Workers' Struggles from East to West: New Perspectives on Labour Disputes in Globalised China, International Conference, September 22-24, 2011, Vienna

Andrea Komlosy (University of Vienna)

Global Commodity Chains and Work Organisation. The Example of the Textile and Garment Industry in the Shanghai Region

This contribution is based on a field research, carried out in the town of Shanghai and in Jiangsu and Zhejiang provinces in July 2011. After having done much research about the historical development of the textile sector in Europe, my aim was to follow the production line to those places, where the mass production of textiles is concentrated today.

My perspective on the Chinese textile industry is a European one. This is reflected by the way how I got access to companies and interview partners. Companies opened their doors due to European traders, who buy China made textile and garment products or due to sellers of European textile machinery to Chinese based producers. Interview partners were found on the ground of my academic contacts as a guest professor at a Shanghai Fudan University and with the help of the Association (Fachverband) of the Austrian Textile and Garment Industry. This allowed insights into the state of textile production from a company perspective, regarding working people first of all as a cost factor. Moreover, entering the work floor, speaking to owners, managers, technicians and watching the people at work also shed light on the working conditions of the ordinary workers, to whom I was not able to speak. In order to get to know their situation I had to rely on experts, who had done field research, surveys and documentations of labour relations and social conditions (Chang 2010, Pun 2005, 2008, Zhang 2010).

Visited companies (summer 2011):

- Garment company, Jishan town, Shanghai, CMT for European and Japanese firms
- Knit and sportswear company, Jishan town, Shanghai, fully integrated production line, subsidiary locations in the Chinese interior and abroad
- Sock knitting company, Haining, Zhejiang province, fully integrated sock production for German buyers
- Tire cord weaving company, Nanjing, Jiangsu province, subsidiary of a Korean company
- Airbag weaving and sewing company, Jiangyin, Jiangsu province, subsidiary of a Korean company
- Selling and Service Centre of a German company producing weaving machines, Shanghai

Observations

After being the leading sector in the first 25 years of China's world market integration, the textile and garment sector is loosing significance; it is still growing in size and export volume, making up for 8 % of the manufacturing output value, employing approx. 20

million persons in 10.000 companies, of which more than 10 million in big enterprise. It therefore must not be neglected.

The sector is showing a broad variety of company models, fulfilling different functions in the global commodity chain, comprising fully integrated production lines as well as component productions, ranging from simple contract manufacture (CMT, OEM) to higher value adding functions including design (ODM) or, more recently, even to the development of own brands, challenging Western brands on domestic and export markets.

Along the main Pacific core regions the government is supporting a shift of leading sectors away from labour intensive industries towards more capital and technology-oriented industries, with governments and policies and subsidies favouring structural change, aiming at improving to increase capital return realized by Chinese producers. Policies comprise credits, which are harder to get for textile and garment firms, labour laws and the introduction of a more effective social security insurance system on a compulsory basis (2008ff). All these measurements are pushing costs for companies up, discriminating textile-garment vis-à-vis machinery, electronics and others in the east. Given the fact, that labour and social laws in China differ between towns and provinces, labour legislation also offers a means of directing investment within the country („Go West strategy“) as well as encouraging relocation in low-cost countries abroad. Labour legislation is not only a means of social policy, but of regional and industrial policy as well.

While sewing and the production of knit-wear does not offer big potentials to raise labour-productivity, spinning, weaving and knit-weaving allow to introduce advanced technologies and high end products and transform the textile sector into a capital- and technology-intensive one. Sewing and knitwear finishing therefore is facing outsourcing from the coastal provinces to the Chinese interior, or to Vietnam, Cambodia, or Indonesia, where labour cost is much cheaper. Companies that specialize in those items and components are under big pressure: As long as the labour laws are not properly controlled, they are able to survive; in the long run they will have to restructure or close down. Hundreds of low skill firms in the coastal regions already went bankrupt.

Those textile firms in the east that are able to upgrade their position in the commodity chain by covering high end production, branding and merchandising, by improving material quality, machinery, working skills and process control and eventually outsource labour-intensive productions to cheaper sites will be able to meet the challenge of restructuring. We can find this type of company in the spinning and in the weaving sector, delivering highly qualified yarns and fabrics for fashion wear, home textiles and technical applications.

The visited companies clearly reflect the bifurcation.

- The two companies that represent extended workbenches for Western and Japanese buyers, are likely to face closing down. One is specialized on apparel sewing, the other on sock knitting.

The garment factory in Jinshan town, Shanghai, founded in the early 1990s by a former tailor, reduced its workforce from 1000 in 2003 to 300-400 in 2011. The owner can hardly cope with the rising costs for labour, which increase by approx. 20 % per year in Shanghai, and more so by the rising contributions to workers' social security, which increased by twenty times between 2006 and 2011. His contractors are not willing to come up for the higher cost, rather going to relocate sourcing to cheaper places. The owner reacts by moving production to a smaller and cheaper site, planning the closure of the company at the moment of his retirement.

The owners of the sock factory in Haining, founded in 2000 by a young couple without textile experience, are equally aware of the situation. German super-market chains, on whose distribution their production relies, still fill their order books, guaranteeing work for 100 employees. But they feel the pressure on the price, and pass it over to their workers, who have to work over-time, regardless of the new labour regulations. Asked, if her son would take over, the owner seemed surprised. This question had not yet come into her mind. Product cycles in the sock industry are too short to plan a succession. Owners of SME in low skill and low wage contract manufacturing can hardly be compared to the Western founding generation of industrial manufacture. If they started in the right moment, with the right contacts to party and government officials, they were able to make a quick start and enter big business. A big majority of SME factory-owners' carriers end because of the rapid turnover of the product cycle. If they are not able to find a new niche, their status as entrepreneurs might not be safe.

Along with the shift from state to private ownership in the 1990s, founders were encouraged by cheap credits, land use offers in industrial parks, the promise to hire workers without any restrictions and labour regulations, hence being able to offer contract manufacturing to Western and Japanese companies at cheap costs. This era is ending now, or more precisely: it is moving from the coastal to other regions. Whoever is not able to move into higher quality, or into more promising branches, will loose the competition. In this respect Chinese policy did not loose its steering capacity: By opening textile and garment to private ownership in the 1980s the government initiated a process, which it was able to control: first by offering the investors cheap credits (through state-owned banks) and unprotected labour for a first cycle of accumulation, before – second – raising wages, protection and hereby undermining the textile manufacturers to stay competitive from 2006 onwards. Company owners shall be forced to move their initiative into new leading sectors or products, while labour-intensive mass production will be used as a key for industrial catching-up of the interior provinces. For this reason giving up the household-registration system and offering the migrant labourers unlimited access to urban *hukous**, would not fit into the government's regional policy plan.

- The high-end sports and leisure ware company in Jinshan town, Shanghai represents the way the government is planning to restructure the textile sector.

The company was founded in 1993 as a private company, enjoying high support and protection by the local government, however. It comprised departments for knit-weaving fabrics, which are processed to final products in the cutting and sewing departments. The products are ordered, purchased and sold under the brand of the buyers' firms, hence corresponding the OEM type of outsourcing. Show room and video performance show a broad variety of well-known Western brands from Tommy Hilfiger to The Northface.

When the profits diminished because of rising labour cost, the management introduced a design department, hence increasing the company's control over the production line and expanding into more know-how-intensive operations, attracting buyers on a more profitable basis (= ODM). According to the General Manager, they plan to start developing products, branded under their own name. In the meanwhile the emphasis is put on high quality yarns, e.g. yarn from the Austrian-Chinese Lenzing-Nanjing Fibres Company. Relocation is carried out in order to transfer labour-intensive processes into the interior, where a subsidiary was opened in Anhui province in 2007. In 2011 another subsidiary will start in Indonesia. Then the workforce will comprise 5000 in Jinshan town, 3000 in Anhui and 2000 workers in Indonesia, combining different categories of workers, subdivided by operations in the production process, wage, qualification, social security benefits or - from the company' perspective - cost differentials. This strategy is supposed to support the upgrading of the Shanghai locations, allowing the company to enter into a better position to control and profit from the textile commodity chain.

- The upgrading of the textile industry is equally pursued by foreign owned companies, choosing China for the relocation of production sites because of costs and access to the Chinese market. My visit in two Korean owned firms producing high tech textiles for the automotive sector showed the possibilities and limits of this strategy.

Textiles are usually associated with clothing and home textiles. However, the most advanced, research- and technology intensive field of textile production are technical textiles, used for construction, machinery, packing and the automotive industry. Both visited firms deliver their products, tire-cord and airbags, to tire and car companies. The headquarters are situated in Korea, with subsidiary plants in China. This allows making use of the wage differential, which still saves 70 % compared to Korea. Cheap wages are combined with a strategy of using high tech machines in order to meet the standards of the international buyers. High tech machinery in the weaving sector is first of all linked with German and Swiss companies, specialized in the most advanced spinning, weaving and knitting technologies. These machines are much more expensive than Chinese, Korean and Japanese ones, but allow to achieve results not available with ordinary device. They require special training for the workers. This arrangement is supposed to open new markets. I had the opportunity to visit the Korean companies as part of the service team of a German machine company. At first sight, technical problems how to handle certain operations, to avoid lost times and damaged goods and to obtain permanent quality were on the agenda. Very soon they turned to be structural problems, resulting from a basic contradiction: When the Korean managers complained about defects of the machinery, the German technician stressed the necessity to invest in training of the personnel and careful maintenance of the machines, otherwise the expansive investment would not be rewarding. Quite openly he addressed the working conditions, the over length of the working hours and the lacking investment in attaching trained technicians to the company. Working hours were up to 12 hours daily, 6 days a week. Under these conditions, workers did not stay in the company for a long time. Once trained, they took with them the knowledge and the experience they had gathered with the new machines.

- The upgrading of the Chinese textile industry offers markets for western suppliers of machinery. They can help Chinese or foreign companies producing in China to enter high quality production. Other industrial branches purchasing inputs from Chinese textile companies, resellers and supermarkets all over the world can take advantage of such a new supply situation. European textile companies will face stronger competition, however, and possibly loose those market niches, which had helped them to survive in recent years. In order to stay competitive, they are most likely to transfer their production completely to Eastern Europe and the northern Mediterranean – a process, which has already started some years ago.

Studying the German machine company, supplying textile companies all over the world with special weaving machines, allowed observing the transfer of knowledge. The company started to sell to Chinese textile firms from the 1980s onwards, first to state owned companies, than more and more to private ones. Installation, training and service were organized from the German headquarters, until subsidiaries were set up in the main selling markets. The training and service company covering East and South East Asia was founded in Shanghai in 2005. It is directed by a German director, responsible for technical and commercial affairs, and a Chinese one, responsible for administrative and financial issues. All customers are invited to send their staff to be trained in the training centre. Instead of sending German technicians into Chinese companies, the training is carried out by Chinese technicians, ready to demonstrate handling and maintaining of a sensitive technology in the centre as well as on site. We face a transfer of technology, which leads from the German machinery company to the Chinese textile company – mediated and accompanied by the German subsidiary in Shanghai, where German knowledge is transferred first to Chinese trainers and in a second step to Chinese workers. As I learned, Chinese – or as pointed out above Korean – companies still underestimate the importance of training and education. This problem will soon be overcome. More so, Chinese manufacturers might discover, that producing high quality textile machines can lead a next cycle of upgrading. In this case textile could follow garment in its move to the West, pushing garment out of China, while the machinery branch will take over in the coastal areas.

For the moment being, China on its way to a position on the high end of the commodity chain goes hand in hand with low wages. Wages and social services rise, but (still) not enough to transform workers into consumers, driving growth by internal demand. Instead of being redistributed to the people, export surplus is invested in U.S. treasuries and other state obligations, hence contributing to the wellbeing of the U.S.-budget, if not subsidizing the U.S.-American citizen. We face an open alliance between the old and the new hegemonic power, preventing the dismantling and the decline of the American economy.

When will China depart from this strategy and make Chinese citizens profit from economic growth? Will such a change support China on its declared path towards a socialist society? Or will it promote the advent of a new – Chinese – imperialism?

Comparison China - Europe 1800-2011

On the one hand, China's capitalist modernization is showing the direction, into which capitalism is heading to in the old industrial countries, too: fast, reckless, ambitious, without attributing people's social and political participation.

On the other hand, the pace and costs of industrialization and urbanization in China evoke comparison with Europe in the 19th century.

Comparison starts in 1800, when the first textile mills opened the era of the factory system in western and central Europe, taking off into the industrial age after the end of the Napoleonic Wars. From a European perspective we roughly face the following periods (slightly differing from country to country):

Europe 1820-1860:
Early period of the factory system, characterized by strong workers' exploitation, wages below living costs, lack of social care (deregulation of social care institutions of pre-industrial times), allowing a primitive or initial accumulation. At that time the textile industry was the leading sector of industrial transformation, attracting a rapidly growing number of people from agriculture to industrial employment.

Europe 1860-1914:
Crude exploitation step by step overcome by the build-up of social security, first on a voluntary basis by the company owners, from the 1880s onwards based on social and labour laws. Trade unions were admitted to represent and negotiate workers' social interests vis-à-vis the company owners. Slowly - and against heavy resistance by the conservative parts of the society - workers were included into modern society in terms of consumers' participation and voters' participation. Workers' participation in the industrial core regions went hand in hand with an international division of labour with colonies and peripheries delivering cheap raw materials and agricultural goods for the industrially developing regions (age of imperialism).

Eastern Europe did not share the western experience in the 19th century. The region was divided among the neighbouring Empires, fulfilling the role of internal peripheries, delivering food, raw material, migrant labour for the respective imperial cores; industrial activities were dependent on core capital, profiting from cheap labour and natural resources.

Europe 1914-1980:
The inclusion of core workers into the industrial society showed many ups and downs, according to the political, economic and military developments (World War I and II, Great Depression, Nazism, Cold War, Economic Recovery, Balance of Power). Social and political advances for workers were fuelled by the Russian Revolution, triggering a wave of social laws extending social security to growing parts of the working population in the European west. The break-up of empires gave way to the building of nation states in Eastern Europe: Their initiatives to launch economic catching up strongly favoured the textile sector, considered to serve as an engine for industrial transformation of formerly agricultural societies.

A next wave of social improvements in the West went along with the common desire of both capital and labour interests in the 1960s to fuel economic growth by strengthening workers' purchasing power by raising wages and social benefits. Textile was replaced by other industrial branches, textile and garment wages ranging on the lowest end of the wage scale, which turned garment into a female labour industry. Eastern Europe at that time was part of the Comecon, carrying on ambitions to build an industrial society with the means of a planned economy, controlled by the communist parties. Another impetus for stronger social inclusion in West and East came along with the necessity for better training and education in order to meet the demands of a more complex and technologically advanced economy - a structural change, in which the eastern European states, that had made respectable industrial advances in the 1950s and 60s, lost momentum vis-à-vis the West, where the crisis of the 1970s was overcome by shifting from industrial mass-production to a knowledge based economy, relocating labour-intensive production in Eastern Europe and in developing countries in the South.

Europe 1980-2011:
Textile industry had been a main sector that contributed to economic catching up in interwar and postwar Eastern Europe as well as in Third World countries after decolonization. It was part of an import-substituting strategy, embedded in the build up of a national economy under domestic control. After the world economic crisis of 1973 a new type of textile production was set up in Eastern European and Third World countries: Because textile and especially garment, which had gained importance along with growing commodification of daily needs, were no longer profitable in the old industrial cores, production was transferred to low cost countries,
competing but also cooperating with domestic industries. Outsourcing industrial mass production to the global South was a sort of reset for western companies: They were able to overcome the highly regulated labour regime, controlled by state and trade-unions, in the West, and profit from the cheap labour. In socialist Eastern Europe labour was cheap, because it relied on state subsidies. In developing countries labour was cheap, because workers were not supposed to be consumers of the products manufactured in the export industries; social security relied on labour rotation and family subsistence and did not cause costs for the investor or buyer.

Company owners and workers in the western textile and garment industry were alarmed. Fearing loss of profit and employment, industrial associations and trade unions were successful to implement the Multi Fibre Agreement within GATT (1974-1994), prolonged by the World Textile Agreement within WTO. These agreements set up protection against cheap imports from low-cost countries: they did not block the import of raw-materials and semi-final products, which were finalized in western factories, but foresaw high import duties for high end products. They were not able to block imports from the Newly Industrializing Countries (NICs), however. Import duties were heavily opposed by the European textile traders, who profited from cheap imports, and from governments and textile producers in NICs. From the 1990s onwards big trading and reselling companies, who made use of the cost differentials for sourcing their products at the best location, took over the control over the global commodity chains from the multinational companies. After 30 years of transition textile and garment trade was finally liberalized and global sourcing freed from the WTA quota system in 2005.

China 1980-2008:
China entered the global commodity chain after Maoist state-controlled import-substitution was abandoned and replaced by a market economy, encouraging private business and inviting international companies to produce and source components in China's costal provinces. Conversely to Eastern Europe, socialism was maintained as a programme, both in commemorating the past and in providing a vision for the time after 2049, when the transitional period would run into a renewed socialism. Moreover, it made sure, that the ruling elite could stay in power and exercise control over the process of capitalist transformation, which was implemented in a radical way.

Previous forms of social security, exercised by state companies, village communities and urban social institutions were completely abolished, companies freed from any legal obligations regarding working conditions, wages, social benefits and social care. Protected by the continuity of the ruling party, a complete change of system took place, deregulating social life in an unprecedented way. It was an Eldorado for those privatizing state companies, it was a call for people to risk private investment, and it was an ideal moment to relocate production and sourcing to a country „freed“ from state regulation and - continuity from socialist times - from trade unions' or democratic interference. China entered an era of wild capitalism, based on a labour exploiting regime that - in spite of the different technological level - resembled the early years of the factory system in Western Europe. Textile, nowadays in combination with garment, again served as a leading sector.

There was a major difference, however. China's transformation was not only steered by the communist party. There also was a strong external interest in making use of China's cheap labour potential, longing for the improvement of their living conditions and therefore ready to accept harsh conditions. A strong state apparatus made sure that protests would not come up or be suppressed. This external interest was exercised by a new elite controlling the global commodity chain, represented by brand owners, reselling and supermarket chains, looking for the most profitable arrangement for contracting producers all over the world. They were backed by the global consumers, apparently legitimizing the cost optimizing strategies of the global players by their endeavour to buy as cheap and as much as possible. Chinese workers' wages were not conceived to make them able to consume beyond their most basic needs.

China 2008ff:
2008 is taken as a rupture because of the introduction of the Labour Contract Law, in discussion from 2006 onwards, passed in 2007. It obliges companies to issue labour contracts and labour rules, entitles workers to complain against rules and violations and introduces collective bargaining rights for trade unions. A reform of the social security system followed in 2009. Transforming workers step by step into consumers with a higher purchasing power, by raising wages and social benefits, today belongs to the declared strategy of the government’s and party’s plan of development.

How does the introduction of labour regulations and social security change China's role in the international division of labour? Political declarations and empirical observations in the textile and garment sector indicate the beginning of a new era. After 30 years of complete lack of regulation, labour and social laws are in power, although company implementation and control is lagging behind. This advance is passing the leading role from the textile to other sectors. It is equally initiating transformations within the textile sector, contributing in the coastal provinces to an upgrading from simple contract manufacture to a more capital- and technology-intensive, controlling position in the commodity chain.

In Western Europe the period of wild capitalism lasted approximately 60 years, before social security for workers was introduced (Germany and Austria-Hungary: 1880s). Raising wages and social security regimes will enable workers to participate in economic growth. How will Western buyers and consumers cope with this situation, which will deprive them from easy profits and bargains? Will the Chinese political elite support Chinese workers' interests against the global traders?

A compromise for the textile and garment sector is in sight: Global sourcing is redirected into the Chinese interior, in combination with the relocation of some industrial processes into neighbouring South Asia. The Chinese household registration system guarantees, that the separation between high and low welfare regions and high and low workers' wages will be maintained. If this compromise comes true, China's coastal region might indeed follow the Western European of workers' emancipation. They would equally follow the Western European model of workers' social inclusion on the back of workers in peripheral regions contributing value to the commodity chain without participating from its benefits. It is most likely that this offer might satisfy the global buyers.

Appendix

Abbreviations:

CMT Cut Make Trim
GATT General Agreement on Tariffs and Trade
MFA Multi Fibre Agreement
OEM Original Equipment Manufacture
ODM Original Design Manufacture
MFA Multi Fibre Agreement
SME Small and Medium Enterprise
WTA World Textile Agreement
WTO World Trade Association

* Hukou: Permanent residence permit.
Hukou resembles the Austrian, German or Dutch „Right of domicile“ (*Heimatrecht*), the *settlement* of the English Poor Law and the French *domicilité de droit*, in practice until the second half of the 19th century, in some cases even longer. It assigns each citizen by law to a home community, where he or she is entitled to social rights, e.g. being taken care of in case of social emergency or lacking family support. Moving to another place did not automatically imply the eligibility of a permanent residence permit there.
In China *hukou* results from the imperial tax system assigning each subject to a place. In the PRC *hukou* served as an instrument to attach rural citizens to their village, where they were entitled to land-use and where communities and families were responsible for social care. In towns, urban *hukous* entitled their holders to services in social and medical institutions. When restrictions to migration were lifted in the 1980s, rural citizens could move to work in cities and industrial zones. This did not imply that they were eligible to receive a permanent residence permit, however. Their social rights were still attached to their home village and the land property allocated to them on behalf of the household responsibility system. At their new places of residence, migrant workers are regarded as „guests“, not entitled to permanent domicile, social security, medical services, schooling for their children etc. These restrictions were partially lifted in 2011, when social and medical care was also opened for migrants, not including old age pension and access to regular schools for children, however. To overcome migrants’

children's neglect, special schools and kindergartens were set up, perpetuating the division between permanent and temporary inhabitants.

Textile and Garment & leather Data China in Comparison with United States

	Textile 1998	Growth 1998 -2005	Garment & Leather 1998	Growth 1998 - 2005
Output value, Mio US-$				
China	52, 559	+ 193%	38,722	+ 166%
U. S.	91,387	- 33%	74,960	- 58%
Added value, Mio US-$				
..China	12,288	+ 222%	9,001	+ 221%
..U.S.	28,118	- 24,8%	14,933	- 48%
Per capita added value US-$				
China	2123	+ 215%	2750	+ 83%
U.S.	42219	+ 33%	41412	+ 20%
Labour force: large companies, Mio persons				
..China 2006	6,25 Mio (2006)		6,23 Mio	
..U.S. 2004	405.000 (2004)		332.000	
Profits, Mio US-$				
..China	2,038 (2002)	+ 217% (02-06)	2,038 (2002)	+ 17% (2002-06)
..U.S.	2,343 (2002)	+ 4,6% (02-06)	6,492 (2002)	+ 14% (2002-06)

Source: Yin Xingming (2009): China catches up with the U.S. as the world's largest manufacturer, in: China Economist Nov/Dec. 2009, 20-30.