

Chapter 2

Bring In, Go Up, Go West, Go Out: Upgrading, Regionalization, and Delocalization in China's Apparel Production Networks

2.1 Introduction

In recent years, a great deal of research in economic sociology, political economy, international studies, and economic geography has focused on the globalization, governance, and rapidly changing geographies of global commodity chains (GCCs), global value chains (GVCs), and global production networks (GPNs) (Bair 2009; Gereffi 1999b; Gereffi et al. 2005; Henderson et al. 2002; Smith 2012). In these attempts to account for the shifting patterns of manufacturing and work, the role of the state and its industrial and regional policies are seen to be playing an increasingly important role in mediating the potentially destabilizing effects of what Gereffi and Mayer (2006) refer to as the ‘governance deficit’. In this process, a reconsideration of the role of national industrial policies, trade policies, and labor regulations is emerging. This is even more the case in China where, despite the apparent retreat of the state since its market-oriented reforms, the state has continued to be an active participant not only in strategically critical industries such as the manufacture of transport equipment, but also in the ‘most globalized’ and least-protected industries such as apparel. In this chapter, we focus on China’s apparel industry and argue that—after a period of liberalization, globalization, and marketization—state policies, social pressures on low-wage manufacturing and changing demands of different end markets are becoming important drivers of industrial upgrading in eastern China and crucial drivers of the relocation of low value-added segments of the industry to other regions and countries.

In this chapter, we focus on these industrial and regional dynamics, and the various adaptations the Chinese apparel industry is undergoing in regard to them. The chapter documents some of the ways in which different levels of government

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and different kinds of firms are attempting to deal with these limits and the dilemmas they pose. It does so by focusing specifically on spatial and organizational responses including factory consolidation, plant closure, product, process, chain upgrading, and geographical relocation (Liao and Chan 2011; Yang 2012). We draw on interviews with firm managers, CSR officers, labor organizations, regional administration and central government officials, and industry association officials, as well as used firm-level data to assess spatial changes over time.¹ We seek to demonstrate that the model of inward investment, global sourcing, and export orientation is already undergoing fundamental restructuring, producing new geographies of production and employment, with the consequent need to re-assess the policy implications of China in global production networks. Section 2.2 contextualizes the development of China's apparel industry in terms of a specific export-led model of industrialization (its spatial distribution, export, output value, employment, and the temporal changes of these indicators), with a particular focus on the pressures that have cut manufacturers' profit margins and are now forcing the government and manufacturers to implement new strategies to manage competitiveness and the social costs of growth. Section 2.3 outlines the emerging limits of this model of industrialization. Section 2.4 deals explicitly with three policies and enterprise responses to these pressures: upgrading, westernization (or regionalization), and delocalization (or outsourcing). The chapter concludes with an analysis of the impacts of these policy initiatives on apparel production networks and global value chains.

2.2 Bring in: Export-Led Assembly and the Rise of China in Global Apparel Value Chains

The integration of the Chinese apparel industry into global value chains deepened greatly after 1990. Between 1994 and 2010, despite declines in 1998 and 1999 as a result of the Asian Financial Crisis, China increased its apparel exports from US \$24.3 billion to US\$149.5 billion (Table 2.1). In the 1990s, apparel exports were driven largely by demand from US markets, but with entry into the WTO in 2001 and the removal of quotas worldwide after 2004, Chinese apparel exports expanded to all world markets.

Between 1995 and 2008, China more than doubled its share of global apparel exports from 15.2 to 33.2%, and it experienced a fivefold increase in the value of its apparel exports, from US\$24 billion to US\$120 billion. With expanded exports, dependence on specific markets was reduced (Gereffi and Frederick, 2010). Thus, while China's top ten export destinations accounted for 91.5% of China's apparel exports in 1996, the top ten markets accounted for only 79.1% in 2008. In 1996, Japan alone accounted for 32.6% of China's apparel exports and the US and the EU-15 accounted for another 22% (Hong Kong's 26.4% of exports was largely for

¹The maps in the chapter are based on firm-level data derived from the annual China Industry Economy Statistical Yearbook.

Table 2.1 Export of apparel products (1994–2010)

Year	Exports (US\$ million)	Import (US\$ million)	% of total exports	% of total imports
1994	24,281	1439	20.1	1.2
1995	21,947	1934	14.8	1.5
1996	25,439	2146	16.8	1.5
1997	32,142	2300	17.6	1.6
1998	30,681	2227	16.7	1.6
1999	31,185	2274	16.0	1.4
2000	37,029	2508	14.9	1.1
2001	37,474	2584	14.1	1.1
2002	42,968	2764	13.2	0.9
2003	54,434	3047	12.4	0.7
2004	65,561	3335	11.0	0.6
2005	79,890	3507	10.5	0.5
2006	105,340	3876	10.9	0.5
2007	127,930	4313	10.5	0.5
2008	136,510	4667	9.5	0.4
2009	123,792	4032	10.3	0.4
2010	149,482	4846	9.5	0.3

Source National Bureau of Statistics of China (2011)

Data on exports of apparel products are calculated by adding up four categories of Textile and Apparel Articles: 1. Knitted or Crocheted Fabrics. 2. Articles of Apparel and Clothing Accessories, Knitted or Crocheted. 3. Articles of Apparel and Clothing Accessories, not Knitted or Crocheted. 4. Other Made Up Textile Articles; Sets; Worn Clothing And Worn Textile Articles; Rags Articles; Rags. These four labor-intensive sectors have increased faster than other categories of Textile and Apparel Articles and represented 76% of China's export of Textile and Apparel Articles in 2010, compared to 71% in 1994

re-export). While by 2008 the EU-15 and the US had become the top two export destinations, they then accounted for less than 40% of total apparel exports and exports to Japan had dropped from 32.6 to 14.7%.

As the structure of China's industry changed and as producers shifted their comparative advantages from low-wage labor and low-end technology to medium technology and higher quality goods, the apparel share of total exports, particularly manufacturing exports, continued to decline. As a share of China's total exports, apparel declined from 20.1% in 1994 to 9.5% in 2010, and the value of apparel imports (always relatively small) declined from 1.2 to 0.3%, but as an employment generator apparel remained important, accounting for above 5% of employment of all industrial sectors in 2009.

The resulting geographies of apparel manufacture and employment were shaped increasingly—at least until recently—by these shifts in global sourcing for export markets. Export production concentrated in eastern coastal regions, with primary concentrations in Shandong, Jiangsu, Zhejiang, and Guangdong provinces and some outliers in regional centers such as those in central China along the Yangtze River (Fig. 2.1). The three planning regions in Fig. 2.2—Western, Central, and

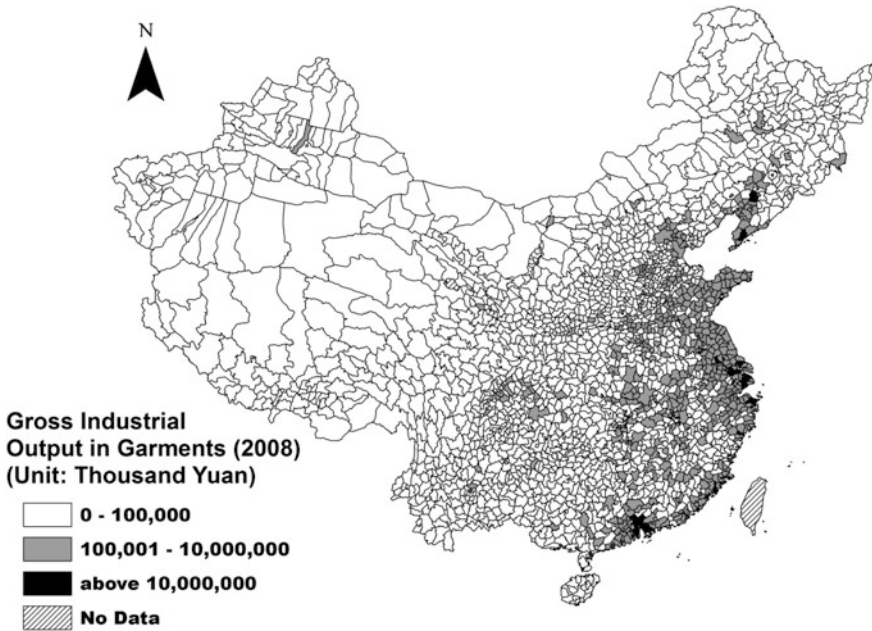


Fig. 2.1 Spatial distribution of gross industrial output in garments and other fiber products by county. *Data Source* Compiled by authors, using data from the china's annual survey of industrial firms in 2008

Eastern—are China's formal administrative planning regions. We introduce them here to provide a clearer picture of patterns of employment growth and change beyond the provincial level and to provide a name locator for the specific regions, some of which are referred to in the following sections. With regional concentration and the emergence of industrial clusters and city regions devoted to specific products, the demand for labor rapidly out-stripped local labor market capacities. As a result, manufacturers became increasingly dependent on expanded flows of low-wage migrant workers from the countryside, particularly from inland regions.

For many, this was a 'race-to-the-bottom' with intensification of the labor process, low wages, poor labor and environmental standards, and weak enforcement of national and local laws (Appelbaum et al. 2005). For others, China is simultaneously engaged in a 'race to the top', with some enterprises aggressively trying to move up the value chain through investments in R&D, design, and advanced manufacturing, and with an emphasis on domestic innovation. This export boom—officially referred to as the Bring-In policy—was predicated on low-wage assembly production, but has quickly generated greater capacity, vertical and horizontal integration, higher utilization rates, product specialization, increasing familiarity with technology, and large learning-by-doing effects. As a consequence, producers have been able to sustain internationally competitive prices while offering progressively higher quality products in expanded economies of scope and scale.

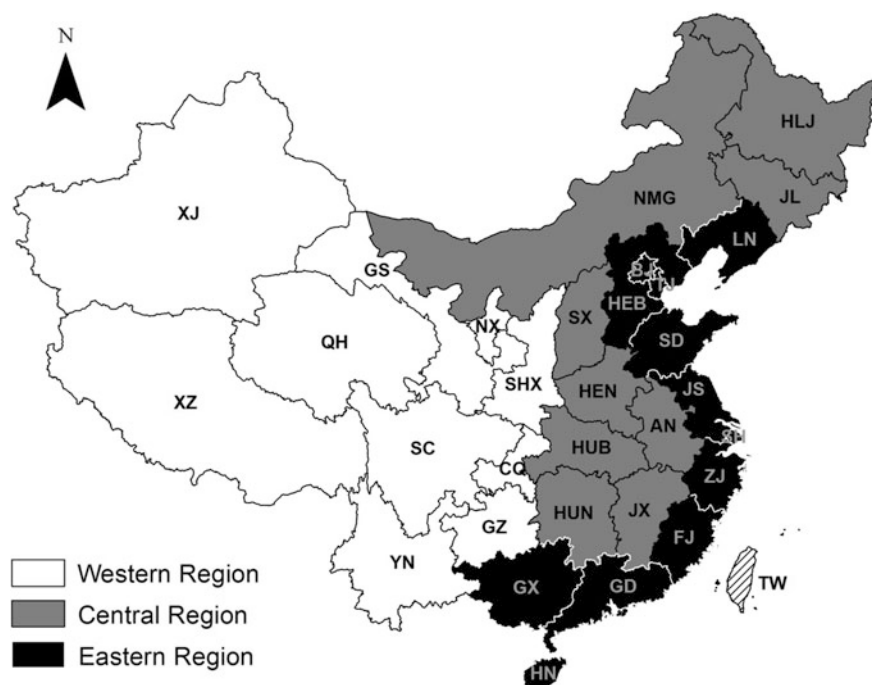


Fig. 2.2 Chinese provinces and centrally administered municipalities (Note: *AH* Anhui, *BJ* Beijing, *CQ* Chongqing, *FJ* Fujian, *GD* Guangdong, *GS* Gansu, *GZ* Guizhou, *GX* Guangxi, *HEB* Hebei, *HEN* Henan, *HLJ* Heilongjiang, *HN* Hainan, *HUB* Hubei, *HUN* Hunan, *JL* Jilin, *JS* Jiangsu, *JX* Jiangxi, *LN* Liaoning, *NMG* Neimenggu (Inner Mongolia), *NX* Ningxia, *QH* Qinghai, *SC* Sichuan, *SD* Shandong, *SH* Shanghai, *SHX* Shaanxi, *SX* Shanxi, *TJ* Tianjin, *TW* Taiwan, *XJ* Xinjiang, *XZ* Xizang (Tibet), *YN* Yunnan, *ZJ* Zhejiang)

2.3 The Limits of Export-Led, Low-Wage Industrialization

Since the early 2000s, factories in eastern China have increasingly confronted difficulties generated by this export-led low-wage growth model. The first dramatic transformation was driven by appreciation of China's currency, inflation, increased raw materials costs, lack of water and electricity as industrial capacity expanded, and increasing labor costs and labor shortages as local and migrant workers shifted jobs away from the low wages and poor working conditions prevailing in the industry. Export-oriented firms, in particular, found themselves squeezed between low contract prices, rising input costs, and struggles of migrant workers for better wages and working conditions, increasing numbers of whom have found it progressively easier to shift jobs into other industries and occupations (Inagaki 2006). According to the Ministry of Human Resources and Social Security of China, the average monthly salary for the country's migrant workers reached 2049 Yuan

(\$325) in 2011, up 21.2% from 2010.² Currency exchange rates were also important with—in the case of Zhejiang province for example—every 1% rise in the value of the RMB leading to 3.19, 2.27, and 6.18% declines in profit margins for cotton textiles, wool textiles, and apparel, respectively.³ As a result, in 2008, two-thirds of textile and apparel enterprises in six provinces (including Jiangsu, Zhejiang, and Shandong) were operating with profit margins as low as 0.62%, and the profit margins for the remaining enterprises was only 6–10%, with an average as low as 3.9% for all textile and apparel enterprises.⁴

The second transformation was driven by policy changes which indirectly increased production costs. Labor costs have been affected by the 2008/9 new Labor Contract Law (LCL) and by China's Social Compliance 9000 for the Textile & Apparel Industry (CSC9000T). These have extended labor rights, particularly concerning overtime, delayed wage payment and job security. As one firm manager in Ningbo commented:

The new labor law did lead to a substantial increase of production costs, in particular for small firms which only do OEM production and work on low margins. They had difficulties in absorbing such costs as easily as firms doing OBM and ODM

(General Manager of Peace Bird, translated from Chinese)

At the same time, the apparel industry has been confronted by more environmental regulations, particularly those based on the 2007 State Council *Comprehensive Work Plan of Saving Energy and Diminishing Pollution*, which increased the expense of pollution control for producers.

Apparel manufacturers have also been hit hard by the third transition of the business environment; global demand declined, especially after the outbreak of the financial crisis and the foreign trade disputes and anti-dumping suits. China ranked first worldwide with 338 anti-dumping cases between 1995 and 2005. Of the 169 anti-dumping cases concerning textile and apparel products between 1995 and 2007, 32 were against China, the highest number among all countries.⁵ These problems, combined with upward pressure on wages, low labor productivity, and increasing demands from customers for higher quality, faster runs, and expanded services, have squeezed the coastal apparel producers who expanded in the 1990s

²China Daily, February 29, 2012, 'Chinese Migrant Workers' Wages up 21% Last Year'. Retrieved on February 29, 2012 from: http://www.chinadaily.com.cn/china/2012-02/29/content_14724299.htm.

³Global Textiles, December 1, 2004, 'The Appreciation of RMB Has Generated Great Impacts on Textiles.' Retrieved on August 21, 2011 from: <http://www.tnc.com.cn/news/detail/4/3/d43224.html>.

⁴First Financial Daily, March 27, 2008, '60% Textile and Apparel Enterprises Operate with Profit Margin as Low as 0.62%'. Retrieved on August 8, 2011 from: <http://mnc.people.com.cn/GB/7049933.html>.

⁵Textile and Apparel Weekly, February 22, 2008, 'Textile Industry: How to Deal with Anti-dumping Investigations?'. Retrieved on August 21, 2011 from: <http://www.cwta.org.cn/news080222b.htm>.

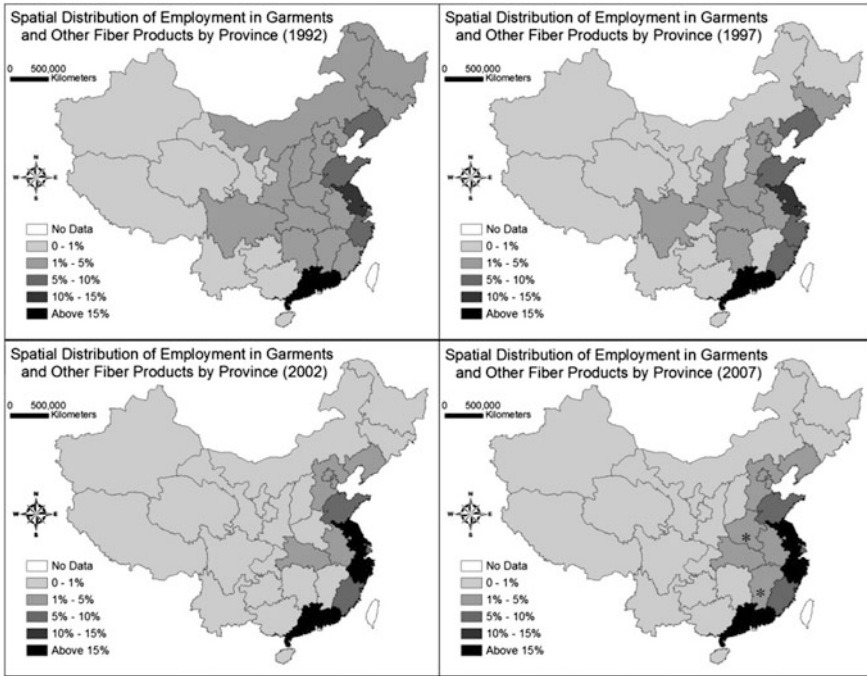


Fig. 2.3 Temporal changes of distribution of employment in garments by province (*Source* Compiled by authors, using data from various annual issues of China industry economy statistical yearbook)

and early 2000s. They now face much tighter margins on contracts, challenges in managing workforce recruitment, retention, development, and competition from other lower cost coastal areas, central and western regions of China, and other countries of Southeast and South Asia (interview, firm managers and industry association officials, Beijing and Ningbo, August 2012). As a result, export growth for garments fell sharply to 1.8% year-on-year in the first three quarters of 2008, compared to 20.9% for 2007.

During the 1990s, apparel employment became increasingly concentrated in coastal regions (see Fig. 2.3).⁶ Since the early 2000s, the pressures on coastal apparel manufacturers have forced drastic changes in firm behavior, leading to upgrading, expansion of operations to new products or centers or relocation to lower cost locations. Guangdong has succeeded in keeping its dominant position with about 12.8% of the market share in 1988 and 24.2% in 2007. Zhejiang nearly tripled

⁶Longitudinal analysis of industrial employment in textiles and apparel has to take into account the administrative change between 1988 and 2007 when Chongqing was upgraded to a centrally administered municipality in 1997, adding an additional administrative region to the 30 spatial units that existed before 1997.

its share, from 6.7% in 1988 to 17.2% in 2007. Jiangsu significantly increased its share, from 11.2% in 1988 to 17.1% in 2007 and maintained one of the dominant positions. The apparel industry in Shanghai was the first to experience these pressures, with some firms investing in new forms of product, process, functional or market upgrading and others relocating production to regions with lower costs. As a consequence, apparel employment in Shanghai declined from 603,000 in 1998 to 146,000 in 2007. As the 2007 map of employment shows, apparel employment has already started to shift westward to Henan and Jiangxi provinces.

China's exceptional export performance in labor-intensive manufacturing (particularly apparel) has long been associated with the specific industrial organization and spatial structure typified by these coastal zones. The detailed division of labor and sectoral specialization in its apparel clusters and its supply chain cities ('sock cities' and 'button cities') produced locations that were efficient and dynamic centers of expanded and intensified production in large part because of the ways in which the agglomeration economies of their locally and regionally embedded institutions, thick labor markets and tacit knowledge and practices were able to foster dynamic growth, innovation and economic competitiveness. As apparel firms begin to struggle with some of the diseconomies of scale once offered by these locations, and increasingly experience competition for workers and upward pressure on wages, different organizational and spatial strategies have emerged with some firms investing rapidly in various forms of industrial upgrading and labor market development, while others are moving out of these clusters and seeking to agglomerate in new geographies. The challenge facing the resulting delocalization of apparel production will be the extent to which new competitive advantages emerge or can be built in these new spaces, and the extent to which 'thick ties', embedded institutions and deep labor markets can be reproduced in the emerging geographies of production. Who is moving and who is staying, and to what extent is the re-institutionalization of new productive spaces being driven by firms and by government policy?

2.4 Upgrading, Regionalization, and Delocalization in the Chinese Apparel Industry

While most studies of GVCs and GPNs have focused on the diversity of forms of governance within the value chain, rather than on the role of state actions and government policies, recent work on GVCs and production networks has stressed the significant role that state action plays in the international, national and sub-national formation, constitution and restructuring of firms in global production networks (Gereffi et al. 2005). In this section, we analyze upgrading, regionalization, and delocalization strategies in the context of national economic regulation and policies. The state, in particular, has played an important role through national economic regulation and policies in shaping patterns of industrial upgrading, regionalization, and delocalization (Coe et al. 2008a; Dicken 2007; Liu and Dicken 2006).

GVC analysis defines ‘governance’ as the functional integration and coordination of internationally dispersed activities (Gereffi 1999b) and often argues that the action and motivations of global buyers are the key causal forces in the organization of global contracting systems (Gereffi 1999b; Schmitz and Knorringer 2000). While GVC analysis does not exclude the possibilities for local institutions to affect outcomes, state policies and institutional context have been under-estimated (Gereffi et al. 2005). Bair (2009) has argued that in such analyses institutional context was too often added later and still remains the least developed dimension of value chain analyses. Most recently, Adrian Smith (2012) has called for a much fuller engagement within GVC analysis with state theory and the role of institutional actors and regulations. Because globalization destabilized the governance of nation state and local institutions through its footloose sourcing practices, an increasing proportion of work for the global market took place in locations where governance capacities were weak, if developed at all (Mayer and Pickles 2010). As a result, the absence of public and private regulation—the global ‘governance deficit’—has been the focus of much subsequent political, economic, and non-governmental analyses and interventions (Gereffi and Mayer 2006). GPN analysis has been more explicit in its attention to the importance of institutional context and the whole range of factors that contribute to shaping global production and focuses on moving away from the firm- and chain-centered claims of GVC work, but even here the state is theorized in a limited sense as a single institutional ensemble wielding uneven forms of power over global production networks (Coe et al. 2004; Dicken and Henderson 2003; Henderson et al. 2002).

It is increasingly acknowledged that developing economies need to embed private initiatives in a framework of public action that encourages industrial restructuring, diversification, and technological dynamism beyond what private governance would generate on their own (Bair and Dussel Peters 2006; Dussel Peters 2008). This recognition is now particularly widely perceived in those countries where market-oriented reforms were taken the farthest, and the disappointment about the outcomes caused by market failures is correspondingly the greatest. In China, the social consequences of low-value, low-wage export production have become increasingly serious, forcing the central government and regional administrations to become more active in regulating the trajectories and geographies of change in the industry.

After a period of liberalization during which the direct role of the state in shaping industrial locational and organizational decisions was diminished in apparel firms, government strategies are now playing an increasingly leading role in shaping industrial policy in labor-intensive and low-value enterprises, pushing and encouraging them to relocate from the higher-cost eastern regions to release space and resources for higher-value apparel and other industries while simultaneously encouraging economic development in less-developed inland locations, particularly in areas from which migrant workers have been drawn. Thus, in addition to China’s continued commitment to encouraging inward investment (Bring In policy), these adjustments have given rise to three broad additional state policies: upgrading (Go Up policy), regionalization or westernization (Go West policy), and delocalization

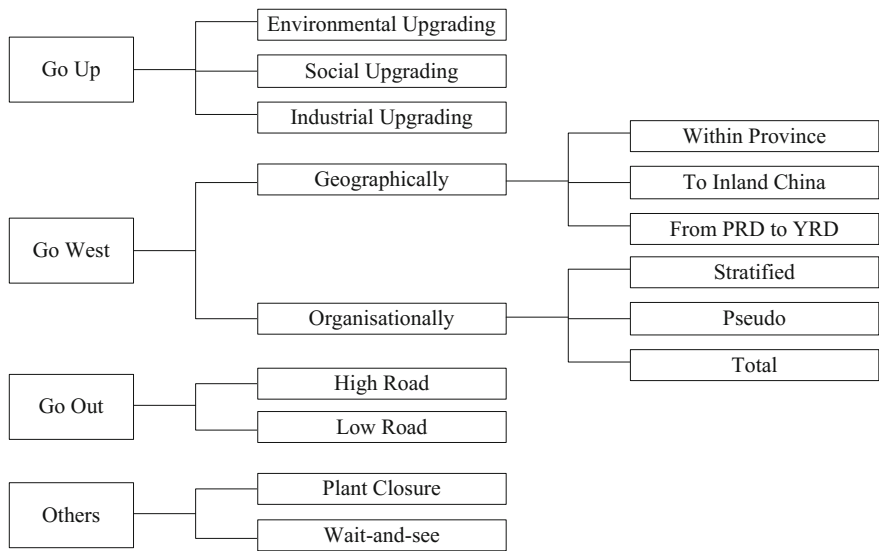


Fig. 2.4 Restructuring strategies adopted by the export-oriented apparel firms. *Source* Compiled by authors

(Go Out policy). The Go Up policy refers to Chinese manufacturers that are being encouraged to upgrade production and working conditions in situ with the goal of branding Chinese goods for national and increasingly for international markets. The Go West policy refers to low-wage assembly industries that are being encouraged through subsidies, contracts, and infrastructural development to relocate to or expand in new lower-cost and less-developed locations *inside China* (mainly, but not limited to, Western and Central provinces), often regions from which migrant workers have traditionally been drawn. The Go Out policy refers to low-wage assembly work that is being encouraged to outsource to low-cost producing centers *outside China*, particularly under the auspices of emerging, large-scale Chinese manufacturers and network organizers.

The business environment and government policy to support upgrading, regionalization, and delocalization have emerged as major drivers of industrial upgrading, regionalization, and delocalization in many traditional manufacturing and export hubs for apparel products, particularly in the coastal region. Manufacturers have responded in four ways (Fig. 2.4).⁷ In the subsequent sections, we describe each in turn.

⁷Go West here refers to one general tendency to expand or relocate from the Pearl River Delta (PRD), Yangtze River Delta (YRD), and Shandong Province to other lower cost regions, including intra-provincial shifting of production (e.g., to the outskirts of Guangdong and west across the Pearl River). This policy also covers the sub-contracting and outsourcing of production to the informal sector and SMEs in less-developed areas inside China as firms attempt to lower their costs. Also within what we refer to as Go West the specific locational patterns of individual firms

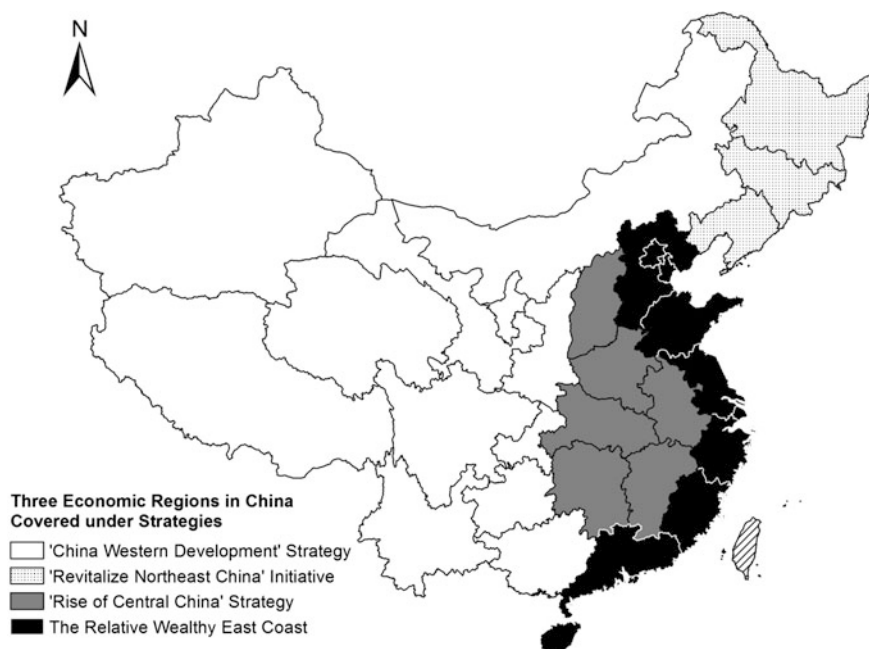


Fig. 2.5 Economic regions in China. *Source* Compiled by authors

2.4.1 *Go Up: Policies Initiatives on Industrial Upgrading*

One of the key drivers of the complex regional production network dynamics is the role of industrial and value chain upgrading. Upgrading involves producers' capability 'to make better products, to make products more efficiently, or to move into more skilled activities' (Kaplinsky 2000; Pietrobelli and Rabellotti 2006: 1; Porter 1990). It is an increasingly central element in shaping new geographies of production, as economic actors (countries, firms, workers, and regional economies) shed low-value activities, and the social and economic problems they can generate, in favor of higher-value activities (Bair 2005; Gereffi 2005; Humphrey and Schmitz 2002; Ponte 2002).

Industrial upgrading is central to the state's central planning mechanism. In China's Eleventh Five-Year Plan, the upgrading and optimization of industrial structure ranks second among the main goals of economic development from 2006 to 2010, aiming at increasing industrial competitiveness through expanded R&D,

(Footnote 7 continued)

may, of course, be more complex. Besides these general trends, there are also reasons for factories in PRD to move to YRD or Jiangxi (Go North), while some factories prefer to relocate within or near to their existing locations.



Fig. 2.6 Priority relocation destinations of the processing industry identified by the ministry of commerce (2007 and 2008). *Note* The third batch issued in 2010 is not shown on this map. *Source* Compiled by authors, using data from (Li & Fung Research Centre 2008)

branding, and expansion of tertiary industries, accelerating development of high tech industries, improving efficiency in energy use, encouraging independent innovation, and supporting advanced technical education. Between 2000 and 2005, the proportion of expenditure on R&D to the total GDP increased from 0.9 to 1.3%. According to the Eleventh Five-Year Plan, more than 100 national engineering laboratories were to be built between 2006 and 2010. Education and skill training for labor are being promoted at both national and local levels. Many local governments also offer free training for migrant workers, such as the ‘Sunshine Project: Training for Labor Transferred from Rural Areas’ (The State Council of the PRC 2004).

In order to variously support and compel apparel firms to upgrade, the *Adjustment and Revitalization Plan of Textile and Apparel Industry*, released by the State Council in 2009, identified several adjustment and revitalization tasks for the textile and apparel industry in 2009–11. These tasks included an increase in the export tax rebate rate from 14 to 15%, support for expansion of domestic consumption, new investments in autonomous innovation and independent brand development, support for key enterprises and consolidation in the small- and

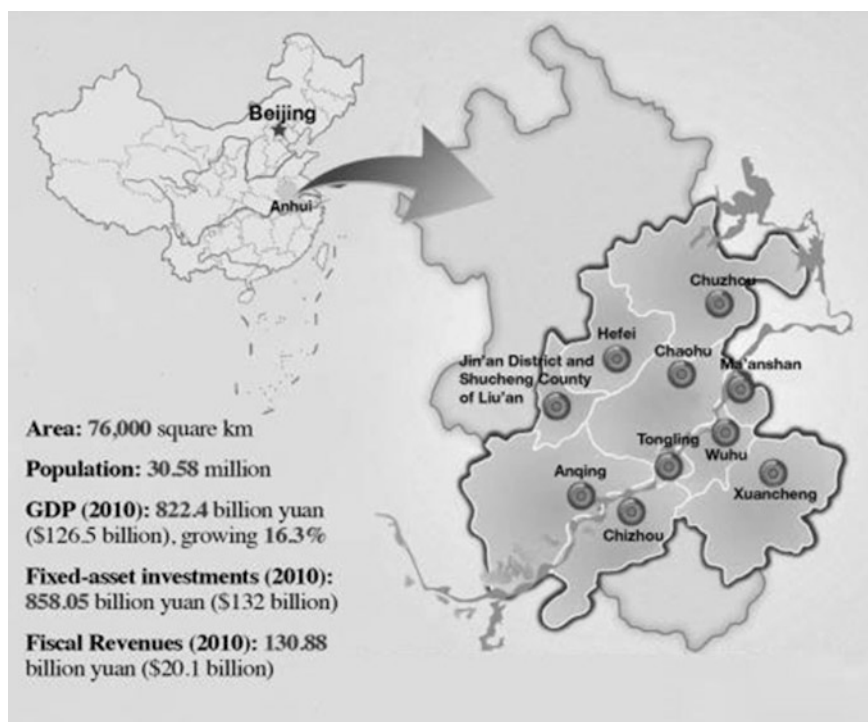


Fig. 2.7 Industrial transfer demonstration zone of the Wanjiang River Urban Belt. *Source* Anhui Provincial development and reform commission reproduced from *China.org.cn*, March 14, 2011 (http://www.china.org.cn/china/anhui_media_tour/2011-03/14/content_22135889.htm)

medium-sized enterprise sector (SME), recapitalization schemes to replace outdated equipment, optimization of the regional structure of production to promote industrial upgrading in the eastern coastal areas and enhanced credit and other financial support for SMEs. The Plan placed particular emphasis on building a strong textile and apparel industry to survive the financial crisis and shifts in global demand.

As a result, in recent years, apparel enterprises have rapidly been adopting new technologies and experimenting with product development, environmentally friendly methods, focusing more on brand building and product design, and exploring international markets for higher value products and domestic markets to stabilize production runs (Mayer and Pickles 2009). One such company is the Hongdou Group. In 1980s, Hongdou began hiring engineers and technicians, and investing in new technology and product innovation. In 1993, it made the decision to extend its production capacity and industrial chain, producing suits, shirts, and other apparel products of much higher quality and value. In 1995, Hongdou also adopted a strategy of chain upgrading by annexing capital intensive motorcycle and tire manufacturing enterprises, as well as investing 90 million Yuan in the pharmaceutical industry. Meanwhile, with growing skilled labor shortages, Hongdou

changed its recruitment policy in its apparel factories. Instead of attempting to recruit skilled labor in increasingly tight labor markets, it built up its own vocational school (Wuxi Hongdou Vocational School) and trained workers internally. In addition, Hongdou upgraded this vocational school to Hongdou College so as to teach not only production and manufacturing tasks but also R&D, marketing and designing.⁸

Firms who have had difficulty upgrading in these ways have had to struggle with increased competition and downward pressure on contract prices while being pushed by buyers to accept increased requirements for volume, quality, and delivery. As a result, industrial upgrading is not an unambiguous good, with these added demands being transferred to workers through increased discipline, extended hours, and speeding-up of production lines, with the unfortunate consequence that technical and organizational upgrading has resulted in the downgrading of social conditions and, in some cases, job loss (Mayer and Pickles 2009; Pickles et al. 2006). The relationships between industrial upgrading/downgrading and social upgrading/downgrading are not linear, and one form does not easily follow another within any specific regional economy (Pickles and Smith 2011).

Recognizing the importance of this issue and the need for explicit state action to support social upgrading, the 2007 National People's Congress of China promulgated a new Labor Contract Law (LCL), which took effect on January 1, 2008, with the objective of improving working conditions. Labor law is a relatively new phenomenon in China. The first comprehensive labor law was passed in 1994. Prior to the LCL's passage, most Chinese employees in SMEs did not have employment contracts. Even those with contracts often only had short-term agreements, providing employers with the flexibility to bring in new, often cheaper, workers as needed. Employers often refused to pay overtime and some even relied on forced labor (interview, textile association staff 2011). The new LCL has made many changes to prevailing contracting and employment practices (Table 2.2). The main intention of the new LCL was to expand protection to employees by offering an 'employee-friendly' environment.⁹ One consequence has been the formalization of labor contracts and the enforcement of worker rights after specific periods of employment. The indirect effect in many factories has been the adoption of a more cautious hiring policy and the consolidation of work contracts around key technical personnel, with a parallel increase in short-term and temporary. As one firm manager in Ningbo commented:

Firms which rely on short-term and temporary workers and fire them before the probationary period ends are stupid, because workers hardly contribute to their firms in the first

⁸Hongdou Group Website, June 7, 2010, 'From Cocoon to Butterfly: Hongdou's Road to Upgrading'. Retrieved on November 25, 2010 from: http://www.hongdou.com/newsshow.asp?news_id=1306.

⁹BMU Service, January 2008, 'An Overview of PRC's New Labor Contract Law'. Retrieved on November 14, 2010 from: http://www.bmuconsulting.com/userfiles/2008_01.pdf.

Table 2.2 Key points of China's new labor contract law

	Key provisions
1	In drafting or revising work rules and regulations, an employer must consult with the applicable labor union, employee representatives, or the employees. If the work rules are deemed to be inappropriate, the labor union, employee representatives, or the employees may raise issues during the consultation process
2	Employers are required to execute a written labor contract with an employee within one month of hiring or face statutory penalties
3	The probationary period of an employee is determined according to the length of term of the labor contract
4	An employer may require an employee to sign a service agreement requiring a period of service for, and imposing an early termination penalty on, an employee who receives training at the employer's expense. Only senior management personnel, senior technical employees, or other employees who have access to an employer's trade secrets may be required to sign confidentiality and non-compete agreements, which may extend for a period of up to two years
5	Three types of labor contracts are authorized: fixed-term contracts, non-fixed-term contracts, and project-based contracts
6	Severance payments are required in many circumstances under which an employee is terminated

Source BMU Service, January 2008, 'An Overview of PRC's New Labor Contract Law'

few month. Firing them before they can really create profits is like killing the goose before it can lay eggs. A smart employer should get through this challenge through upgrading his firm.

(Founder of Baimu, translated from Chinese)

It remains too early to draw any determinate conclusions about the effect of the new labor law on firm strategies, but initial evidence points to a range of responses from workforce upgrading to the outsourcing of production (Lan and Pickles 2011).

The former Ministry of Textiles and Clothing, now organized as a series of public-private associations, has also actively responded to the need to improve workplace and product standards by creating standards and codes 'designed to fit Chinese conditions' (interview, China National Textile and Apparel Council, Beijing, 2011). The China Social Compliance 9000 for Textile & Apparel Industry (CSC9000T¹⁰) was developed in 2005 by the China National Textile and Apparel Council with the cooperation of the China Federation of Labor Unions which is China's only trade union. It is a combination of the management standard ISO 9000 and the CSR standard SA8000.¹¹ SA8000 is based on international labor and human rights law, while CSC9000T is based on China's labor law. The latter refers to an extensive list of international human and labor rights declarations and conventions, such as the United Nations Conventions on the Rights of the Child, the

¹⁰China's CSR standard, CSC9000T, so far only applies to the textile and apparel industry (hence the 'T').

¹¹Karin Buhmann, July 13, 2008, 'Corporate Social Responsibility—A China Approach'. Retrieved on November 14, 2010 from: <http://barha.asiaportal.info/node/923>.

Universal Declaration of Human Rights, the International Covenant on Social, Economic and Political Rights, the UN Convention on the Elimination of all Forms of Discrimination Against Women, and the International Covenant on Civil and Political Rights. Also important are ILO Conventions on weekly rest, accident compensation, minimum age, tripartite consultation, and equal remuneration. The CSC9000T contains three main sets of principles: (1) Enterprises are required to set up a corporate social responsibility (CSR) management system based on the Plan-Do-Check-Act model. (2) Employees must be offered written employment contracts, and employers must not use child or forced labor, observe legally stipulated working hours, and pay legally required wages. (3) Employers are required to respect the rights of employees to form and join the trade union and to bargain collectively, not to discriminate against workers, to prohibit harassment and abuse, and to pay attention to occupation health.¹²

CSC9000T and LCL aim to contribute to the promotion of employee well-being and social upgrading, but they too are not without their limits. Thus, while China's LCL allows employees to establish local or industrial branches of the official trade union, it does not allow independent trade unions. As a result claims that China's LCL provides better protection for employees than ILO, conventions in a number of areas cannot be tested.¹³ Also, absent independent labor organization, employers' enforcement of existing regulations has been uneven, hampered in some cases by conflicts between central authorities pushing social upgrading and local authorities focusing more on enterprise competitiveness and potential job loss resulting from enterprises relocation.

2.4.2 Go West: Regionalization Policies and Inter-regional Competition

Driven by the export-oriented industrialization, the coastal regions expanded their production capacity much more rapidly than central and western regions. The development gap between eastern and central/western China have been widening, with attendant political, social, and even security problems. In order to encourage the west and central regions to catch up with the east, a series of development plans have been launched (Table 2.3).

For the apparel industry, in 2010 the Ministry of Industry and Information Technology released the *Guideline on Pushing Forward Relocation of Textile and Apparel Industry*. According to the *Guideline*, there are several industrial relocation tasks for the textile and apparel industry in order to integrate industrial location with

¹²Responsible Supply Chain Association Website, Retrieved on November 14, 2010 from: <http://www.csc9000.org.cn/en/>.

¹³Karin Buhmann, July 13, 2008, 'Corporate Social Responsibility—A China Approach'. Retrieved on November 14, 2010 from: <http://barha.asiaportal.info/node/923>.

Table 2.3 Policy initiatives launched by Chinese governments on ‘Go West’

Time	Organization	Policy initiatives	Summary
2000	State council	‘China Western Development’	The main policies of the plan include the following: (1) the development of infrastructure (transport, hydropower plants, and telecommunications), such as the ‘West-East Gas Pipeline’ and Qinghai–Tibet Railway (from Beijing to Tibet); (2) adjustment of industrial structure; and (3) deepening the reform and increasing openness of the economy to entice foreign investment to the western region (Fig. 2.5)
2001	State council	‘Outline of National Economic and Social Development of the Tenth Five-Year Plan from 2001–2005’	
2006	State council	‘Eleventh Five-Year Plan on Western Region Development’	
2006 –2009	Ministry of commerce	‘10,000 Businesses Go West’ program	To encourage about 10,000 companies located in eastern areas to invest in central and western China
2008 –2010	Ministry of commerce	Priority Relocation Destinations of the Processing Industry	The Ministry of Commerce set a goal for 2010 of the creation of 50 priority relocation destinations in central and western China to attract processing enterprises that would relocate from coastal regions (Fig. 2.6). The State Development Bank provided loans, tax incentives, and building supporting facilities to encourage relocation, including investments in water and electricity supply, waste management, education, warehousing, and transportation
2010	National Development and Reform Commission	Industrial Transfer Demonstration Zone of the Wanjia River Urban Belt	This is China’s first national-level industrial transfer zone to encourage the relocation of low-end industries from coastal to inland areas (Fig. 2.7). The zone is part of the government’s project to help eastern China move up the value chain while keeping low-end and

(continued)

Table 2.3 (continued)

Time	Organization	Policy initiatives	Summary
			low-value-added manufacturers inside the country. In the plan priority is given to equipment manufacturing, raw materials, textile and apparel, high-technologies, services, and agriculture

The same policies motivate the 'Revitalize Northeast China' program, which is intended to rejuvenate the old industrial bases in northeastern China in 2003. In March 2004, the 'Rise of Central China' plan was announced to accelerate the development of central region

upgrading strategies. In the eastern coastal region, state policies are to be aimed at accelerating industrial upgrading and the shift to high-end textiles and apparel, developing brands and strengthening design and marketing capacities, the relocation of spinning, silk reeling, weaving, and other labor-intensive or/and low-tech production activities to western, central, and northwestern regions by means of mergers and enterprise reorganization or reinvestment, providing support to enterprises in the eastern region to outsource to inland locations, and to strengthen the business cooperation and supply chains between coastal and inland regions. In central China, the *Guideline* is aimed at strengthening the textile and apparel manufacturing system, actively facilitating the shift of textiles from east to west, and developing an integrated cotton textile, wool textile, knitting, garment, home textile, and industrial textile manufacturing system in the region. In the western region, the Western Development strategy encourages the development of the textile and apparel industries, especially those with local characteristics such as cotton textile, silk, and garment industries. In the northeastern region, the policy aims to develop chemical fiber, flax, garment, and other labor-intensive processes which have some comparative advantage there. In all these policy environments, a key aim is to prevent the unwarranted transfer of discarded, obsolete industrial equipment, and polluting enterprises from the east to other regions.

In 2007, China's Ministry of Commerce and China Customs promulgated the 'List of Restricted Commodities in Processing Trade', differentiating between allowed labor-intensive processes inland and those that are now restricted in the east. Importantly for our purposes, textile and apparel products made up most of the restricted labor-intensive processes and products. As a result, apparel enterprises in coastal regions (which account for 85% of apparel industry) had little option but to upgrade or to relocate inland.¹⁴

¹⁴The government has also actively encouraged and, in some cases, compelled textile and apparel enterprises to reduce their operating costs and their environmental impacts by moving from polluted coastal provinces to inland areas closer to their cotton and wool input suppliers and to extensive and low-cost regional labor markets. Central government inducements have been particularly strong in urging textile manufacturers to move to Inner Mongolia, Xinjiang, Ningxia, and

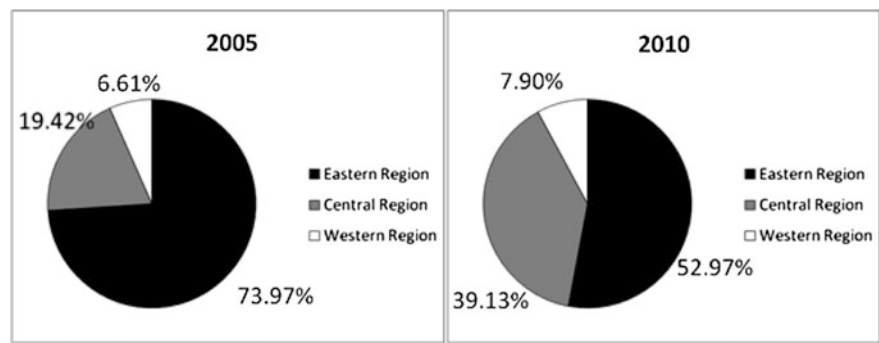
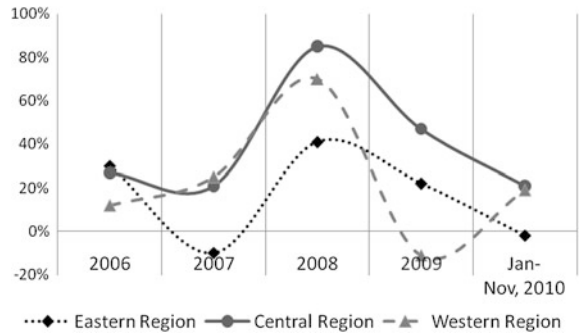


Fig. 2.8 Distribution of investment in textile and apparel industry (2005 and 2010). *Source* Adapted by the authors from annual report on corporate social responsibility in Chinese textile and apparel industry—2010/2011

Fig. 2.9 Annual growth rate (YOY) of the number of newly commenced projects in textile and apparel industry (2006–2010). *Source* Adapted by the authors from annual report on corporate social responsibility in Chinese textile and apparel industry—2010/2011



The impacts of these policies on the industrial geography of textiles and apparel are marked. By 2010, investment in central and western regions accounted for 39.13 and 7.90%, respectively, of the total investment in textiles and apparel, an increase of 19.71 and 1.29% from 2005 (Fig. 2.8). The global financial crisis has further stimulated Chinese textile and apparel restructuring and relocation. For example, annual growth rates of new textile and apparel projects have continued to decline in eastern and central regions, but in the western region growth rates have rebounded after a dramatic decrease in 2008–09 (Fig. 2.9).

(Footnote 14 continued)

Qinghai, silk production to Sichuan, Guangxi, and Yunnan, and fiber-dependent industries to Henan and Hubei. Large successful export-oriented apparel firms were also targeted in this endeavor. In 2008, the China Chamber of Commerce for Importers and Exporters of Textiles organized a trip to visit the Western provinces for operators of more than 120 export-oriented textile and garment enterprises, including the firms *Silique* from Guangdong, *Shenda* from Shanghai, and *Weiqiao* from Shandong. (*China Wool Textile Association*, April 2008), ‘Great Industrial Relocation’. Accessed August 10, 2011. <http://www.cwta.org.cn/news080423e.htm>.

Local Government Policy: Inter-regional Competition for New Investments

Local administrations in the coastal and inland regions have remained active in promulgating their own policies based on local needs to attract investment and create jobs (Wang and Mei 2009). Local governments in the less-developed inland regions regard industrial relocation policy as an opportunity to attract investment and boost economic development. As a regional administration officer in Anhui expressed it, ‘The coastal provinces became wealthy and their economy took off by developing labor-intensive industries like apparel. Now it is our turn and we should be prepared in the new round of industrial relocation’ (interview, regional administration, Anhui, July 2011). These local administrations lobby firms and offer low land rent and other favorable policies, which—they claim—make their enterprises competitive with those in other provinces and even with emerging export production in Southeast Asian countries (see Table 2.4).

The result of these practices is increasing inter-regional competition for new investments, with local governments in coastal provinces seeing aggressive relocation to other provinces as weakening their own plans for local economic development. In the view of a Ningbo regional administration official: ‘It is all about GDP’ (interview, firm manager, Ningbo, August 2012). Consequently, they too have become increasingly active in encouraging enterprises to adopt one of three policies: (i) to upgrade locally, (ii) to maintain their headquarters and R&D centers while relocating only low-end and labor-intensive activities to inland China, or (iii) to relocate but *within* the province. For instance, Jiangsu announced the ‘Relocation across the Yangtze River’ plan to provide financial support, offer acres of cheap land and favorable investment policies to firms in south Jiangsu that are willing to relocate to north Jiangsu. Similarly, by issuing ‘173 Plan’, Shanghai collaborated with neighboring areas to prevent firms from relocating out of the

Table 2.4 Policy Initiatives Offered by Inland Provinces/Cities to Entice Relocating Enterprises

Provinces/cities	Examples of policy initiatives
Anhui	Industrial relocation park, designated funds to support relocation, improving infrastructure, simplifying custom procedures, improving job training
Hunan	Financial support for relocation, improving services in logistics centers and customs, simplifying the approval procedures of relocation projects
Hubei	Designated funds to support relocation, improving transport infrastructure
Yueyang (Hunan)	Tax breaks, simplifying customs procedures
Chenzhou (Hunan)	Subsidies on construction of production plants, improving transport infrastructure
Ganzhou (Jiangxi)	Tax breaks, subsidies on usage of electricity and water
Wuhu (Anhui)	Improved government services, waiving of administration fees of some of the government services during the course of relocation, providing financial support, developing industrial relocation park, strengthening collaboration with Shanghai

Source Compiled by authors from data in (Li & Fung Research Centre 2008)

province. In 2008, Guangdong announced the *Decision on Encouraging Industry and Labor Relocation* (also known as ‘Double Relocation’) in which measures and funds are designated to facilitate industry and labor relocation within the province. These include inducements for labor-intensive, resource-consuming, processing industries to move from the central Pearl River Delta (PRD) to less-developed areas, such as northern, western, and eastern Guangdong. Provincial policies also support the relocation of labor from agriculture to the secondary and tertiary sectors in order to concentrate the skilled labor force in the central PRD, as a way to favor the technological upgrading of industry. In addition, 24 government-driven ‘Industrial Relocation Parks’ have been set up within Guangdong province, mostly located in less-developed areas, to encourage internal relocation (interview, China National Textile and Apparel Council, Beijing, June 2011).

Regionalization of Enterprises

For many enterprises, going west is more easily achieved than going out. Going west has several advantages. First, coastal and inland regions share similar cultures, conventions, traditions and laws, and these are perceived to offer lower relocation risks. By contrast, going out requires relocating apparel enterprises and training staff to become familiar with local culture and laws, which might lead to high operational risks. Second, as long as the importance of domestic markets continues to grow, going west also provides opportunities for market capture as well as reducing production costs. Third, as technical demands increase, technical and managerial workers become an increasingly important asset and one for which westernization is more easily managed than overseas relocation, especially for smaller firms with more limited capacities.

For example, the Youngor Group, China’s leading menswear manufacturer based in the eastern region, Ningbo, Zhejiang province, has turned to a delocalization strategy. Youngor started to Go West in 2004, when a manufacturing base was built in Chongqing for 100 million Yuan (US\$14.65 million). The labor force and energy resources in Chongqing are relatively cheap compared with Zhejiang province. Subsequently, Youngor invested an additional 100 million Yuan (US \$14.65 million) to increase productivity in the Chongqing plant and now this base can produce 15,000 shirts every day, with a planned increase to 24,000 per day by 2011. As domestic markets have grown, Youngor has been increasingly able to sell most of its products locally in the western region, further saving Youngor on transportation and logistics costs.¹⁵ In 2005, Youngor established a cotton textile company in Xinjiang, and has now begun to expand its value chain into raw material production. More than 2000 employees were hired locally in Chongqing, and over 1000 employees in Xinjiang.

¹⁵The rise of China’s domestic market for manufactured goods is a crucial driver of many of these changes, allowing firms to manage export market risk by leveraging domestic markets, by establishing domestic brands for that market, and for selling into a local market that saves on the logistical and tariff costs of increasingly competitive and low-cost export markets (Henderson and Nadvi 2011; Kaplinsky and Farooki 2010).

Not all enterprises find these policy and cost incentives sufficient to induce them to relocate. Many apparel enterprises have adopted a wait-and-see attitude (see Fig. 2.4). For some enterprises, relocation to underdeveloped regions is not commercially viable unless the entire supply chain moves and, even then, they indicate that they would only relocate if enough government incentives were offered (Li & Fung Research Centre 2008). A 2008 Federation of Hong Kong Industries survey of 200 enterprises in the PRD found that shortage of labor, high logistics costs, and inadequate support from local governments in less-developed regions were major obstacles preventing enterprises from relocating to western and central China (Federation of Hong Kong Industries 2008). On the other hand, the Yangtze River Delta (YRD) region, with well-developed infrastructure, abundant skilled labor, strong support from local governments, good business environment and access to global markets, was seen as an optimal destination for such relocation. For some firms, relocation from PRD to YRD is considered to be the first step to the further possible relocation to and expansion in less-developed inland regions. The Industrial Cluster Research Group from the China National Garment Association interviewed children's wear enterprises in Huzhou, Zhejiang (in the YRD) in February 2009 and found that most of the 800 new enterprises had moved from PRD in this way.¹⁶

While some firms in the traditional manufacturing centers in the coastal provinces may see the advantages of partial or full industrial relocation, others are more cautious and are implementing forms of stratified relocation (relocating the labor-intensive and low-end parts of production) or they are outsourcing parts of their production to inland enterprises (Liao and Chan 2009). Large firms are more predisposed to maintain their production base in the coastal region, while setting up or off-shoring to satellite factories in western and central regions. The high-end and high-value-added activities such as R&D and design are increasingly important in factory operations in the coastal region, while the subsidiary factories focus more on assembly and other lower-value operations. In this way, the coastal and inland regions increasingly complement each other in expanded regional production networks with overall gains in competitiveness. Among the large leading firms in coastal regions that have already moved part of their labor-intensive or resource-intensive activities to western and central regions, some are now finding that supporting facilities in inland region have improved sufficiently for them to consider relocating more complicated and sophisticated processes (interview, firm managers, Ningbo, August 2012).

In other cases, relocation within the province has become common as provincial government incentives have grown. Apparel enterprises in southern Jiangsu have relocated their plants to the northern part of the province to take advantage of the provincial incentives under the 'Relocation across the Yangtze River' plan. For

¹⁶China Apparel (EFU), September 14, 2009, 'Overview of Chinese Apparel Industrial Relocation'. Retrieved on November 25, 2010 from: <http://www.efu.com.cn/data/2009/2009-09-14/281164.shtml>.

instance, the Hengli Group in southern Jiangsu invested 7.5 billion Yuan to establish an industrial park in the northern part of the province. Another firm, Bosideng in southern Jiangsu, set up a manufacturing base in northern Jiangsu.¹⁷ Although an increasing number of inter-provincial enterprise relocations (Go West) are now occurring, most of the relocations actually still take place within a province.

Similar shifts of factories and employment have occurred in the central PRD to less-developed areas, such as northern Guangdong and western and eastern PRD. One result has been a shift from agriculture into secondary and tertiary industries in these regions, stimulated in particular between 2008 and 2012 by provincial government allocations of nearly 50 billion RMB to encourage Double Relocation, which provided investments in transport infrastructural development, industrial relocation parks, backward linkages, workforce development, opening up new land for industrial plants and strengthening environmental protection to ensure that relocation does not reproduce the degradation of the regions from which industry is moving (Li & Fung Research Centre 2008).

The less-developed areas within the province have, as a result, become the first choice for apparel firm relocation. In Guangdong, GDP in the Pearl River Delta is five times larger. That it is in northern Guangdong and nearly three times larger than Guangdong's western and eastern regions.¹⁸ Intra-provincial relocation is intended to invest in less-developed regions, reduce regional disparities between the PRD and its northern, eastern, and western less-developed hinterlands, and allows firms in the PRD region to adjust to increasing cost pressure and upgrade their production facilities in their core plants.

2.4.3 *Go Out: From Bringing-into Outsourcing*

China's 'opening door' or 'bringing-in' policy began in 1978 with the Reform and Opening-up Policies and was accelerated by the accession to the WTO in 2001. Since that time, China has been successful in attracting foreign investment and building up its own industrial export and domestic market capacities. To participate further in international markets, 'Going Out' was proposed after the social tensions and economic challenges resulting from the 'Bringing In' policy became clearer. The idea of 'Go Out' or 'Go Global' was formed in the mid-1990s. 'Go Out' was formally written into the Tenth Five-Year Plan in 2001 and reasserted in the

¹⁷Xinhua News, December 10, 2009, 'Industrial Relocation Spur Economic Development in Northern Jiangsu'. Retrieved on November 25, 2010 from: <http://invest.people.com.cn/GB/75601/10557045.html>.

¹⁸China Apparel (EFU), 14 September, 2009, 'Overview of Chinese Apparel Industrial Relocation'. Retrieved on November 25, 2010 from: <http://www.efu.com.cn/data/2009/2009-09-14/281164.shtml>.

Eleventh Five-Year Plan in 2005 as a part of a national strategy working together with 'Bringing In', not replacing it.

Apart from encouraging relocation within the country, the central government and regional coastal administrations also support the outsourcing of labor-intensive, low-wage parts of the value chain as another way to deal with the financial and social problems facing low value-added industries. These are referred to as the Go Out policies. To date, the program has five key components: (i) to utilize raw materials that are scarce in China through overseas cooperation and investment, in order to improve the industrial structure and optimize the re-allocation of resources in China while also encouraging enterprises to set up R&D abroad to actively make use of raw materials worldwide (Lan and Pickles 2011); (ii) to increase Chinese FDI and overseas processing trade to spur exports; (iii) to improve supporting systems of finance, insurance, tax, foreign exchange, human capital, law, and entry–exit management for overseas foreign investment; (iv) to cooperate with adjacent countries economically and politically and to encourage the regionalization of Chinese-owned enterprises and investments; and (v) to promote brand recognition for Chinese enterprises in global markets.

In a parallel context in post-socialist central and eastern Europe, Pickles and Smith (2011) have recently shown how, from the late 1970s and early 1980s, the process of delocalization within the EU increasingly encouraged European manufacturers and brands to reduce production costs in the face of increasing global completion by delocalizing assembly work into central Europe to access surplus skilled labor pools, socialist technical infrastructures and know-how and quick turnaround capacities. In this way, the need to reduce labor costs, minimize delivery times, and guarantee quality could all be met—for some firms—without the additional transaction costs of global sourcing. In China, industrial delocalization is still not the primary strategy for the central government, regional administrations or enterprises, even though the Go Out strategy was written into the Tenth and Eleventh plans as a national strategy. While China is still focusing more on Bring In, Go Out incentives and pressures, particularly labor cost, geographic proximity, and the stability of trading relations that Pickles and Smith (2011) discuss for post-socialist Central Europe are also at work in the process of Chinese enterprises' Go Out Chinese overseas investment between 2002 and 2005 amounted to US\$17.9 billion, with an average annual growth rate of 36%. In the same period, the cumulative turnover of Foreign Project Contracting was US\$72.6 billion with an average annual growth rate of 24%, and that of Labor Services Co-operation was US\$17.3 billion, with an average annual growth rate of 6%. Chinese FDI reached US\$92 billion in 2007.

The Go Out strategy caters to the interests of both central government and enterprises. The government seeks to acquire scarce and strategic resources by means of foreign investment to satisfy China's increasing demand for resources. For example, in 1993, China changed from a petroleum-exporting to importing country. Outsourcing or delocalization to Southeast Asian locations also assists with the criticisms of anti-dumping (338 cases between 1995 and 2005) and other invisible trade barriers where re-export trade through third-party countries is one way to

resolve the difficulties in exports and escape from trade or non-trade barriers. China's 'earn foreign exchange through export' policy has allowed it to accumulate a large amount of foreign exchange. The resulting economic bubble and criticism from developed countries about RMB's slow appreciation has led the government to release the pressure of these enormous foreign exchange reserves through outward investment and the Go Out policy is an important release valve for this (Lan and Pickles 2011). In these ways, the administration intends to address its production capacity surplus by investing overseas, obtaining access to scarce natural resources, expanding opportunities to access advanced technology and managerial experience from successful enterprises in other countries and off-shoring low-wage and low value-added production (with all its negative social and political consequences).¹⁹

In 2003–2004, the Ministry of Commerce issued the *Guiding Directory in Country for China's Investment of Textile and Apparel Processing Trade in Asia*. In 2004, the Ministry of Commerce and Ministry of Foreign Affairs jointly released the *Guiding Directory in Country and Industry for China's FDI*. These *Directories* recommended specific destinations for outsourcing Chinese apparel production; six were in Asia (Pakistan, Nepal, Thailand, Vietnam, Cambodia, and Turkey), eight in Latin America (Mexico, Colombia, Trinidad and Tobago, Jamaica, Chile, Argentina, Ecuador, and Uruguay), and six in Southeast Africa (Kenya, Ethiopia, Madagascar, Lesotho, Namibia, and Botswana) for Chinese apparel enterprises which are going out.

Outsourcing of Chinese Firms

By 2009, nearly 1000 Chinese apparel enterprises had set up factories in Cambodia and Vietnam and another 100 (or more) Chinese apparel enterprises had invested in Bangladesh.²⁰ The receiving countries in southeast and South Asia have largely been those that have trade preferences and preferential access agreements for EU and US markets, while also offering favorable enticements to foreign apparel enterprises. For instance, Bangladesh offers ten-year income tax deduction to foreign apparel enterprises relocating their factories. Cambodia offers low-wage costs, cheap land, and a liberal market economy, but it also has the Generalized System of Preferences from 28 countries including the US and some EU countries, and exports from Cambodia have preferential access and tax reductions and exemptions to most countries.²¹

One company that has taken advantage of outsourcing is the Hongdou Group, the second largest garment manufacturer in China from Jiangsu province. In 2007,

¹⁹See Pickles and Woods (1989) for examples of an earlier round of the Go Out policy pursued by Taiwan enterprises in the 1970s and 1980s.

²⁰China Textile and Economic Information (CETI), September 24, 2009, 'Textile and Apparel Industrial Relocation'. Retrieved on November 25, 2010 from: <http://news.ctei.gov.cn/200075.htm>

²¹China Apparel (EFU), September 14, 2009, 'Overview of Chinese Apparel Industrial Relocation'. Retrieved on November 25, 2010 from: <http://www.efu.com.cn/data/2009/2009-09-14/281164.shtml>.

Hongdou approved a plan for investing about 300 million Yuan to set up a production base in Cambodia as an attempt to avoid US and EU Safeguards.²² In addition, as the costs of land, water, and labor have continued to increase in China, Cambodia and other countries have gained distinct cost advantages. In 2008, Hongdou invested in the development of the Sihanoukville Special Economic Zone (SEZ) in the port city Sihanoukville in Cambodia on a new economic zone of more than five square kilometers. The Sihanoukville SEZ was approved by the Ministry of Commerce of China as the first foreign trade zone, and, upon completion, it will be Cambodia's largest SEZ. In order to encourage Chinese enterprises to 'Go Out', the Ministry of Commerce has approved financial support of more than 0.3 billion Yuan to the Sihanoukville SEZ and promised a further loan of 2 billion Yuan.²³ In 2007, China's fixed asset investment in Cambodia amounted to \$461,000,000, a tenfold increase from 2003 when the amount was \$45,000,000.²⁴ With leading apparel firms like Hongdou relocating to Sihanoukville SEZ, more upstream and downstream suppliers have also relocated there so that an entire industrial chain has gradually formed inside the SEZ (Arnold and Pickles 2011b).

Besides the 'low-road' delocalization where low-wage assembly work is being outsourced or relocated to low-cost producing centers like southeastern Asia, 'high road' delocalization has also emerged. As 'Go-Out' policies seek to promote the brand recognition of Chinese enterprises in global markets, large leading Chinese-owned apparel firms have already begun to move part of their R&D, marketing and designing activities so as to have better access to overseas markets. Bosideng, China's largest down clothing manufacturer, started its cooperation with Greenwoods Menswear, a British retailer of men's garment, in 2005. This business relationship finally led to Bosideng's acquisition of a 50 per cent stake in Greenwoods for £50 million in 2009. Bosideng seeks to leverage on Greenwood's expertise in the UK retail market to develop a chain of up to 100 stores between 2009 and 2014. Two such outlets, which are selling Bosideng-branded clothing, were opened in 2009. Since 2005, Bosideng-branded products have made up 33% of Greenwoods's total sales. In 2011, Bosideng bought a £20 million six-story property in London for both its flagship store and European headquarters. Bosideng's high road overseas investment was described by its CEO as a hybrid of 'Go-Out' and 'Go-Up' approaches.²⁵

²²Fibre2Fashion News Desk, China, February 5, 2007, 'China: Hongdou Garment to set up production base in Cambodia'. Retrieved on November 25, 2010 from: http://www.fibre2fashion.com/news/silks-news/newsdetails.aspx?news_id=30193.

²³China Apparel (EFU), September 14, 2009, 'Overview of Chinese Apparel Industrial Relocation'. Retrieved on November 25, 2010 from: <http://www.efu.com.cn/data/2009/2009-09-14/281164.shtml>.

²⁴Shanghai Overseas Chinese News, May 26, 2008, 'Cambodia: An Investment Destination for Chinese Textile and Apparel Firms'. Retrieved on November 25, 2010 from: <http://www.cwta.org.cn/news080526006.htm>.

²⁵Jie Liu, February 2009. Bosideng eyes mergers to beat slump. China Daily. Retrieved on March 1, 2012 from: http://www.chinadaily.com.cn/business/2009-02/24/content_7505574.htm.

2.5 Conclusion

Output, employment, value-added, and the number of enterprises in China's apparel industry continue to increase in absolute terms, although each accounts for a declining proportion of total manufacturing and of exports. China has become the dominant apparel supplier to nearly all of the major industrial economies (the US, the EU, and Japan). It has also diversified its export reach by gaining ground in many of the world's emerging economies as well, including Russia, India, and Brazil. As China's apparel industry gets stronger and more diversified, China is not only a supplier of cheap and low-quality apparel products, but it is also becoming a major hub and manufacturing base for high-end products. China's coastal regions have become the pre-eminent global center of apparel manufacturing, but as the share of production inland increases and with expanded infrastructural investment, the presence of abundant skilled and cheap labor, and tens of thousands of clustered enterprises,²⁶ the emerging configuration of apparel production networks seems to be increasing, not decreasing the overall competitiveness of the industry.

As competitive pressures, production costs, and social pressures on working conditions and wages have increased in recent years, apparel enterprises have been hit hard by slackening global demand, production cost hikes, RMB appreciation, and rising labor cost due to the shortage of skilled labor and approval of the Labor Contract Law and the CSC9000T.

Rising labor costs have been particularly important in forcing China's apparel enterprises to restructure their value chains. Labor shortages are crucial and pose deep-seated economic and social challenges for China's apparel industry, particularly because of its dependence on migrant labor. At the present time, a great deal of attention is directed toward enticing investment, stimulating economic development, and promoting economic upgrading, while concern for the well-being of labor and social upgrading along with economic upgrading has lagged. Our analysis has highlighted the signal importance of policy initiatives launched by China's local and central governments and the way apparel enterprises are responding to this changing landscape, either by upgrading or through geographical relocation.

The central government has been extremely pro-active in responding to these pressures and has approved a series of policy initiatives to encourage and support enterprises to implement industrial upgrading and relocation in three ways: 'Go Up' (industrial upgrading), 'Go West' (relocation to inland China), and 'Go Out' (relocation overseas). The central government has designated funds to support relocation, improve infrastructure, simplify relocation approval procedures, provide information about foreign apparel markets, increase investments and support for

²⁶ According to the CNTAC, there were 48 major apparel clusters in China. Each of these clusters specialises in the production on one or more textile or apparel products.... [as of 2005] All of these [major] clusters are located along the coastal provinces, namely Zhejiang, Guangdong, Jiangsu, Fujian, Shandong and Hebei' (Li and Fung 2006). As of 2009, the number of firms with revenue 5 million Yuan or greater is 18,265 (apparel).

technological transformation, increase financial support and provide subsidies, and support research on apparel-related technological innovations. The central government also seems to be paying increasing attention to the well-being of labor. We have noted the many cautions one needs to exercise in reading these emerging labor regimes, especially in the absence of free and independent trade unions, but China's new Labor Contract Law and CSC9000T (China's CSR for textile and apparel industry) have, at least, been significant symbols of the recognition by both state and private actors of the need to address working conditions and the social instabilities they have produced.

Local governments do not always share the concerns that motivate central government policies and, as a result, they have, at times, responded differently. In recognizing that aggressive relocation to other provinces could harm the local economy and affect employment, local governments in coastal provinces creatively adapt relocation incentives to impede inter-provincial relocation in favor of relocation within a province or upgrading locally. By contrast, Western regions increasingly offer competitive advantages on wages, infrastructural costs, and logistical support, and their governments actively recruit enterprises away from established production centers to often well-provisioned green-field industrial parks by offering incentives and supports, such as tax breaks and subsidies. The result is the emergence of a much more spatially extended and functionally articulated series of regional production networks. Whether these regional production networks—with their higher-value cores, regionally extended assembly plants, and overseas outsourcing of low-value added contracts—will resolve the challenges of China's dominant role in global value chains remains an open question. For the moment, the rapid expansion of Chinese domestic consumption acts as a stimulus and subsidy while global markets remain turbulent and price sensitive.

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