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**Giant Retailers and Giant Contractors in China:
Emergent Trends in Global Supply Chains**

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Abstract:

Beginning in the 1970s, and accelerating throughout the 1980s and 1990s, the production of apparel and textiles, toys, footwear, home electronics, and other consumer goods destined primarily for Japan, Europe, and the United States spread throughout the world. While some of the “off-shore” factories producing for export have been large (for example, in the footwear industry), historically most have been relatively small. This is rapidly changing. One trend indicative of changes in the dynamics of global production which has begun to receive scholarly attention is the emergence of giant retailers. A second trend, equally important, has yet to be examined: The rise of giant transnational contractors, based primarily in Hong Kong, Taiwan, South Korea, and China, who operate factories throughout the world. These factories are primarily found in East Asia (China, Vietnam, Malaysia, Singapore, and Indonesia), Mexico, and Central America, although in certain sectors (such as apparel) they are beginning to appear in Africa as well. The emergence of giant transnational contractors portends a dramatic shift of organizational power within global supply chains, as large factories provide a potential counterweight to the growing power of retailers.

This paper offers some preliminary observations on two trends in the operation of global supply chains, particularly as they play out in the rapidly-growing Chinese economy: how the trend towards concentration of production in large transnational contractors impacts the relative power of contractors vis-à-vis retailers, and whether the increased concentration of production in the hands of giant transnational contractors affects labor, both in terms of working conditions and prospects for unionization.

Introduction: The Changing Dynamics of Global Production

The explosive globalization in the labor-intensive production of consumer goods is by now a well-known and well-documented phenomenon. Beginning in the 1970s, and accelerating throughout the 1980s and 1990s, the production of apparel and textiles, toys, footwear, home electronics, and other consumer goods destined primarily for Japan, Europe, and the United States spread throughout the world. This process has been characterized both as a “race to the bottom,” with retailers and manufacturers seeking the lowest-cost production to be found with an increasingly global workforce, as well as an important step in export-led development through industrial upgrading, as best exemplified in the economic rise of East Asia (Gereffi, 1999; Gereffi and Kaplinsky, 2001; Lüthje, 2004). It has contributed to an explosive growth in employment opportunities in many developing countries, spurred the growth of small businesses, and stimulated growth in the informal economies of many countries (UNCTAD 2004).

Small firms as well as large ones have been able to access factories around the world. The global networks through which this international production is coordinated are typical buyer-driven global commodity chains “in which large retailers, marketers and branded manufacturers play the pivotal roles in setting up decentralized production networks in a variety of exporting countries,” typically located in the developing world (Gereffi and Memedovic, 2003: 3). In buyer-driven global commodity chains, retailers and manufacturers are best understood as “branded marketers” who do not actually make their own products, but rather design them and create a market based on product image and recognition. They place orders with the independently-owned contract factories that provide the labor, and oversee all aspects of the actual production process (Gereffi, 1994; Appelbaum and Gereffi, 1994; Gereffi, 2001). Buyer-driven global commodity chains are becoming increasingly important in global production (Bair, 2005).¹

Global competition between contractors competing for the orders of these “big buyers” has been a key factor in keeping labor costs down, since any factory that could not meet the price requirements of its clients risked losing business to another factory down the street or around the globe. This dynamic has also discouraged efforts by workers to form independent trade unions, since unionised shops are vulnerable to losing their contracts (Bonacich, 2003). While some of these factories have historically been large (for example, in the footwear industry), most contractors have been relatively small. This has reinforced their vulnerability to the big buyers: Many factories have historically been part of “captive networks,” limited to simple, low value-added assembly operations that follow detailed instructions from their clients (Gereffi, Humphrey and Sturgeon, 2003: 12).

We are now entering an era in which a qualitatively higher degree of integration between production and distribution has begun to reshape the entire buyer-driven global commodity chain (Bonacich, 2005; Bonacich and Wilson, 2005; Abernathy *et al*, 1999). Two trends have emerged in the past decade, particularly in the Pacific Rim region, that are erasing the boundary between “manufacturer” on the one hand and “retail buyer” on the other: the emergence of giant retailers, and the emergence of correspondingly large factory contractors who serve them. These trends have important implications for labor struggles.

¹ Buyer-driven global commodity chains can be distinguished from the *producer-driven global commodity chains* that were centrally important in the mid-twentieth century – “those in which large, usually transnational, manufacturers play the central roles in coordinating production networks (including their backward and forward linkages)...characteristic of capital- and technology-intensive industries such as automobiles, aircraft, computers, semiconductors, and heavy machinery” (Gereffi and Memedovic, 2003: 3).

In the following discussion I will argue that the emergence of giant transnational contractors may alter the dynamic of global supply chains, including the current seemingly unstoppable dominance of giant US and EU-based retailers as market-makers. At the very least, I will argue, the rise of China as an economic power will likely impact the current dynamic in several ways: redressing the current power imbalance between “big buyers” and small suppliers, as the latter grow in size to rival all but the largest of the former; altering the governance structure of global supply chains; and eventually giving rise to “big buyers” based in China and elsewhere in East Asia, which themselves may emerge out of multinational firms currently playing the role of suppliers. In other words, the current shift in the governance structure of global market dynamics – from manufacturer to retailer – may turn out to have been merely a stage, associated in part with the ready availability of low-cost labor in the rising East Asian economies during the past three decades. But as these economies mature, moving from export-oriented industrialization to producing for their own internal markets, the dynamics that once favored the growing power of US and EU-based “big buyers” may also shift, eroding the market-making ability of the latter relative to multinationals based in the East Asian economies. A post-Fordist world economy, run by aspiring Wal-Mart, may prove to be illusive, or at least only part of a more complex picture. And the re-emergence of giant factory complexes, “supply chain cities,” and the like has important implications for labor struggles, since such concentrated capital may prove to be both more conducive and more vulnerable to labor militancy than small, dispersed production sites.

The Emergence of Giant Retailers

The first, high-profile trend is the rise of giant retailers, symbolized by the world’s largest corporation, Wal-Mart (Lichtenstein 2005a, 2005b). The world’s forty largest retailers (all but five based in the U.S. or EU)² had nearly \$1.3 trillion in total revenues in 2001 (Appelbaum, 2005), and, by 2005, Wal-Mart’s annual revenues alone had grown to \$285 billion, accounting for more than a fifth of the total. Traditionally, manufacturing firms and retailers were relatively independent of one another. Led by Wal-Mart and other large U.S. retailers, and enabled by technological changes that permitted a high degree of data sharing and other electronic interchange, since the mid-1980s retailers have increasingly brought their suppliers under more direct control through “lean retailing,” requiring them to “implement information technologies for exchanging sales data, adopt standards for product labelling, and use modern methods of material handling that assured customers a variety of products at low prices” (Abernathy *et al*, 1999: 3). While these innovations permit retailers to replenish their stores on a weekly basis, it also brings their contractors under ever tighter control (Nordås, 2004: 4). The consolidation of the retail end of commodity chains into a handful of large firms exerts downward pressure on prices as well, since giant retailers have historically had significant control over the manufacturers whose labels they carry, not to mention the suppliers of their growing volume of private label production, now estimated to encompass as much as one third of all United States retail apparel sales, rising to 80 percent for Wal-Mart and Target (Gereffi, 2005). Retail consolidation has also had an effect on the size of factories: large retailers, who have large volume requirements, favor large contractors as suppliers.

² Among the top forty, twelve were based in the United States and accounted for 43% of total revenues. Almost all of the remaining ones are from the EU (accounting for 46%). The only Asian firms in the top forty are five Japanese ones (accounting for the remaining 11%) (Appelbaum, 2005).

The economic power of giant retailers remains limited in China, which initially regulated the expansion of foreign retailers (for example, requiring substantial local partnerships). Wal-Mart may account for some 3 percent of China's total exports,³ but in terms of retail presence, by the end of 2004 the company had only 43 stores in China, accounting for less than a billion dollars in revenue, barely 2 percent of its international sales. Since joining the World Trade Organization, China has eased its restrictions on foreign retailers, and Wal-Mart planned to open another 15 stores in 2005, including supercenters in Beijing and Shanghai, the first in those cities,⁴ with talk of increasing its floor space in China by as much as half in the near future (Chandler, 2005). Wal-Mart CEO David Glass views China as one place where continued expansion is possible (Gilman, 2004):⁵

If you look at Europe, it's difficult to green-field or grow a company of much size. But you can build an enormous-sized company in China if you make some fairly aggressive assumptions about what's going to happen to it. It's the one place in the world where you could replicate Wal-Mart's success in the U.S.

Yet even Wal-Mart may face an uphill battle in China. China's state-run Shanghai Brilliance group, China's largest retailer, claims sales of \$8.1 billion in 3,300 stores. And Wal-Mart is also competing with France's Carrefour, which has 60 "hypermarkets" with sales of \$2 billion (Chandler, 2005). Yet the biggest challenge to retail expansion in China may be cultural: with small apartments and limited space for consumer items, the growing number of middle class Chinese shoppers are accustomed to shopping on foot, making frequent trips for small volume purchases.

The Emergence of Giant Transnational Contractors

The appearance of giant factories as global suppliers for Wal-Mart and other large retailers is a largely unexpected development, since so many business and management theorists, emphasizing "flexible specialization," the "virtual corporation," and other forms of decentralized production and distribution, have argued that the era of the gigantic production facility was over (see, for example, Piore and Sabel, 1986; Kapinsky, 1993; Pine and Davis, 1999). No longer would entrepreneurs assemble tens of thousands of workers at capital-intensive factory complexes like River Rouge or Cannon Mills. But the past decade has in fact seen the emergence of giant transnational corporations, mainly from Hong Kong, Taiwan, South Korea, and China that operate massive factories under contract with consumer goods buyers – retailers and branded manufacturers – a trend that may well portend a dramatic 21st century shift of organizational power within global supply chains. The emergence of these giant transnational contractors has yet to be examined.

In the textile and apparel industries, for example, the consolidation of production, both at the factory and country level, is highly pronounced, and will greatly accelerate now that the 30 year-old Multifiber Arrangement (MFA), whose quota system resulted in the dispersal of clothing production to some 140 countries, expired on January 1, 2005. The end of the MFA is

³ According to one frequently-cited statistic, "if Wal-Mart were a country, it would be China's sixth-largest export market." Wal-Mart executives talk of doubling their purchases from Chinese suppliers (Chandler, 2005).

⁴ Wal-Mart already has a supercenter in Shenzhen.

⁵ With the exception of Mexico and a few other developing economies, Wal-Mart has generally not fared well in securing significant market share; see Chandler, 2005).

predicted to lead to a consolidation of production into larger companies and a smaller number of supplying countries because of the economies of scale that can be achieved (Speer, 2002). Industry sources claim that large retailers and manufacturers such as the Gap, JC Penney, Liz Claiborne and Wal-Mart – that once sourced from 50 or more countries – will source from 10-15 when quotas no longer constrain their sourcing decisions (Just-style.com, 2003; Malone, 2002, McGrath, 2003). A large body of research projects that with the end of the MFA, China alone may eventually claim as much as half of all export-oriented apparel production (Nordås, 2004), with potentially devastating effects on those developing countries in South Asia, Central America and the Caribbean, and Africa that have become highly dependent on textile and apparel exports. (For a detailed treatment see UNCTAD 2004, 2005).⁶

Examples of giant East Asia-based contractors abound. In the textile and apparel industries, the Taiwanese multinational Nien Hsing Textile Co. Ltd, “the largest specialized denim fabric and garment in-one-stream manufacturer in the world,” boasts a “customer base from designer brands such as Calvin Klein, DKNY, Tommy Hilfiger, Nautica, Mudd Jeans, GAP, Levis Japan to retail private labels or importers such as JC Penney, Wal-mart, Target, VF Jeanswear (Lee, Wrangler), Sears, No Excuses etc.” (<http://www.nht.com.tw/en/about-2.htm>). Nien Hsing has factories in Taiwan, Mexico, Nicaragua, and Lesotho. Yupoong Inc., a Korean multinational that has become the world’s second largest cap manufacturer, has factories in the Dominican Republic, Vietnam, and Bangladesh. Yupoong’s “flexfit” hats (motto: “worn by the world”) are exported to some 60 countries (see Yupoong, 2003). In consumer electronics, large contract factories also provide integrated production and final assembly of circuit boards, personal computers, cell phones, handheld digital devices, game consoles, and other IT devices for brand names such as Dell, Hewlett-Packard, Ericsson and Siemens. Southeast Asia, and China in particular, have become the center of the most advanced consumer electronics fabrication (UNCTAD, 2002; Lüthje, 2005). The world’s largest electronics contract manufacturer, the U.S.-based Flextronics, employs nearly 100,000 workers worldwide, half of whom are in Asia, mainly southern Malaysia (close to its Asian headquarters in Singapore) and southern Guangdong Province in China (Flextronics 2003; Lüthje, 2005).

Supply Chain Management in China’s Apparel and Textile Industries

China’s textile and apparel production remains concentrated in small and medium-sized firms in the coastal areas, although this is changing, both as firms move inland in search of cheaper labor, and as larger firms – with advanced forms of supply chain management – become more central. Cao Ning identifies three kinds of supply chain management that are found in China (Cao, 2005): vertical integration, traditional purchasing, and third-party coordinated.

In *vertically integrated supply chains*, retailers have internalized the supply chain, at the least owning their own assembly plants, and sometimes achieving additional backwards integration through ownership of yarn and textile factories and even cotton farms. Hong Kong’s Esquel Group, “one of the world’s leading producers of premium cotton shirts,” is an example.⁷ Esquel produces its own brands as well as producing for other major labels.⁸ Overall, the firm’s 47,000 employees manufacture 60 million garments annually, with factories in China, Malaysia, Vietnam, Mauritius, and Sri Lanka, as well as cotton farms and yarn factories. Esquel’s retail

⁶ See also Kearney, 2003; Speer, 2002; Nordås, 2004; Just-style.com, 2003; Malone, 2002, and McGrath, 2003.

⁷ The following information comes from Esquel’s website (<http://www.esquel.com/en/index.html>).

⁸ Major brands include Abercrombie & Fitch, Banana Republic, Hugo Boss, J.Crew, Lands’ End, Muji, Nike, and Tommy Hilfiger; major retailers include Marks & Spencer, Nordstrom, and JUSCO.

outlets in Beijing in 2000, which carries its “Pride” series clothing, provides an example of vertical integration: “From the cotton field to the retail outlet, Esquel is the absolute coordinator” (Cao, 2005). According to its website,

Esquel's vertically integrated operations ensure the highest quality in every step of the apparel manufacturing process. Production begins in Xinjiang province in northwestern China, where the Group grows its own Extra Long Staple (ELS) Cotton and Organic Cotton, continues through spinning, weaving, dyeing, manufacturing, packaging and retailing.⁹ Esquel's textile and apparel production is complemented by strong product development capabilities. The Group's design and merchandising team work closely with its research and development center to create unique finishings such as wrinkle-free and nanotechnology performance qualities that consistently give Esquel the cutting edge in the apparel industry.

The second kind of supply chain management, according to Cao (2005), is the familiar *traditional purchasing supply chain*, in which the retailer contracts with independent manufacturers to produce garments according to specification (OEM). Either the retailer or the manufacturer can assume responsibility for supply chain coordination. The latter is of special interest, because it signals a shift in control from retailer to manufacturer. Such “vendor managed inventory”¹⁰ – is illustrated by the Hong Kong-based TAL Group.¹¹ TAL, founded in 1947 as a single textile spinning mill in Hong Kong,¹² has grown into one of the major apparel manufacturer, incorporating design, logistics, and fabrication. Its global workforce of 23,000 employees, producing annual sales of \$600 million, are found in factories in Hong Kong, Thailand, Malaysia, Taiwan, China, Indonesia, Vietnam, Mexico, and the United States. TAL's clients include Brooks Brothers, L.L. Bean, J.C. Penney, Giordano, Land's End, Liz Claiborne, Nautica, and Tommy Hilfiger, with the majority of its sales to retailers. TAL accounts for one out of every eight dress shirts sold in the U.S. Its success is attributed to its ability to manage its supply chain efficiently:

Today, TAL boasts that it is one of the few Asian suppliers capable of handling a variety of EDI documents, such as purchase order (PO), advance ship notice (ASN), invoice, point-of-sales (POS) data, order status, etc... From the late 1990s to today, the hurdle has once again been raised: Firms are now being asked to synchronize their supply and demand activities far more effectively and this means ensuring that far-flung product development, marketing/sales, and supply chains are in close coordination. TAL responded by enabling vendor managed inventory with customers such as J.C. Penney. In doing so, TAL was able to link its designers and its factory floors half a world away to the points of sale in the U.S., resulting in ever greater efficiencies for its customers and

⁹ Esquel's Gaoming factory complex (Guangdong Province), does the weaving, dyeing, and assembly. The firm's recently opened weaving mill occupies 29 acres, and is described as “China's most advanced woven fabric manufacturing facility,” an environmentally-friendly facility featuring “the textile industry's most advanced machinery and advanced computer control systems to reduce operational errors, ensure quality and shorten production time” (<http://www.esquel.com/en/index7.html>).

¹⁰ See <http://www.vendormanagedinventory.com/>.

¹¹ The following information comes from TAL's website (<http://www.talgroup.com/eng/home.html>).

¹² The company was originally called South China, then – through a collaboration with Jardine Matheson – became the textile Alliance Group (TAL).

expanded business opportunities for TAL.... Now as an integrated synchronization services provider with manufacturing capabilities, TAL not only has visibility into demand at the retailer's point of sale, i.e. to demand from the final consumer, but can link this information back directly to production operations on the factory floor as well as to product development and R&D activities (Koudal and Long, 2005).

By relying on TAL as its principal supplier, J.C. Penney is able to virtually eliminate inventory of its private label dress shirts. TAL runs point-of-sale data from Penney's North American stores through its propriety software to determine the quantity of different styles, colors, and sizes of shirts to make – all without the need to consult with J.C. Penney itself. TAL even designs and market tests J.C. Penney's new shirts.

The new process is one from which Penney is conspicuously absent. The entire program is designed and operated by TAL Apparel Ltd....TAL collects point-of-sale data for Penney's shirts directly from its stores in North America, then runs the numbers through a computer model it designed. The Hong Kong company then decides how many shirts to make, and in what styles, colors and sizes. The manufacturer sends the shirts directly to each Penney store, bypassing the retailer's warehouses – and corporate decision makers (Kahn, 2003: A1).

TAL provides similar services to Brooks Brothers and Lands' End. This represents a significant shift in power from retailer to contractor since it is now the contractor that manages the supply chain, (Kahn, 2003). TAL's New York City-based design team develops the style, TAL analyzes sales data to determine the quantity to produce for J.C. Penney stores, and TAL's Asian factories turn out the product. According to one management consultant who has studied the industry, "You are giving away a pretty important function when you outsource your inventory management. That's something that not a lot of retailers want to part with" (cited in Kahn, 2003: A1).

The third kind of supply chain management, according to Cao (2005) is the *third-party coordinated supply chain*, in which garment trading companies provide the coordination, oversee quality control, and sometimes provide fashion design. The prime example of this is Li and Fung,¹³ the giant multinational trading company based in Hong Kong, with a staff of 12,000 distributed across 72 offices in 41 countries and territories. Trading companies, such as Li & Fung, have reportedly become more powerful, taking the lead in supply chain management (Kahn, 2004b; Punngai, 2005). Li & Fung is organized into three core businesses: exporting services, value chain logistics, and retailing.

- Li & Fung Ltd. manages the export supply chain for a variety of consumer goods,¹⁴ "work[ing] together to find the best source for different components or processes, and drawing on a global network of some 7,500 factories. Activities span the supply chain, including initial product development and design, raw material sourcing, production planning, factory sourcing, manufacturing control, quality assurance, export documentation, and shipping consolidation. Its venture capital fund invests in consumer products companies

¹³ The following information comes from Li & Fung's website (<http://www.lifung.com/>).

¹⁴ In addition to garments and footwear, Li & Fung export management includes furnishings, toys, stationery, home products, sporting goods, and travel goods.

in Europe and the United States.¹⁵ By way of example (this from an interview with Li & Fung CEO Victor Fung in the *Harvard Business Review*), the company might fill a large order by sourcing its yarn from Korea, doing the dying in Taiwan, purchasing buttons and zippers in China, and assembling the final product in Thailand (Magretta, 2002).

- Integrated-Distribution Services (IDS Group) provides “value-chain logistics” throughout Asia in “three core business areas:” marketing (sales, billing, and collection), logistics (shipping, warehousing, and delivery), and manufacturing (fabrication, testing, and packaging).
- Li & Fung Retailing Ltd. operates more than 324 retail outlets in China, Singapore, Malaysia, Thailand, Indonesia and South Korea for Toys‘R‘Us, Circle K, and Branded Lifestyle. Toys‘R‘Us is a joint venture with the U.S.-based parent company (in 1999, Li & Fung acquired 100% ownership of the business in Hong Kong, Taiwan, Singapore and Malaysia). Branded Lifestyle represents major European and U.S. brands in Asia, seeking to establish a consciousness of “brand values” for its clients (these include Salvatore Ferragamo and Calvin Klein, among others).

Retailers Move Closer to their Suppliers

The emergence of large contract factory suppliers portends a power shift in global manufacturing, as lean retailing, with its associated cost-cutting and quick response, compels retailers to shift such critical functions as inventory management and sales forecasting to giant contract suppliers (Kahn, 2003: A-1). The example of TAL, discussed above, provides one illustration of this trend. In some cases, this shifting of key functions has even meant the migration of many pre- and post-production functions, including design, warehousing, and control over logistics, to Asia – as is seen with Luen Thai in China (Kahn, 2004b).

Luen Thai Holdings Ltd. Is a leading apparel supplier, with more than 17,000 employees and 12 manufacturing facilities in nine countries, and with 2004 sales of \$554 million. The company produces more than 50 million garments annually, including sleepwear, pants and shorts, sports and active wear, ladies’ fashion, intimate wear, and children’s wear (Luen Thai, 2005). Luen Thai is rapidly expanding, having recently acquired GJM from Warnaco and Tomwell Ltd. from the Jones Apparel group, and has formed a joint venture with Yue Yuen for its sports and active wear.¹⁶ The company, pursuing a “design to store” business model, has created a “supply-chain city” in Dongguan – a two-million square foot factory, a 300-room hotel, a dormitory for the factory’s 4,000 workers, and product-development centers. The factory will permit apparel manufacturer Liz Claiborne and other Luen Thai customers¹⁷ to work in a single location, their designers meeting directly with technicians from the factory and fabric mills to plan production far more efficiently. The consolidated supply chain is projected to reduce Liz Claiborne and Luen Thai staff by 40 percent, cutting costs and improving turnaround by providing tight coordination over logistics. Liz Claiborne, which currently sources from some 250 suppliers in 35 countries, plans to consolidate sourcing in a handful of places, utilizing facilities such as the Luen Thai complex; it has already begun to relocate staff from its Hong Kong and New York City offices. This process of consolidation has been reinforced by the end

¹⁵ For a list of companies in which Li&Fung has investments, see <http://www.lfvc.com/portfolio/index.html>.

¹⁶ Yue Yuen, the world’s leading manufacturer of footwear, became a “strategic shareholder” in Luen Thai when it acquired a 9.9% stake in 2004; this firm is discussed below.

¹⁷ Luen Thai’s principal customers also include Polo Ralph Lauren, Dillard’s, Express/Limited Brands, and Fast Retailing.

of the MFA, which, as noted elsewhere, has encouraged major apparel countries to concentrated production in a smaller number of much larger facilities in a relative handful of countries. In addition to the labor cost savings that would result from concentrating production in China, Liz Claiborne and Luen Thai executives believe that “the real gains would come by reorganizing their entire production process so as to be able to cut down on turnaround times for new clothes and coordinate logistics” (Kahn, 2004a: B1). Having everyone in a single location – designers, fabric and raw material suppliers, sewers – is viewed as significantly cutting costs and improving turn-around time, “getting new styles into stores faster:”

Instead of having 100 people spread between New York and Asia doing the same job, the new supply-chain city will enable the two companies to reduce staff to 60 people in China, concentrating all functions closer to the factory floor.... By moving all but the most critical designers and trend spotters to Asia, the company can dispense with the tedious back and forth, slashing precious weeks off production times and getting up-to-minute fashions into stores sooner.... In the new supply-chain city, everyone from the fabric mill to the store will use the same scan-and-track inventory system. Goods can roll off the factory floor and go straight to a store... (Khan, 2004a: B1).

The World’s Largest Footwear Supplier – a Counterweight to Nike?

Yue Yuen/Pou Chen¹⁸ Industrial Holdings Ltd., based in Hong Kong, is the world’s largest maker of branded athletic and casual footwear, with \$2.9 billion in revenues in during the first eleven months of FY 2005.¹⁹ The company produced nearly 160 million pairs of branded athletic shoes for export in 2003, one-sixth of the world total (Fong, 2005). The company – which made some 19 million pairs of athletic shoes and 11 pairs of casual shoes in 2003 (*IAM Journal*, 2005) - is Nike's biggest supplier, providing from 15-30 percent of its shoes (estimates vary widely), with one Indonesian factory turning out a million shoes a month for Nike; other major footwear clients include Reebok, adidas, Asics, New Balance, Puma, Timberland, and Rockport (owned by Reebok). While most of its shoes are made in factories throughout southern China (four out of six are in Guangdong Province), the company also has factories in Vietnam and Indonesia; overall, it operated 330 production lines as of September 2004.

Yue Yuen’s global workforce of 242,000 people has grown by more than half in only four years, as the company has moved from contract production into retailing. It currently has a network of more than 800 wholesale distributors and 250 outlets in China to distribute the branded products from the major brands made in its factories (Bailey, 2003; Boje, 2000; Merk, 2003).²⁰ Yue Yuen is also engaged in the upstream production of raw materials, shoe components, and even production tools – affording a high degree of vertical integration over its supply chain. Yue Yuen’s sprawling factory complex in Dongguan alone reportedly employs some 110,000 workers, including 21,000 for Nike and 13,000 for adidas. The Nike production sector includes recently-renovated dormitories for its workers (8 women to a Spartan room, in

¹⁸Yue Yuen Industrial Holdings is the principal source of Pou Chen’s shoe production; as of June 2004, Pou Chen held 50.1% of the stock in Yue Yuen (<http://www.yueyuen.com>).

¹⁹ The following information comes from Yue Yuen’s website; see especially http://www.yueyuen.com/press_file/3Q2005-press.pdf and http://www.yueyuen.com/fact_file/Fact%20Sheet%20-%207July05.pdf.

²⁰ Other clients include Polo Ralph Lauren, Kenneth Cole, Calvin Klein, and NBA Properties. About 60% of Yue Yuen’s footwear production is for Nike, Reebok, and adidas-Saloman (Merk, 2003).

two rows of bunk beds), cafeteria, and a recently constructed “activities center” that includes a library and reading room, karaoke and dancing facility, a chess room, and meeting rooms and classrooms. Nike reportedly invested some \$4.5 million in these renovations; it uses the new facilities to offer workers courses in personal finances, computers, and counselling.²¹

How much bargaining power does Yue Yuen’s giant size provide, when dealing with major brands such as Nike or Reebok? When Yue Yuen’s costs rose sharply in 2004,²² it was able to pass on less than a third of the cost increase to its customers, forcing the company to post a 1.6% year-to-year decline in profits, the first such decline in 12 years. While some analysts regard this as indicative of the relatively weak bargaining power of even the largest contractors vis-à-vis the brands that rely on them (Fong, 2005), others disagree (Hermanson, 2005). Whereas Wal-Mart’s relationship with its suppliers is famously fleeting, determined purely by price considerations, the athletic footwear industry requires close cooperation between buyer and supplier, achieved through stable, on-going relationships (Tsaiman, 2005). Yue Yuen, for example, began as a supplier for Wal-Mart in the 1970s, but eventually developed the know-how, technological capacity, and size to move up to high-end brands such as Nike. Because the major brands require a highly diversified product mix and flexible production systems, Yue Yuen’s high degree of vertical integration (including control over inputs and logistics) enables it to work with customers that require rapid market response. These same requirements afford the company a fair amount of bargaining power with even its largest customers (Tsaiman, 2005).

Yue Yuen is already engaged in a limited way in original brand manufacturing; is it likely to “learn through doing,” and eventually replace Nike and its other clients as a leading designer and retailer of athletic shoes? Nike and Yue Yuen are highly dependent on one another, which suggests that Nike is unlikely to cut production if Yue Yuen begins to market its own low-cost brands in China (Tsaiman, 2005). On the other hand, at least at the present time, Yue Yuen is a highly profitable business, thanks to its broad and loyal client base; it is unlikely to jeopardize those relationships by creating potentially competing brands (Chan, 2005; Punngai, 2005).

China’s Rapid Growth and the Prospects for Unionization

China’s rapid economic growth has averaged around 9 percent annually for the past two decades; it exceeded 10 percent last year. Even allowing for exaggerated claims and poor governmental statistics, China’s growth is explosive by any standards. According to the most recent figures released by the Chinese government – which provided what analysis regard as an accurate correction of earlier figures – the Chinese economy is one-sixth larger than previously thought, making it the possibly world’s fourth largest, behind only the United States, Japan, and Germany (Barboza and Altman, 2005).²³ Bear in mind that these figures are for China as a whole; the growth poles of China – south China in Guangdong Province around the Pearl River

²¹ I visited the Nike/YY factory in Dongguan in September 2005, as a guest of Nike. The immaculate and ultra-modern activities center, newly opened, showed no signs of having yet been used; even the polished the glass tables had no smudges or fingerprints.

²² The cost of the petrochemicals that comprise a significant portion of the raw materials used in making shoes increased 50-60% (Fong 2005).

²³ Even these figures under-estimate the size of the Chinese economy, at least in terms of purchasing power; based on purchasing power parity (PPP) estimates and the recent size correction, the size of the Chinese economy today can be estimated at \$8.4 trillion, second only to the U.S. (\$11.1 trillion). By this estimate, if present trends continue, the U.S. and Chinese economies should be roughly equal in terms of local purchasing power in seven years (Dean Baker, Center for Economy and Policy Research (http://www.cepr.net/err/2006_01_03.htm#2)).

Delta, Shanghai, and the Yangtze River Delta – are growing at much greater rates. The lion's share of this growth is concentrated in south China, which accounts for nearly half of all of the country's exports. The region boasts the highest concentrations of manufacturing, the largest factories, the greatest influx of labor from rural areas, the world's third and fourth busiest ports (in Hong Kong and Shenzhen), and the world's largest freight facility (*IAM Journal*, 2005: 17).

A wide range of consumer goods industries have contributed to this growth. As noted previously, China is predicted to account for as much as half of world textile exports once the full effect of the end of the MFA is realized. In 2004, China accounted for 45.1 million computers, an increase of 39 percent from just one year earlier; 70.5 million air conditions (an increase of 43 percent), 30.3 million refrigerators (30 percent), and 23.5 million washing machines (19 percent). Similar yearly increases were posted in metal-cutting machinery (36 percent), cement equipment (63 percent), metal rolling equipment (60 percent), and tractors (84 percent). China has plans to export to the U.S. a million automobiles from its Chery Automobile Company by 2010. "Morgan Stanley...says that China now absorbs half of the world's cement production, a fourth of its copper, and a fifth of its aluminium" (*IAM Journal*, 2005: 15). This accelerated growth has created enormous energy needs; the International Energy Agency reports that China accounted for a third of the increase in global demand for oil between 2002 and 2004 (*IAM Journal*, 2005: 13-14).

Government policy in China has fostered the creation of vibrant industrial districts comprised of clusters of suppliers, manufacturers and contractors that specialize in a single product, fostering economies of scale, lowering transaction costs, and cutting prices. Datang, for example, specializes in socks – a commodity whose exports to the U.S. exploded from 6 million pairs in 2000 to 670 million pairs in 2004 (Lee, 2005).²⁴ The Datang area currently accounts for more than a third of the world's sock output, attracting 100,000 buyers from around the world shop to its international sock fair each year. While low labor costs are clearly a factor in Datang's success, the government has also played a key role. It has opened land for the development of industrial parks, given tax benefits to businesses, built transportation networks and other infrastructure, and subsidized utilities. Private companies, with government support, build factory complexes that include dormitories and hospitals. The resulting clusters create synergies that foster technological development (Barboza, 2004). As a result, some 10,000 Datang households labor in thousands of small sewing shops, producing 9 billion pairs for export each year. In addition to parts and equipment suppliers and repair shops, there are "about 1,000 textile material processors, 400 yarn dealers, 300 sewing firms, 100 pressing operations, 300 packagers and 100 forwarders" (Lee, 2005). Other nearby towns and villages specialize in neckties, sweaters, children's clothing, buttons, and underwear. Such specialization favors the one-stop shopping favored by large buyers such as Wal-Mart, who may purchase a half a million pairs of socks or a million men's cotton shirts at one time. According to Ruizhe Sun, president of the China Textile Information Center, "In terms of vertical supply chain, China has no competition. We have button makers, fabric makers, thread makers, zipper makers, you name it" (cited in Barboza, 2004).

At the high end of the technology spectrum, the Shenzhen campus of Huawei Technologies – manufacturer of globally competitive telecommunication equipment – boasts a research center, football fields, swimming pools, and housing for 3,000 families. Baosteel, based in Shanghai, is projected to be the third largest producer of steel in the world by 2010. The

²⁴ In 2004 the U.S. imposed temporary limits on sock imports from China, in anticipation of post-MFA exports flooding the U.S. market. The limits are scheduled to expire in October 2005.

Lenovo Group, amidst much fanfare, bought IBM's ailing PC business in December 2004. The Haier Group, China's leading maker of home appliances, has offices in 100 countries. And TCL Electronics, China's most profitable maker of televisions, acquired the TV business of France's Thomson in 2004; its website claims TCL-Thomson Electronics to be "the largest color television enterprise in the world." More than a dozen Chinese companies number among the *Fortune* Global 500 (see table 1). And China is investing heavily in the next generation of technologies: it plans to train 50,000 engineers advanced chip design over the next few years, by creating design training centers in universities in seven cities, and is investing heavily in nanotechnology. All of this suggests a strong future counterweight to the power of Wal-Mart and other big buyers, as China moves rapidly from being an export platform to becoming an industrial power in its own right.

Global champions*			
2003, \$bn			
	Sector	Revenue	Net income
PetroChina	Oil/gas	36.60	8.39
Sinopec	Oil/gas	51.10	2.60
CNOOC	Oil/gas	4.93	1.39
Baosteel	Steel	5.31	0.84
Chalco	Aluminium	2.80	0.43
Lenovo†	PCs	2.97	0.14
SAIC	Cars	0.83	0.18
TCL	TVs/electronics	3.40	0.07
Haier	White/brown goods	9.7	na
Wanxiang	Car parts	2.0	na
Huawei	Telecoms equipment	5.00‡	0.30‡

*Some data available only for listed subsidiaries
†Year to March 2004 ‡2004 estimate
Source: Company information

source: *The Economist*, 2005

China's growth has come with significant costs. Apart from well-documented and widespread labor abuses, the move to a market economy – which has meant privatising state-owned enterprises and opening China up to foreign firms – has resulted in the loss of guaranteed lifetime work for most workers, the reduction or elimination of many worker benefits (mainly health insurance and reimbursement for medical expenses, unemployment compensation, and pensions), and massive migration of workers (especially young women) from rural to urban areas. This has led to growing urban inequality and high unemployment in some areas, with labor shortages in others. Older, less-educated workers and women workers have been most adversely affected by these changes. In the higher technology industries (such as electronics), labor conditions are somewhat better than in more labor-intensive industries such as textile and apparel (Lüthje, 2005). China's electronics manufacturing base is modernizing and upgrading, so that the sweatshop conditions associated with the bottom tier of this sector are becoming less prevalent. In the largest factories, the labor system is said to be "Taylorist" – i.e., hierarchical and segmented. The newly-emergent high-technology brand name companies often have strong relationships with both the Chinese government and the multinationals they supply, which makes

them more sensitive to image than are no-name contract shops. Even though this industry has thus far escaped the scrutiny of NGOs and human rights groups, serious problems with working conditions are nonetheless regarded as potentially costly embarrassments to be avoided:

...the globalization of manufacturing networks creates a host of fields in which trade unions together with NGOs and other grass-root organizations could take the initiative to develop policies, standards, and organizing strategies which could serve as important building blocks for an alternative agenda on economic growth and industrial development in the global arena (Lüthje, 2005: 21-22).

Are high technology industries poised for such a change? Given China's size and rapid growth, it is arguable that improvements could be achieved without the risks to competitiveness that might befall smaller economies. China's internal market – still carefully guarded by government policy – may foster upgrading and permit higher wages, affording a space for independent trade unions to have a voice.

The central government in China has responded to changing economic conditions with a host of laws, many influenced by laws in developed countries (whose law firms and consultants have played a major role in shaping them).²⁵ Labor laws are seen as necessary not only to protect the welfare of workers, but also to provide the social and political stability desired by foreign firms. There are laws regarding working conditions, occupational safety and health, employer-employee relations, trade unions, and social security. But the laws are poorly implemented and largely ineffective, since local municipalities – which enjoy wide latitude in enforcement – have preferred to focus on rapid economic growth, which, in their view, has meant sacrificing workers' rights in hopes of attracting foreign capital on the basis of low-cost. Nonetheless, such laws are important, not only because they provide an indication to workers of what they can rightfully claim, but also because abuses can be appealed to higher levels of government, where workers sometimes (and perhaps increasingly) prevail (Gallagher, Lee, and Park, 2003).

These laws have also provided justification for growing labor unrest in China, fuelled by the growing concentration of workers in large factories. Large factories are more vulnerable to strikes and other forms of labor actions than are smaller, more dispersed shops. Recent reports of widespread labor disputes and strikes show growing dissatisfaction and unrest among export sector workers, and increasing tolerance of dissent by local government officials. It remains to be seen whether Chinese workers will continue to be an exploited labor market that stokes the global race to the bottom, or whether they will become an independent force in the course of China's transition to capitalism. Most workers in China's export industries still lack union representation, and when there are unions they are affiliated with the Chinese government and anxious to promote investment policies. Chinese unions stifle opposition and suppress the formation of independent unions or worker organizations.

China's labor laws currently focus on safeguarding individual rights, rather than affording the protection of collective rights through independent trade unions. Many firms, pressured by consumer movements (including the student movement) and unions in the United States and Europe, have signed onto corporate codes of conduct, some of which contain provisions calling for the right of workers to form independent unions (for example, Reebok and the Gap). While these codes of conduct are largely self-enforced and lack transparency, they

²⁵ See, for example, Dezalay and Garth, 1998; Cohen, 2001

have resulted in some positive changes, particularly in the largest firms.²⁶ Nonetheless, one detailed study of codes and labor conditions in two large Chinese apparel factories concluded that

rather than leading to labour rights in the workplace, labour power and collective bargaining will be co-opted by the side of capital. The result is at best managerial paternalism with labour rights, if granted, originating from the above.... the companies had devoted huge resources to setting up systems and procedures, but they demonstrated no genuine concern for labour rights, less still workers' representation or participation (Punngai 2005a: 17-18).²⁷

There are a number of portents of heightened labor activism in China. Punngai and Smith (2004) argue that the presence of a "dormitory labor regime"²⁸ fosters labor mobilization, since it promotes intense interaction among the workers (almost entirely women) who chafe against the harsh living and working conditions and the constant surveillance. Study of migrant women workers living in dormitories found that

petition letters were circulating around dorm to dorm with signatures easily collected in a single night. Strategies against the management in times of wage arrears, bodily punishments, insults or lay-offs were discussed intensively among the groups and networks, which were trustfully formed in the dormitories. Conformity to common causes against management could be easily organised through the dorms, as they allowed no space for dissenters from the 'common struggle'. On strike, workers were efficiently organised and spontaneously participated without any formal organisational help from trade unions or labour organisations (Punngai and Smith, 2005: 10).

In one case that was studied, when China Wonder Electronics (a joint venture between a Hong Kong firm and the district government of Shenzhen) began a series of layoffs in 2002, word spread through the company's dormitories, leading to petition-writing campaigns directed at the Shenzhen Labour Bureau. Women workers studied labor law, and eventually 600 workers

²⁶ Nike, for example, in April 2005 disclosed the names and locations of the more than 700 factories it uses, thereby acceding to a demand it once had argued would undermine its competitiveness (under student pressure, Nike had already published the names and addresses of those factories engaged in its collegiate licensing program, an estimated quarter of all of its factories). Nike also voluntarily revealed the results of its audits, which found significantly "abusive" verbal or physical treatment of workers in more than half of its South Asian factories (and a quarter of all of its factories). Other widespread abuses, such as unlawful overtime, were also reported. Although Nike's willingness to make public such findings was viewed by activists with scepticism, it does seem to indicate a growing concern with responsible labor standards and enforcement (Associated Press, 2005; see also Nike's full corporate responsibility report at http://www.nike.com/nikebiz/gc/r/fy04/docs/FY04_Nike_CR_report_pt1.pdf).

²⁷ While there are a number of case studies of the effectiveness (or lack thereof) of governmental and activist pressures to improve working conditions, there is only one, to my knowledge, that attempts a statistical estimation of their impact across a range of factories. Harrison and Scorse's (2004) study of Indonesian factories concludes that direct U.S. government pressure, along with anti-sweatshop campaigns, contributed to a 50 percent increase in the minimum wage, a doubling of wages for unskilled workers at targeted plants, and some closing of targeted plants (which were offset by gains in employment at other plants).

²⁸ Punngai and Smith (2004: 2) describe a dormitory labor regime as "a highly paternalistic, coercive, and intensive production system, in which workers lives are dominated by employers, and working time is more closely under the control of employers, than in systems where working life and home life are separated."

mounted a major demonstration at the Shenzhen government building demanding their legal rights. Workers whose contracts had not been renewed refused to vacate their dormitory rooms. The resulting victory was small (an additional month's compensation for the thousand workers who had lost their jobs), but taken as significant by the women who participated in the struggle (Punngai and Smith, 2005).

There are a growing number of wildcat labor actions that are not sanctioned by the government. Recently (April 2005), in a well-publicized labor action, some 12,000 workers (again, mostly young women) went on strike at the Japanese-owned Uniden Electronics factory (supplier of cordless telephones to Wal-Mart) in Fuyong Town, Shenzhen. Workers demanded the right to establish their own, independent trade union, possibly the first time such a demand has been a central feature of a strike in China. Worker demands also included 60 percent of normal pay during sick and maternity leaves, permanent contracts for workers with more than ten years with the company (as provided by Chinese labor law), and improved quality of food and water. According to one study of migrant workers in Guangdong Province,

The migrant workers have learned to protest with their feet, they are more capable of negotiating, and they can choose not to work. That has especially been true recently, with a lot of the migrant workers who were born in the 1980's entering the workforce. They've had a better education, they're young and emotional, and they've been emboldened by media reports about their conditions to demand their rights (cited in French, 2004: A4).

A similar strike in fall 2004, in the Xianyang Huarun Textile Factory in Xianyang city (Shaanxi Province), protested unfair labor contracts. In that strike – involving some 7,000 workers (mainly women) and lasting seven weeks – workers also took steps to form their own union. Although the strike was broken by police action, those workers who were detained were eventually released, suggesting a possibly softening of state policy towards strikes (China Labour Bulletin, 2005).

A recent study by the Hong Kong Confederation of Trade Unions (HKCTU, 2004) documents numerous other labor actions in 2003, including:

- A work stoppage involving 10,000 workers from the Xiangyang Automobile Bearing Company Limited in 2003 demanded that workers' rights be protected during the privatization of the state-owned enterprise. Workers also blocked the railway lines and major roads in the city of Xianfan.
- 1,000 workers from the Tieshu textile factory in Suizhou (Hubei Province) held a protest in 2003, demanding payment of back wages, severance pay, and worker shares they claimed were owed by management. Workers also blocked a major railway. Frustrated by the courts, protests continued throughout the year. In 2004 workers were told they would be paid roughly a quarter of what they claimed were owed them, triggering larger demonstrations that shut down transportation in the cities, resulting in forcible dispersal by armed police and detention of the organizers. Workers are currently suing the Suizhou City Social Insurance Bureau for inaction.
- Workers from the Anshan Iron and Steel Group Corporation in 2003 staged a protest over unfair treatment, compensation, and severance pay, eventually taking their case to authorities in Beijing.

- 1,000 taxidrivers in Chengdu (the capital of Sichuan Province) staged a week-long protest over government plans to resell taxi certificates at a higher price. When they were unsuccessful in appealing this decision, the protests continued into 2004, until the protest was broken by the police.

There are also indications that China faces a labor shortage, particularly in the booming south. The combination of demographics (China's family strong planning programs have significantly lowered birth rates and hence slowed the increase in numbers of new workers) and exploding demand have for the first time given workers bargaining power. Some workers are leaving the factories in Guangdong Province for better-paid work in factories in the Yangtze River Delta near Shanghai, or elsewhere in large interior cities (Yardley and Barboza, 2005). In the Uniden factory strike mentioned above, women workers were able to coordinate their actions via cell phone and instant messaging (French, 2004). Workers are able to communicate easily with friends and relatives who are working elsewhere in China, comparing wages and working conditions, and moving elsewhere if they are dissatisfied with their current job.

Conclusions

There is growing evidence that consolidation in consumer goods industries, with increasingly integrated production and distribution systems between giant retailers and equally giant contractors, may be replicating the vertical integration characteristic of earlier, "Fordist" organization of production. This, in turn, may contribute to growing labor militancy, even in relatively repressive states such as China. While it may or may not foster the growth of independent unions, at the very least it provides a potentially hopeful terrain for heightened labor consciousness and activism. There are also indications that trade unions in the advanced industrial nations, historically protectionist, have come to accept the realities of globalization and are developing strategies to foster greater unity across borders. In December 2004 many of the world's trade union movements met under the umbrella of the 18th World Congress of the International Confederation of Free Trade Unions (ICFTU) in Japan to develop a "globalizing solidarity" strategy.²⁹ Campaigns to urge ethical sourcing – aimed at educating consumers about the products they buy, while encouraging them to "buy union" – were directed at the Athens Summer Olympics in 2004; the Turin Winter Olympics (2006), Beijing Summer Olympics (2008), and soccer World Cup in Germany (2006) will also be targets of coordinated cross-border union campaigns. The ICFTU is increasingly coordinating its activities with national union organizations, including the AFL-CIO in the United States, the Trade Union Congress in Britain, the DGB (Deutscher Gewerkschaftsbund) in Germany, the European Trade Union Confederation, and the Congress of South African Trade Unions. Merger talks are underway with the other major international trade union confederation, the World Confederation of Labour.

These dynamics remain poorly understood. What is needed is a long-term project that will chart the impact of changes in retailing and contracting. In particular, we suggest that three interrelated questions should guide systematic, long-term investigations, focusing principally on China, but on East Asia, Mexico and Central America, and indeed anywhere that the large contractors are locating their factories. How does the increased concentration of production affect labor, both in terms of working conditions and the prospects for unionization? The rapid proletarianization of large peasant populations often generates political and social instability. To

²⁹ The ICFTU has 250 affiliates in 152 countries, and claims to represent 148 million trade union members (Barber, 2004).

what extent will this phenomenon repeat itself across the regions under investigation? A number of successful unionization drives have occurred in large factories in recent years. What lessons can be gleaned from these victories, and have they contributed to an improved climate for workers employed in foreign-owned factories?

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