

Commentary

In Ethnic Enclaves, The U.S. Economy Thrives

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Asian and Latino communities benefit from doing business in cash.



Dr. Alethea Hsu has a strange-seeming prescription for terrible times: She is opening a new shopping center on Saturday. In addition, more amazingly, the 114,000 square foot Irvine, Calif., retail complex, the third for the Taiwan native's Diamond Development Group, is just about fully leased.

How can this be in the midst of a consumer crack-up, with credit card defaults and big players like General Growth struggling for their existence? The answer is simple: Hsu's mostly Asian customers--Korean, Chinese, Taiwanese, Japanese--still have cash. "These are people who have savings and money to spend," she explains. "Asians in Orange County are mostly professionals and don't have the subprime business."

To Hsu, culture explains the growing divergence between ethnic markets and that of the general population. Asians, she notes, whether in their native lands or here in California, tend to be big savers. In tough times, they still have the cash to buy goods, while others stay home or go way down-market.

Nor is the Diamond Development Group's experience an isolated case. Throughout the country, ethnic-based businesses continue to expand, even as mainstream centers suffer or go out of business. The key difference, notes Houston real estate investor Andrew Segal, lies in the immigrants' greater reliance on cash. "When cash is king," observes Segal, president of Boxer Properties, "immigrants rule."

This is true not just of well-heeled Asians or Middle Easterners, but also for Hispanics, who generally have lower incomes, notes Segal's partner, Latino retail specialist Jose de Jesus Legaspi. For example, the recession has barely taken hold at La Gran Plaza, the recently opened 1.1 million square foot retail center in Ft. Worth, Texas, where Legaspi serves as part owner and operating partner.

The center, reconstructed from a failing old mainstream mall purchased in 2005, is now roughly 90% occupied. "We are doing so well that we are expanding the *mercado*," Legaspi says, referring to the thriving centers dominated by very small businesses run from attached stalls that are a popular feature of many Latino-themed centers. "It's all cash economy. They pay their bills with cash. The banks and credit card companies are not involved. It's true capitalism, and it works."

Latino shoppers, he suggests, also have been less impacted by the stock market collapse than other consumers. After all, relatively few, particularly immigrants, have large investments on Wall Street. In addition, even if they have lost their jobs, particularly in construction, Legaspi adds, they tend to pick up other employment, even at lower wages, often in the underground economy. "They get paid in cash, and they pay in cash."

This tendency of their customers to pay with greenbacks, and resist bulging [credit card debt](#), also represents one big advantage for immigrant-oriented entrepreneurs. This means less concern about looming credit card debt among customers and, as almost everyone close to the scene acknowledges, the cash economy allows them to hide some of their profits from revenue-seeking governments.

Another key advantage lies in close connections many ethnic merchants have to economies such as Korea, China, Taiwan and India, where enormous amounts of cash have accumulated in recent years. "Many of these merchants have family and other ties to the international economy," observes Thomas Tseng, a principal at New American Dimensions, a multicultural marketing group in [Los Angeles](#).

The media focuses on huge surpluses spent by major corporations or sovereign wealth funds, but a substantial amount of the money being made in places like China or India also accumulates into family networks. They often funnel this cash to relatives' enterprises in North America, where many also retain second homes and often educate their children.

This combination of cash-spending customers and well-endowed investors explains why in many places, the immigrant market remains one of the few still aggressively expanding. Even in thriving Houston, notes architect Tim Cisneros, the [credit crunch](#) has stopped many projects by clients from the mainstream real estate development community. In contrast, Cisneros' Chinese, Indian and other Asian clients continue to build and expand.

"I am doing an Asian-Mexican sushi chain that isn't hurt by the credit crunch since they are doing this out of the checkbook," Cisneros told me. "And the Indian reception hall I am building is doing well. The action is from these developing companies much more than the old Anglo groups."

If the immigrant markets helping Cisneros through the credit crush represent one of the few bright spots in the present, they also will likely become even more important in the future--even if immigration slows down dramatically. By 2000, one in five American children already were the progeny of immigrants, mostly Asian or Latino; by 2015, they will make up as much as one-third of American kids.

Given these underlying trends, look for developers like Dr. Hsu to keep prescribing more of what she calls "multicultural shopping centers," focused both on immigrants and their children. As long as these newcomers, both affluent and working class, continue to save, covet cash and work hard, they are likely to continue thriving through the recession and beyond.

"We are leased up, and we think the supply [of shopping] is not enough," Hsu says. "We are ready to go Saturday and feel great trust in the future." At a time when most mainstream American retailers are hiding under their desks, such sentiments are not only welcome; they may also indicate who might be leading the retail recovery when it finally comes.

Joel Kotkin is a presidential fellow in Urban Futures at Chapman University and executive editor of www.newgeography.com. Author of The City: A Global History, he is finishing a book on the American future.