BSAD 1570 Assignment

**A Global Sweatshop or a Great Opportunity?**

On a national level, China is dashing to become a richer country. Since China implemented economic reforms intended to liberalize and boost the economy, the country has seen a rapid, massive urbanization. Not only have populations moved from the countryside to urban areas in unprecedented numbers (the proportion of China’s urban population increased from 18% in 1978 to 44% in 2006), but the number of cities themselves skyrocketed, more than tripling from 191 in 1978 to 661 in 2005, as industrial centers were erected and expanded to meet global demand for Chinese-made goods.

It is expected that an additional 345 million people in China will move from rural to urban areas in the next 25 years—a mass migration larger and faster than any in history. Seven cities and provinces have absorbed the majority of the migrant workers, who now make up more than one third of the population in cities such as Beijing and Zhejiang. Shenzhen, the city in this case study, has grown from a small town to a major metropolis in the past three decades; as of 2007, 12 million of the city’s total population of 14 million were migrant workers who moved from poor villages into the city to find jobs. In their hometowns, rural workers hardly make enough to get by. By 2006, the average factory worker earned more than three times as much as his rural counterpart.

Major corporations like Apple, Sony, Motorola and Toshiba manufacture many of their products in Shenzhen. Migrant labor is what powers the export-led manufacturing empire. The wages of Chinese factory workers are about one-twelfth of working-class wages in the United Kingdom. Not only do workers have few social rights, thanks to the exclusion and segregation institutionalized by the household registration system which penalizes migrant workers; they also have few labor rights, since employers often abuse the existing legal protections.

People born after 1980 account for about 60 percent of China’s 240 million migrant workers, and their changing habits and aspirations will help determine the development of the country’s manufacturing sector and broader economy.

Zhang Qin

Zhang Qin is a typical migrant worker. She is 16 years old and from a rural area of China where the peasants exist on subsistence farming. Lured by the promise of money and an exciting city life, she quit school against her parents’ wishes, traveling to Shenzhen (1,300 miles from home) to join the throngs of migrant workers in the factories. There she works 14-hour days for a wage of $290 a month, and she shares a four-square-meter dormitory room with eight others, which costs her $35 a month. She is supposed to receive overtime pay for any hours over 40 in a week, but she rarely does. Qin is typical of rural teenage dropouts in China, where at least one third of the 120 million migrant workers are women aged 17 to 25. Qin’s belief that in modern Chinese society, making money will prove to be more important than going to school is somewhat naïve; she fails to see that the new Chinese dream excludes migrant workers, who have little chance of escaping their status.

Other Asian countries all have young people willing to work for less. In Cambodia, that means $76 for a 60-hour workweek, a fraction of what Chinese workers earn. While in 2010, China produced 44 percent of rich countries’ apparel imports, that number shrank to 37 percent in the first half of last year. The stronger yuan, stricter enforcement of environmental rules, and rising wages are pushing production out. “Chinese workers are ever more demanding,” says Willy Lin, chairman of the Hong Kong Textile Assn. In Dec. 2012, Shenzhen labor officials announced a 13.6% increase in the monthly minimum wage, to 1,500 yuan ($237).

Apparel Manufacturing

Qin sews the loops on Calvin Klein jeans, which sell for $79 in the U.S. Calvin Klein Inc. is a fashion house founded by American fashion designer Calvin Klein. The company is headquartered in New York City and is currently owned by Phillips-van Heusen.

Calvin Klein Jeans are licensed to Warnaco Group, an American textile/apparel corporation which designs, sources, markets, licenses, and distributes a wide range of apparel worldwide. Its products are sold under several brand names including Calvin Klein, Speedo, Chaps, and Olga. In 2013, Warnaco was acquired by Phillips-van Heusen (PVH), the world’s largest shirt company, for $2.8 billion in cash and stock. It owns brands such as Tommy Hilfiger, Van Heusen, Izod, Arrow, G. H. Bass and licenses brands such as Geoffrey Beene, Kenneth Cole New York, and Michael Kors.

Warneco outsources production to a factory in China owned by The Clover Group, a Chinese company founded in Hong Kong in 1956. The Clover Group’s beginnings were humble; it started in a single factory with seven sewing machines. Today it has factories all over the world, including China, India and Thailand.

Corporate Code of Conduct

The Bureau of International Labor Affairs (ILAB) leads the U.S. Department of Labor’s efforts to ensure that workers around the world are treated fairly and are able to share in the benefits of the global economy. ILAB’s mission is to use all available international channels to improve working conditions, raise living standards, and address the workplace exploitation of children and other vulnerable populations.

To that end, IALB wrote a three-part report called ***The*** ***Apparel Industry and Codes of Conduct***, which established codes of conduct for manufacturers. A recent development, corporate codes of conduct and other business guide lines prohibiting the use of child labor are becoming more common, as consumers as well as religious, labor and human rights groups are increasingly calling upon companies to take responsibility for the conditions under which the goods they sell are being manufactured. Many U.S. companies that import apparel have adopted codes of conduct that prohibit the use of child labor and promote other labor standards.

The codes are entirely voluntary, although they have become increasingly common among U.S. corporations in recent years. They have their roots in ethical gidelines for multinational corporaitons developed in the 1970s and voluntary codes of conduct developed by private groups during the 1980s. The first apparel company code of conduct was adopted in 1991. Most other codes have been developed in the last two or three years.

Corporate codes of conduct that address labor standards vary from company to company with regard to the specific labor standards included. Some or all of the following elements are found in various codes: (1) prohibitions on child labor; (2) prohibitions on forced labor; (3) prohibitions on discrimination based on race, religion, or ethnic origin; (4) requirements to ensure the health and safety of the work place; (5) provisions on wages, usually based on local laws regarding minimum wage or prevailing wage levels in the local industry; (6) provisions regarding limits on working hours, including forced overtime, in accordance with local laws; and (7) support for freedom of association and the right to organize and bargain collectively.

The IALB urges apparel companies to monitor overseas factories that make clothes for them, but most companies find it difficult to monitor factories that are 10,000 miles away. When companies find violations and bring them to the factory owner’s attention, most owners shut down production at the offending factory and move production to another location.

Many apparel companies have implemented elaborate systems for ensuring compliance with labor standards by their suppliers, although there is no legal requirement to undertake this expensive and difficult task. Companies do it because it is in their economic interest, and because it is the right thing to do. It is not possible for companies to oversee and direct all of their suppliers’ activities. Even smaller companies purchase from hundreds or even thousands of suppliers.

**Working Conditions**

Qin was quickly disillusioned. From the start she'd been required to work many hours of overtime at her regular rate, often until 11 p.m. During the Christmas rush, they may work until 2 a.m., with only four hours of sleep before their 6 a.m. shift begins, without any days off. The overtime was semi-compulsory: if you refused , you were seen as unwilling to work hard and would not be considered for future promotions. Performance was paramount. “I find it hard to breathe,” she said, describing how anxious she felt every day. “I have no life.” Factory work is usually considered dead-end, with little chance for advancement. Promotions were seen as a myth, but leaving wasn’t really an option, either.

Like many young women working away from home, Qin aspired to material comforts and new experiences. She’d always liked fashion, and followed clothing trends and enjoyed shopping for stylish shoes. Qin’s roommate had recently suggested that they go together to the shops of nearby Guangzhou. The temptation had been strong, but Qin decided against spending her hard-earned wages on a spree. How could she explain that to her parents, who’d invested every hope in her career? She knew she had to maintain a modest lifestyle and save her money. Every month Zhang Qin sent money home to her family, who have come to depend on this extra income.

YOUR ASSIGNMENT:

**Answer the questions below in *4-6 pages*, typed, *single spaced*, 11 pt. type. Briefly identify or restate the question before answering. This assignment is worth 200 points. You may need to research background information and anything else of significance beyond what is included here.**

1. Discuss the issues involved in this case. How did these issues arise? Who are the stakeholders? (list them in order and why you rank them that way)

2. Who is responsible for how the workers are treated: Philips-van Heusen, Calvin Klein Inc., Warnaco, The Clover Group, the factory managers, the Chinese government, Qin, or the consumers who buy the jeans? Why? If you think someone is not responsible, why?

3. Except for not paying overtime, the Chinese factory is in compliance with most Chinese laws and most of the IALB Code. Is this enough? Should the factory also comply with U.S. labor laws? Why?

4. If The Clover Group was an American company instead of Chinese, would it be doing anything illegal? Would it be doing anything unethical? What is the contractor’s responsibility to the workers? Consider the title of this assignment, is this a global sweatshop or a great opportunity? Why?

5. Another issue separate from worker’s rights is China’s record on human rights. Many Americans believe we should conduct no business or trade with China because of its abysmal human rights record. For example, Zhang Qin cannot vote for her leaders and if she complains about the government, she could be arrested and imprisoned. Do you think countries like the U.S. should enact laws prohibiting trade with China until it improves human rights for its citizens?

6. What is your responsibility as a consumer? Would you buy a pair of Calvin Klein jeans knowing the conditions of the factory it was made in? Would you buy the jeans if they cost twice as much because they were made in an American factory? (To be produced domestically, jeans have to be priced at "$200-plus," says Shelda Hartwell-Hale, a vice president at Directives West, an L.A.-based division of fashion consulting firm Doneger Group.)

7. Qin says her life is miserable, but adds, “That’s life.” Do you agree “that’s life?” Would it be different if she lived in another Asian country such as Cambodia or Bangladesh? What forces and structures are at work that are beyond her and what things can she control?

8. Workers describe their factories as hot and dusty, with inadequate ventilation. What role, if any, should employers play in providing better working conditions for their workers? How about the government?

9. A Chinese worker says, “If I make 2,000 yuan a month, I need to save 1,800 yuan. But when Americans make 2,000 a month, they will spend all 2,000.” What is the speaker implying about the values of each culture? In your view, is this a fair description of Westerners? What are the consequences of society-wide saving/spending patterns? Research the savings rate of Chinese.

10. What role do family ties play in the willingness of workers to endure hardship? In what ways is Qin like or unlike high school dropouts in the U.S.?

11. Is this situation black and white or gray? Explain and state the ethical theory that guides your decision.

12. In Sept. 2013, The Boston Globe reported: “Last week, crowds camped overnight at the Boylston Street Apple Store, desperate to be first to get their hands on the newest iPhone. Someday in the not-too-near future, those same fan boys and girls will instead be waiting by their computers. Apple will, after much hype, post the designs for its latest gadget. They’ll pay a fee, download the plans, and watch as their 3-D printers quickly build their phone. When finished, they’ll pick it up and turn it on, along with millions of others who just did the same thing. When that happens, the Chinese economy will collapse.” Technology has the power to make jobs obsolete overnight. Does the possibility that manufacturing jobs like Qin’s will disappear make the issues in this story moot?

**Additional information:**

Foreign contractors, like this Chinese factory, bid on price and a turn-around time for small production runs. The incentive is to cut production time and to use every conceivable way to lower production costs — from renting the smallest possible work space in run-down buildings, to subcontracting to homeworkers who cover all of their own overhead costs and provide their own machines, to hiring peasants who will work long hours without complaining because they are grateful for the job. In the globalized economy, retailers and super-labels (such as Nike and Disney) are constantly searching for new opportunities to have their products made at a lower cost. Countries such as El Salvador, China, and India are forced to compete against each other for contracts from American and European retailers. The lowest bidder gets the jobs.

Retailers must provide what their customers want – the widest variety of goods at the best value possible. To do so in a highly competitive environment, they must seek the best sources of supply for the products they sell. Sometimes a U.S. producer may be the best source for a particular item, while in other instances it may be a foreign producer. The United States simply does not produce all the products, especially clothing, footwear, and toys that American consumers demand. Moreover, because of U.S. trade laws limiting imports, retailers may be forced to use suppliers from a number of different countries.

When companies buy from suppliers overseas, they create jobs. Jobs in the apparel industry in particular is often the first step up from poverty for people in many developing countries, especially women. Moreover, economists have found that factories producing for export usually pay higher wages than those producing for domestic consumption – and that this can raise wage levels throughout the economy.

The share of humans living on less than $1.25 a day dropped by half between 1990 and 2010, from 43% to 23%, according to World Bank estimates. In China and the Pacific Rim countries, about 14% of the population lived below $1.25 a day in 2008, down from 77% in 1981, when it was the region with the highest poverty rate in the world. The poverty rate in China has fallen even farther since then, by nearly three-quarters in the last six years, from 26% in 2007 to 7% by 2012, according to Gallup

In 2013, the average hourly wage for garment workers: Bangladesh $.24, Cambodia $.45, Pakistan $.52, Vietnam $.53, China $1.26.