

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

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ABSTRACT *The rise of China's export-oriented apparel industry since the 1990s has been driven largely by global sourcing practices intent on capturing the cost advantages of a development model predicated, in part, on unskilled or semi-skilled migratory labour flows, linking western and central labour pools to coastal production sites. Until recently, the dominance of this model has fuelled growth in low-wage employment in the coastal regions and has provided few opportunities for economic and social upgrading. Since the early 2000s, coastal factories have increasingly had to confront difficulties generated by the increasing social and economic costs of this regionally concentrated low wage growth model. Specifically, this paper focuses on the role of the apparel industry in this process. It documents the major changes in organisation and geographies of economic activity in the industry, and demonstrates how the central and local state, domestic and international capital and Chinese and other Asian workers are shaping the changing organisation and geography of China's apparel industry. The paper focuses particularly on firm strategies and state policies that have arisen in response to pressure to increase wages from workers, rising materials and energy costs and competition from other low-cost producers in Asia.*

KEY WORDS: China, apparel, upgrading, relocation, delocalisation, Global Production Chains
Global Value Chains

In recent years, a great deal of research in economic sociology, political economy, international studies and economic geography has focused on the globalisation, governance and rapidly changing geographies of Global Commodity Chains (GCCs), Global Value Chains (GVCs) and Global Production Networks (GPNs) (Bair 2009; Gereffi 2005; Henderson et al. 2002). These attempts to account for the shifting patterns of manufacturing and work and 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 labour regulations is emerging. This is particularly 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

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not only in strategically critical industries, such as the manufacture of transport equipment, but also in the “most globalised” and least protected industries, such as apparel. In this paper, we focus on the apparel industry and argue that – after a period of liberalisation, globalisation and marketisation – 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.

Following the Reform and Opening-Up Policies of the late 1970s, China has undergone dramatic economic growth and has experienced three fundamental transformations: (i) from a planned economy to an increasingly market-based economy; (ii) from a state-owned, collective economy to one with increasing levels of private ownership; and (iii) from a domestically oriented economy to one oriented to export markets; these processes were accelerated after the accession to the World Trade Organisation (WTO) in 2001 (He and Zhu 2007). The combination of internal reforms and international demand led to a rapid expansion in private sector-led export growth (Gereffi 1999, 2009) – the so-called Bring In Policy – which in turn generated average annual GDP growth of approximately 9.8%, and export expansion of 12.4% annually throughout the 1990s, growing to more than 20% a year in the 2000s (IADB 2005; National Bureau of Statistics of China 2010b). Dependence on foreign trade (calculated as the sum of exports and imports divided by GDP) grew from 30% in 1980 to 60% in 2008. China had become the leading global exporter in 774 items by 2005 and the world’s largest exporter with a world export share of 8% in 2009 (Yang, Sang, and Wang 2006).

With the shift from import substitution to export-oriented strategies, producers dependent on low-wage and unskilled or semi-skilled labour and the leveraging of domestic advantages, including China’s large potential market and the comparatively low cost of its other factor inputs, land, electricity and other raw materials, were able to expand their role in export markets (Gereffi 2009). One notable example has been the apparel industry, which accounts for a considerable part of China’s economic growth and job creation during this period. China has the largest apparel industry in the world with more than 4.49 million workers in 2009 (National Bureau of Statistics of China 2010a), predominantly focused on assembly or OEM (Original Equipment Manufacturing) production for global buyers (Feenstra and Hamilton 2006; Hamilton and Petrovic 2006).

In recent years this model of industrialisation has encountered serious limits. These limits are now forcing major changes in the organisation and geography of economic activity in the industry (Wang and Mei 2009; Yang 2012). As with general manufacturing expansion, growth in apparel has been driven, at least until recently, by low wage and unskilled or semi-skilled workers who migrate from western and central to coastal regions (Appelbaum, Bonacich, and Quan 2005; Arnold and Pickles 2011). As billions of workers and consumers have become more direct participants in the global economy as workers and consumers (Gereffi 2009), this process has increasingly come to drive China’s rapidly changing economic geography creating upward pressure on wages and working conditions that are beginning to challenge the “China price” and the “race to the bottom” it has created (Appelbaum 2004; Appelbaum, Bonacich, and Quan 2005; Henderson and Nadvi 2011).

While China has traditionally been seen as a cheap labour pool, with an almost infinite supply of labour, workers have responded quickly to new opportunities, forcing wages up and encouraging better work by exiting low paying and low quality jobs (Drewry Supply

Chain Advisors 2007). Other factors have also been important, including labour shortages fuelled by low wages and poor working conditions, the appreciation of China's currency, slackening global demand especially after the outbreak of the financial crisis and new regulations dealing with environment, labour law and an expanded role for corporate social responsibility (CSR). These factors have squeezed profit margins to such a degree that some manufacturers have been forced to shed labour or shut down altogether, creating a dilemma for policy makers, particularly in regions that are highly dependent on the industry for employment (Wang and Mei 2009). The "race to the bottom" that typified the "China price" and the rapid rise of China as a global supplier of clothing over the past decade is thus now changing in ways that are having profound effects on the industrial organisation and spatial structure of production and employment, and will change the ways in which we understand China's role in global and regional export markets in the coming years.

In this paper, we focus on these industrial and regional dynamics and the various adaptations the apparel industry is undergoing in response. The paper documents some of the ways in which different levels of government 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 organisational responses, including factory consolidation, plant closure, product, process chain upgrading and geographical relocation (Liao and Chan 2011; Yang 2012). We draw on fieldwork in China in 2011 and 2012, interviews with firm managers, CSR officers, labour organisations, regional administration and central government officials and industry association officials, as well as 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. The following section contextualises the development of the apparel industry in terms of a specific export-led model of industrialisation (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. This is followed by a section that outlines the emerging limits of this model of industrialisation and then a section that deals explicitly with three policies and enterprise responses to these pressures: *upgrading*, *westernisation* (or regionalisation) and *delocalisation* (or outsourcing). The paper concludes with an analysis of the impacts of these policy initiatives on apparel production networks and GVCs.

Bring In: Export-led Assembly and the Rise of China in Global Apparel Value Chains

The integration of the Chinese apparel industry into GVCs 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 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 world-wide after 2004, Chinese apparel exports expanded to all world markets.

Table 1. Export of apparel products (1994–2010)

| Year | Exports (US\$ million) | Import (US\$ million) | % of total exports | % of total imports |
|------|------------------------|-----------------------|--------------------|--------------------|
| 1994 | 24,281 | 1,439 | 20.1 | 1.2 |
| 1995 | 21,947 | 1,934 | 14.8 | 1.5 |
| 1996 | 25,439 | 2,146 | 16.8 | 1.5 |
| 1997 | 32,142 | 2,300 | 17.6 | 1.6 |
| 1998 | 30,681 | 2,227 | 16.7 | 1.6 |
| 1999 | 31,185 | 2,274 | 16.0 | 1.4 |
| 2000 | 37,029 | 2,508 | 14.9 | 1.1 |
| 2001 | 37,474 | 2,584 | 14.1 | 1.1 |
| 2002 | 42,968 | 2,764 | 13.2 | 0.9 |
| 2003 | 54,434 | 3,047 | 12.4 | 0.7 |
| 2004 | 65,561 | 3,335 | 11.0 | 0.6 |
| 2005 | 79,890 | 3,507 | 10.5 | 0.5 |
| 2006 | 105,340 | 3,876 | 10.9 | 0.5 |
| 2007 | 127,930 | 4,313 | 10.5 | 0.5 |
| 2008 | 136,510 | 4,667 | 9.5 | 0.4 |
| 2009 | 123,792 | 4,032 | 10.3 | 0.4 |
| 2010 | 149,482 | 4,846 | 9.5 | 0.3 |

Note: Data on exports of apparel products are calculated by summing 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 labour-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.

Source: National Bureau of Statistics of China (2010b).

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 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 USA and the EU-15 accounted for another 22% (Hong Kong's 26.4% of exports was largely for re-export). While, by 2008 the EU-15 and the USA 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 labour 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 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 more than 5% of employment in 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 was concentrated in eastern coastal regions, with primary concentrations in Shandong, Jiangsu, Zhejiang and Guangdong provinces and some

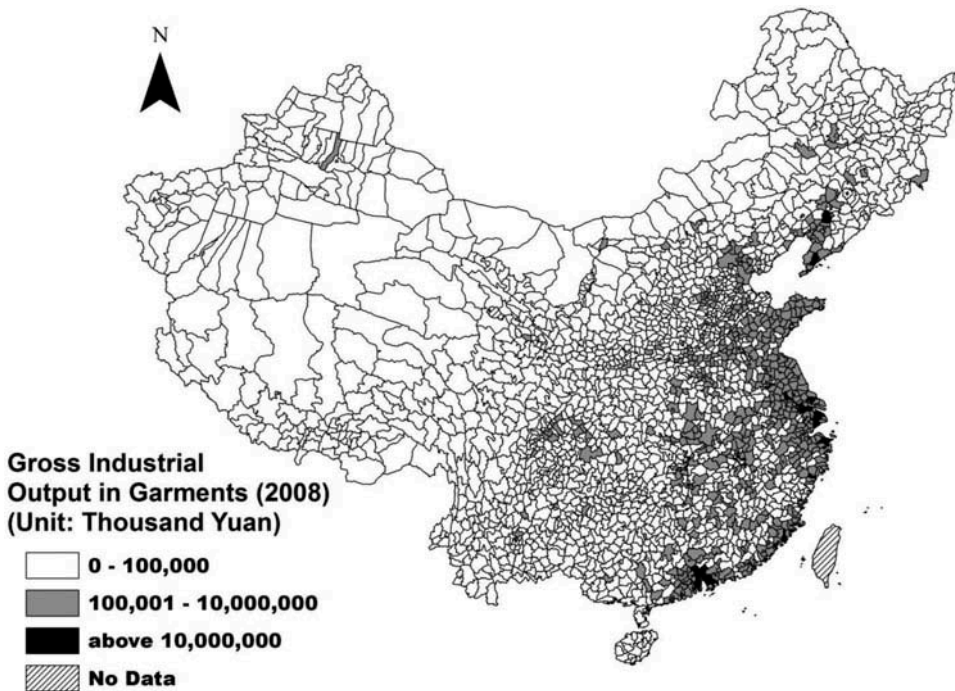


Figure 1. Spatial distribution of gross industrial output in garments by county. *Source:* Compiled by the authors from National Bureau of Statistics of China (2008a).

outliers in regional centres, such as those in central China along the Yangtze River (Figure 1). The three planning regions in Figure 2 – Western, Central and 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 labour rapidly outstripped local labour 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 labour process, low wages, poor labour and environmental standards and weak enforcement of national and local laws (Appelbaum, Bonacich, and Quan 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, 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 utilisation rates, product specialisation, 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.

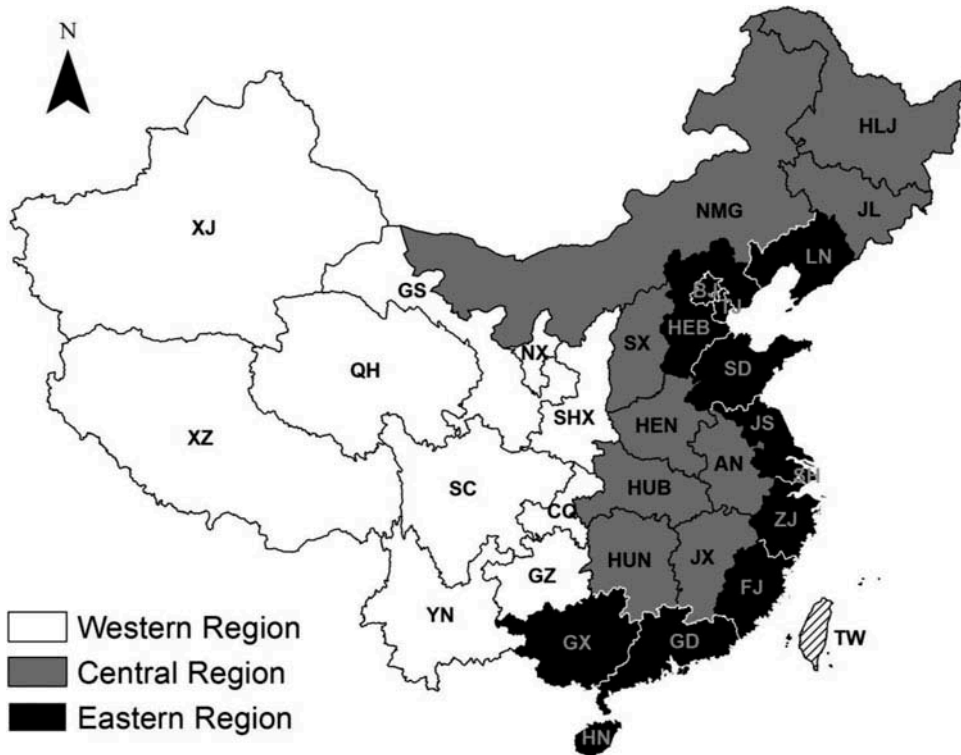


Figure 2. Chinese provinces and centrally administered municipalities. AH, Anhui; BJ, Beijing; CQ, Chongqing; FJ, Fujian; GD, Guangdong; GS, Gansu; GZ, Guizhou; GX, Guangxi; HEB, Hebei; HEN, Henan; HLJ, Heilongjiang; HN, Hainan; HUB, Hubei; HUN, Hunan; JL, Jilin; JS, Jiangsu; JX, Jiangxi; LN, Liaoning; 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.

The Limits of Export-led, Low-wage Industrialisation

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 labour costs and labour shortages as local and migrant workers shifted away from jobs with low wages and poor working conditions, prevalent in the industry. Export-oriented firms, in particular, found themselves squeezed between low contract prices, rising input costs and the struggles of migrant workers for better wages and working conditions, increasing numbers of whom have found it progressively easier to shift 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 2,049 yuan (US\$325) in 2011, up 21.2% from 2010 (*China Daily*, February 29, 2012). 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 (*Global Textiles*, December 1, 2004). 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 were only 6-10%, with an average as low as 3.9% for all textile and apparel enterprises (*First Financial Daily*, March 27, 2008).

The second transformation was driven by policy changes which indirectly increased production costs. Labour costs have been affected by the 2008-09 new Labour Contract Law (LCL) and by China's Social Compliance 9000 for the Textile & Apparel Industry (CSC9000T). These have extended labour rights, particularly concerning overtime, delayed wage payment and job security. As one firm manager in Ningbo commented:

The new labour 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 (Interview, firm managers, Ningbo, August 2012).

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 (China State Council 2007).

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 world-wide 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 (*Textile and Apparel Weekly*, February 22, 2008). These problems, combined with upward pressure on wages, low labour 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 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 (Figure 3).² Since the early 2000s, the pressures on coastal apparel manufacturers have forced drastic changes in firm behaviour, leading to upgrading, expansion of operations to new products or centres 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 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

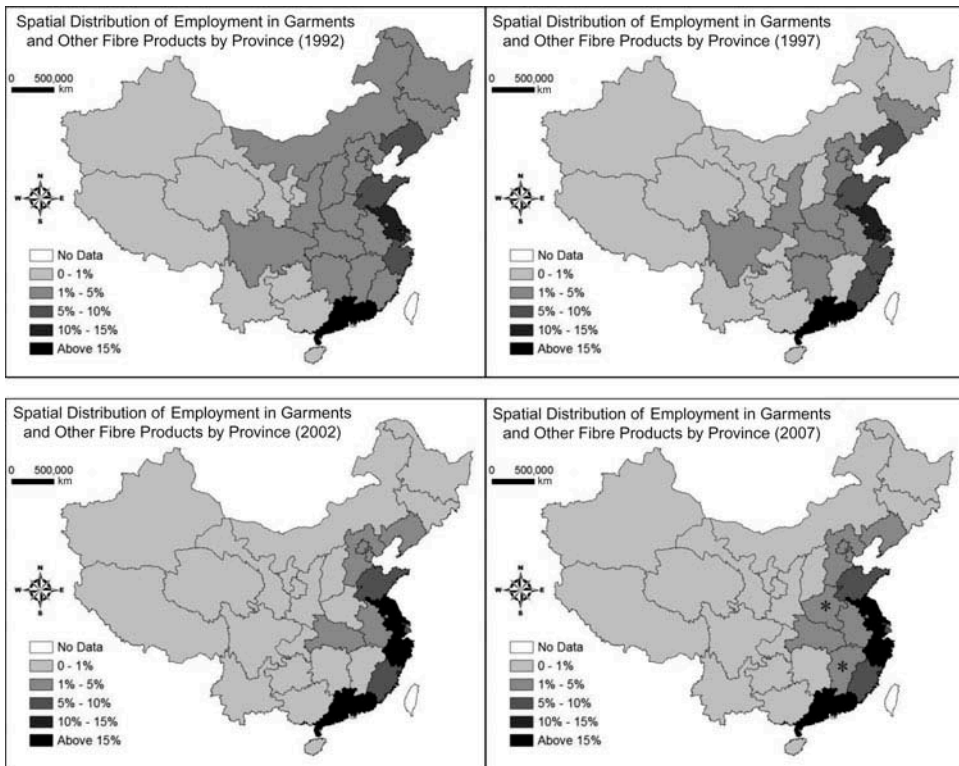


Figure 3. Temporal changes of distribution of employment in garments by province. The asterisks indicate the two provinces where there has been substantial change. *Source:* Compiled by authors from annual issues of National Bureau of Statistics of China (1993, 1998, 2003 and 2008b).

to 146,000 in 2007. As Figure 3 shows, apparel employment has already started to shift westward to Henan and Jiangxi provinces.

China's exceptional export performance in labour-intensive manufacturing (particularly apparel) has long been associated with the specific industrial organisation and spatial structure typified by these coastal zones. The detailed division of labour and sectoral specialisation in its apparel clusters and its supply chain cities ("sock cities" and "button cities") produced locations that were efficient and dynamic centres 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 labour 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 organisational and spatial strategies have emerged with some firms investing rapidly in various forms of industrial upgrading and labour market development, while others are moving out of these clusters and seeking to agglomerate in new geographies. The challenge facing the resulting delocalisation 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 labour markets can be reproduced in the emerging geographies of production. Who is moving and who is staying, and to what extent is the re-institutionalisation of new productive spaces being driven by firms and by government policy?

Upgrading, Regionalisation and Delocalisation

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 subnational formation, constitution and restructuring of firms in global production networks (Gereffi, Humphrey, and Sturgeon 2005). In this section we analyse upgrading, regionalisation and delocalisation 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, regionalisation and delocalisation (Coe, Dicken, and Hess 2008; Dicken 2007; Liu and Dicken 2006).

GVC analysis defines “governance” as the functional integration and co-ordination of internationally dispersed activities (Gereffi 1999) and often argues that the action and motivations of global buyers are the key causal forces in the organisation of global contracting systems (Gereffi 1999; Schmitz and Knorringa 2000). While GVC analysis does not exclude possibilities for local institutions to affect outcomes, state policies and institutional context have been under-estimated (Gereffi, Humphrey, and Sturgeon 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 globalisation destabilised 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 2013). 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-centred claims of GVC work, but even here the state is theorised in a limited sense as a single institutional ensemble wielding uneven forms of power over global production networks (Coe et al. 2004; 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 liberalisation during which the direct role of the state in shaping industrial locational and organisational decisions was diminished in apparel firms, government strategies are now playing an increasingly leading role in shaping industrial policy in labour-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), regionalisation or westernisation (Go West policy) and delocalisation (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 centres *outside China*, particularly under the auspices of emerging, large-scale Chinese manufacturers and network organisers.

The business environment and government policy to support upgrading, regionalisation and delocalisation have emerged as major drivers of industrial upgrading, regionalisation, and delocalisation in many traditional manufacturing and export hubs for apparel products, particularly in the coastal region. Manufacturers have responded in four ways (Figure 4).³ In the subsequent sections we describe each in turn.

Go Up: Policy 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 favour of higher-value activities (see 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 optimisation 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, 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

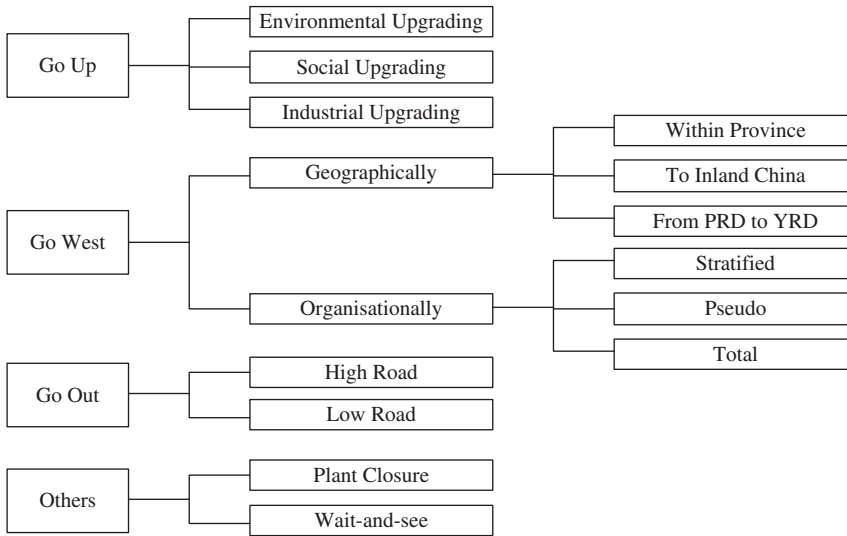


Figure 4. Restructuring strategies adopted by the export-oriented apparel firms. Pearl River Delta, PRD; Yangtze River Delta, YRD. *Source:* Compiled by authors.

and skill training for labour 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 Labour Transferred from Rural Areas” (China State Council 2004).

In order to variously support and compel apparel firms to upgrade, the *Adjustment and Revitalisation Plan of Textile and Apparel Industry* released by the State Council in 2009, identified several adjustment and revitalisation 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 medium-sized enterprise sector (SME), recapitalisation schemes to replace outdated equipment, optimisation 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 stabilise production runs (Mayer and Pickles 2013). One such company is the Hongdou Group. In the 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 tyre manufacturing enterprises, as well as investing 90 million yuan in the pharmaceutical industry. Meanwhile, with growing skilled labour shortages, Hongdou changed its recruitment policy in its apparel factories. Instead of attempting to recruit skilled

labour in increasingly tight labour markets, it built up its own 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 design (*Hongdou Group News*, June 7, 2010).

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 organisational upgrading has resulted in the downgrading of social conditions and, in some cases, job loss (Mayer and Pickles 2013; 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).

Recognising 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 Labour Contract Law (LCL), which took effect on January 1, 2008, with the objective of improving working conditions. Labour law is a relatively new phenomenon. The first comprehensive labour law was passed in 1994. Prior to the LCL's passage, most 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 labour (Interview, textile association staff, Beijing, June 2011). The new LCL has made many changes to prevailing contracting and employment practices (Table 2). The main intention of the new LCL was to expand protection to employees by offering an "employee-friendly" environment (*BMU Service*, January 1, 2008). One consequence has been the formalisation of labour 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 work contracts. 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 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 (Interview, firm managers, Ningbo, August 2012).

It remains too early to draw any determinate conclusions about the effect of the new labour 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 organised 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, June 2011). The China Social Compliance 9000 for Textile & Apparel Industry (CSC9000T)⁴ was developed in 2005 by the China National Textile and Apparel Council with the co-operation of the

Table 2. Key points of China's new Labour Contract Law

| Key provisions |
|--|
| 1 In drafting or revising work rules and regulations, an employer must consult with the applicable labour union, employee representatives or the employees. If the work rules are deemed to be inappropriate, the labour union, employee representatives or the employees may raise issues during the consultation process. |
| 2 Employers are required to execute a written labour 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 labour 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 labour contracts are authorised: 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 (2008).

China Federation of Labour Unions which is the only lawful trade union. It is a combination of the management standard ISO 9000 and the CSR standard SA8000 (*Asia Portal*, July 13, 2008). SA8000 is based on international labour and human rights law, while CSC9000T is based on China's labour law. The latter refers to an extensive list of international human and labour rights declarations and conventions, such as the United Nations Conventions on the Rights of the Child, the 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: (i) Enterprises are required to set up a CSR management system based on the Plan-Do-Check-Act model; (ii) Employees must be offered written employment contracts and employers must not use child or forced labour, observe legally stipulated working hours, and pay legally required wages; and (iii) 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 (*Responsible Supply Chain Association*, November 14, 2010).

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 the LCL provides better protection for employees than ILO conventions in a number of areas cannot be tested (*Asia Portal*, July 13, 2008). Also, absent independent labour organisation, 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.

Go West: Regionalisation Policies and Inter-regional Competition

Driven by export-oriented industrialisation, the coastal regions expanded their production capacity much more rapidly than central and western regions. The development gap between eastern and central/western China has 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 has been launched (Table 3 and related Figures 5, 6 and 7).

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* (Ministry of Industry and Information Technology of China 2010). According to the *Guideline*, there are several industrial relocation tasks for the textile and apparel industry in order to integrate industrial location with 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 labour-intensive or/and low-tech production activities to western, central and north-western regions by means of mergers and enterprise reorganisation 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 north-eastern region, the policy aims to develop chemical fibre, flax, garment and other labour-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, less direct impacts were seen when China's Ministry of Commerce and China Customs promulgated the "List of Restricted Commodities in Processing Trade," differentiating between allowed labour-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 labour-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.⁵

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 (Figure 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

Table 3. Policy initiatives launched by Chinese governments on Go West

| Time | Organisation | Policy initiatives | Summary |
|---------|--|--|--|
| 2000 | State Council | “China Western Development” | The main policies of the plan include: (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 (Figure 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” | To encourage about 10,000 companies located in eastern areas to invest in central and western China |
| 2006–09 | Ministry of Commerce | “10,000 Businesses Go West” programme | 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 (Figure 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. |
| 2008–10 | Ministry of Commerce | Priority relocation destinations of the processing industry | This is China’s first national-level industrial transfer zone to encourage the relocation of low-end industries from coastal to inland areas (Figure 7). The zone is part of the government’s project to help eastern China move up the value chain while keeping low-end and 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. |
| 2010 | National Development and Reform Commission | Industrial transfer demonstration zone of the Wanjiang River Urban Belt | |

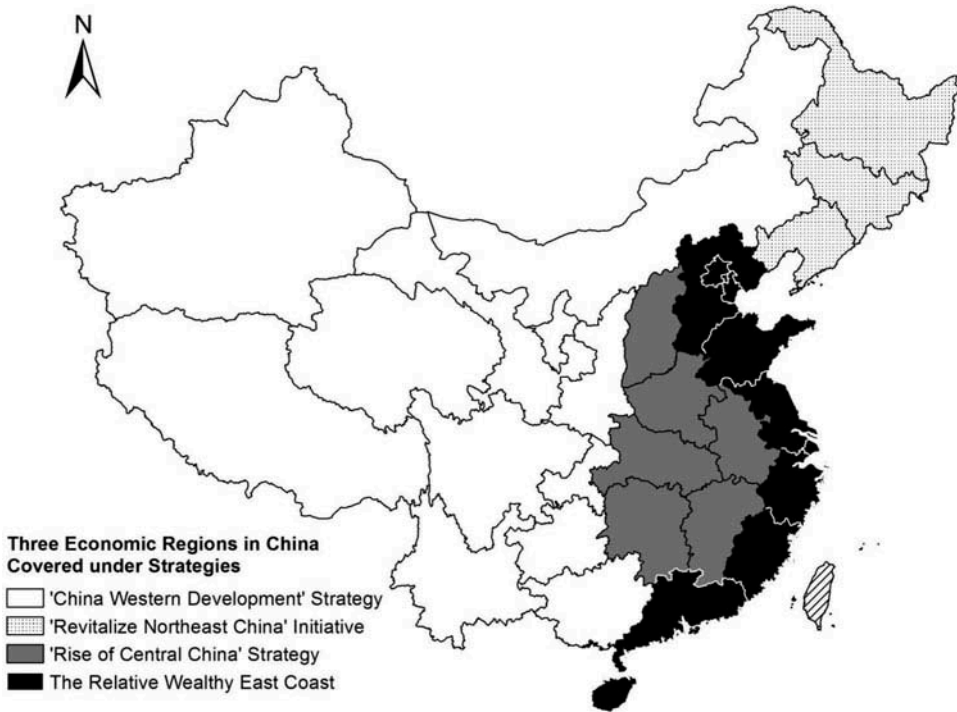


Figure 5. Economic regions in China. *Source:* Compiled by authors.

regions, but in the western region growth rates have rebounded after a dramatic decrease in 2008-09 (Figure 9).

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 labour-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 favourable 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 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

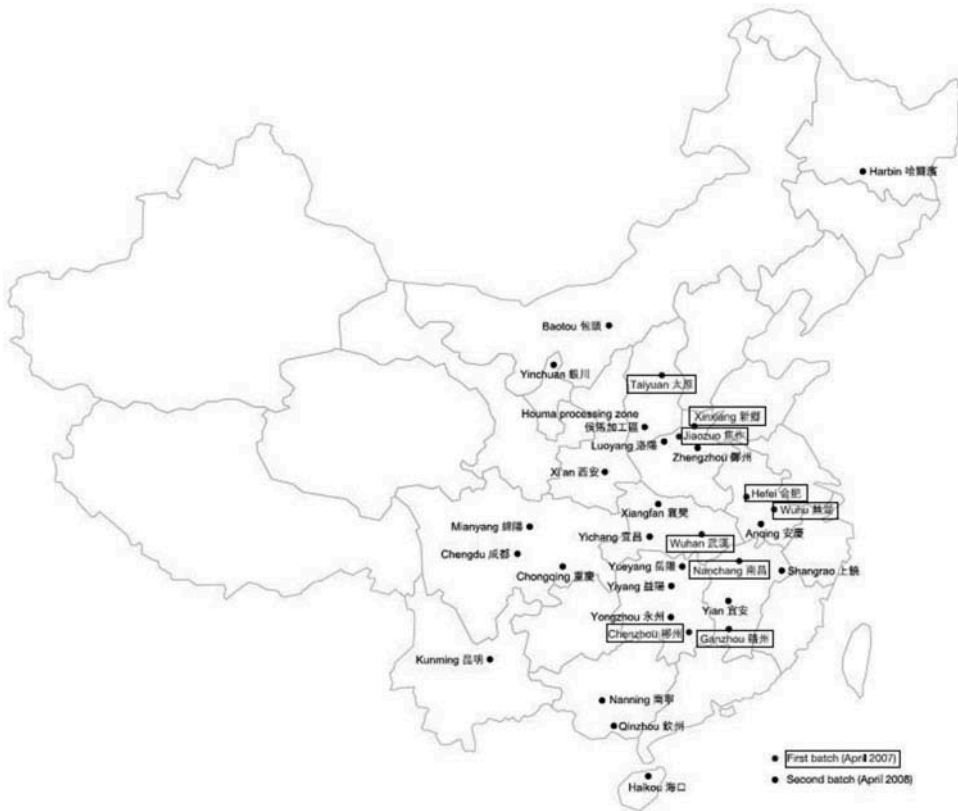


Figure 6. Priority relocation destinations of the processing industry identified by the Ministry of Commerce (2007 and 2008). *Source:* Compiled by authors, using data from Li & Fung Research Centre (2008).

encouraging enterprises to adopt one of three policies: (i) to upgrade locally, (ii) to maintain their headquarters and R&D centres while relocating only low-end and labour-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 favourable investment policies to firms in South Jiangsu that are willing to relocate to North Jiangsu. Similarly, by issuing “173 Plan,” Shanghai collaborated with neighbouring areas to prevent firms from relocating out of the province. In 2008, Guangdong announced the *Decision on Encouraging Industry and Labour Relocation* (also known as “Double Relocation”) in which measures and funds are designated to facilitate industry and labour relocation within the province. These include inducements for labour-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 labour from agriculture to the secondary and tertiary sectors in order to concentrate the skilled labour force in the central PRD, as a way to favour the technological upgrading of industry. In addition, 24 government-driven “Industrial Relocation Parks” have been set

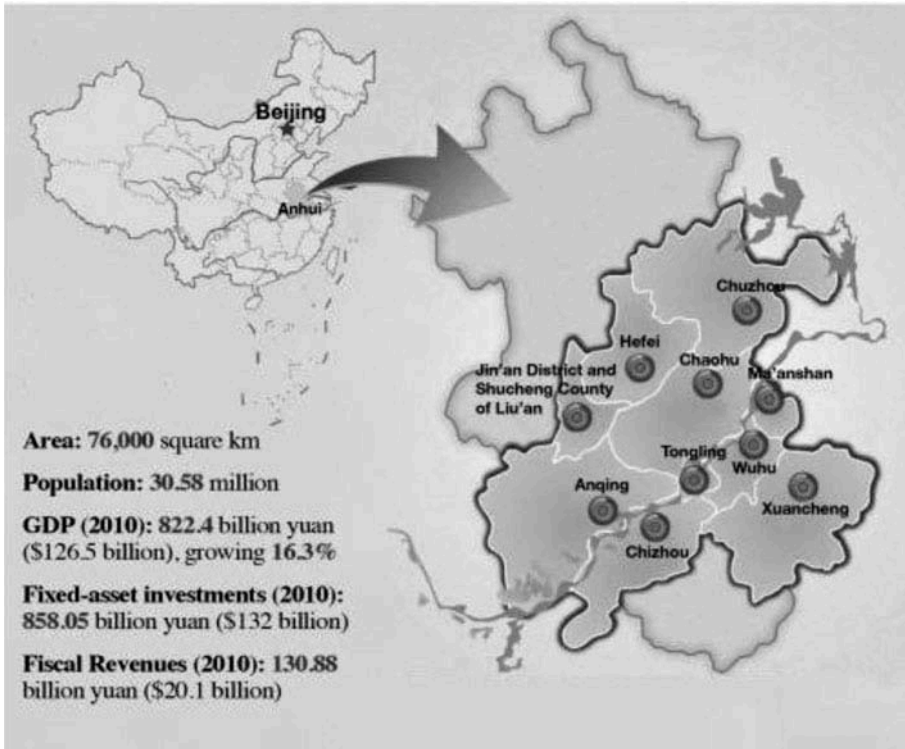


Figure 7. Industrial transfer demonstration zone of the Wanjiang River Urban Belt. *Source:* Anhui Provincial Development and Reform Commission reproduced from *China.org.cn*, March 14, 2011 (http://www.china.org.cn/china/anhui_media_tour/2011-03/14/content_22135889.htm).

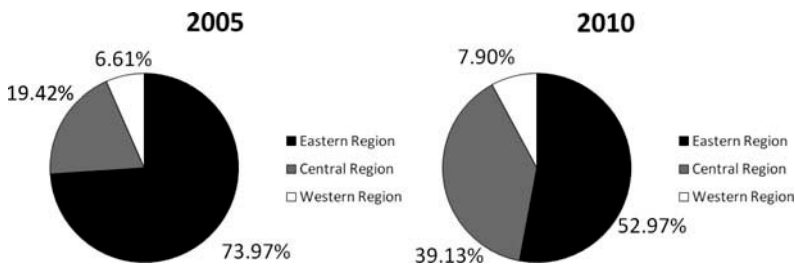


Figure 8. Distribution of investment in textile and apparel industry (2005 and 2010). *Source:* Adapted by the authors from Annual Report on Corporate Social Responsibility in Chinese Textile and Apparel Industry-2010/2011 (CNTAC 2011).

up within Guangdong province, mostly located in less developed areas, to encourage internal relocation (Interview, China National Textile and Apparel Council, Beijing, June 2011).

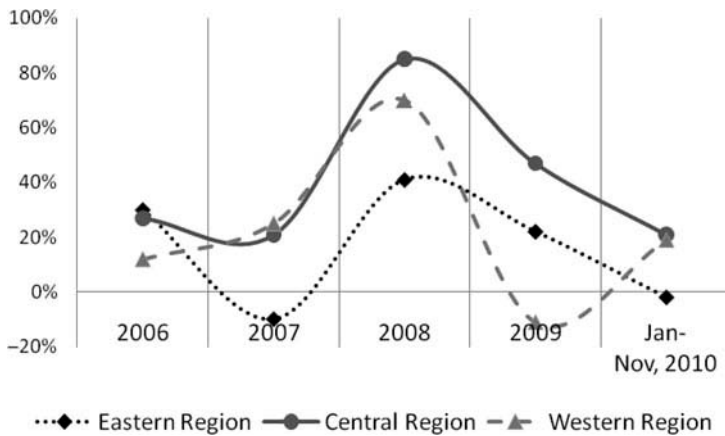


Figure 9. Annual growth rate (YOY) of the number of newly-commenced projects in the textile and apparel industry (2006-10). *Source:* Adapted by the authors from Annual Report on Corporate Social Responsibility in Chinese Textile and Apparel Industry-2010/2011 (CNTAC 2011).

Regionalisation of Enterprises

For many enterprises, going west is achieved more easily 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

Table 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 centres 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).

increase, technical and managerial workers become an increasingly important asset and one for which westernisation is managed more easily 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 delocalisation 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 labour 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.⁶ 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 2,000 employees were hired locally in Chongqing and over 1,000 employees in Xinjiang.

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 (Figure 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 labour, 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 labour, 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 (*China Apparel (EFU)*, September 14, 2009).

While some firms in the traditional manufacturing centres 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 labour-intensive and low-end parts of production) or they are outsourcing parts of their production to inland enterprises (Liao and Chan 2011). Large firms are more predisposed to maintain their production base in the coastal region, while setting up or offshoring 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 labour-intensive or resource-intensive activities to western and central regions, some are now finding that

supporting facilities in inland regions 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 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 (*Xinhua News*, December 10, 2009). 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 PRD is five times larger than in Northern Guangdong and nearly three times larger than Guangdong’s western and eastern regions (*China Apparel (EFU)*, September 14, 2009). 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 to adjust to increasing cost pressure and upgrade their production facilities in core plants.

Go Out: From Bringing-in to Outsourcing

China’s economic opening or the Bring In policy began in 1978 and was accelerated with WTO accession 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, Go Out was proposed after the social tensions and economic challenges resulting from the Bring 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 Eleventh Plan in 2005 as a part of a national strategy working together with Bring In, not replacing it.

Apart from encouraging relocation within the country, the central government and regional coastal administrations also support the outsourcing of labour-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 programme has five key components: (i) to utilise raw materials that are scarce in China through overseas co-operation and investment, in order to improve the industrial structure and optimise the re-allocation of resources in China while also

encouraging enterprises to set up R&D abroad to actively make use of raw materials world-wide (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 co-operate with adjacent countries economically and politically and to encourage the regionalisation 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 delocalisation within the EU increasingly encouraged European manufacturers and brands to reduce production costs in the face of increasing global competition by delocalising assembly work into central Europe to access surplus skilled labour pools, socialist technical infrastructures and know-how and quick turnaround capacities. In this way, the need to reduce labour costs, minimise delivery times, and guarantee quality could all be met – for some firms – without the additional transaction costs of global sourcing. In China, industrial delocalisation 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 labour cost, geographical proximity and the stability of trading relations that Pickles and Smith (2011) discuss for post-socialist Central Europe are also at work. 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 Labour 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 delocalisation 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 offshoring low-wage and low value-added production (with all its negative social and political consequences).⁷

In 2003-04, the Ministry of Commerce issued the *Guiding Directory in Country for China's Investment of Textile and Apparel Processing Trade in Asia* (Ministry of Commerce of China 2003). In 2004, the Ministry of Commerce and Ministry of Foreign Affairs jointly released the *Guiding Directory in Country and Industry for*

China's FDI (Ministry of Commerce of China and Ministry of Foreign Affairs of China 2004). 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 1,000 Chinese apparel enterprises had set up factories in Cambodia and Vietnam and another 100 (or more) Chinese apparel enterprises had invested in Bangladesh (*China Textile and Economic Information (CETI)*, September 24, 2009). 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 favourable 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 Generalised System of Preferences from 28 countries including the USA and some EU countries, and exports from Cambodia have preferential access and tax reductions and exemptions to most countries (*China Apparel (EFU)*, September 14, 2009).

One company that has taken advantage of outsourcing is the Hongdou Group, the second largest garment manufacturer in Jiangsu province. In 2007, 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 (*Fibre2Fashion News Desk*, February 5, 2007). In addition, as the costs of land, water and labour have continued to increase in China, Cambodia and other countries have gained distinct cost advantages. In 2008, Hongdou invested in the development of a Special Economic Zone (SEZ) in the port city of Sihanoukville in Cambodia on more than five square kilometres. This SEZ is a joint China-Cambodia initiative and the Chinese partner investment was approved by the Ministry of Commerce of China as its first foreign trade zone. Upon completion, it will be Cambodia's largest SEZ. In order to encourage the SEZ, the Ministry of Commerce approved financial support of more than 0.3 billion yuan to the SEZ and promised a further 2 billion yuan loan (*China Apparel (EFU)*, September 14, 2009). In 2007, China's fixed asset investment in Cambodia amounted to US\$461 million, a more than tenfold increase from 2003 (*Shanghai Overseas Chinese News*, May 26, 2008). 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 2011).

Besides the "low road" delocalisation where low-wage assembly work is being outsourced or relocated to low-cost producing centres like south-eastern Asia, "high road" delocalisation 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 co-operation with Greenwoods Menswear, a British retailer of men's

garment, in 2005. This business relationship finally led to Bosideng's acquisition of a 50% stake in Greenwoods for £50 million in 2009. Bosideng seeks to leverage Greenwood's expertise in the UK retail market to develop a chain with 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' total sales. In 2011, Bosideng bought a £20 million six-storey 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 (*China Daily*, February 1, 2009).

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 USA, 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 the 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 centre of apparel manufacturing, but as the share of production inland increases and with expanded infrastructural investment, the presence of abundant skilled and cheap labour and tens of thousands of clustered enterprises,⁸ 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 labour cost due to the shortage of skilled labour and approval of the Labour Contract Law and the CSC9000T.

Rising labour costs have been particularly important in forcing China's apparel enterprises to restructure their value chains. Labour shortages are crucial and pose deep-seated economic and social challenges for the apparel industry, particularly because of its dependence on migrant labour. Presently, a great deal of attention is directed toward enticing investment, stimulating economic development and promoting economic upgrading, while concern for the well-being of labour and social upgrading along with economic upgrading has lagged. Our analysis has highlighted the signal importance of policy initiatives launched by 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 proactive 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 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 labour. We have noted the many cautions one needs to exercise in reading these emerging labour regimes, especially in the absence of free and independent trade unions, but the new LCL and CSC9000T 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 recognising 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 favour 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 centres 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 GVCs remains an open question. For the moment, the rapid expansion of domestic consumption acts as a stimulus and subsidy while global markets remain turbulent and price sensitive.

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Notes

- ¹ The maps in the paper are based on firm-level data derived from the annual *China Industry Economy Statistical Yearbook*.
- ² Longitudinal 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.
- ³ Go 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 Guandong and west across the Pearl River). This policy also

covers the subcontracting 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 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.

- ⁴ China's CSR standard, CSC9000T, so far only applies to the textile and apparel industry (hence the 'T').
- ⁵ The 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 labour markets. Central government inducements have been particularly strong in urging textile manufacturers to move to Inner Mongolia, Xinjiang, Ningxia and Qinghai, silk production to Sichuan, Guangxi and Yunnan, and fibre-dependent industries to Henan and Hubei. Large successful export-oriented apparel firms were also targeted in this endeavour. In 2008, the China Chamber of Commerce for Importers and Exporters of Textiles organised 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>.
- ⁶ The 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 (see Henderson and Nadvi 2011; Kaplinsky and Farooki 2010).
- ⁷ See Pickles and Woods (1989) for examples of an earlier round of the Go Out policy pursued by Taiwan enterprises in the 1970s and 1980s.
- ⁸ "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 & Fung 2006). As of 2009, the number of firms with revenue 5 million yuan or greater is 18,265 (apparel).

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