

**Chinese Workers Pay for Wal-Mart's Low Prices;  
Retailer Squeezes Its Asian Suppliers to Cut Costs**

by Peter S. Goodman and Philip P. Pan

Inside the factory, amid clattering machinery and clouds of sawdust, men without earplugs or protective goggles feed wood into screaming electric saws, making cabinets for stereo speakers. Women hunch over worktables, many hands bandaged and few covered by gloves, pressing transistors into circuit boards.

Most of the 2,100 workers here are poor migrants from the countryside who have come to this industrial hub in southern China for jobs that pay about \$120 a month. A sign on the wall reminds them of their expendability in a nation with hundreds of millions of surplus workers: "If you don't work hard today, tomorrow you'll have to try hard to look for a job."

The calculations driving production here at Shenzhen Baoan Fenda Industrial Co. are no different from those governing global capitalism in general -- make more for less -- but it is applied with particular vigor on this shop floor. Sixty percent of the stereos coming off the line are for one customer: Wal-Mart Stores Inc., whose mastery at squeezing savings from its supply chain made it the world's largest company.

"The profit is really small," said Surely Huang, a factory engineer, speaking of the 350,000 stereos that Fenda agreed in March to supply to the retailer for \$30 to \$40 each. Huang said they sell for \$50 in the United States. "We have to constantly cut costs to satisfy Wal-Mart."

Yet this factory and thousands of others along China's east coast have decided, with China's leaders, that the deal is worth the price. Wal-Mart provides access to vastly more store shelves than they could ever reach by themselves, a way to build a brand from Fort Worth to Frankfurt. Meeting Wal-Mart's strict requirements could improve the factory's efficiency and make it easier to land contracts from other major retailers.

As capital scours the globe for cheaper and more malleable workers, and as poor countries seek multinational companies to provide jobs, lift production and open export markets, Wal-Mart and China have forged themselves into the ultimate joint venture, their symbiosis influencing the terms of labor and consumption the world over.

With sales of more than \$245 billion a year, Wal-Mart is the largest retailer in the United States, still the ultimate consumer market. China is the most populous country, with 1.3 billion people, most still poor enough to willingly move hundreds of miles from home for jobs that would be shunned by anyone with better prospects. The Communist Party government has become perhaps the world's greatest facilitator of capitalist production, beckoning multinational giants with tax-free zones and harsh punishment for anyone with designs on organizing a labor movement.

More than 80 percent of the 6,000 factories in Wal-Mart's worldwide database of suppliers are in China. Wal-Mart estimates it spent \$15 billion on Chinese-made products last year, accounting for nearly one-eighth of all Chinese exports to the United States. If the company that Sam Walton built with his "Made in America" ad campaign were itself a separate nation, it would rank as China's fifth-largest export market, ahead of Germany and Britain.

Back in its home market, Wal-Mart's vast appetite for Chinese imports has placed it at the center of a sharp debate over whether the influx of low-cost products from China is good for Americans.

Domestic manufacturers, labor groups and some politicians point to China's record trade surplus with the United States, estimated to have totaled \$120 billion last year, and accuse Beijing of manipulating its currency, condoning the exploitation of its workers and competing unfairly, resulting in the loss of U.S. manufacturing jobs.

But Chinese officials counter that nearly two-thirds of the country's exports are shipped from factories wholly or jointly owned by foreign investors, with Wal-Mart often cited as the prime example, supplying Americans with a steady flow of low-cost, high-quality goods.

With its near-religious devotion to the pursuit of "everyday low prices," Wal-Mart illustrates why U.S.-based multinationals with operations here have not joined in the chorus for protectionism.

"For the benefit of the consumer, we should buy merchandise where we get the best value," said Andrew Tsuei, managing director of Wal-Mart's global procurement center in Shenzhen.

Joe Hatfield, president of Wal-Mart's Asia operations, noted that many of the goods his company buys in China -- toys, furniture, textiles and holiday ornaments -- have mostly not been made in the United States for years. The Bush administration has pressed China to increase the value of its currency, which some argue makes China's goods unfairly cheap on world markets. Hatfield rolled his eyes.

"That would be a travesty to do to the consumer in the United States," he said. "You do that and the cost of living is going to go up."

For Wal-Mart and other multinational companies doing business in China, a stable currency, political peace and a compliant workforce are nearly as important as low costs.

"There might be places in other parts of the world where you can buy cheaper, but can you get [the product] on the ship?" Tsuei said. "If we have to look at a country that's not politically stable, you might not get your order on time. If you deal in a country where the currency fluctuates, everyday there is a lot of risk. China happens to have the right mix."

Labor activists in China and abroad say that mix includes the ruling party's ban on independent trade unions -- workers may join only the party-run union -- as well as courts and regulatory agencies controlled by local party officials who are often willing to overlook labor violations to appease businesses that can be milked for taxes, fees and bribes.

The activists argue that as Wal-Mart pits suppliers against one another and squeezes them for the lowest price, the workers suffer.

"Wal-Mart pressures the factory to cut its price, and the factory responds with longer hours or lower pay," said a Chinese labor official, who declined to be named for fear of punishment. "And the workers have no options."

In the city of Dongguan in southern Guangdong province, where Wal-Mart suppliers are concentrated, a 27-year-old worker who gave her name as Miss Qin complained that she can rarely afford meat with her \$75-per-month wages at Kaida Toy Co. "Every day we eat vegetables, mostly we eat vegetables," she said, leaning over a plate of fried carrots in a dingy restaurant.

Qin helps make plastic toy trains for Wal-Mart, but says she cannot afford to buy toys for her 9-year-old son. "In four years, they

haven't increased the salary," she said.

Kong Xianghong, the No. 2 official for the party-run union in Guangdong province, acknowledged that low wages, long hours and poor conditions are common in factories that supply Wal-Mart and other U.S.-based corporations.

"It's better than nothing," he said. "Labor protections, working conditions and wages are related to a country's level of economic development. Of course, we want better labor protections, but we can't afford it. We need the jobs. We need to guarantee people can eat."

Still, Kong said, the party-controlled union has been frustrated that Wal-Mart has refused for three years to allow it to set up branches in the 31 Wal-Mart stores in China -- even though he has assured the company that the union wouldn't help workers struggle for better pay. Wal-Mart has also fought efforts to unionize its U.S. stores.

Wal-Mart's China headquarters is a monument to its frugality -- a low building covered in white tile. The linoleum conference table is pockmarked with gaps where the plywood shows through. Tea is served in plastic cups. In Hatfield's office, where he presides over Wal-Mart's Asia operations, the rusty window frame is open, the sound of car horns washing in from the street.

Wal-Mart portrays itself as a force for good in China. The company says it enforces labor standards for its suppliers and insists that they comply with Chinese law.

"We look at safety. We look at health, and this comes with a cost. We ensure people get paid above minimum wage. They have to have fire extinguishers, fire exits," Tsuei said. "There are people out there who cannot have those things and offer a lower price. We do not do business with those people."

Wal-Mart employs 100 auditors who annually inspect every supplier's factory. Last year, the company suspended deals with about 400 suppliers, primarily for exceeding limits on overtime, Tsuei said. Another 72 factories were blacklisted permanently last year, he said, almost all for employing children under China's legal working age of 16.

But Wal-Mart does not conduct regular inspections of smaller factories that sell goods to the company through middlemen. Nor does it inspect all its suppliers' subcontractors or the Chinese manufacturing operations of U.S. suppliers such as Mattel Inc. and Dell Inc.

"The inspection system is not effective," said Li Qiang, a labor organizer who has been in contact with workers at more than a dozen factories that supply Wal-Mart, and who worked in one himself before leaving China three years ago. "The factories are usually notified in advance, and they often prepare by cleaning up, creating fake time sheets and briefing workers on what to say."

Li said these factories often require employees to work as many as 80 hours per week during the busy season for \$75 to \$110 per month, violating Chinese labor laws. If Wal-Mart really wanted to monitor conditions among its suppliers, Li said, it could do so with surprise visits, longer inspections and independent auditors. "But if they did that, prices would definitely go up," he said.

Wal-Mart is such a big player in China that it does not have to go looking for suppliers; the suppliers come to them, jamming a reception area at the procurement center.

Yu Xiaoma of Guangzhou Kangaroo Leathers Co., which makes handbags and wallets for Wal-Mart and other multinationals, said: "You can't make much money from Wal-Mart. They demand the lowest, lowest price."

Amy Gu, vice manager for exports for Goodbaby Corp., which makes baby strollers near Shanghai, said the company sometimes takes orders to supply Wal-Mart at or below cost through a partnership with a Canadian distributor, Dorel Industries Inc. "Dorel will tell us, 'Well, Wal-Mart has given us this price, we need a factory cost of this much,'" Gu said. "And we have to find a way to deliver it."

Wal-Mart says such arrangements benefit both sides. Hatfield said the company has made distribution more efficient and fair by cutting out middlemen and resisting corruption. In a country where transportation remains unreliable, Wal-Mart's distribution network has given manufacturers access to customers around the country and the world.

He touted the case of a Guangdong factory that began supplying Wal-Mart stores in Shenzhen with a drink made of milk and egg yolk, delivering 25,000 units the first month.. It proved popular. By September, Wal-Mart was shipping 1 million units a month across southern China.

"They can just drop it at our distribution center and we take care of the rest," Hatfield said. "Now it's a national brand."

Yet those who run the factory that produces the drink, Weijiasi Food &

Beverage Co., say they haven't yet shared in the success.

"In the beginning, we made money," said a manager reached by telephone, who gave his name as Mr. Li.

"But when Wal-Mart started to launch nationwide distribution, they pressured us for a special price at below our cost. Now, we're losing money on every box, while Wal-Mart is making more money."