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Has the "Race to the Bottom" Bottomed Out?

As workers in traditionally low cost markets start to assert themselves, must we accept the fact that apparel prices are finally going to go up?

NO MATTER HOW you look at it, price remains a critical operative in the retail/sourcing equation. While the advent of fast fashion may have lit a spark to the fuse, today even luxury goods are chasing price (why else would Louis Vuitton and Gucci, to name a few, be sourcing in China?).

Apparel manufacturers and retailers have been playing a kind of global chess game in search of the perfect source that combines low costs, skilled labor and speed to market. Ultimately that prompted most to make the move into China, making China the world's biggest – and fastest growing – apparel manufacturer.

However, China is changing. As workers see their nation prosper they are starting to think, "Hmmm...everyone's getting rich here...everyone except *me!*" The buzz amongst industry experts and international labor movement watchers is that the 'China as a source of cheap' days are about to end. And that end might be with a big bang.

The apparel industry will have to get used to the fact that the price of labor will go up and that may force them to change their thinking about the model for supplying the US and Europe.

According to Stephen Diamond, Associate Professor of Law at Santa Clara University (USA) and author of *"Che" to China: The Labor and Authoritarianism in the New Global Economy* (Vandeplas Publishing, 2009), the so-called 'race to the bottom, may be bottoming out.

When you continue to chase lower wage rates, at some point you run out of places to go. "You could play countries off against each other but that's not easy. A fair amount of soft intellectual property goes into establishing relationships between the brands and the retailers and the production structure in places like China. Lifting that wholly and putting it in Central Africa is not an easy proposition. It's true you could probably find cheaper workers in Central Africa but you take on board a whole host of other problems," he said.

Globally, there is no shortage of people, but it is not just about bodies. There's more to sourcing than just going to the absolute poorest countries and exploiting labor.

"I would say that there is no absolute race

to the bottom but there is an aggressive use of labor that is less expensive relative to US or European labor, and certainly less well organized in terms of independent unions or abilities to influence the political system or the legal system. However, it won't be that easy to find and reproduce what they found in China twenty years ago," said Professor Diamond.

China is facing pretty intense internal debates over the model that they have been pursuing. Ultimately the country needs to rebalance their model away from an export oriented economy to a domestic consumer economy. In part for that to be viable, workers' wages need to rise so that they can afford to consume more.

"There is logic that says that if you are looking for a trigger to the recent financial crisis, it might well be the fact that the Chinese working classes have said "That's it, we're not going to continue to feed this machinery without getting back an increased share," and in a sense that caused the entire global financial system to re-work its present value calculations and cash flow. It calculated that Wal-Mart is worth a certain amount in market capitalization based on its ability to source clothing at a certain price and the assumption that is built into that model has to shift if the labor force in China says "we are not going to take it anymore." So you could read the unrest, strikes and increased usage by the Chinese workers of the labor arbitration systems and other kinds of dispute mechanisms -with

some actual victories for the workers - and that would suggest that the 'China price,' is going to go up. I would introduce a more dramatic point here for a larger context which is: *once labor movements get started they are very difficult to stop.*"

Clear and Present Danger

"I don't think the dynamic here is one which says the Chinese regime sits down and says 'okay, we will let the average wage go up fifteen percent over the next three years' and then turns around to the industry and says 'you will have to recalculate your cost structure to accommodate this fifteen percent increase.' The danger is that the minute they start doing that the working class says 'that is

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not enough' and once you start that dialogue the workers then reveal themselves as having an independent role in this process. There is not necessarily a clear end to that role - other than it could be a pretty fast slide from that position to Poland in 1980 or East Germany in 1989, that is a massive movement that gets behind a much more aggressive change. So there is a lot of social and political context to these kinds of considerations. The regime is no doubt thinking about them on a level of survival of their political power.

"I don't see the signs that the industries that depend on China are quite absorbing the impact of what those of us who follow Chinese labor have been saying for several years, which is there has been growing unrest. Over the last decade there has kind of been a slow, growing rumble of thunder starting in the state-owned sector with the layoffs in the old industrial companies. The interesting thing has been to watch it spread into the manufacturing zones and the export sector. The one twist here is there are many indications that the coastal zone unrest is more focused on foreign-owned businesses - and probably not Japanese, but rather Western European and American. "This is perhaps a twist and may be not be of overall significance, but the Chinese would not be above using APFTU or labor legislation to cause problems for competitors who they don't favor," said Professor Diamond.

The overall question is do they feel that their own population will not continue to accept this labor model and therefore will strike and organize? Since those strikes and uprisings could threaten the regime politically, they would then try to make concessions on economic issues to shortcut the potential that this snowballs into a political battle. So that of course means to manufacturers and distributors that you have to refit your models to accept increasing prices in the future - and it will increase every year because the government will try to give away as much as possible to preserve their political power."

Unions: Solution Rather Than Problem

While many industrialists and government officials fear a unionized work force, Prof. Diamond points out that the alternative could be anarchy, which is much worse.

"You have essentially social pressure from below that has no structure to organize that pressure and provide leadership that's accountable and democratic and so this is what gives the

character of the movement a sporadic or anarchic quality. The regime will face a choice about that maybe sooner rather than later; whether it will actually allow independent unions to be legally organized. The industry might have an interest in favoring that because right now no-one can trust the ACFTU. After all, what does it mean to have an ACFTU chapter in an assembly plant. Who are they? How do they get their jobs? Clearly they are hand-picked by the officials, which is good for

fifteen or twenty years but some major confrontations between the population and the regime. The industry will be in the middle of that."

Solving the Problem

What options are there for the apparel industry which is so heavily entrenched in China? According to Prof. Diamond, there are some opportunities because foreign apparel manufacturers do bring to China something that China cannot get. "It is very

workers address the government and industry and sit down to begin some plan for the future of the industry would make sense. However that would take political work by the industry and a commitment. The alternative is that you face increasing unrest, a government that will cycle back and forth between repression and concessions because it fears for its political life and an industry that can't go anywhere else because it is not easy to reproduce what exists in China."

Stephen F. Diamond is a law professor and political scientist on the faculty of the School of Law at Santa Clara University. His research concentrates on the impact of globalization on social, political and financial institutions.



AFP PHOTO / PAUL J. RICHARDS

Chinese worker-dissident Wei Jingsheng, the father of the democracy movement in China, briefs the US media on worker's rights violations by the Chinese government in 2004 at the American Federation of Labor and Congress of Industrial Organizations(AFL-CIO) world headquarters in Washington, DC.

the suppliers to the industry. If you are a manager of one of those plants and you are trying to deal with those disputes and those are the people who show up in the office to discuss the disputes with you, you don't know whether what they are telling you is what the workers are really interested in seeing happen or something they serve wants to have happen," he said.

"I think cataclysmic events are inevitable in China and the problem is that the gap between the regime's power and authority and the conditions of the average Chinese worker are so huge that I don't know that there are going to be any steps that will allow the process to evolve peacefully without social conflict. It seems to me that between here and some normalized democratic society lies not only

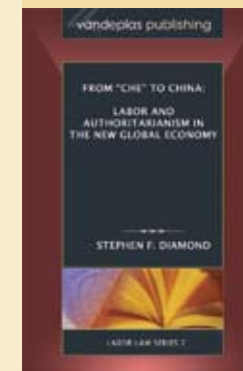
likely true that the Chinese industry wouldn't exist without the knowhow and the networking and the brand reputation of the Western industry, metaphorically speaking. They could not have created this themselves and presumably the regime would not want to lose it either. There is the possibility of the industry itself asserting itself more aggressively with the government in support of the workforce that might include some improvement of working conditions and labor organization. That would take some visionary leadership in the industry to say that we want to stay in China. We want to expand as part of natural growth to other parts of the world, but we don't want to just pick up and run, so how do we make this work? That is where having a genuine independent representative of the



Workers protest the jailing of a labor leader.

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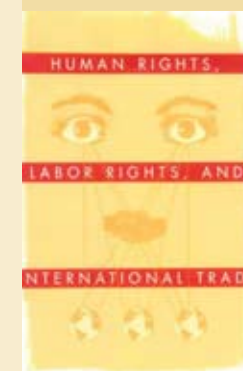
Recommended Reading



From 'Che' to China: Labor and Authoritarianism in the New Global Economy

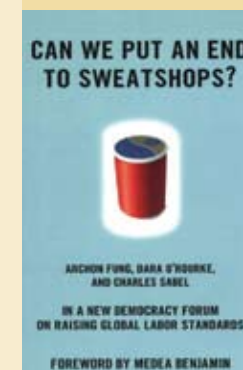
by Stephen F. Diamond (Vandeplas Press, October 2009)

Stephen Diamond argues that globalization is not a progressive force that is giving rise to a new democratic capitalism. In fact, authoritarianism remains an important political force and the new global capitalism itself is contributing to its persistence. In particular, the labor organization is now seen by authoritarian regimes as a source of power and control over the general population.



Human Rights, Labor Rights and International Trade

by Lance Compa & Stephen F. Diamond (University of Pennsylvania Press, 2003)



Can We Put an End to Sweatshops? A New Democracy Form on Raising Global Labor Standards

by Archon Fung, Dara O'Rourke & Charles Sabel (Beacon Press, 2001)