present in 2001); education; arts, entertainment and recreation; accommodations and food services; wholesale; finance and insurance; administrative services; and other services. However, jobs these industries added did not balance out the more than 5,000 jobs lost in manufacturing. Despite these losses, manufacturing remained the fourth-largest employer in the Core ZIP Codes Area in

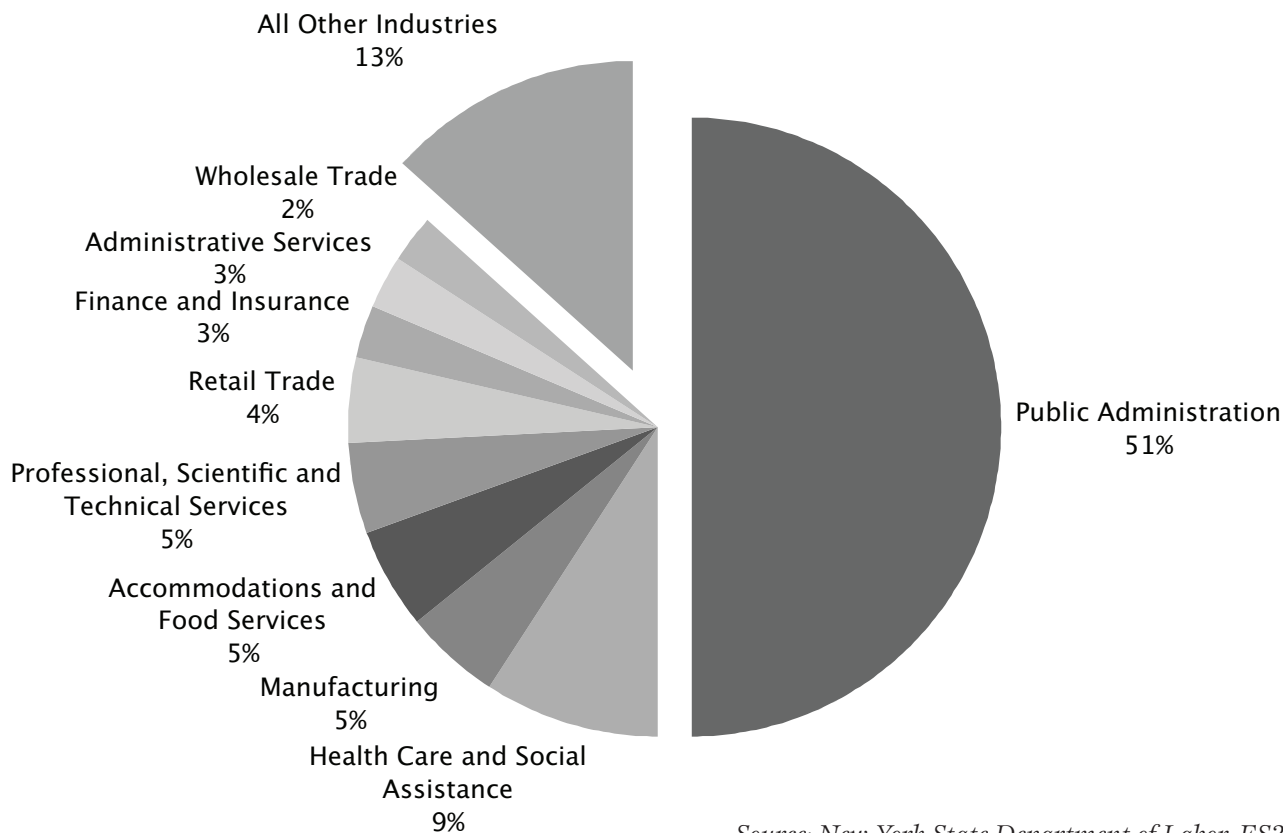
2004.

Reference USA also provides employment figures for some businesses listed. Most of these businesses had few employees. The majority (64 percent) of establishments had four or fewer employees; 21 percent had five to nine employees; 9 percent had 10 to 19 employees; and the remainder had 20 or more employees. The accommodations and food services sector had the highest median employment, with 10 to 19 employees, compared with fewer than ten employees for other industries.

Within the Core ZIP Codes Area, workers in construction; manufacturing; wholesale; professional, scientific and technical services; education; and health care and social assistance saw average wages increase in excess of inflation. However, retail trade and accommodations and food services, the two major industries that employ new immigrants in Chinatown, did not keep up with inflation in the Core ZIP Codes Area. Average real wages also fell for workers in finance and insurance; real estate; and arts, entertainment and recreation.

Figure 6: Share of Chinatown Employment by Industry, 2Q 2004

Employment in Two Core Zip Codes of Chinatown 2nd Quarter 2004



Source: New York State Department of Labor, ES202 Data

Chapter 2: Changes, Challenges, and Opportunities for Chinatown Businesses

Chapter 1 depicts an economy in transition. Gains in employment and the number of businesses in some industries have been counterbalanced by losses in other industries. Chinatown's economy has not quite returned to pre-September 11th levels, in contrast with the economic boom in New York City as a whole over the same period.

Tourism traditionally has been an important source of business for many Chinatown establishments. Thus, one might expect Chinatown to be sharing in the revival of New York City tourism. The number of tourists visiting the city in 2004 rose to almost 40 million visitors from 35 million visitors in 2002.^{iv} Total tourist spending in New York jumped almost 50 percent, from \$14.1 billion to \$21.07 billion, in that two-year period. However, ES202 data presented in Chapter 1 reveal that, over the same period, Chinatown businesses dependent on tourism, such as retail firms and restaurants, have barely recovered to pre-9/11 levels, signaling that tourism has not helped these businesses.

Summary of Findings

Multiple factors have contributed to the continued sluggishness of the Chinatown economy. This chapter will examine the factors contributing to the economic climate of Chinatown in four sections. The first section deals with marketplace changes and the shifting customer base for Chinatown businesses. Second, challenges to growth are discussed. The third section suggests opportunities for growth. The chapter concludes with a discussion on the implications of these factors.

Changes in Chinatown's customer base have hurt traditional businesses and created opportunities for new businesses and longtime businesses willing to adapt.

- Decreased manufacturing employment in Chinatown has reduced the number of workers eating out and shopping during the day.
- New immigrants from China's Fujian province, new non-Chinese residents, and some affluent Chinese returning to Chinatown are diversifying the traditional Cantonese and Toishanese working-class population in Chinatown.
- Growth of other Chinese immigrant enclaves in the

New York metropolitan area also has put pressure on Chinatown businesses to distinguish themselves from competitors in those newer Chinese communities.

Diversified economic growth in those enclaves reduced the need for residents in those areas to travel to Manhattan's Chinatown to shop for products and services.

In addition to shifts in the customer base, Chinatown businesses face these barriers to economic growth:

- A negative mainstream image of Chinatown's physical environment as unattractive and unwelcoming hinders businesses ability to bring in new customers. Issues include perceptions of poor customer service, traffic and parking problems, and dirty streets.
- A scarcity of high-quality, affordable commercial and retail space in Chinatown restricts business expansion.
- Growth-constraining business practices put many Chinatown businesses at a disadvantage. Competition based solely on price has created an environment in which low-quality and undifferentiated goods and services predominate.

Despite these challenges, Chinatown has major prospects for economic growth, largely stemming from its location and rich cultural heritage.

- The residential population in Lower Manhattan is growing, and Asians are well represented in that area. Daytime populations in neighborhoods surrounding Chinatown also are increasing. Thus, businesses that provide a distinctive service to these groups have a ready and expanding market to tap.
- Chinatown's central location in the New York metropolitan area positions the neighborhood as a commercial hub for the Chinese community, especially in the financial and professional services arena.
- Major development projects, such as the World Trade Center redevelopment, September 11th Memorial, and Fulton Street transportation hub will draw more visitors and workers close to Chinatown.
- As mainland Chinese firms establish offices in Manhattan and it becomes easier for mainland Chinese to obtain tourist visas, Chinatown has an opportunity to serve this potential visitor and tourist market.

Changes in Customer Base

The customer base in Chinatown has changed significantly over the last two decades in these respects:

- The decline in the garment industry has decreased measurably the daytime population in Chinatown, a key component of the traditional customer base.
- As this traditional customer base shrinks, the growth in Chinatown's Fujianese population and the influx of non-Chinese and some returning Chinese immigrants and retirees have created a demand for products and services catering to these markets.
- The continued growth of Chinese communities in Flushing, Queens, and in Sunset Park, Brooklyn, in the last two decades has spawned alternative commercial enclaves that force Chinatown businesses to find a comparative advantage to promote themselves.

Chinatown businesses will need to adjust to these changes and provide goods and services geared toward these new markets while continuing to serve the traditional customer base. The relatively small proportion of businesses that have addressed new customer needs has found success.

Decline in Traditional Customer Base

Job losses in the garment industry have had a marked impact on Chinatown's long-established customer base. The garment manufacturing industry not only provided jobs for Chinatown residents, but it also brought in employees from outside of the community because the labor pool of residents was much smaller than the total number of available garment industry jobs. In 2000, 6,900 Asians – predominantly Chinese^v and mostly in apparel manufacturing – worked in production occupations in Chinatown. Of Asian residents in Chinatown, 5,395 were employed in production occupations, indicating the industry hired from outside Chinatown.

Many interviewees said the reduction in the apparel-industry workforce has hampered restaurants and retail establishments, which had relied on daytime workers running errands and buying lunch. Chinatown businesses, especially in the restaurant and retail sectors, largely depend on daytime revenue because Chinatown has little nightlife. Those interviewed suggested many former garment workers have moved to jobs in the hotel industry or trained to become home health aides. Because Chinatown currently has few hotels and home health

aides work all over the city, these former garment workers are now dispersed across the city and, in some cases, to other parts of the Northeast. However, some community leaders said some former Chinatown workers continue to patronize Chinatown businesses on weekends and days off, mitigating the effect of their daytime departure.

Shift in Mix of Residents

A number of changes in the mix of residents in Chinatown also has altered the customer base for Chinatown businesses. Over the past 20 years, growth of the Fujianese population in Chinatown, due to new immigration patterns, has generated demand for businesses supporting their food, entertainment and service preferences. Newer Fujianese-owned businesses have sprung up along East Broadway, away from the historic heart of Chinatown.

In another substantial development, new luxury developments in Chinatown are attracting white-collar professionals. From 2000 to 2006, the percentage of residents in Manhattan Community Board 3 who were in management, professional and related occupations rose from 40 percent to 44 percent.

In interviews with community leaders, Federation research found that since 2000, some affluent Chinese are returning from the suburbs to inhabit new luxury condos in the heart of Chinatown, while new upscale condos on Chinatown's periphery have been attracting non-Chinese. Chinatown also holds attractions for Chinese retirees, including public transit and large numbers of businesses that serve Chinese customers, such as banks, grocers, accounting firms and health-care establishments.

Existence of Alternative Ethnic Enclaves

Over the past two or three decades, the development of Chinese enclaves in other boroughs and other parts of the metropolitan area has reduced the need for Chinese immigrants living outside of Manhattan to travel to Chinatown for products and services. According to Census Bureau estimates, the Chinese population grew faster in counties surrounding New York City than in the city during the first half of this decade. From 2000 to 2006, the Chinese population in suburban counties of the New York metropolitan area increased by an estimated 24 percent, compared with 20 percent growth in New York City's Chinese population. Chinese and Asian

supermarkets and malls have opened in the suburbs to serve these burgeoning markets, reducing the need for suburban Chinese to travel to Chinatown for ethnic staples.

Within the city, ethnic communities in Flushing and Sunset Park present substitutes for Manhattan's Chinatown, particularly in the restaurant and retail sectors. From 2000 to 2006, the Chinese population in Chinatown held steady while the population increased by 27 percent in Sunset Park and 55 percent in Flushing. Comparing ES202 data from second quarter 2001 and second quarter 2004, the number of restaurants rose 5 percent in Chinatown, 15 percent in Sunset Park, and 12 percent in Flushing.^{vi} In the same time frame, Chinatown saw a decrease of 2 percent in its number of retail businesses, compared with a 7 percent increase in Sunset Park and a 1 percent gain in Flushing.

Challenges

Business and policy leaders identified three major categories of challenges to growth and diversification of Chinatown's economy. The intertwined obstacles relate to image, business practices and infrastructure.

Poor Image in the Mainstream

Chinatown battles a persistent image among the general public as an unattractive, unappealing business district. The lack of esthetic appeal stems largely from the physical environment. Chinatown seems uninviting due to perceptions that businesses are unfriendly and that physical limitations hamper visiting Chinatown.

Chinatown's physical environmental issues have been well-documented. Narrow sidewalks are further congested for pedestrians by businesses using sidewalks to display wares. Sidewalk cleanliness is inconsistent from storefront to storefront, and maintenance is often delayed. Chinatown businesses also face constraints, such as inadequate space for dumpsters near some old buildings and streets too narrow for large sanitation trucks to navigate. The result is that often trash is left in open view during business hours. A paucity of environmental amenities, such as trees, contributes to the area's unattractiveness.

Vehicular traffic and parking in Chinatown are notoriously problematic. Canal Street not only draws Chinatown-bound traffic but also is a principal cross-Manhattan thoroughfare. Chronic traffic-flow issues in and around Chinatown also discourage visitors, especially consumers who previously came to Chinatown for weekly grocery shopping. Rather than face traffic jams and parking shortages in Chinatown, shoppers and other metro-area residents are turning to alternatives in other boroughs and cities.

Parking has suffered from the post-9/11 loss of public spaces in the Manhattan Civic Center Parking Garage. Street parking remains a scarce resource and must compete with delivery of goods to Chinatown.

Customer service issues also hurt the public view of Chinatown. A general lack of customer service reduces the appeal of shopping and dining in Chinatown. Limited English capabilities of staff make it challenging for people who do not speak Chinese to patronize Chinatown businesses. Gruff service from a few businesses hurts the image of all Chinatown establishments. Many stores and restaurants operate on a cash basis, which discourages those customers who prefer the con-

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venience of credit card transactions. Finally, some restaurants still maintain separate menus for Chinese and non-Chinese customers, implying that restaurants know what is best for customers.

Infrastructure Deficiencies

Another concern of business leaders is the poor state of Chinatown's public infrastructure and building stock. Infrastructure hurdles extend to zoning, land-use and real estate issues, those interviewed and surveyed said. More stability in the real estate market would encourage businesses to plan for the long term. A business owner who has to worry about losing a lease is less likely to think about long-range business improvement than one with a stable rental situation.

Developers commented that zoning requirements, not updated in more than 40 years to reflect community changes, restrict Chinatown buildings to low heights relative to surrounding neighborhoods. Due to zoning limitations and population growth, Chinatown does not have enough land and properties available for conversion and further development, the developers said. They expressed concern that zoning restrictions prevent them from responding to increasing demand for residential and commercial facilities.

However, current zoning allows some opportunities for development, and other factors may pose greater roadblocks. An Asian Americans for Equality survey identified a number of underbuilt lots on Canal Street and Bowery that could be developed without zoning changes. Portions of Chinatown are zoned for buildings as many as twenty stories high, providing an opportunity to build a showcase project without going through the long rezoning process. Some community leaders maintain that a bigger challenge to large-scale redevelopment is fragmented Chinatown property ownership, which makes it very difficult to assemble a parcel large enough for a major project.

The caliber and type of buildings in Chinatown present another dilemma. One banker stated that the infrastructure and business environment in Chinatown are geared to small businesses. With few quality commercial buildings available to support the growth of professional businesses in Chinatown, such firms often must leave Chinatown after reaching a certain size. In addition, numerous buildings are very old and poorly maintained. Many commercial spaces, including those in prime locations, are walk-ups.

The final infrastructure issue is that of rising rents and building values. Very high commercial rents are contributing to difficulty in sustaining businesses. Rent is a major portion of operating costs for Chinatown restaurants and retail establishments. The combination of higher rents and lower revenues is intensifying the very competitive environment that is threatening business survival.

Chinatown residential properties as a whole have soared in value in just a few years. According to data from the New York City Housing and Neighborhood Information System, the median value of housing units in Chinatown and on the Lower East Side nearly quadrupled from \$53,820.70 (adjusted for inflation to 2002 dollars) in 1999 to \$200,000 in 2002. Similarly, New York City Department of Finance sales records show that for units in residential buildings with five or more units in Community District 3, the median price rose from \$66,449 in 2000 to \$154,167 in 2004.

Increasing values have driven new condo development and conversions in recent years. According to *The New York Times*, five high-end condo buildings opened in Chinatown in two years, and at least eight more were under construction or planned as of September 2006. Some condos have been converted from industrial space, replacing garment factories and light industry that previously provided jobs for the neighborhood.

A number of factors have exacerbated the real estate situation. Leaders of community groups that help Chinatown small businesses reported that many new immigrant business owners are not savvy about negotiating rents. Some community leaders accuse some landlords of warehousing space, either to sell the property at a higher price or to rent out space at a higher price in the future. Landlords argue that rent-controlled buildings have to earn income from commercial rents – a factor that forces those prices higher as property taxes rise from higher land valuations. Other business leaders argue that an imbalance between a limited supply of commercial space and high demand for business property causes high rents. Zoning regulations restrict development projects, decreasing available appropriate space.

Growth-Constraining Business Practices

Common Chinatown business practices encourage price-based competition, without regard for quality and service. Most businesses make little effort to offer distinctive goods and services. The marketplace is flooded with

undifferentiated businesses that compete only on price to capture market share, leaving poor profit margins for all involved. The prime example is restaurants offering the same long menu of dishes. Low margins prevent these small businesses from improving products, customer service or worker pay.

Chinatown financial practices also hinder economic growth. Off-the-books accounting hurts the ability of businesses to build a credit history, needed to access small business assistance from banks and government sources. Paying low wages makes it difficult to attract quality workers.

A dearth of business and marketing plans contributes to undifferentiated goods and services and impedes growth. New businesses often chase the same markets as established businesses without considering market demand. As new businesses over-saturate a market segment, the only differentiator becomes price. As prices spiral down, very low profit margins force some businesses to close and others to become low-price, low-quality providers. In some cases, this unprofitable competition spills over into violent confrontation, as experienced among commuter

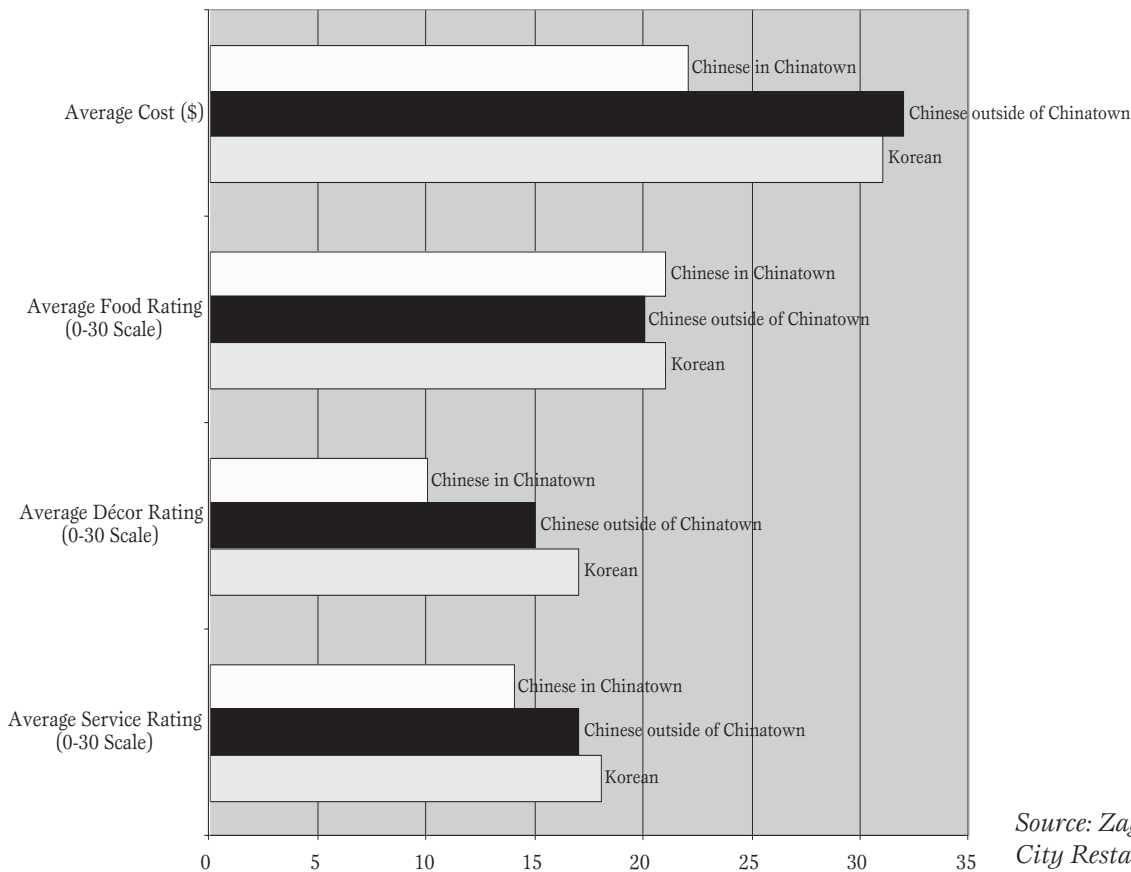
van and intercity bus companies. This business environment also discourages innovative entrepreneurs. An entrepreneur that has identified a new market niche to serve can count on numerous copycats whose only distinction is their ability to cut costs. Such a business owner may opt for a less cutthroat neighborhood.

An analysis of the Zagat 2006 New York City Restaurant Survey reinforces the damaging existence of price competition.^{vii} First, only a small minority of Chinatown restaurants are rated high enough to appear in the guide. Second, as depicted on Figure 6, those Chinatown restaurants that are rated highly for their food quality must charge low prices to remain competitive in Chinatown. As a result, Chinatown restaurants have less income to invest in service and décor than Chinese restaurants outside of Chinatown, as well as other East Asian restaurants.

Opportunities

Despite the challenging business environment, Chinatown has many opportunities for economic growth. The business community can use its chief assets – location and rich cultural heritage – to greater advan-

Figure 7: Comparison of Asian Restaurants by Average Cost and Quality Ratings



Source: Zagat 2006 New York City Restaurant Survey

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tage and capitalize on several trends to expand its customer base.

Chinatown's location in Lower Manhattan – home to a rapidly-growing number of residents – provides a prime chance to attract new customers. The household population in Manhattan Community Districts 1 and 2 increased from 125,451 in 2000 to 147,198 in 2006, or 17 percent.^{viii} A report on the population in Lower Manhattan, using a special tabulation of ACS data, revealed that the household population grew from 34,700 in 2000 to 43,700 in 2005, or almost 26 percent, compared with 3 percent overall for Manhattan.^{ix} For that study, Lower Manhattan was defined as the area south of Canal Street and west of Chatham Green and St. James Place to the southern tip of Manhattan. Over the same time period, the Asian population in Lower Manhattan rose by one-third to constitute 29 percent of the area's population, and median household income for Lower Manhattan as a whole increased from \$82,000 to \$98,100.

Daytime populations in neighborhoods surrounding Chinatown, such as SoHo, Tribeca, City Hall and the Financial District, are an important source of prospective customers. Notwithstanding Lower Manhattan's residential population boom, workers still outnumber residents in Lower Manhattan by 8 to 1. Information from 2004 indicates more than 320,000 workers in the Lower Manhattan ZIP code areas.^x

More than 192,000 people worked in the four ZIP codes that contain and surround Chinatown in fourth quarter 2004.^{xi} Many of these workers were in stable and/or well-paying sectors, including government (with nearly 65,000 workers), health care (17,000 workers), professional services (16,000 workers), information and media (12,000 workers), and financial services (10,000 workers).

Chinatown's central location also positions the neighborhood to re-establish itself as the commercial hub for the Chinese community in the New York metropolitan area. Businesses in such industries as financial services and professional services can serve a larger geographic area from a central location because they do not require daily face-to-face customer contact. The increase in the number of bank branches in Chinatown reflects a demand for financial and professional services tailored to the language and cultural needs of Chinese customers. Most of the new branches in Chinatown offer more safety deposit boxes than standard branches because the boxes

are popular among Chinese customers. Anecdotal evidence from industry sources indicates many of these bank customers are from outside of Chinatown, suggesting willingness to travel for specific services.

Major Lower Manhattan development projects, including the World Trade Center redevelopment, September 11th memorial, Fulton Street transportation hub, and waterfront redevelopment, will bring more visitors to the area. Because all these big projects are several years from completion, there is time for Chinatown to prepare to attract new customers.

Forming another potential magnet for tourists and business travelers are ten new hotel projects in and around Chinatown, including four hotels in Chinatown. Peak occupancy of Manhattan hotels has renewed interest in building new ones. Chinatown will have an opportunity to showcase itself with quality food and entertainment options for hotel guests.

Employees and clients of mainland Chinese firms arriving in Manhattan present another possible market for Chinatown businesses. According to U.S. Customs and Immigration Service data, New York State was the second most popular destination for non-immigrant admissions to the United States, behind California. According to a China Daily article, China and the United States are negotiating for the United States to receive approved destination status for Chinese tourists.^{xii} With some China-based firms locating in surrounding areas, Chinatown can offer hotels, restaurants and entertainment for this influx of expatriates, business travelers and tourists from China.

Implications

As this report has documented, Chinatown businesses relying on the traditional customer base, including working-class Chinese immigrants living and employed in Chinatown and tourists to the area, have not done well in recent years. Furthermore, certain types of businesses have grown, but their potential is constrained. For example, Chinatown's expanding professional services industry is hindered by a lack of quality commercial space, while safety concerns, limited parking and unprofitable competition hamper the growth of Chinatown bus companies. To spur business development in Chinatown, it is necessary to improve the image of the area and encourage businesses to broaden their customer bases.

Chapter 3: Recommendations

Chinatown has the potential to become an inviting commercial hub and a vibrant cultural destination.

Economic development should incorporate both immediate and long-range strategies that will strengthen existing community assets, improve the image of Chinatown while maintaining the authenticity and character of the neighborhood, address challenges to business development, enhance workforce well-being, promote healthy growth of a diversified economy, and ultimately advance the quality of life of Chinatown's residents.

Summary

This chapter proposes the following recommendations:

- Change business strategies in Chinatown to serve a diverse customer base better.
- Improve business practices to make Chinatown more appealing to prospective customers and benefit businesses in other ways.
- Provide targeted business assistance to help businesses enhance their strategies and practices.
- Sustain environmental and business improvement efforts to raise the community's image and stimulate business growth.
- Resolve parking and transportation issues to make it easier for customers to patronize Chinatown businesses.
- Pursue transformational development projects that could strengthen Chinatown's cultural and economic assets, spur an economic resurgence, and receive broad community support.

Change Business Strategies

To meet the needs of a diverse customer base, ranging from new immigrants and working-class residents to professionals, corporate customers and high-net worth individuals, Chinatown businesses need to develop more expansive business and marketing strategies. By creating an environment where a wide spectrum of establishments with unique appeal can co-exist, Chinatown could become a compelling destination.

First, Chinatown businesses need to break from price-only competition. Existing businesses could draw new customers by stressing quality offerings for all price points, while maintaining authenticity and distinctive

consumer experiences.

Second, new businesses need to take an informed approach to their business strategy. The most successful new businesses search for new market niches instead of taking market share from competitors. The latter practice, prevalent in Chinatown, results in low prices, low profit margins, and sacrifices of quality and differentiation.

For example, instead of offering low-cost, low-quality menus, restaurants could compete on quality, as well as cuisine specializations, perhaps representing different Chinese provinces. Nina and Tim Zagat, co-founders of the influential Zagat restaurant survey, wrote of the desire of mainstream customers for more varied Chinese cuisine in a June 15, 2007 op-ed piece in *The New York Times*.

Finally, business and trade associations could play a vital role in fostering healthy business competition and cooperation. For instance, there could be coordinated retail and business promotions along cultural themes (e.g., regarding the Moon Festival and Chinese New Year). In combination with the changes in the business environment, these campaigns would help bring sustainable levels of customers to Chinatown.

Improve Business Practices

Chinatown businesses also need to improve how they operate to help make Chinatown more inviting and consumer-friendly.

First, Chinatown businesses should focus on enhancing customer service and cleanliness. Being polite, friendly and helpful to all customers would not increase the cost of doing business and would increase overall customer satisfaction. Being English-friendly would help attract more non-Chinese speaking customers and international tourists eager to sample Chinese culture. Accepting credit card payments also would make businesses more appealing to the mainstream market and second-generation Chinese Americans. Businesses should also take on some responsibility for the attractiveness and cleanliness of their stores.

Second, businesses need to comply with laws and regulations, which is good not only for the businesses but also for the image of Chinatown. Accounting for business transactions properly and paying taxes appropriately also would raise the creditworthiness of Chinatown business-

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es and allow access to government assistance, tax credits and mainstream capital. Improving work conditions would make the workforce healthier and more productive, benefiting the business climate. Following health and safety regulations would improve consumer protection and the general image of Chinatown businesses.

Third, business and trade associations could take a more active role in educating and encouraging businesses to enhance their business practices. In the long run, such efforts would strengthen the Chinatown business sector.

Provide Targeted Business Assistance

Because many small businesses in Chinatown operate with low profit margins, few could afford to invest in changing their business strategy and practices. In addition, businesses still struggling to survive cannot afford certain ongoing business improvements, such as upgrading wages, employee benefits or product quality. Therefore, assistance programs must support some aspects of transforming Chinatown businesses.

These programs could incorporate the following elements:

- Providing access to capital for investment in business improvements.
- Advising and assisting business owners on business strategy, market research and marketing, business practices, employee wages and benefits, and compliance issues.
- Educating business owners and employees on customer service orientation, cleanliness, and civic responsibilities.
- Increasing the use of English in businesses.
- Strengthening and professionalizing business and trade associations.

A special five-year initiative with funding commitments from both public and private sources would provide the necessary support and momentum for a successful launch of targeted assistance programs. These programs could be implemented in partnership with appropriate business and trade associations to extend their duration.

Maintain Environmental and Business Improvement Efforts

Established in early 2005 with substantial funding from the Lower Manhattan Development Corporation and the September 11th Fund, the Chinatown Partnership Local Development Corporation (CPLDC) has been very successful in implementing neighborhood improvement and business promotion initiatives, including the Clean Streets campaign, Explore Chinatown, Tastes of Chinatown and Lunar Stages. CPLDC's other plans for lighting and directional signage (also referred to as way-finding) also are designed to make Chinatown more inviting to consumers.

Enduring business support of CPLDC is crucial. Having a financially self-sustaining mechanism to continue the progress made by CPLDC is important to Chinatown's economic growth. The Business Improvement District (BID) model has proven effective in many city neighborhoods, including Flushing, and it could be a viable option for Chinatown. Some business owners have raised concerns that a BID could burden businesses.

Feasibility of a Business Improvement District (BID) should be explored. The feasibility assessment should take into consideration any serious negative impact on the already struggling businesses that a BID may cause as well as identify possible interim remedies that would ease the immediate burden of these businesses and create the necessary economic conditions for a BID in Chinatown. Other forms of community support should also be investigated.

Resolve Parking and Transportation Issues

Parking and traffic have been perennial problems and must be improved to attract more customers to Chinatown. The post-September 11th closure of the municipal parking garage at Police Plaza has hurt Chinatown businesses, decreasing public parking spaces. Creating a municipal parking garage at another site in or near Chinatown would increase visitor and consumer traffic. Installation of 180 Muni-meters on Canal and Division streets by the New York City Department of Transportation (NYCDOT) in 2006 increased parking availability somewhat. NYCDOT should also consider implementing other proposals, including street improvements, parking for commuter vans and intercity buses, and easier access between Chinatown and the rest of Lower Manhattan.

Pursue Transformational Projects

As some advisers on this study suggested, Chinatown also needs at least two major development projects that would stimulate its economy and provide long-term transformational effects. The projects would need to have broad community support and fit into the culture and history of Chinatown.

City planning and economic development officials, Chinatown leaders, community development organizations and private developers should jointly explore project feasibility in Chinatown and surrounding areas.

Transformational projects could help draw attention to the area's resurging economic climate. The building of Confucius Plaza in the 1970s has been cited as a good example of such a project.

The Rebuild Chinatown Initiative (RCI) has identified several possible major projects.^{xiii} The Federation study's advisers have endorsed these undertakings and proposed some others. Projects that would preserve and advance Chinatown's cultural and economic assets include:

- A central food market modeled on Seattle's Pike Place Market, San Francisco's Ferry Building or Boston's Faneuil Hall.
- A municipal parking garage, as mentioned above.
- New conference and trade facilities.
- One or more major high-quality restaurants catering to professional and business interests.
- A cultural and performing arts district. A new building on Centre Street designed by Maya Lin to house the Museum of Chinese in America (MoCA) could provide the cornerstone. A performing arts center for traditional and contemporary cultural performances would strengthen Chinatown as a cultural magnet and a destination of choice, enhancing the community's economic vitality.

Endnotes

- i ES202 information from the New York State Department of Labor only is available at highly aggregated levels of detail to protect the data of private companies. This results in the data only being available by ZIP codes and major North American Industry Classification System (NAICS) code industries. As a consequence, the report also draws information from the Reference USA business directory. While Reference USA does not claim to comprehensively list all businesses, it provides a large enough sample and street addresses to make some judgments about the share of specific types of businesses in the areas studied. The Federation obtained names, NAICS codes and, in some cases, owners' names for businesses in this area from the Reference USA database. Using the database, each business was classified as non-Chinese; Chinese; or unknown, if there was insufficient information to make a determination. NAICS codes offered a better understanding of types of businesses represented in Chinatown in the key industry categories.
- ii For government statistics, establishments include any entity that employs workers. This includes businesses, nonprofit organizations, and government agencies.
- iii This category includes religious, grantmaking, civic, professional and similar organizations.
- iv NYC & Company Web site, <http://www.nycvisit.com/content/index.cfm?pagePK=y=57>, viewed June 27, 2007.
- v Chinese-only information was not available in the Census Transportation Planning Package, the source of workplace and residence data. For the most part, Asians working and living in Chinatown were Chinese. These counties are part of the New York-Northern New Jersey-Long Island Metropolitan Statistical Area, as defined by the Office of Management and Budget: Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex and Union counties in New Jersey, as well as Nassau, Putnam, Rockland, Suffolk and Westchester counties in New York. These counties are part of the New York-Northern New Jersey-Long Island Metropolitan Statistical Area, as defined by the Office of Management and Budget: Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex and Union counties in New Jersey, as well as Nassau, Putnam, Rockland, Suffolk and Westchester counties in New York.
- vi ES202 data were reported by ZIP codes. By neighborhood, the ZIP codes are 10002, 10012, 10013 and 10038 for Chinatown; 11220 and 11232 for Sunset Park; and 11351, 11352, 11354, 11355, 11358, 11367, 11371, Toy, V. (Sept. 17, 2006), "Luxury Condos Arrive in Chinatown," *The New York Times*.
- vii The Zagat survey rates restaurants on food, décor and service. The survey also includes an estimated cost of dinner with one drink and tip. While the survey does not cover all restaurants in New York City, it encompasses most of the popular restaurants. Most restaurants in the guide have a good food rating (16 to 19 on a 30-point scale).
- viii Based on comparing Census 2000 and ACS 2006 data.
- ix Salvo, Joseph J. et al. (March 2007), A Pre- and Post-9/11 Look (2000-2005) at Lower Manhattan, 2007 Population Association Meetings, New York City.
- x From the ZIP Code Business Patterns of the U.S. Census Bureau, 2003-2004. Lower Manhattan ZIP codes were 10002, 10004, 10005, 10006, 10007, 10008, 10012, 10013, 10015, 10038, 10041, 10043, 10271, 10278, 10279, 10280 and 10282.
- xi From New York State Department of Labor second quarter 2004 data. The four ZIP codes were 10002, 10012, 10013 and 10038.
- xii CRIENGLISH.COM (Nov. 8, 2007), "US likely to become Chinese travel destination" *China Daily*, http://www.chinadaily.com.cn/china/2007-11/08/content_6240832.htm.
- xiii Mourad, Warnke & Associates. (November 2002), *Rebuild Chinatown Initiative: The Community Speaks*, Asian American for Equality.

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About the Asian American Federation

The Asian American Federation is a pan-Asian organization working to advance the status and well-being of Asian Americans. We raise funds and make grants to meet community needs. We seek to inform public policies relevant to Asian American concerns and strengthen community service organizations.

Established in 1990, the Federation is a nonprofit membership organization. We fund, serve and advocate on behalf of 42 member agencies.

Related Publications

Asian American Federation (April 2002). Chinatown After September 11th: An Economic Impact Study, Interim Report. New York, NY.

Asian American Federation (November 2002). Chinatown One Year After September 11th: An Economic Impact Study. New York, NY.



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