

## Wal-Mart's CSR and Labor Standards in China

Anita Chan and Kaxton Siu  
BDS Working Paper series no. 4



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## Abstract:

The paper will analyze and compare the work conditions of workers in toys and garment Wal-Mart supplier factories in Guangdong province. The data is based on a questionnaire survey with 96 workers conducted outside factory gates. The paper analyses the different effects piece rates and time rates have on wages and work hours. It will be argued that a wage system that is calculated based on hourly wage rather than on monthly wage is much more transparent and easier for the workers to comprehend and as a result know exactly how they are paid and awarded their legal entitlements. The paper will end with a discuss some of the popularly held myths surrounding the China's migrant workers in the export sector.

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## From Nike to Wal-Mart<sup>1</sup>

The concept of Corporate Social Responsibility was introduced into China in the mid-1990s. It originated with the anti-sweatshop movement in the developed countries, which accused brand-name Western corporations of turning a blind eye to dangerous, inhumane conditions in the factories around the world that make merchandise for them under contract. To ward off criticism, many Western companies have adopted “corporate codes of conduct,” demanding compliance with a minimum set of standards by their sub-contractors in China and in other developing countries (Braun and Gearhart, 2004, pp.183 -196). In the early 1990s the movement’s main target was Nike, the biggest brand-name sports-shoe retailer in the world. Taking on the biggest had its symbolic significance. To protect the brand’s reputation, public shaming was able to force Nike to take its social responsibility more seriously, and it has become more open to multi-stake holder involvement in its CSR policies.<sup>2</sup> Blatant mistreatment of workers in its supplier factories stopped surfacing in the press after a spate of exposé stories in the 1990s. Nevertheless, Nike’s latest two annual CSR reports confirm that many of its suppliers still do not satisfactorily comply with its code of conduct, especially in subjecting workers to excessive overtime (Nikes CR report, FY 2004; 2005-2006).

As the anti-Nike movement quieted down, a new target emerged—Wal-Mart. While Nike is the biggest brand-name shoe company, Wal-Mart is the biggest retailer in the world. The volume of sales and variety of products sold by Wal-Mart is unparalleled. The impact of Wal-Mart’s stores and retail practices on the United State has been a major economic, social and political issue for at least a decade. But there was a time lag between targeting Wal-Mart as an atrocious employer at home and the growing realization that Wal-Mart has become the corporate fountain-head driving down wages in countries in other parts of the world that produce its products. It was only in 1998 that the anti-sweatshop movement took Wal-Mart to task for violating Chinese workers’ rights, when National Labor Committee, a labor NGO in New York, released a report on the poor work conditions in which the Katie Lee Gifford label handbags were being manufactured for Wal-Mart (Branigin, 1998).

Since then negative investigative reports on Wal-Mart’s China-based suppliers have regularly appeared in the media and websites of NGOs.<sup>3</sup> The information in these reports was collected by interviewing workers outside Wal-Mart supplier factories. They depicted horrific work conditions, with workers sometimes laboring for 12 or more hours a day, with no days off during busy season, very low wages, cheating of wages, wages in arrears, unhealthy work conditions, and no protection of labor rights by trade unions. Wal-Mart could not ignore the bad press. Being the biggest, it has become an easy target. Wal-Mart had to put in place a big auditing and monitoring program to put its so-called Ethical Standards code of conduct into practice in the factories that supply it. Wal-Mart in its ethical sourcing website boasted:

“In 2005, we audited more factories than any other company in the world, performing more than 13,600 initial and follow-up audits of 7,200 supplier factories. We also trained more than 11,000 suppliers and members of factory management to increase their familiarity with Wal-Mart’s Standards for Suppliers and to encourage an exchange of information about practices within the industry.”<sup>4</sup>

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<sup>2</sup> For instance, Nike let a group of labor NGOs to go into a Yue Yuan factory in Shenzhen to carry out occupational safety and health (osh) training and to elect an osh committee; in 2004 it was the first brand name company to release the names of all its suppliers around the world; in 2006 it allowed a group of academics to study the impact of its CSR program; in 2006, it was the first company that publicly dissociated itself from the American Chambers of Commerce’s criticism of the Chinese Contract Law draft that was drawn up to more effectively protect workers’ rights.

<sup>3</sup> These include the National Labor Committee and the New York-based China Labor Watch (<http://www.chinalaborwatch.org/>), and more recently, the Hong Kong based-Student Committee Against Corporate Misbehavior (SACOM) (<http://www.sacom.hk/html/>)

<sup>4</sup> [http://walmartstores.com/Files/05\\_ethical\\_source.pdf](http://walmartstores.com/Files/05_ethical_source.pdf).

80 percent of Wal-Mart's direct suppliers are located in China, providing about 70 percent of Wal-Mart's goods (Hong, X 2007). Between 1997 and 2002, imports from China doubled to US\$12 billion, and increased to \$18 billion by 2004. In short, Wal-Mart relies heavily on China as its main supplier. However, in dollar terms the cost of the products sourced from China as a proportion of Wal-Mart's total sales is tiny. According to Wal-Mart's 2005 Annual Report, its net sales totaled \$204 billion in 2002 and \$ 256.3 billion in 2004.<sup>5</sup> That means Wal-Mart's sourcing from China cost Wal-Mart only 5.8% and 7% of its net sales in 2002 and 2004 respectively. These macro-figures speak for themselves about how pricing at both ends of the supply chain works. The products sold in Wal-Mart stores cost Wal-Mart very little; the supplier factories therefore are not the major profit-makers; what they earn comes to only a truly tiny portion of the sales price.

While in the 1990s corporations seized the moral high ground by creating and then imposing their codes of conducts on supplier companies and then accusing them of non-compliance. After some time the anti-sweatshop movement started pointing out that the source of the problem originates from corporations not sharing the expense incurred in improving work conditions and raise labor standards (Han Shi, 2006; Lingmin, 2005; Roberts, Engardio and Bernstein, 2006; *China Daily* May 13, 2005; Oxfam, Hong Kong information leaflet "Let's turn the Garment Industry Inside Out"). They squeeze suppliers from both ends: pushing them to comply with their corporate codes while depressing the buying price year by year. Wal-Mart has always been seen as heading the pack in this practice due to the sheer volume it procures. In 2007, the squeeze has become so bad that some suppliers began to protest. With rising labor cost, cost of material and inflation, some Chinese suppliers that refused to take Wal-Mart orders made into the Chinese press. China's biggest sock manufacturer announced it no longer wanted to sell to Wal-Mart:

"Under the present situation of a big increase in production costs, many European buyers are willing to share the cost by increasing the piece-price, but Wal-Mart not only does not increase the price, in its selfishness to make profits for itself, it totally disregards the production situation of manufacturers. It offers a price that simply leaves no space for a profit." (Aili, 2007)

## **Chinese Labor Standards in Wal-Mart Supplier Factories**

What does the above global economic trend of Wal-Mart driving prices and labor standards to the bottom mean to the workers at the bottom rung of the global supply chain? Wal-Mart prides itself for its "Everyday Low Price" sales strategy. The low-price products cater to the low-end retail market, demanding the cheapest kind of labor possible. The suppliers' major strategy is to keep wages as low as possible and to lengthen the work hours as long as possible. This type of management practice constitutes the core of the anti-sweatshop movement's critical reports on sweatshop labor. The wages and work hours violate both the Chinese Labor Law and the corporate codes of conduct. One supplier factory manager estimated that only 20% of Chinese suppliers comply with wage rules, while just 5% obey the legal limitation" on the maximum number of work hours (Robberts, Engardio, and Aaron Bernstein, 2006). Through our own decade-long research on migrant labor in the Pearl River Delta, we can confirm that such violations were and are still the norm.

We also wanted to ascertain the impact on workers' wages of the so-called recent labor shortage in China. There was said to be a shortage of up to 2 million migrant workers in Guangdong's delta region where we conducted our survey. Is there indeed a shortage, and if so is it affecting factory wages and the factories' labor recruitment and resignation policies (e.g., making it difficult for workers to quit in order to reduce turnover rates)?

If a labor shortage exists, then real wages should have been gone up in this part of China. In Outer Shenzhen, a major industrial region where this survey was conducted, the minimum legal wage between 2003 and 2007 was adjusted annually from 465 yuan, to 480 yuan, 580 yuan, 700 yuan and then to 850 yuan. The question is, does this translate into a real wage increase for the workers? Or contrarily, have employers such as those that supply to Wal-Mart tried to impose speed-ups, higher production quotas, extended work hours, and lowered piece rates

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<sup>5</sup> [http://www.walmartstores.com/Files/annualreport\\_2004.pdf](http://www.walmartstores.com/Files/annualreport_2004.pdf).

and taken more deductions from wage packets? Finally, are the work conditions the same for those workers paid by piece rate and for those paid by a time rate?

This paper attempts to tackle the understanding of labor conditions by using a quantitative method rather than case studies citing wages and work hours of particular factories. It employs a survey to analyze the relationship between wages and work hours at Wal-Mart supplier factories in China.

## The Survey

Our questionnaire was drawn up to find out as precisely as possible the wages and work hours of workers in Wal-Mart supplier factories and also their attitudes by asking very detailed questions.<sup>6</sup> The field survey was carried out from June to October 2006 in two stages in various districts of Shenzhen City at factories that produce for Wal-Mart—four garment factories in June and July and five toy factories in October.<sup>7</sup> These two industries were chosen because such factories are numerous in this part of China, a region where production line workers are all migrants from other provinces. In addition, the garment trade is normally on piece rates, while toy production uses time rates. Comparing the two payment systems might give an added dimension to the issue of wages. Since each of the factories had their own specific ways of awarding labor, detailed questions had to be included to capture the complexity of the wage systems.

It did not prove easy to collect data on wages and labor conditions at Wal-Mart supplier factories. For instance, the ideal would have been to interview both factory managers and workers. But we were not able to gain access to factory management. Collecting information from workers could only be carried out outside factory gates and thus random sampling was impossible. Soliciting workers to answer questionnaires was not an easy task. The difficulty was compounded by the fact that many of the factories that supply multinational corporations (MNCs) have warned workers against talking to strangers about work conditions, for fear they would leak information to the social auditors sent by corporate clients. Moreover, the window of opportunity for surveyors to approach workers each day was very short, usually not more than an hour between a worker clocking off for the day for dinner and clocking in again for the night's overtime. The problem was further aggravated by workers often having no days off a week. That means each surveyor's one to two hour bus-ride to a factory at best could yield two answered questionnaires, or sometimes none. Thus it required great persistence in the heat of summer for a few surveyors to fill in 95 questionnaires from 11 factories (6 toy factories and 5 garment factories). Of these, only 88 of the questionnaires were usable while the remaining 7 from two factories were unusable due to their unrepresentative nature.<sup>8</sup> As a result we excluded those two factories from the sample, leaving data from 9 factories.

Another problem was to identify factories that supply to Wal-Mart. Since there was no list of factories that supply to Wal-Mart available, finding factories could only be by word of mouth. Fortunately, the surveyors knew some workers at Wal-Mart supplier factories and through snowballing we were able to find the factories used in the sample. Having established that these factories were indeed Wal-Mart suppliers, it was soon discovered that the factories often have multiple buyers. The respondents, being ordinary production-line workers, normally could not estimate the percentage of products manufactured in their factories that were sold to Wal-Mart. Some workers did not even know the identity of the factory's main clients, or the brand names that were being produced.

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<sup>6</sup>Thanks are due to Xue Hong in helping to draw up the first draft of the questionnaire, which benefited from her familiarity with work hours and wages in supplier factories.

<sup>7</sup> The surveyors were staff members of two labor NGOs who are very knowledgeable about the work conditions of migrant workers.

<sup>8</sup> The problem at these two factories is mainly due to the nature of the workers surveyed. The discarded questionnaires from the toy factory were filled in by 4 workers who were university students doing summer jobs, while the three discarded from a garment factory were filled in by under-aged workers as young as 13. As they were not ordinary workers, and our remaining sample from each of these two factories was so small, we decided that it was best not to include these two factories for fear of distorting the data.

It was also impossible to know the exact number of workers in each factory and the gender ratio at each factory because respondents could only provide estimates. We overcame this problem as best we could by using the mean distribution of their responses to those questions.<sup>9</sup> Due to only an estimated population and difficulty in getting workers to answer questionnaires, the sample respondents in each factory are not proportional to the size of the factories. To overcome this problem we have weighted the sample when we compare data between the toy and garment industries.<sup>10</sup> Below is a summary table of the number of respondents and the weighted means of respondents' estimates of the size of their factory's workforce.

**Table 1: Sampled factories: Number of respondents, and the weighted mean for the size of each factory's workforce**

Factory (G=Garment; T=Toy)	Number of Respondents	Weighted Means of Factory Population Estimates
G1	3	550
G2	10	169
G3	19	3405
G4	8	900
T1	15	3600
T2	14	2733
T3	5	1950
T4		321
T5	7	301

Source: The authors

In the latter half of the 1990s, as Wal-Mart sourced more and more from China, doubling its imports between 1997 and 2002,( Fishman , 2006 pp. 102-103) it became one of the engines that drove down prices, and in turn migrant wages in the export sector. The price pressure on other MNCs was so great that, by quickly following suit, they plunged Chinese suppliers into an intense competition among themselves to acquire orders by squeezing as much out of Chinese workers as they possibly could. One Hong Kong buying agent put it graphically to us, "Suppliers still have places where they can cut fat, but the easiest fat to cut is workers' wages."

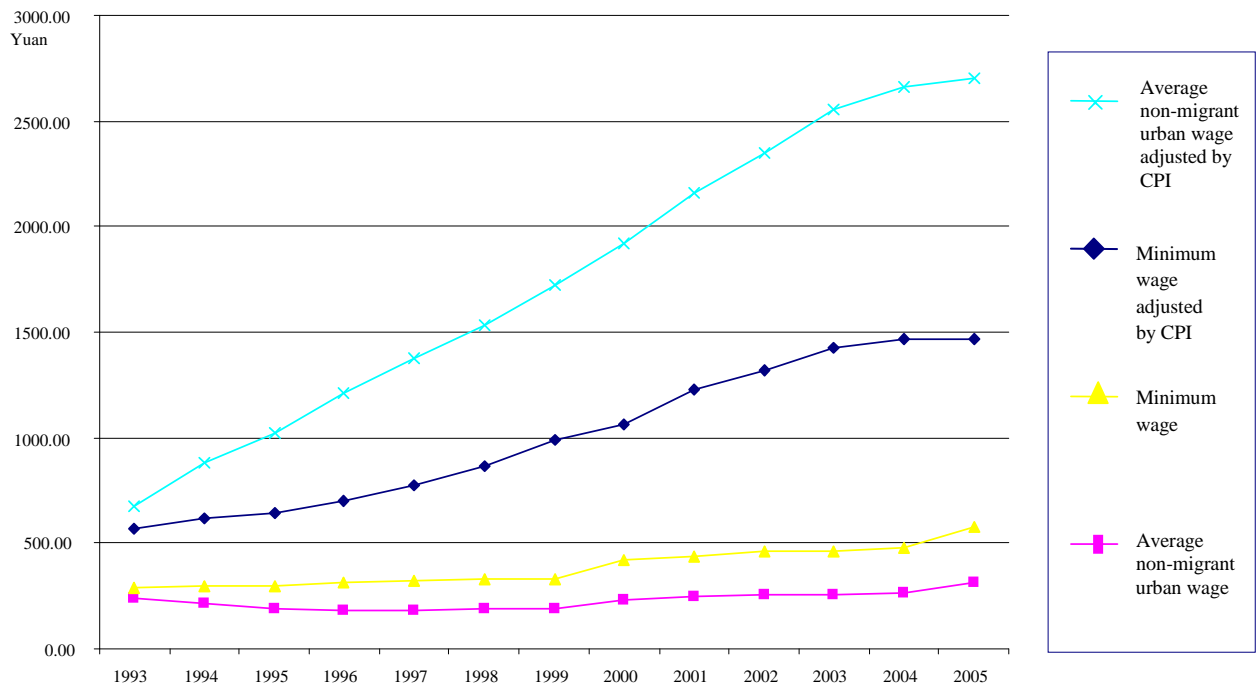
<sup>9</sup> At best we could only estimate each sampled factory's number of workers by taking the mean of the answers provided by respondents from that particular factory.

<sup>10</sup> The weight for each factory, say for garments, when used for making comparisons with toy factories is calculated as follows:

Weight used for particular garment factory=

$\frac{\text{Estimated workforce provided by worker respondents from that garment factory}}{\text{Estimated total workforce provided by workers for all sampled garment factories}}$

**Figure 1: Wages of Non-Migrant Urban Employees and the Minimum Wage [Migrant Workers' Base Wage] for the Outer Shenzhen Region, 1993-2005.**



Source: <http://www.szlabour.org> & <http://www.gdstats.gov.cn>

This can be seen in Figure 1. The graph, drawn using official Chinese government statistics for one of southern China's major regions for export industry, shows the trends in the wages of both migrant and urban non-migrant employees. Note the second line from the top, which traces the average wages of non-migrants in the urban workforce after taking account of inflation. Much of the local urban populace fills jobs as foremen and white-collar staff and on government payrolls. Real wages of the local populace almost tripled between 1993 and 2005. Compare this to the minimum wage set for migrant workers for 40-hour week for the Outer Shenzhen region the increase has been negligible. Such minimum wage levels in China are set annually by city-level governments, supposedly in accordance to the prevailing wage and the cost of living in the city. The minimum wage is then reported to the Ministry of Labor & Social Security in Beijing. But local governments tend to be pro-business and eager to attract foreign investment. Setting minimum wages at the lowest possible level has been the policy for many years.

We have been to many dozens of factories in this region during the past two decades, and the monthly basic wage that the migrant workers have received for a 40-hour week is invariably the same as the legal minimum wage. Most of these workers labor far longer than 40 hours a week, and by law, they are required to be paid a higher wage per hour for all overtime and weekend work. But in reality, most of them are paid at the same rate or just a bit more, and a lot of workers actually make *less* per hour of overtime work than they do for their first 40 work hours. Because they are not paid enough for their overtime labor, the overall pay of most of the migrant workers is far less than what is stipulated by law.

Note, too, that their pay for the first 40 hours of work per week has barely risen between 1993 and 2005, despite the booming economy. In fact, it can be observed in the bottom line of Figure 1 that the real pay for the first 40 hours declined slightly for a decade, until 2004, when a labor shortage began to be felt. As a consequence of no real wage increase for so many years, it reached a point around 2003 when many migrant workers no longer wanted to come to Guangdong province, causing a shortage of labor that has been widely reported in the international press. In 2004, the local government raised the minimum wage by the largest

margin ever, 120 yuan (about 15 US dollars)<sup>11</sup>, but as can be seen, it was still barely an increase when adjusted for inflation.

Given the labor shortage of “prime” labor, i.e. women from 18 to 23 years old, that began to set around 2004, how are factories still able today to pay so little for so much work? The answer is that they still can find sufficient workers to employ, though they can no longer be as choosy in whom they select.

Before, in the 1990s, they were only willing to recruit young women from the ages of 18 to 23 for most types of production work. The reasons provided by managers in interviews during the 1990s was that young female workers have nimble hands, are more obedient (*tinghua*) and easier to manage, and are faster and more meticulous. The factories were not interested in women older than 23 because it was said that by the age of 24, rural women would return to their home town to get married, and the factories did not want to deal with problems related to pregnancy. The factories also calculated that by the time a woman reached her late 20s she was too old to keep up with the rapid pace of work.

There has been a discriminatory hiring policy in these two industries. Men had great difficulty finding production-line jobs. They were hired normally only for heavier manual tasks such as loading and unloading, or tasks that required some technical skills, or in garment cutting, which requires taller and stronger workers due to the height of the cutting table and the stack of material to be cut. Thus the male ratio among manual workers in these two industries was usually 10% or even less before labor shortages were reported.

But nowadays there are not enough young women workers standing outside factory gates in search of a job, and factories have had to hire older women as well as young men, and even men older than 30. This can be observed in our survey. As can be seen in Table 2, the mean age of the sampled workers is 23.5 at these Wal-Mart suppliers, which is older than the range of ages at which factories normally employed production-line workers in the 1990s.

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<sup>11</sup> The exchange rate at the time when data was collected for this paper was roughly US\$1 to 8 yuan.



**Table 2: Summary Data for the Toy and Garment Factories**

	<b>Total Sample (N=88)</b>	<b>Garment Factories (N=40)</b>	<b>Toy Factories (N=48)</b>	<b>Weighted Mean Difference</b>
<b>Variable</b>	<b>Weighted Mean</b>	<b>Weighted Mean</b>	<b>Weighted Mean</b>	
<b>Work Hours Per Month</b>	303.38	307.96	297.63	10.33
<b>Overtime Per Day</b>	3.25	3.30	3.18	-0.12
<b>Days Off Per Month</b>	3.07	2.81	3.40	-0.59
<b>Actual Wage</b>	/	1008.1	1374.9	/
<b>Desired Wage</b>	/	1419.82	1528.00	/
<b>Legally Entitled Wage</b>	/	1343.61	1537.06	/
<b>Hourly Wage</b>	/	3.32	4.66	

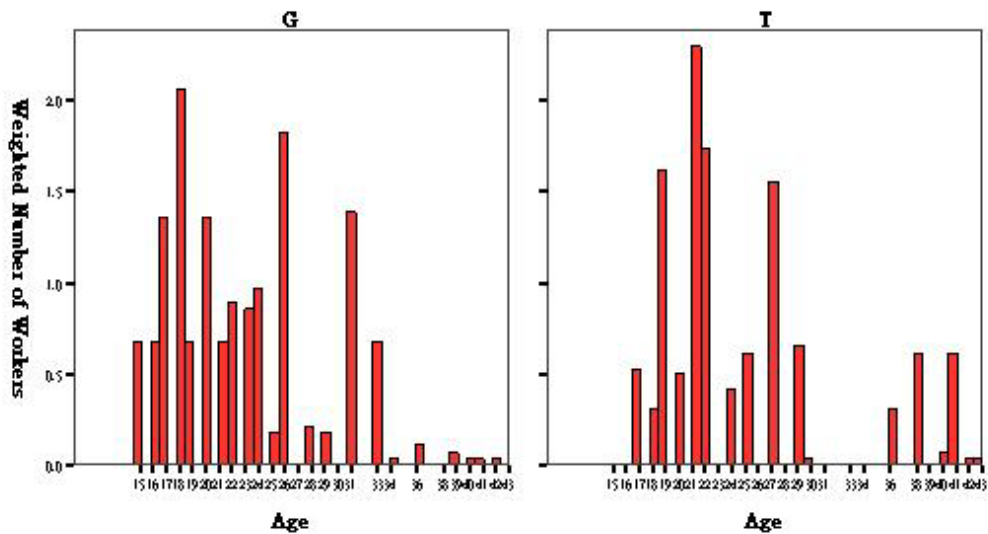
Source: The authors

Nowadays factory-gate recruitment posters in the Shenzhen region often read: “Ordinary workers needed: 18 to 30 years old. Positions open for either men or women”, whereas before a poster would read: “Women workers needed: 18 to 23 years old”. This change in gender recruitment is evident in our survey sample, in which the males occupy 26% of the workforce.<sup>12</sup> At one of the four garment factories it is as high as 60%. This higher male gender ratio definitely goes against the widely held perception that China’s garment industry is almost entirely staffed by young women.<sup>13</sup>

<sup>12</sup> This percentage is an estimate. Since only managers can provide precise figures on gender, we could only ask worker informants to estimate the gender ratio in their own factories. We then averaged out the estimates for each factory, and then again took the average for all the sampled factories.

<sup>13</sup> We also have anecdotal evidence that the same shift in the gender ratio is also found in the shoe industry. In one enormous factory in Fujian that produces for an international brand, where I collected data 5 years ago, the male-female gender ratio was 30:70. In 2007 it has become 50:50.

**Figure 2: Age Distribution of Sampled Workers in Garment (N=40) and Toy (N=48) Factories**



Source: The authors

Figure 2 disaggregates the survey numbers. The widening age spread shown here appears to reflect a shift in factories' recruitment policy to alleviate the difficulty of recruiting what management considers prime labor— young unmarried healthy high-school educated females. As seen here, as the pool of these prime workers shrinks the factories cannot afford to be too picky and have to take in both younger and older workers. Figure 2 shows that there were a few illegally under-aged workers (below 16 years old) and a sizeable proportion of workers older than 25, up to 43 years old.

**Wages and Work Hours**

Are workers satisfied with their current wages? Are they satisfied with the work hours? Managers in interviews invariably will tell you that all the migrant workers are eager to earn more money, and that they welcome as much overtime work as is available. The reason why they come to the cities to work is to make money. In fact, on method of penalizing disobedient workers is not to give them any overtime work. But is it true that workers always want to work as much overtime as they can get? If this is true why is it that in most workers' complaints burst into protest action, excessive overtime is almost always an issue? In reality, what do workers consider the optimal balance between wages and work hours?

Before proceeding further, we need to be more precise in our analysis by basing ourselves on concrete definitions and numbers. To do so, we will first need to define several terms that are used for our survey data:

Regular Work Hours: work hours as defined by the labor law as 40 hours a week. This amounts to 21.75 days per month or 176 hours a month.

Overtime: All work hours beyond the regular work hours of 40 hours a week.

Overtime Wage (OT wage): wages received by workers for work hours beyond the legal normal 40 work hours. The legal rates for weekday OT is 1.5 times the regular wage per hour; 2 times for Saturdays and Sundays; and 3 times for public holidays.

Legal Maximum Work Hours per month: 176 hours + 36 overtime hours = 202 hours.

Actual Wage: the total wage received by workers in the month previous to the month when the interview was conducted, after various kinds of deductions were taken by the factories.

Desired Fair Wage: the wage workers thought it would be fair, when asked the question, “How high a wage do you aspire to make each month?”

Legally Entitled Wage: total wage workers are entitled to by law for the regular hours and overtime hours (legal and illegal) they have performed.

**Table 3: Summary of Mean Work Hours and Wages per month for Garment and Toy**

<i>“How many hours of work (including overtime) do you think is suitable for you?”</i>			
<i>Desired working hours (including overtime) per day</i>	<i>Garment Workers N=39</i>	<i>Toy Workers N=48</i>	<i>All Workers N=87</i>
Less than 10 hours	11(28.3%)	3(6.3%)	14(16.1%)
10 hours	16(41%)	35(72.9%)	51(58.6%)
11 to 12 hours	12(30.8%)	9(18.8%)	22(26.2%)
<i>“How many days of rest a month do you think is suitable for you?”</i>			
<b>Factories(N=88)</b>			
<i>Desired days off per month</i>	<i>Garment Workers N=40 2005-2006</i>	<i>Toy Workers N=47 2006/2007</i>	<i>All Workers N=87</i>
4 to 8 days	16(40%)	38(80.7%)	54(62.1%)
4 days	14(35%)	29(61.7%)	43(49.4%)
Less than 4 days	23(57.5%)	9(19.2%)	
2 days or less	15(37.5%)	6(12.8%)	21(24%)

Source: The Authors

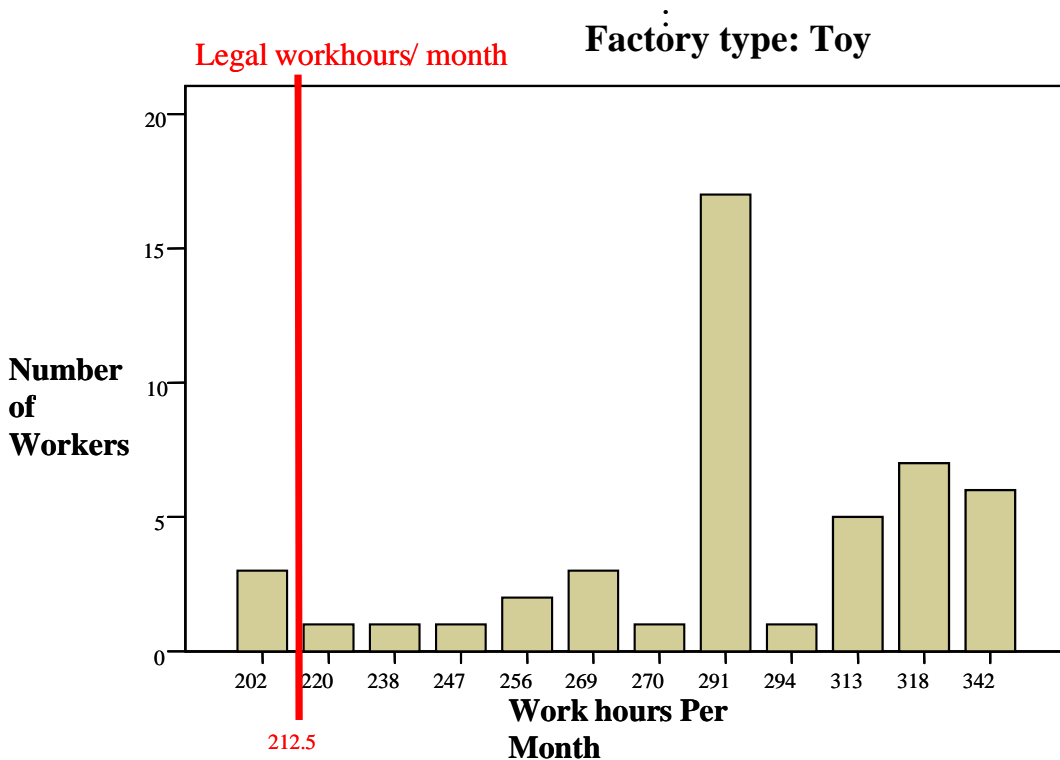
What does Table 3 show us about the work conditions of the workers in the Wal-Mart supplier factories in these two industries? When the extremely long work hours are taken into account, the wage figures lie below, and violate, what is stipulated in China’s labor law. On average the workers in the sample worked 303 hours a month: 127 of these were overtime hours (303-176 hrs. = 127 hrs). Their total work hours were 43% more than the legal maximum work hours of

212 hours per month. This means 96 hours (127-36 hrs. = 91 hrs.) of their overtime were illegally in excess of what China's labor law stipulates to be the allowed maximum. The vast majority of the workers (88%) worked more than 11 hours per day, and 81% of them had fewer than 4 rest days a month. (A minimum of 4 rest days is legally required).

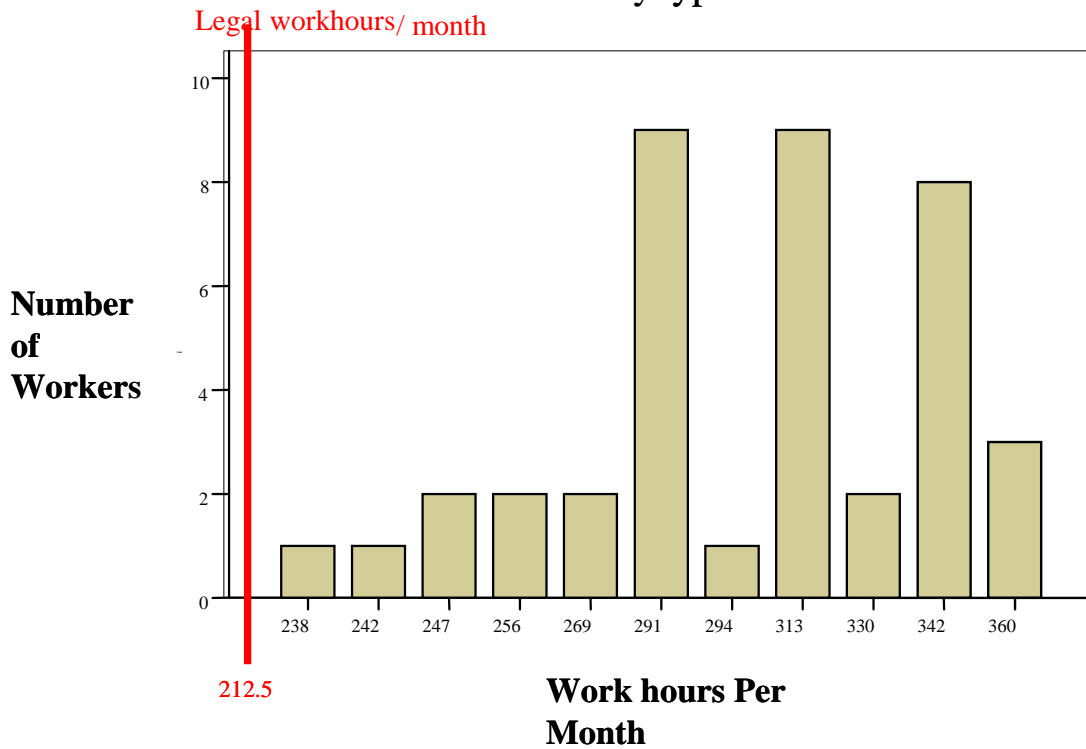
When we compare the garment and toy industries, it can be seen that the garment workers work longer and have a lower hourly pay than toy workers, despite the fact that garment factories require a more skilled workforce than toy factories.

90% of the garment workers stated that on an average workday in the past month, they had worked more than 10 hours, while only 78% of toy workers claimed this. 70% of the garment workers regularly worked 5 or more hours of overtime on a workday. This means for the majority of garment workers, a regular workday was 13 hours or more; while for the majority of toy workers a regular workday was 12 hours or more. 61% of the garment workers said they had fewer than 2 days off during the previous month, whereas this was claimed by only 15% of the toy workers. During peak seasons, 33% of the garment workers had no days off a month, up from 15.6% during off seasons. The peak season for toy workers was less intense: 25% had no days off, up from 0% in the off season. When asked how long the longest continuous stretch they had worked was, close to two-thirds of the garment workers (63.6%) stated they had worked between 12-14 hours non-stop, and 16% claimed they had worked for 24 hours or more non-stop. In comparison, the longest continuous hours of work among any of the toy workers was 22 hours, and two-thirds of the toy workers (63.4%) said the longest they had ever worked continuously was for 12 hours a day. Overall, garment workers work a lot longer than toy workers.

**Figure 3: Total Work Hours for Garment and Toy Factories, per Month**



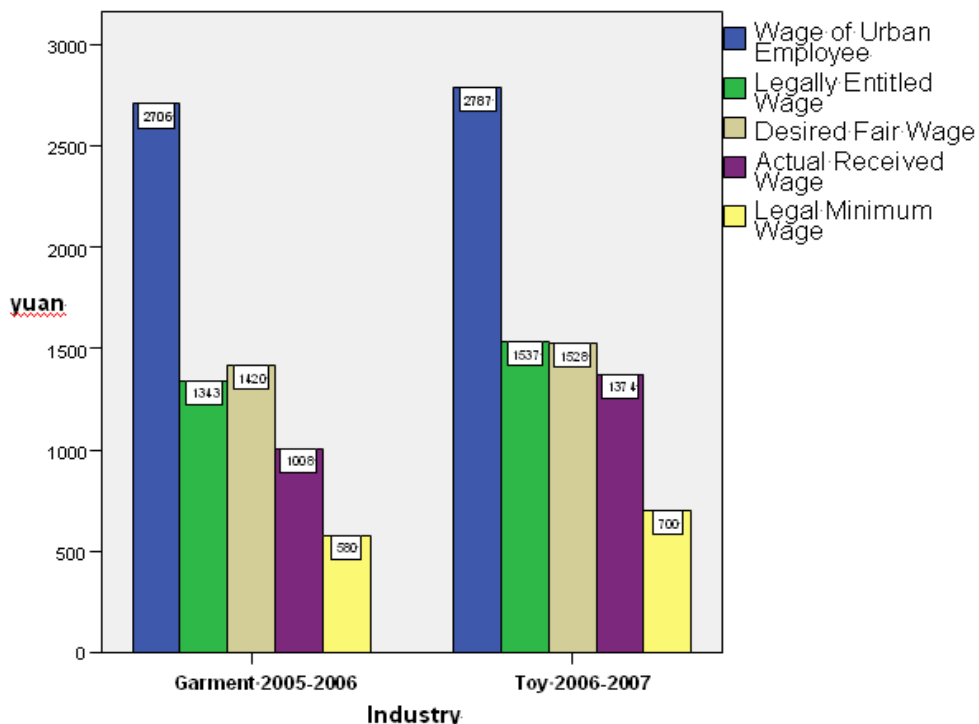
### Factory type: Garment



Source: The authors

Since garment work is more skilled and because they work longer hours, garment workers logically should be making more than toy workers. But this is not the case. They fall further behind their legally entitled wage (because we surveyed garment factories several months earlier than toy factories, at a time of transition in government-set standards, the legally entitled wage for the two industries differ). If we compare their Actual Wage as a percentage of their Entitled Wage, garment workers received 75% of what they were legally entitled to (1008 yuan ÷ 1343 yuan x 100%), while toy workers received 89.4% (1374 yuan ÷ 1537 yuan x 100%) (See Fig.4).

**Figure 4: Legally Minimum Wage, Actual Wage and Desired Fair Wage per Month for Garment and Toy Factories, per Month (N=88)**



The invisible hand of market forces is supposed to adjust for the supply and demand of labor and set wages accordingly. Since garment workers are more skilled than toy workers, and there is said to be a shortage of labor, the situation according to economic logic is that garment workers should be paid more and have better conditions than toy workers. The results of the survey show, instead, what appears to be an irrational situation. For garment workers, the correlated coefficient between monthly work hours and Actual Wage was 0.021; for toy workers, 0.13. In all cases, the correlations were positive but weaker in the garment factories. 22 out of 40 garment workers (55%) labored more than 300 hours a month, and 8 out of the 40 were paid less than 2-3 yuan per hour, which is less than half of what they were legally entitled to. For toy workers, only 16 out of 48 (33%) worked for more than 300 hours per month and only 2 workers out of 48 received less than 3 yuan per hour. The weak corrections indicated irrationality in wage setting across the two industries and, not unexpectedly, this was more pronounced in the garment industry. The maxim in China today of “more labor, more award” (*duolao duode*) does not apply.

### **Workers’ Desired Work Hours: Garments vs. Toys**

The quantitative data presented above tell us the objective situation. Workers were forced to work those hours and were paid illegally low remuneration. But what do the workers themselves want? What are their subjective conditions? How much do they aspire to earn each month and, for that amount, how many hours do they want/expect to work? While analyzing the data, we discovered that these attitudinal answers are most enlightening if studied comparatively between the two types of workers, as garment workers were on piece rates and toy workers were on time rates. This comparative perspective better brings out the complex relationship between work hours and wages, how the two types of pay systems affect this relationship, and which is better or worse for workers.

Assuming that most workers want to make more money than what they are presently getting, they were asked the question: “How much in wages do you hope to make each month?” We have labeled this the “Desired Fair Wage”. To see how this compares with the amount each worker was making, we created a variable “Desired Fair Wage Index” ( $\text{Desired Fair Wage} \div \text{Actual Wage}$ ). When the index is equal to 1, it means the worker accepts the present wage level as appropriate. Those who want more than they are receiving will score greater than 1 on the index; those who want less will score less than 1. Our hypothesis was that all workers will want to make more, and quite a lot more, as their wages are so low.

As wages are normally related to length of work hours, to find out how long workers want to work every day and every month they were asked two questions: “How many hours of work (including overtime) do you think is suitable for you?”; “How many days of rest a month do you think is suitable for you?” As shown in survey figures that we have presented, many of these Wal-Mart supplier factories give workers only two days off or even no days off a month, and our interviewing reveals that workers become physically and mentally exhausted after a few weeks without rest. Their desired length of work hours and work days will give an indication of workers’ tolerance level for exhaustion and for robotic, simplistic, monotonous repetitive physical movements.

Regarding the first question, 74.7 % of all the sampled workers wanted to work for 10 hours or less. Of these, based on their current level of pay, 16.1% wanted to work for fewer than 10 hours, 58.6% wanted to work for 10 hours a day and 26.2% wanted to work for 11 or 12 hours a day. On the second question, 50% wanted to have 4 days off, and another 12% wanted to have 4 to 8 days off a month. That means 62% wanted to have 4 or more rest days each month, and 36.6% wanted to have fewer than 4 days off. Combining the answers to both questions shows that a clear majority of all the sampled workers (60%) desired a 10-hour day and a 6-day week, which amounts to 260 hours a month (a 30-day month = four 60 hour weeks + 20 hours). Compared to the 303 hours a month (Table 1) that the workers in our sample were chalking up, they wanted to work 43 fewer hours, which was still 48 hours a month more than the 212 hour legal maximum stipulated by the Labor Law. We can conclude that 260 hours a month can be regarded as the tolerance level for exhaustion of most of the workers. Let us underline that Desired work hours are not optimum work hours, but for the workers it is their desired maximum

tolerance level. As interviews separately revealed, many workers felt that normal work days not exceeding 10 hours and having at least one day off a week was essential, to enable them to recuperate physically and mentally from 6 days of repetitive motions and numbing boredom on the production line. A 60-hour week coincides with the maximum set by many transnational corporations' codes of conduct. In that sense, the codes set the maximum work hours to the workers' physical tolerance level. This also means that most workers are made to work many hours beyond their tolerance level.

When we compare toy and garment workers, we find that 69.3% (27 out of 40) of the garment workers wanted to work 10 or less hours per day, compared to 79.2% (38 out of 48) of the toy workers. On the second question, only 40% (16 out of 40) of the garment workers wanted to have 4 or more days off a month, compared to 81% (38 out of 48) of the toy workers. Notably, 35% (14 out of 40) of the garment workers desired only 2 or fewer days off per month. Clearly garment workers wanted to work more days, including all or most weekends, while the majority of toy workers wanted a rest at least every Saturday or Sunday. The factor, we think, that drove the garment workers to want to work such long hours was that their pay was too low for the work they put in, and the fact that they were on piece rates, which gave them the impression that if they work longer and faster they could make more money.

**Table 4: Summary Table for Desired Working Hours Per Day and Desired Days Off Per Month for Garment and Toy Factories**

Factory type		Number of Workers	Percent	Cumulative Percent
Garment	faster by a lot	6	15.0	15.0
	faster by a little bit	11	27.5	42.5
	The same	13	32.5	75.0
	don't know	10	25.0	100.0
	Total	40	100.0	
Toy	faster by a lot	7	14.6	14.6
	faster by a little bit	20	41.7	56.3
	the same	14	29.2	85.4
	don't know	7	14.6	100.0
	Total	48	100.0	

Source: The authors

### **Workers' Desired Fair Wage: Garments vs. Toys**

Thus far we have looked at the distribution of the desired work hours of the sampled workers. But we still have to examine the variables that affected their Desired Fair Wage. Why did some workers want to earn a lot more, and some just a bit more than they were making? To understand this we ran correlation tests for a number of variables:

#### *1. Actual Wage vs. Desired Wage*

It can be assumed that since the Actual Wage is low, workers' Desired Wage will invariably be higher than Actual Wage, and that the lower the Actual Wage, the higher the Desired Wage. When correlating the two variables, the situation is more complicated as shown in Fig. 5:

Figure 5: Actual Wage Vs. Desired Fair Wage Index (All Workers) N=86

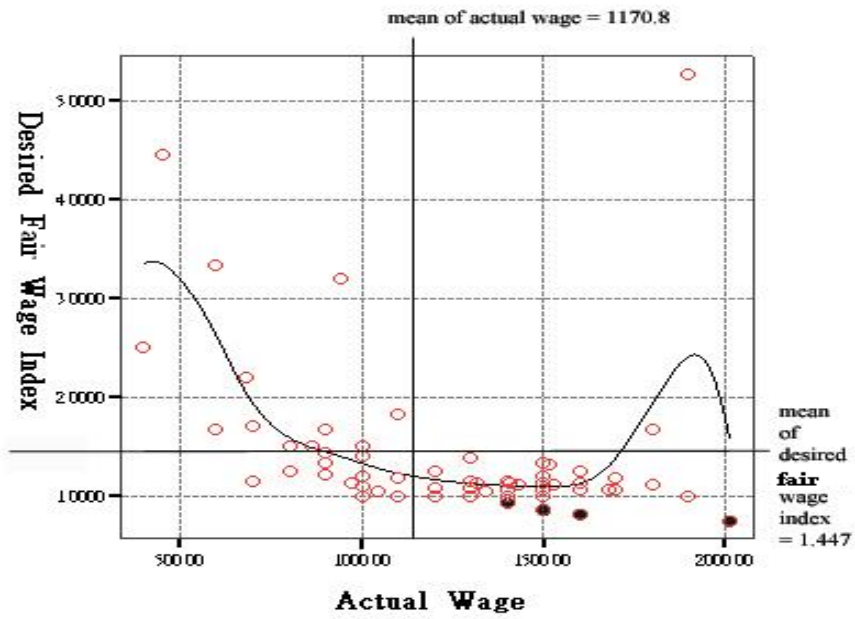
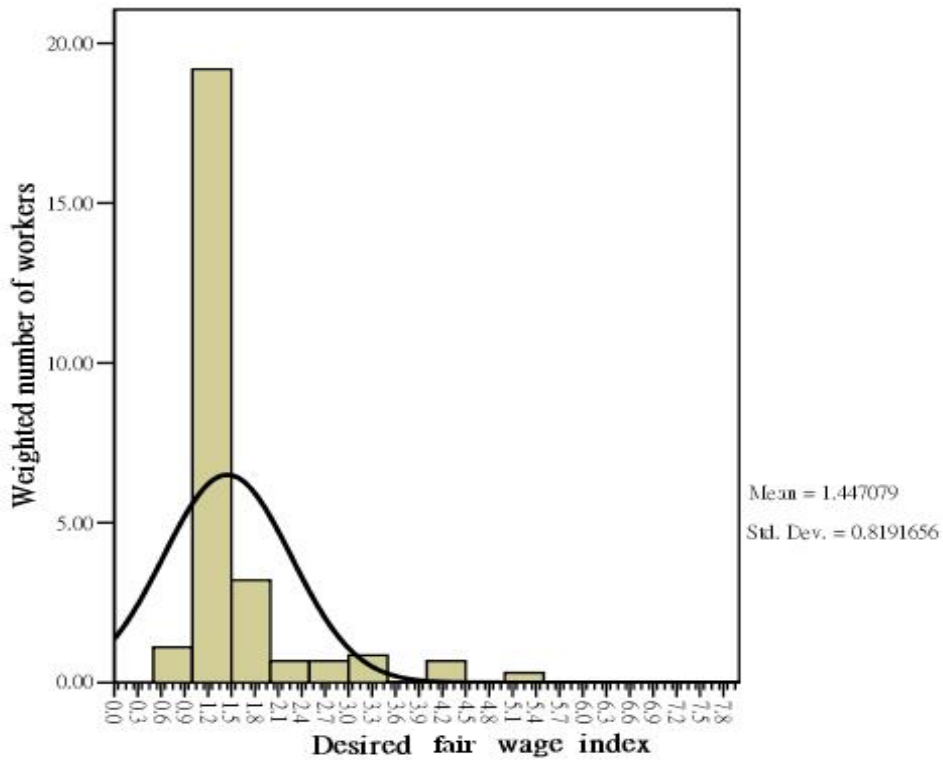


Figure 6: Desired Fair Wage Index Distribution of Weighted Number of All Workers (N=86)



Source: The authors



There was a negative correlation between the two variables, with a correlated coefficient of  $-0.507$  ( $p < .01$ ). As expected, Fig. 5 shows that as generally assumed, almost all workers want a Desired wage higher than their current wage except for four of them. Fig. 6 shows that the median Desired Wage Index was 1.1538, i.e., 15% more than the Actual Wage. This means workers generally had quite a low expectation in making a lot more. This is because 19.2% of the workers thought that their present Actual Wage was suitable—35.4% wanted only 10-20% more. It can be said that 54.6%, just more than half of the workers have low expectations. Those who have a much higher Desired Wage are distributed in this manner—10.9% wanted 21-39% more; 13.3% wanted 40-80% more; and five workers wanted more than two times more. We can conclude that the desire of workers to make substantially more money was not high.

What is most interesting though are the workers on two ends of the extreme in the graph—those who had unusually high Desired Wage index and those whose Desired Wage is lower than their Actual Wage. The five workers who had the highest Desired Wage Index (more than double their Actual Wage) were all paid well below the minimum legal wage level and they were working extremely long hours. Two of them were working for 340 hours a month which is among the longest in the entire sample. These five workers all earned an *extremely* low hourly wage of 3 yuan or less an hour on average that was only about 60% of what they should legally be getting. The possible explanation for this unrealistic dream of earning 2, 3 or even 4 times more than what they were making was a sign of desperation.

Even more interesting are the four workers who wanted to make less than what they were making. This finding is unexpected and disproves the all-too-common remark by managers that all workers want to do as much overtime there is available to make more money. When we check these four workers' total monthly work hours, their numbers of days off, and work hours per day, we find that three of the four worked for at least 318 hours a month and two of them for more than 342 hours (12-hour days and only 1.5 days off a month), which is also among the highest workloads recorded for the sample. They worked many hours above the average desired tolerance level.

Furthermore, when we compare the hourly-wage earned for the above two groups of workers (the group with highest and lowest Desired Wage Index), the five workers who have a very high desired wage index actually were workers who earned well below legal minimum wage have an average of hourly-wage of 3.564 yuan, whereas the four workers who labored at least 318 hours per month only had an average of hourly-wage of 3.89 yuan (only 0.326 yuan difference in terms of their hourly-wage compared to the first group of workers). This 0.326 yuan difference has both subjective and objective implications: on the one hand, the overworked workers subjectively felt that they were so exhausted that they would prefer to make less money as a trade off for a reduction in their excessive overtime; on the other hand, the objective 0.326 yuan difference signals that the government legal policy that overtime wage which should account for a double of the wage earned at regular time has not been imposed in the sampled industries. Many factory bosses just paid the same or just slightly higher for workers for their overtime work.

## 2. *Work Hours and Desired Fair Wage*

The popular assumption is that because wages are low, workers want to work longer hours to make up for the low wage. This should lead to a situation where those who work few hours have a higher Desired Fair Wage index and *vice versa*. The correlations between the variables of monthly work hours and the Desired Fair Wage Index however were not significant for 1) all the workers combined and 2) garment workers. The correlation coefficients were also very weak ( $-0.151$  and  $-0.163$ ). But for toy workers, the correlation was significant though the coefficient was still weak ( $r = -0.332$ ;  $p < .05$ ). This is evidence that length of work hours is not a determinant of workers' desire to make more money. This means compared to Actual Wage, work hours was not as important a factor that affects workers' desire to make more money.

## 3. *Monthly Wage vs. Hourly Wage*

Since a monthly wage package does not reflect rationally the relationship between hours worked and monetary award, to find out whether the worker is paid up to minimum wage level it is essential that the wage rate has to be expressed in hourly wage. As so many workers are not paid up to the legal overtime rate, this means that the longer a worker works, the lower the

hourly wage, a situation diametrically opposite to the principle of the longer one works the more one should be paid.

To find out whether this is the case we divided the sampled workers into three groups based on their wage income that ranged 202.5-360 hours per month—those with shorter work-hours (monthly work-hours  $\leq 270$  hrs), medium work-hours ( $270 \text{ hrs} < \text{monthly work-hours} \leq 300$  hrs), and longer work-hours (monthly work-hours  $> 300$  hrs). We then examined the relationship between the length of monthly work-hours and the hourly wage.

First, for all cases, the mean values of the hourly wage for all sampled workers in respective work-hours groups are: short =4.2322 yuan, medium=4.1570yuan, long=3.1064 yuan. Hence, for all cases, we found that the longer the monthly work-hours, the lower the hourly wage that workers received. Second, we split the whole sample into garment and toys workers. The trends were the same. For toys, the mean values of the hourly wage for toy workers in respective groups are: short=5.2577 yuan; medium=4.7813 yuan; long=3.3456 yuan. For garments, the mean values of the hourly wage for garment workers groups are: short=3.7591 yuan; medium=3.3203 yuan; long=3.0354 yuan.

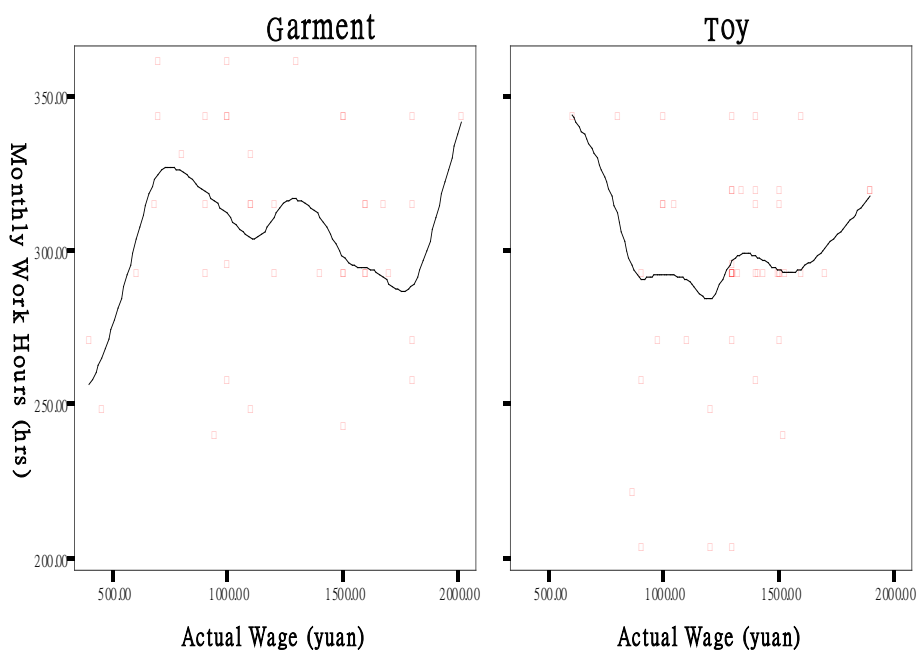
The results clearly show that the more overtime the workers work, the lower the hourly wage, and that for garment workers, despite the lower minimum wage for the time when the survey was conducted the hourly wage was extremely low. That means garment workers who work longer hours than toy workers in general are much more exploited though their tasks demand higher skill.

#### *4. Hourly Wage and Desired Wage*

As discussed above hourly wage is an indicator that takes into account both wage and work hours which by themselves do not reveal fully the level of exploitation. For our sample, when a worker's hourly wage was correlated with the Desired Wage Index, the outcome was significant for all workers combined and for garment workers, but not for toy workers. The correlated coefficients for the former two groups were -0.432 ( $p < .01$ ) and -0.531 ( $p < .01$ ) and for toy workers it was only -0.278, i.e. the correlation was far stronger for garments than for toys. Taking into consideration the findings of the relationship between work hours and Desired Wage, this means that for garment workers it is the hourly wage that is a more important factor affected their desire to make more money rather the length of work hours. Perhaps this can be explained by the fact that garment workers, who were on piece rates, were under the impression that they could make more money by either working longer hours or by working faster. In either case, they believe that through personal efforts, if they tried hard enough, they might be able to augment their income.

A worker could have a high Actual Wage, but this could be a result of working very long work hours at a low hourly wage. The worker, in fact, could be terribly overworked and underpaid. The scatter plot of Actual Wage against monthly work hours (See Fig. 7) is more dispersed for garment workers because of an irrational wage structure and the individualistic nature of the workforce under a piece rate system. The scatter plot for toy workers, on the other hand, is more concentrated, at close to 300 work hours per month, due to a greater uniformity in payments based on a time rate.

**FIGURE 7: Actual Wage Vs. Monthly Work Hours (by industry) N=86**



Source: The authors

#### *Speed-ups and Labor Intensity*

Thus far we have used quantifiable figures to argue that exploitation is serious. However, there is one factor that we are unable to quantify—labor intensity. Quantitative data on this can only be available if we have access to factory records on work hours and production output. Our assumption is that as minimum wages rise annually, in order to comply with the law, one option to maintain or increase profit margin is to speed-up the production line. Short of that we could only try to gain a subjective question of the workers, “In comparison to 2006, did your factory request you to speed up your production in 2007?” We found that about 42% of garment workers and 56% of toy workers responded that they had to work faster. Of these 15% for both types of workers said that the work speed was a lot faster.

**Table 5: Production Speed, 2006 and 2007**

Factory type		Number of Workers	Percent	Cumulative Percent
Garment	faster by a lot	6	15.0	15.0
	faster by a little bit	11	27.5	42.5
	The same	13	32.5	75.0
	don't know	10	25.0	100.0
	Total	40	100.0	
Toy	faster by a lot	7	14.6	14.6
	faster by a little bit	20	41.7	56.3
	the same	14	29.2	85.4
	don't know	7	14.6	100.0
	Total	48	100.0	

Similarly production quota too had increased.

**Table 6: Production Quota, 2006 and 2007**

Factory type		Number of workers	Percent	Cumulative Percent
Garment	more than last year	10	25.0	25.0
	about the same	17	42.5	67.5
	less than last year	2	5.0	72.5
	don't know	11	27.5	100.0
	Total	40	100.0	
Toy	more than last year	15	31.9	31.9
	About the same	26	55.3	87.2
	don't know	6	12.8	100.0
	Total	47	100.0	
	Missing	1		
	Total	48		

Source: The authors

As productivity was not something management would inform worker, it was never used in wage calculations. Workers are not awarded more for working faster. In reality greater labor intensity means increased exploitation as workers are already exhausted at the previous speed.

### ***The Code of Conduct and Workers' Attitudes***

The above analyses have provided evidence that workers are being seriously exploited by the wage system especially in the garment industry, and the violations so prevalent and blatant. Wal-Mart's code of conduct and monitoring programs are supposed to rectify these widespread mal-practices in supplier factory. In its website it boasted that it performed 13,600 audits in 2005, the largest number carried out by any corporation in the world. Then let us reflect on the work conditions of workers in our sample survey. One wonders what the purpose is of these audits. Some of the answers provided by the workers in this survey further explain why audits have achieved little. The workers were aware of the auditing: in fact 80% of the respondents knew that outsider auditors came to inspect their factory. Half of them stated that they were informed by management in advance. The majority, though, had little idea of what was being audited. Of the 30% who knew, only 3% said it was for labor standards and work conditions; others thought the auditors were concerned mostly with production quality and production safety. The workers' perception was that the inspections had little to do with their personal well-being. Only 20 workers (23%) thought that the inspections could improve workers' work conditions and wages.

Relatively few of the workers knew that Wal-Mart had set standards that were supposed to be audited. Only 20 respondents (23%) said that the Wal-Mart code of conduct was put up on factory walls; 50% answered "no" and 24% "did not know." Of the 20 who had seen the poster, only 8 answered they had read the content, and of these, only one person answered "yes" to the question "Do you feel the factory has implemented the code?" In short only one workers out of 100 thought the codes were implemented. These figures show that the corporate code is of no relevance from workers' perspective: most did not know about it; practically no one thought it was implemented anyway. In light of their low wages and illegally long work hours, they were obviously correct in thinking so. The general failure of social auditing in detecting violations of labor standards means that the CSR program that Wal-Mart boasts about has little impact on workers at the Wal-Mart supplier factories.

### **Conclusion**

The survey's picture of excessively long work hours and low wages is in line with the findings of the other available case studies that were conducted in the Pearl River Delta region. But the paper has tried to present a systematic relationship and understanding of the two most important labor standards—wages and work hours—instead of relying on scattered campaign-motivated exposé case studies. Despite the large amount of auditing and social monitoring in the region's export-oriented factories, best exemplified by Wal-Mart, once adjusted to inflation

wages did not increase for many years despite the booming economy in that region. From the study we can conclude that capital's outcry of labor shortage in the Delta region has been man-made in that workers are being paid too low. The shortage is not as serious as portrayed in because it has been partially resolved by hiring younger and older workers and male workers. When the wage component consists of such a large percentage of overtime pay, the work is far from decent as defined by the ILO.

The survey also shows that many workers are not aware of the corporate code of conduct, and for those who have some idea of it, the code and the monitoring is barely relevant to their lives. This is ironic since the big multinational corporations' pitch about CSR is that they are do-gooders, devising CSR initiatives to improve workers' conditions. The large number of CSR conferences and workshops and the large amount of effort and resources expended on devising CSR grading systems, held mostly in the developed world, seem to be exercises unrelated to the reality on the ground in factories in the developing world.

In the face of the failure of such corporate-initiated CSR programs, what alternatives are there to protect Southern workers, and in this case Chinese migrant workers, in the global production chain? Wal-Mart now is being targeted internationally mainly for its size, for it being the driver that sets sourcing practices, and for its ruthlessness in squeezing suppliers that in turn drives down workers' wages. To compete with Wal-Mart, other transnational retailers have followed suit. In the past few years we have visited supplier factories that produce for other Western buyers, and labor conditions there were often as bad and occasionally worse. Although Wal-Mart and its squeeze on purchase prices was the fountainhead of the problem, the crux of the matter is, the same practice is now widespread.

To a large extent the Chinese state also has to shoulder some responsibility. It has allowed local governments to set minimum wage standards that are too low, depriving migrant workers of any share in a prospering economy. The government has not tried adequately to enforce the law, enabling multinationals to engage in window-dressing CSR practices that, even if properly implemented, would be less stringent than the host country's laws. Because codes are not legality binding, they are of no use to workers, who sometimes do use the law to fight for their rights. In reality, as has been observed, Wal-Mart's so-called auditing of its corporate code has had little if any effect on workers' wages, work conditions, and daily lives.

After twenty years of penetration by foreign capital to produce goods for export, flouting China's labor laws has become the norm rather than the exception in the Pearl River Delta. Both factory owners and workers know that if paid only at the legal minimum wage level workers can barely survive. Using the legal minimum wage as basic wage factories create a situation by which workers have to work excessive long hours before they feel their needs are met. Workers unfortunately accept the idea that they need to work almost all of their waking hours in order to make enough, leading to a situation of "more work less pay". The idea that if their wage rates were higher they would not need to work such long hours did not seem to exist among these migrant workers. Thus collective demands agitating for higher legal minimum wage has not yet surfaced in China.

Workers accept the legal minimum wage as legitimate on grounds that because it is legal it has to be legitimate. This is one reason why workers' Desired Fair Wage is generally not much more than what they are making and comes very close to the Legal Wage for the number of hours worked. In other words without realizing it by doing any computation, all they want is the legal minimum they are entitled, or only a little bit more like the garment workers who were more severely cheated. So one cannot put this down to workers' ignorance of the law. 50% of the sampled workers were able to state correctly the legal minimum wage per month. However, only 10 % of all respondents said they knew how to calculate their overtime rates. This indicates that knowledge of the law cannot be easily translated into an understanding of their own wage payment that is arbitrarily set without any rational computation between type of work, speed and wage rates. The technical confusion of wage calculation hinders workers' initiative to demand correct payments.

Had wage been expressed generally by the hour, workers will become aware of underpayment more easily. The piece rate system, as we have seen, is particularly confusing to the workers.

Management has a larger margin to manipulate the level at which workers are paid. The garment workers in the survey therefore not only make less per hour than toy workers paid on time rates, worse still, their hourly rate decreases with the length of work hours. In countries where trade unions are active, the unions negotiate with management on the intricate details of wage setting. In China, where the official trade unions have been next to useless in the export sector, working hand-in-glove with capital, exploitation readily ensues. If wage rates are expressed by the hour rather than by the month, workers themselves can then more easily calculate how much they should be paid. Within the past few years the Chinese authorities have begun providing the hourly wage each time when the monthly legal minimum wage was raised. But unless the usage of hourly rate is popularized, it does not help workers much in how to figure out their own wage payment. China is not unique in this. Most developing countries today use a monthly rather than hourly wage when setting minimum wage, whereas in developed countries, expressing wages by the hour is the convention.

Another point that can be made in expressing wages by the hour is that workers in Southern nations toiling in the global supply chain are not aware that other poor nations are competing internationally for a share of the global labor market. So Wal-Mart, even though it sources most of its products from China, nevertheless is in a position to oblige Chinese workers in the export industries to compete with Indian, Bangladeshi, Sri Lankan, Indonesian, and Vietnamese workers. The authorities that set the minimum wages in these countries certainly take this very important factor into consideration. Countries in the South need to begin to work towards a wage floor that stops a race to the bottom.

This competition is being keenly felt at the time of writing. As our data shows, in Outer Shenzhen the minimum wage rose during 2003-2006 in an effort to attract back to the region migrant workers who had stopped coming. This in turn caused concern that the area would lose out to other low wage countries. According to a newspaper report, a spokesman of Wal-Mart's China regional office said that Wal-Mart might start to shift its sourcing to Vietnam and India due in part to China's rising exchange rate. In the coming year, according to the report, Wal-Mart might reduce Chinese sourcing by 40%, from US\$18 billion to \$12 billion (Yiguan and Zhengzheng 2007). While the spokesman said this figure could not be confirmed, the impact of such news reports and the ongoing rises in China's exchange rate has placed pressure on Guangdong province. In June 2007 it announced there would be no increase in the minimum wage for 2007 (Liang and Jian, 2007), despite rising inflation during the first half of 2007 (Yiguang, 2007). This decision to preclude any increase was a noticeable break from past decades of an annual minimum-wage increase, no matter how small and symbolic the increase.

Workers whom we arranged to be interviewed during July 2007 were concerned about this lack of an increase. They were aware of the minimum wage and have built up an expectation that it would go up in the middle of every year, particularly in a year of rapid inflation. This expectation reflects a new level in workers' awareness. In July 2007 we became aware of three factories (not the ones in this survey) where workers have demanded higher wage rates for overtime work and limitations on their daily production quota. In one factory a group of workers demanded an unchanged pay level per hour even if there were not enough orders. These are big steps forward in workers' awareness and initiative. These new demands take into consideration what we have analyzed in this paper—the relationship between minimum wage rates, overtime wage rates, piece rates, and speed-ups. Workers have begun to press on vital core issues that are neglected by CSR codes such as Wal-Mart's.

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