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Wal-Mart's Tale of Two Cities: From Bentonville to Shenzhen

Author(s): Nelson Lichtenstein

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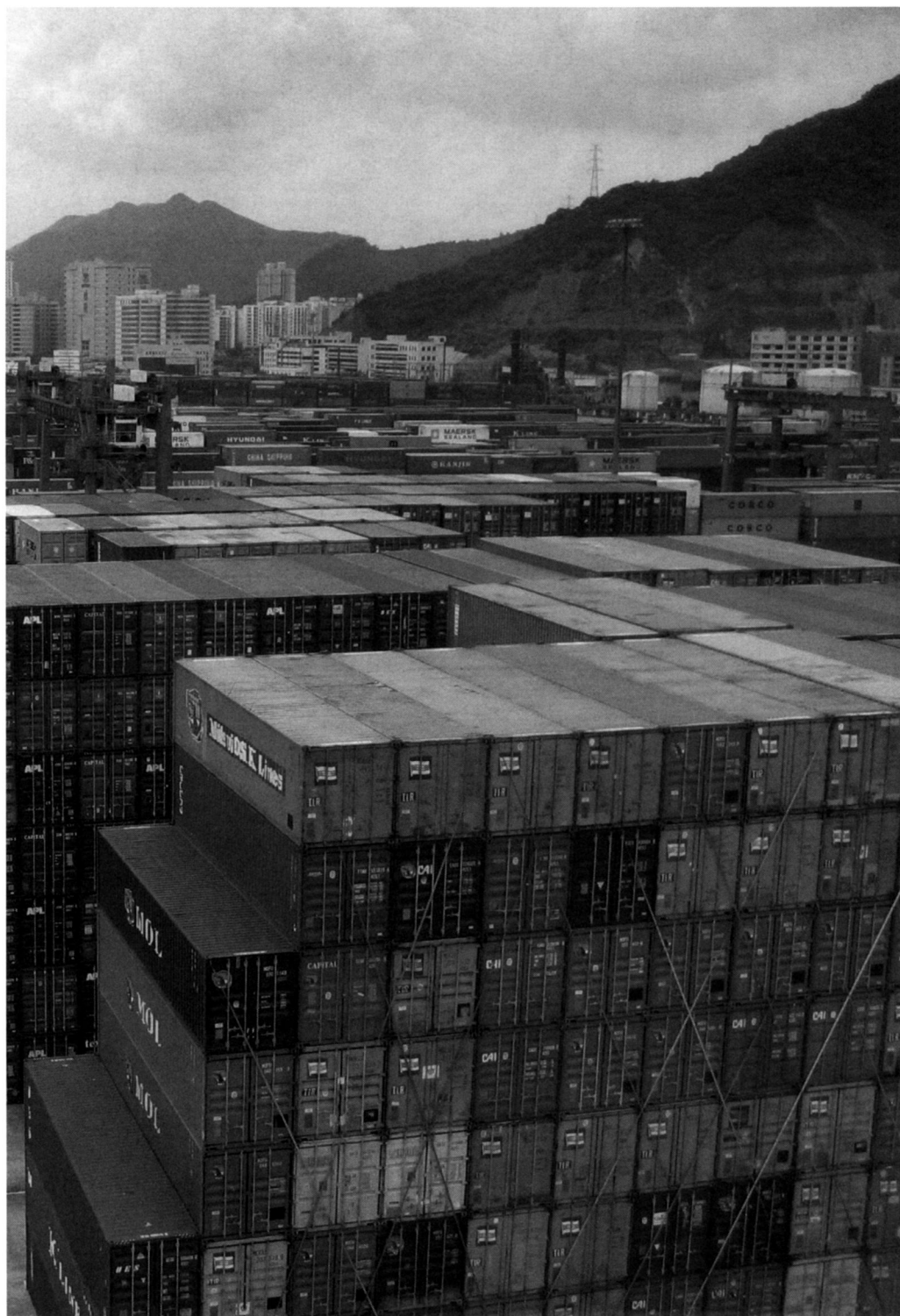
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*Photo: Richard P. Appelbaum*

*Yantian International Container Terminal, Shenzhen, China.*

# WAL-MART'S TALE OF TWO CITIES

## *From Bentonville to Shenzhen*

A GLOBALIZED WORLD OF COMMERCE AND LABOR HAS EXISTED FOR CENTURIES. THE Vanderbilts and the Victorians knew all about the China trade. But today's globalization differs radically from that of even a few decades past because of the contemporary role played by the corporate king-makers of our day, the big box retail chains that now occupy the strategic heights once so well-garrisoned by

the great manufacturing firms of the Fordist era. At the crux of the global supply chains stand the Wal-Marts, the Home Depots, and the Carrefours of our time. They make the markets, set the prices, and determine the world-wide distribution of labor for that gigantic stream of commodities that now flows across their counters. The deindustrialization of Detroit, Pittsburgh, and Cleveland entailed not just the destruction of a particular set of industries and communities, but the shift of power within the structures of world capitalism from manu-

facturing to a retail sector that today commands the supply chains which girdle the earth and directs the labor power of a working class whose condition replicates much that we once thought characteristic of only the most desperate, early stages of capitalist growth.

All this is graphically apparent upon a visit to the two most dynamic nodes of transnational capitalism today. It is easy to get to Bentonville, Arkansas, where Wal-Mart has its world headquarters in an unimpressive, low-slung building hard by the company's original warehouse.

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There are lots of direct flights from Denver, Chicago, La Guardia, and Los Angeles to this once remote Arkansas town. It is still not very big. Between Fayetteville and the Missouri line there are hardly more than 300,000 people. But it is now the fastest growing metropolitan region in the country. The parking lots are full, the streets crowded, and new construction everywhere. Most important, Bentonville is now home to at least 500 branch offices of the largest Wal-Mart “vendors” who have planted their corporate flag in Northwest Arkansas in the hopes that they can maintain or increase their sales to the world’s largest buyer of consumer products. Proctor & Gamble, which in 1987 may well have been the first company to put an office in Northwest Arkansas, now has a staff of nearly 200 there; likewise Sanyo, Levi Strauss, Nestle, Johnson and Johnson, Eastman Kodak, Mattel, and Kraft Foods maintain large offices in what the locals sometimes call “Vendorville.” Walt Disney’s large retail business has its headquarters not in Los Angeles, but in nearby Rogers, Arkansas. These Wal-Mart suppliers are a who’s who of American and international business, staffed by ambitious young executives who have come to see a posting to once-remote Bentonville as the crucial step that can make or break a corporate career.<sup>1</sup> If they can meet Wal-Mart’s exacting price and performance standards, their products will be sucked into the stream of commodities that flow through the world’s largest and most efficient supply chain. For any manufacturer, it is the brass ring of American salesmanship, which explains why all those sophisticates from New York, Hong Kong, and Los Angeles are buying so many big houses in Arkansas.

If Bentonville represents one nerve cen-

ter of capitalism’s global supply network, Guangdong Province is the other. Located in coastal South China, it constitutes the raw entrepreneurial engine that links a vast new proletariat to the American retailers who are putting billions of Chinese-made products on a million U.S. discount store shelves every day. With more than 40 million migrant workers, 130,000 garment factories, and new cities like Shenzhen, which has mushroomed to more than seven million people in just a quarter century, Guangdong lays an arguable claim to being the contemporary “workshop of the world,” following in the footsteps of 19<sup>th</sup> century Manchester and early 20<sup>th</sup> century Detroit. This was my thought when we taxied across Dongguan, a gritty, smoggy, sprawling landscape located on the north side of the Pearl River between Guangzhou (the old Canton) and skyscraper-etched Shenzhen. We drove for more than an hour late one Sunday afternoon, along broad, but heavily trafficked streets, continuously bordered by bustling stores, welding

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shops, warehouses, small manufacturers, and the occasional large factory complex. This is how the cities of the old American rust belt must have once looked, smelled, even vibrated.

Because of its proximity to Hong Kong and Macao, as well as its remoteness from the capital, the Chinese government in Beijing chose

Shenzhen as a special economic zone in 1979. A few years later, the entire Pearl River Delta became a virtual free market, with low corporate taxes, few environmental or urban planning regulations, and most importantly, the free movement of capital and profits in and out of the region. The results were spectacular. The gross domestic product of the Pearl River region leaped from eight billion in 1980 to \$113 billion in 2002. Shenzhen's population rose twentyfold. Guangdong Province itself, which covers most of the Pearl River Delta, produces a third of China's total exports and 10 percent of all that finds its way to Wal-Mart's U.S. shelves.<sup>2</sup>

Although Wal-Mart owns no factories outright, its presence is unmistakable. Its world buying headquarters are now in Shenzhen, it has already put eleven big stores in the province, with more to come, and Wal-Mart is feared and respected by everyone involved with any aspect of the export trade, which is why the executives at the Yantian International Container Terminal in Shenzhen, now the fourth largest port in the world, give Wal-Mart bound cargo top priority. "Wal-Mart is king," a port official told us. But the Pearl River Delta is not merely an export platform like the border region of northern Mexico or the free trade zones of the Caribbean. In Guangzhou, Shenzhen, and their environs, well-paved roads pass through a staggeringly crowded landscape of factories, offices, dormitories, apartments, and streams of migrant labor. Governments at both the provincial and national level are making huge infrastructure investments, likewise tens of thousands of foreign investors from Taiwan, Hong Kong, South Korea, Japan, and the United States are building production facilities of in-

creasing complexity and capacity. All this makes it possible to transform raw materials into containerized consumer goods in just a few weeks. Managers at the huge Nike-Yue Yuen factory

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complex in Dongguan bragged that they could fill an order from the States in just two months. Container ships are loaded in half the time it takes in Los Angeles.

Wal-Mart in China is therefore a "joint venture" between the company and the Chinese government. This is not only because so many of its suppliers have governmental investment, but because for Wal-Mart and other multinational companies doing business there, a stable currency, political peace, and a compliant workforce are nearly as important as low costs. "There might be places in other parts of the world where you can buy cheaper, but can you get [the product] on the ship?" asked Andrew Tsuei, managing director of Wal-Mart's global procurement center in Shenzhen. "If we have to look at a country that's not politically stable, you might not get your order on time. If you deal in a country where the currency fluctuates, everyday, there is a lot of risk. China happens to have the right mix."<sup>3</sup>

The workforce in Guangdong, like that of the other coastal provinces, is overwhelmingly composed of migrants from inland villages. The men work in construction and the women in export manufacture and commerce.



Factory wages are low—about \$100 a month—but far higher than in agriculture, and they are rising fairly quickly because of the labor shortage generated by the export boom in toys, garments, shoes, and electronic devices. But, as in apartheid South Africa or along the employ-

*Managers at the huge Nike-Yue Yuen factory complex in Dongguan bragged that they could fill an order from the States in just two months. Container ships are loaded in half the time it takes in Los Angeles.*

ment pathways carved by so many Mexican workers in the United States, these millions of migrants are essentially stateless. Because their official residence remains the home village, migrant workers in coastal China do not have access to social services or adequate housing so long as they are without residence permits. They work and reside on the sufferance of their employer, who often holds their identity papers until they complete their labor “contract.” This is why so many factories throw up huge dormitories, some housing eight or twelve workers to a room, where residence is dependent upon employment at the enterprise next door. Women workers who are fired or get pregnant are practically compelled to return to their home villages. Marriage is difficult because

there is so little affordable housing for couples who work in the contract manufacturing sector.<sup>4</sup>

Neither Bentonville nor Guangdong just happened; these anchors of the trans-Pacific supply chain are not the product of some abstract process of globalization, but rather, both were constructed by a set of political and policy choices made over the last third of a century. Sam Walton and the generation of top executives that he groomed were innovative and energetic entrepreneurs, who quickly deployed each new generation of telecommunications hardware and computer software to build a system that can track, order, and price a tube of toothpaste from the time it is sold in a Peoria to the moment an electronic impulse tells P & G to order up another in that Cincinnati company’s worldwide network of factories. But hard work and clever ideas would not have been enough to have sustained Wal-

Mart’s tremendous growth, and that of the entire big box retail industry, in the years since 1980. Wal-Mart’s extraordinary success is also the consequence of conservative political victories that generated the terrain upon which big box retailing would flourish. These included the collapse in the real value of the U.S. minimum wage, a simultaneous disintegration of the Wagner-era labor law, and the growth of a “free trade” regime that has proved exceptionally beneficial to the conquests made by America’s new retail oligarchy.

The minimum wage is crucial because discount retailing is a labor intensive enterprise. And because margins are so low, wages are decisive to a retailer’s competitive profile. Sam Walton knew this in his gut.<sup>5</sup> He systematically

broke the minimum wage and overtime laws from the moment Wal-Mart became a small chain. He did this by creating a series of family-centered corporate shells, all of which had retail sales that came in just below the threshold—about a quarter million dollars in the 1960s—that enabled Walton to avoid paying the federal minimum wage. This was rather helpful because in 1968 the minimum wage reached its 20<sup>th</sup> century apogee, so Walton could employ, at rock bottom wages, thousands of women who were pouring off Arkansas and Missouri farms during the years when the revolution in American agriculture belatedly reached the Ozark plateau.

In the late 1960s, when the courts finally ruled that his decentralized ownership structure was but a device to avoid the wage and hour law, Walton got lucky. The stagflation that would soon roar through the American heartland stripped the minimum wage of much of its real value. It fluctuated in the early 1970s and then plunged after 1978 just as Walton was expanding his retail barony into metropolitan Missouri, Texas, and Tennessee. Because Walton placed his stores in small communities, where rural, underemployed women were available at the minimized minimum wage, he held a striking competitive advantage over urban/suburban department stores like Sears and Macy's, whose wage scales had long been structured by their effort to avoid unionization and retain a core workforce of male workers. Thus today, when Wal-Mart asserts that its average pay is almost twice the minimum wage, it exaggerates only modestly. But in 2006 the buying power of the real minimum wage is a third less than it was 30 years ago.<sup>6</sup>

The second policy vacuum that Wal-Mart exploited was the evisceration of American labor law. The key to Wal-Mart success was not just a low-wage retail operation, but keeping its logistics system nonunion. Among truck drivers and warehousemen, unionization has been an historically vigorous presence, especially in Missouri which was Wal-Mart's growth frontier all through the 1970s. But Walton did not establish its first distribution center in that state until the mid 1980s. Indeed, all three of Wal-Mart's first distribution centers were put in Bentonville, and the fourth in Searcy. The workers in those centers knew that wages were a couple of dollars higher across the Missouri line and they also knew that Wal-Mart's frenetic growth was pushing them right up to their physical and psychic limit. Organizing efforts and wildcat strikes therefore took place in almost every Wal-Mart distribution center in the 1970s, and in the towns of Clinton and Mexico in Missouri unionization attempts were mounted at two of the company's early discount stores as well. Walton crushed all these efforts

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by hiring John Tate, an antiunion lawyer who had fought the emergence of interracial unionism in the upper South in the 1940s, and a quarter century later, had been employed by the new

cohort of antiunion meatpacking firms in Nebraska and Colorado, who were determined to keep Chicago-style unionism out of their territories. In later years, Wal-Mart would develop an infamous "Union Prevention Index" for each store, designed to measure and track employee discontent, and if necessary, trigger the rapid deployment from Bentonville of a squad of antiunion executives skilled in the latest union avoidance techniques.<sup>7</sup>

Wal-Mart also led the way in squeezing labor costs out of its vendors both at home and abroad. Ironically, the company's famed "Buy American" campaign of the late 1980s proved most useful in this endeavor. The origins of the program lay in a confluence of factors. Sam Walton may well have been personally offended by the poor working conditions he witnessed when visiting Central American garment factories in 1984. More important, many Wal-Mart customers blamed the recession of the early 1980s, which destroyed so many blue-collar jobs, on the first flush of global competition. In the mid-1980s, the closure of several Arkansas firms led to an outcry against the import practices of big retailers like Wal-Mart. Governor Bill Clinton was among those who appealed to Sam Walton to save Arkansas jobs by keeping supply firm jobs at home or even shifting production back to Arkansas from abroad.

Wal-Mart's "Buy American" program proved "a public relations coup historic in its dimensions," rued *Discount Store News*, which reflected the chagrin of the Bentonville retailer's competitors.<sup>8</sup> By 1986, Wal-Mart stores were festooned with red-white-and-blue "Buy American" banners and signs on the counters that proclaimed, "THIS ITEM, FORMERLY IMPORTED, IS NOW BEING PURCHASED BY WAL-MART IN THE U.S.A. AND IS CRE-

ATING OR RETAINING – JOBS FOR AMERICANS!"<sup>9</sup> Even today, long after its formal abandonment, Wal-Mart is thought of as a more "American" firm than some of its competitors who actually import fewer goods. Wal-Mart never released any firm figures on the proportion of its product costs that came from overseas. But Asian procurement rose steadily all during the heyday of the Buy American program, as the corporate buying staff living in East Asia more than doubled in size.

The real import of the "Buy American" campaign lies elsewhere, however. Wal-Mart would increase domestic purchasing, but the company used the prospect of such procurement as a hammer to drive down supplier costs, including their wages and profits, and transform these vendors into Bentonville pawns. "One of our big objectives" in the Buy American program, a Wal-Mart board member told Walton biographer Bob Ortega, "was to put the heat on American manufacturers to lower their prices."<sup>10</sup> Wal-Mart recognized that U.S. labor costs were much higher than in Central America or East Asia, but it sought to make up the difference by freezing wages and forcing logistic and production efficiencies on its suppliers. "Our American suppliers," said Sam Walton "must commit to improving their facilities and machinery, remain financially conservative and work to fill our requirements, and most importantly, strive to improve employee productivity."<sup>11</sup>

Thus, an embittered spokesman for the National Knitwear and Sportswear Association complained that Wal-Mart used its "flag-waving" Buy American campaign "as a negotiating club that forces domestic manufacturers to compete, often unrealistically, with foreign suppliers who pay their help pennies an hour. As a



result vendors see their gross sales sky rocket and their net profits plunge.” Indeed, a packaged goods vendor told *Discount Store News* that “Wal-Mart’s highly proactive approach to product development may, unintentionally, be making American business less competitive.” Because Wal-Mart now sets the parameters of product development, companies like his are “no longer manufacturers.” Instead, they are becoming sources who “produce only the products that Wal-Mart has decided it wants to sell, which in turn make R&D and introduction of new products redundant and unprofitable.”<sup>12</sup>

Indeed, the Buy American campaign actually helped prepare the way for the Big Box rush to China that took place in the 1990s. By then Wal-Mart had become a de facto manufacturing enterprise, with skilled buyers who helped vendors develop and design products according to the tastes and proclivities of its customers, as analyzed by the “data mining” made possible by Wal-Mart’s enormously clever IT department in Bentonville, not to mention a computer data facility said to be second in size only to that of the National Security Agency. Because Wal-Mart has an intimate understanding of the manufacturing process, and because its purchasing power is so immense, the Bentonville company, which now employs almost 500 people in its Shenzhen world purchasing headquarters, has transformed its 3,000 Chinese suppliers into powerless price-takers, rather than partners, deal-makers, or oligopolistic price administrators. While many of these suppliers are small and undercapitalized, a growing number of East Asian contractors manage factories that are of stupendous size, first among them Yue Yuen Industrial, which makes shoes for

Nike, Adidas, Reebok, New Balance, and other well known brands.<sup>13</sup>

The dialectical relationship between a brand—which is really just a disembodied reputation—and the tangible factory that turns out such branded commodities became graphically apparent to us when we visited the Nike headquarters, located right inside the Yue Yuen factory in Dongguan.<sup>14</sup> Yue Yuen anchors the global supply chain in footwear because it is the largest shoemaker on the planet. It employs upwards of 265,000 workers in China, Vietnam, and Hong Kong, who turn out some forty footwear brands on 342 production lines. At the Dongguan facility we visited in September 2005, more than 20,000 workers, 80 percent women, produce just under a million pairs of shoes a month.<sup>15</sup>

Yue Yuen was not our host when we visited that company’s Dongguan factory. Rather, it was Nike, whose offices were in the same place, who gave us the royal welcome. They

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were happy to do so because Nike saw any group of visiting U.S. academics as but another chance to advertise what they considered the exemplary working conditions under which their shoes were manufactured. We were told the Chinese labor codes were strictly enforced,

the dining rooms did look clean, and the dormitories were safe, if crowded. And Nike had even built a disco and a reading room, full of the Chinese equivalent of *People* and *Cosmo*. Their social responsibility staff numbered about twenty-five. All this cost money—we were told at another Yue Yuen factory that such social amenities and adherence to legal wage and safety standards had pushed the wholesale cost of Reebok shoes from \$7 to \$11 dollars a pair. This seems excessive, but whatever the cost, Nike, Reebok, and other branded distributors felt it essential to sustain the reputation of their brand and the goodwill of the nongovernmental organizations who have begun to monitor South China production facilities. They don't want to turn on CNN one afternoon and watch an expose of the poor labor or environmental conditions fostered by a footwear brand whose goodwill is measured in the billions.<sup>16</sup>

Wal-Mart has not neglected this public relations front. Like Nike, Reebok, and other branded distributors, Wal-Mart has an elaborate factory certification program which was set up right after a devastating 1992 NBC expose that documented abusive child labor practices in Bangladesh. Since then, Wal-Mart has replicated many of the features found in the factory inspection and certification programs that have been supported by branded companies like Nike and Liz Claiborne. Wal-Mart audits at least once each year the 5,300 factories from which it purchases directly. And the company requires audits of supplier factories from which it indirectly sources apparel, shoes, sporting goods, and toys. The company's Ethical Standards Department employs more than 200, half in China; and Wal-Mart has established an elaborate green-yellow-red "traffic

light" system that categorizes factories according to their adherence to Wal-Mart's labor and environmental code. One percent of all factories fail inspection outright and are dropped from the Wal-Mart supply network."<sup>17</sup>

But none of this has enabled Wal-Mart to escape a barrage of criticism. The AFL-CIO has proved an early and persistent critic, focusing on the use of prison labor by Wal-Mart suppliers in China. Then, in 1995, when Kathie Lee Gifford was confronted with evidence that the factories producing her clothing line, marketed at Wal-Mart, employed children in Honduras sweatshops, she broke into tears on national television, thereby adding a bit of glitz, and a satisfying victory, to anti-Wal-Mart campaigners. In more recent years the drumbeat of criticism has been almost constant. In 2001, KLD & Co., the largest mutual fund aimed at social responsibility, said it sold its shares of Wal-Mart and removed it from the Domini 400 Social Index because Wal-Mart wasn't doing enough to prevent sweatshop abuses. Wal-Mart has refused to join the Fair Labor Association, a monitoring group endorsed by many companies in the apparel and shoe industry, and it contracts with commercial firms like Price Waterhouse Coopers, rather than local NGOs, to do its factory safety and labor audits. And in 2005, the International Labor Rights Fund inaugurated a lawsuit against Wal-Mart on the grounds that it systematically fails to enforce labor standards in its corporate code of conduct, and then lies about it to the American public.<sup>18</sup>

So Wal-Mart is the "dirty king" of South China, as one of our NGO informants told us, the "the lowest of the low" observed a Reebok executive.<sup>19</sup> Managers at three Wal-Mart supply factories told the Shenzhen-based Institute

for Contemporary Observation, whose scruffy, bustling offices we visited, that Wal-Mart staff from the company's Shenzhen purchasing department both sought and accepted bribes. Moreover, workers are often coached by their foremen to lie about conditions to inspectors, otherwise, they are told, the factory might lose its orders and they will be on the street. And the ICO found that many of Wal-Mart's social responsibility inspection teams "only spent about three hours at the factories, during which they verified wages, working hours and personnel records, made a brief inspection tour of the factory and met three or four workers in the factory office's reception room. Wal-Mart inspections were quite easy to bluff...."<sup>20</sup> Indeed, even Wal-Mart CEO H. Lee Scott has admitted that the company needs to become more "committed" and "transparent" in order to "provide additional credibility to our factory certification program."<sup>21</sup>

So why Wal-Mart's poor record? There are two reasons. First, there is an absolute conflict between Wal-Mart's drive for low prices and its effort to enforce a code of conduct. When Wal-Mart's Shenzhen buying headquarters advertises a contract for a big production run, Chinese entrepreneurs jump at the chance to fill it. Even without Wal-Mart's infamous price squeeze, the Chinese are willing to take a loss on a first Wal-Mart contract in hopes that they will recoup their fixed costs in the long run. But given Wal-Mart's enormous appetite, and its bias toward large suppliers, the Chinese vendors must themselves subcontract, and the sub-contractors also find their own sources of labor.<sup>22</sup> As with the turn of the 20<sup>th</sup> century garment manufacturers on the Lower East Side, no one can effectively police the complex net-

work of contractors, subcontractors, and family workshops, especially when it is a private company, not the state, which is trying to do the police work. "The factory owners don't think they violate the law because they do not

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know the law," said Liu Kai-Ming of the Institute for Contemporary Observation. "Ninety percent of Wal-Mart sub-contractors and suppliers cannot meet Wal-Mart's own code of conduct."<sup>23</sup>

Contributing to this price and production pressure is the telecommunications infrastructure that has so integrated the supply chain. These instantaneous links between Bentonville and Shenzhen are a mechanism that puts relentless pressure on the Chinese vendors to meet production and shipping deadlines. Because Wal-Mart can so accurately forecast its inventory needs, and change those forecasts as conditions shift in the United States, it now expects the same kind of flexibility from its manufacturers. Thus the stop and start nature of work in so many Chinese factories, the heavy overtime punctuated by short work weeks and unpaid vacations. As a manager at a Dongguan company asserted, "We are forced to apply the labor codes ... but we can judge from our intuition that when production and codes clash, which side we can cling to. Once I phoned their production department and asked, 'Do you still

want your products on time?’ The monitor then left our company alone.”<sup>24</sup>

Second, although Wal-Mart itself is a “brand,” few of the products it sells depend on the kind of brand reputation so carefully nurtured by Nike, Reebok, or some of the fashion apparel makers. This makes the company far less vulnerable to consumer pressures targeted at a well-known product. The commodities Wal-Mart sells are interchangeable. The advantages of all this were driven home to us when Tiger Wu, a production manager at Nike, drove us over to the local Wal-Mart to inspect the shoe department. Nike does not sell its shoes at Wal-Mart, in either China or the United States. They would not be able to command \$100 a pair if they were found on the same shelf with the plastic flip-flops. But Nike has recently purchased the non-brand “Starter” line, which Yue Yuen now produces in increasingly large quantities.<sup>25</sup> At the Dongguan Wal-Mart the shelves were full of cheap Starter athletic shoes. Mr. Wu was contemptuous of their workmanship, but even more so of their invisibility as an attractive “brand.”<sup>26</sup> But from Wal-Mart’s perspective, this is highly advantageous because it has no investment in the brand reputation, so it can easily and rapidly shift production from one Chinese source to another. As a consequence, the ICO found that “the level of enthusiasm in implementing codes of social responsibility among brand name companies far exceeded that of retailers.”<sup>27</sup>

The real value of these corporate codes of conduct, even at the best companies, lies in the realm of ideology. They legitimize the idea of a worldwide social standard, even as their chronic failures demonstrate that any real transformation of the global supply chains must come from other sources. In Guangdong, as in so many other parts of China, resentment, an-

ger, and social conflict lie just beneath the surface. China’s Ministry of Public Security reports that the number of “mass incidents” rose eight-fold in the decade after 1993. Labor Ministry statistics on industrial disputes have recorded an even more rapid increase, and hardly a week goes by without a journalistic report of a demonstration or police crackdown in the coastal industrial districts. Most such conflicts still occur in the northeast rustbelt provinces, where layoffs and pension corruption have generated enormous unrest. But the full employment and rising wages of coastal China have done little to ameliorate social conflict. Guangzhou City reported nearly nine hundred protests involving more than fifty thousand workers in 2004. One protest in seven involved more than one hundred people.<sup>28</sup>

These protests are directed less toward the national government than toward local authorities, specific employers, and corrupt officials. They have not achieved the national character of the Solidarity movement that challenged the Communist regime in Poland a quarter century ago. They have a far more local, although hardly a parochial, thrust, seeking to pressure factory managers and provincial officials to live up to Chinese labor and environmental laws, as well as to the specific employment contracts and working condition promises which brought so many to Guangdong’s factory districts in the first place. The protesters are fighting for the kind of democratic citizenship that will liberate them from a workplace regime that has left them in a purgatory half-stateless and half-free. As they push back against this system, they begin to crack the chains, supply chains as well as others, that have given Wal-Mart and its retail competitors such overweening power in the global economy. ■

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