WALMART IN CHINA

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1 WALMART'S LONG MARCH TO CHINA

How a Mid-American Retailer Came to Stake Its Future on the Chinese Economy

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A globalized world of commerce and labor has existed for centuries, but today's globalization differs radically from that of even a few decades past because of the contemporary role played by the corporate kingmakers of our day—the big box retail chains that now occupy the strategic heights once so well garrisoned by the great manufacturing firms of the Fordist era. At the crux of the global supply chains stand the Walmarts, the Home Depots, and the Carrefours. They make the markets, set the prices, and determine the worldwide distribution of labor for that gigantic stream of commodities that now flows across their counters. The deindustrialization of Detroit, Pittsburgh, and Cleveland entailed not just the destruction of a particular set of industries and communities, but the shift of power within the structures of world capitalism from manufacturing to a retail sector that today commands the supply chains which girdle the earth and directs the labor power of a working class whose condition replicates much that we once thought characteristic of only the most desperate, early stages of capitalism.

FROM BENTONVILLE TO GUANGDONG

All this is graphically evident on a visit to the two most dynamic nodes of today's transnational capitalism—Bentonville and China's Pearl River Delta. It is easy to get to Bentonville, Arkansas, where Walmart has its world headquarters in an unimpressive, low-slung building close by the company's original warehouse. There are lots of direct flights from Denver, Chicago, La Guardia, and Los Angeles to this once-remote Arkansas town. Bentonville itself has a population of just twenty-five thousand, but the parking lots are full, the streets crowded, and there is new construction everywhere. Most important, Bentonville and the rest of northwest Arkansas is now home to at least 750 branch offices of the largest Walmart "vendors." They have planted their corporate flag here in the hope that they can maintain or increase their sales to the world's largest buyer of consumer products. Procter & Gamble (P&G), which in 1987 may well have been the first company to put an office in this part of Arkansas, now has a staff of more than two hundred there; likewise Sanyo, Levi Strauss, Nestlé, Johnson & Johnson, Eastman Kodak, Mattel, and Kraft Foods maintain large offices in what the locals sometimes call "Vendorville." Walt Disney's large retail business has its headquarters, not in Los Angeles, but in Rogers, Arkansas, right next door to Bentonville. These Walmart suppliers are a who's who of American and international business, staffed by ambitious young executives who have come to see a posting to once-remote Bentonville as the crucial step that can make or break a corporate career.[1] If they can meet Walmart's exacting price and performance standards, their products will be sucked into the stream of commodities that flow through the world's largest and most efficient supply chain. For any manufacturer, it is the brass ring of American salesmanship; this explains why all those New York, Hong Kong, and Los Angeles sophisticates are dining at the surprisingly large number of gourmet restaurants that have sprung up in northwest Arkansas.

If Bentonville represents one nerve center of capitalism's global supply network, Guangdong Province is the other. Located in coastal south China, it constitutes the raw entrepreneurial engine that links a vast new proletariat to the American retailers who are putting billions of Chinese-made products on a million U.S. discount-store shelves every day. With 15 million migrant workers, tens of thousands of export-oriented factories, and new cities like Shenzhen, which has mushroomed to more than 7 million people in just a quarter of a century, Guangdong lays an arguable claim to being the contemporary "workshop of the world," following in the footsteps of nineteenth-century Manchester and early twentieth-century Detroit. This was my thought when we taxied across Dongguan, a gritty, smoggy, sprawling landscape located on the east side of the Pearl River between Guangzhou and skyscraper-etched Shenzhen. We drove for more than an hour late one Sunday afternoon, along broad but heavily trafficked streets continuously bordered by bustling stores, welding shops, warehouses, small manufacturers, and the occasional large factory complex.

The Chinese government in Beijing chose Shenzhen as a special economic zone in 1979 because of its proximity to Hong Kong. A few years later the entire Pearl River Delta became part of the zone, with low corporate taxes, few environmental or urban-planning regulations, and the increasingly free movement of capital and profits. The results were spectacular. Gross domestic product in the Pearl River region leaped from US$8 billion in 1980 to US$351 billion in 2006. Shenzhen's population rose twentyfold. Guangdong Province itself produces a third of China's total exports, and almost 10 percent of all that finds its way to Walmart's U.S. shelves.[2]

Although Walmart owns no factories outright, its presence is unmistakable. Its world buying headquarters is now in Shenzhen, and it has already opened more than three hundred stores all over China, with others to come. It is feared and respected by everyone involved with any aspect of the export trade, which is why the executives at the Yantian International Container Terminal in Shenzhen, now the fourth largest port in the world, give top priority to cargoes bound for Walmart.

When Walmart first made the decision to source such a high proportion of its products in China, it did so not merely because goods were cheap and wages low but because, for Walmart and other multinational companies doing business there, a sound currency, excellent infrastructure, political stability, and a compliant workforce were nearly as important as low costs. Governments at both the provincial and national level were making huge infrastructure investments, and similarly tens of thousands of foreign investors from Taiwan, Hong Kong, South Korea, Japan, and the United States were building production facilities of increasing complexity and capacity. This made it possible to transform raw materials into containerized consumer goods in just a few weeks. Nike managers at the huge Yue Yuen factory complex in Dongguan bragged that they could fill an order from the United States in just two months. Container ships were loaded in half the time it took in Los Angeles.[3] It took four days for exports to clear customs in Guangzhou, eight days in Calcutta, and more than two weeks in Karachi. Likewise, the proportion of total production lost to power outages totaled 2 percent in Guangzhou, but 6 percent in Calcutta and Karachi.[4]

A decade ago such stability and efficiency seemed overwhelming compared to other East Asian manufacturing venues. As Andrew Tsuei, then managing director of Walmart's global procurement center in Shenzhen recognized, there were other countries where products could actually be sourced more cheaply. But as he argued, "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 every day, there is a lot of risk. China happens to have the right mix."[5] But as this essay and others in this volume make clear, such stability and predictability no longer characterize the procurement operations of Walmart and other global retailers in China. Labor unrest, wage increases, and an unpredictable exchange rate have generated much tension within the global supply chains dominated by Walmart and the other retailers. To evaluate these growing contradictions, a historical understanding of this new socioeconomic phenomenon is essential.

Power and Place in the Retail Supply Chain

Neither Bentonville nor Guangdong, these anchors of the trans-Pacific supply chain, are the product of some abstract process of globalization; rather, both were constructed by a set of political and policy choices, in the United States and throughout the globe, that have shifted power from manufacturing to retail distribution, and from an economy in which the interests of relatively high-wage men played a central role to one in which the flexible, low-wage labor of women is increasingly crucial.

For most of the twenty-first century, Walmart has occupied the number-one spot on the Fortune 500 list of the largest American companies. With nearly 2 million employees worldwide and sales of more than US$375 billion in 2008, it is undoubtedly the largest private enterprise on the globe. However, size alone is not what makes Walmart and the other great retailers of our day, such as Tesco, Carrefour, Home Depot, and Sears Holdings, so important. Rather, it is the power that they command in the world economy, the leverage that they exert throughout the supply chains that channel the commodities from manufacturer to merchant, and from Asia to North America and Europe.

This is not the first time that the merchants have been on top. Retail hegemony in the twenty-first century echoes the mercantile regime once presided over by the great seventeenth- and eighteenth-century merchant and banking houses of Amsterdam, Hamburg, and the City of London. By the early nineteenth century, the merchants and traders of Philadelphia, New York, and Boston had moved to the fore. In a society in which production was highly decentralized and largely that of agricultural commodities, the power of these wholesalers, jobbers, and traders to make a market and manipulate it for their own purposes put them at the center of

commerce, politics, and culture. They owned the clipper ships and railroads that extended the supply chains of their day across a continent and around the world.[6]

In the United States, the Civil War ended this first era of merchant power. For more than a century thereafter, until the 1980s, manufacturers set the price and determined the market for much of what they sold: the retailers, even when combined into large chains, had to take whatever prices and products they were offered.[7] Today, the merchants again stand at the apex of the world's supply chains. Indeed, the very phrase *supply chain* did not even exist twenty years ago. Historians and sociologists such as Emmanuel Wallerstein had first developed the idea of a "commodity chain" as part of a world systems schema. Then, in the 1980s, business consultants like Bain and Company coined the phrase *value chain management* or *supplier rationalization* to describe how components and materials were purchased and transformed into saleable goods. Frederick Abernathy and John Dunlop used the phrase *commodity channels* as recently as 1999 to describe the way apparel moved from Asian and Central American suppliers to North American retailers. In the twenty-first century, however, "supply chain," with its hard linkages and connotation of domination and subordination, has become the artful phrase. Theorists such as Gary Gereffi and Gary Hamilton have emphasized the market-making potential of the contemporary buyer-driven supply networks in order more clearly to evaluate the hierarchy of power and profitability that characterizes contemporary global trade.[8]

Much of the global economy is now driven by the supply chains that have their nerve centers in Bentonville, Atlanta (Home Depot), Minneapolis (Target), Troy, Michigan (K-Mart), Paris (Carrefour), Stockholm (Ikea), and Issaquah, Washington (Costco). The goal of these megaretailers is to contract for only those goods that consumers will actually buy in a given time frame, not what a set of once-powerful supply firms found it convenient and profitable to ship. Like Ford's first assembly line, which soon made obsolete so many traditional skills and processes in the metal-bending core of the U.S. economy, these supply-chain innovations have superseded virtually all other configurations in the manufacturer–distributor–retailer nexus.

Using a wide variety of new information technologies, the big box retailers of our day collect point-of-sale (POS) data and relay it electronically through their supply chain to initiate replenishment orders almost instantaneously. Thus when Walmart sells a tube of toothpaste in Memphis that information flashes straight through to Bentonville, then on to the P&G headquarters office in Cincinnati, the Ohio home-product manufacturer, which then immediately sends the electronic impulse directly to an offshore toothpaste factory, which adjusts its production schedule accordingly. In the days when products were made in the United States, P&G had long used its market power and sophisticated research on consumer buying habits to secure an outsized share of shelf space from traditional retailers. Today, Walmart has turned this power relationship on its head. The retailer's superior point-of-sale data collection system enabled Walmart to know more about the consumers of P&G products than did the manufacturer, which is one reason that P&G moved its main sales office to Bentonville in the 1980s. By the mid-1990s, Walmart was P&G's largest customer, generating more than US$3 billion in sales, or about 20 percent of P&G's total revenue. But P&G executives were well aware that their good fortune turned on Walmart's sufferance, which explains why they bought Gillette in 2005. The US$57 billion deal was designed to transform P&G into an even larger supply firm that could challenge Walmart's pricing power and its private label brands, but even this megamerger was not enough. "If you want to service Walmart you have got to be more efficient," asserted the retail consultant Howard Davidowitz. "The power will stay with Walmart."[9]

This is "lean retailing." To make it all work, the supply firms and the discount retailers have to be functionally linked. The giant retailers of our day, Walmart first among them, "pull" production out of their far-flung network of vendors, depending on the market. The manufacturers can no longer "push" product onto the retailer or the consumer. Constant and unpredictable changes in sales patterns must be met by just-in-time delivery systems. "Supply Chain Management"—that is the new business school buzz phrase—is the "science" of getting this to happen in the most efficient and cost-effective way.[10]

Walmart's Rural Origins

Walmart's history exemplifies this transmutation, but with a distinctive Arkansas accent. The company had its origins and began its stupendous growth in what might well seem a highly unlikely place. For most of its history, the Ozark plateau of northwest Arkansas and southern Missouri has been poor, white, and rural. Neither the New Deal nor the civil rights revolution had really come to the region when Sam Walton began to assemble his chain of small-town stores in the 1950s and 1960s. At this time the agricultural revolution of the early postwar era was in full swing, depopulating

the farms and sending tens of thousands of white women and men in search of their first real paycheck. Some left for California or the industrial cities of the Great Lakes, but most were anxious to remain, near family, friends and small towns they knew so well.[11]

Walton took full advantage of these circumstances. He could pay rock-bottom wages and find a ready supply of grateful workers, especially women, who were delighted to exchange the grinding life on a subsistence farm for the sociable world of a small-town discount store. Walton's folksy paternalism was not a new management style, but he carried it off with brio, expressing a barely veiled contempt for the federal laws and bureaucratically structured Yankee business practices that sought to reshape Southern commerce. Like so many other employers of his time and region, Walton played fast and loose with minimum-wage regulations and overtime standards, not to mention the new laws governing race and gender equality in the workplace. And, of course, Walton and his growing army of store managers were bitter foes of any union effort to organize the workers in his company. State-level "right-to-work" laws, which deprived trade unions of the contractual right to insist that all workers in a firm covered by a collective bargaining contract join and pay dues, had been passed by the ultraconservatives who dominated most Southern legislatures in the 1940s and 1950s. This weakened existing labor organizations, made it more difficult to organize new ones, and created an antiunion business climate that speeded the migration of hundreds of labor-intensive industrial firms from the high-wage North to the small towns and rural areas of a still desperately poor South. With other Southern firms—in textiles, apparel, and food processing—Walmart therefore seized the opportunity to pioneer the union avoidance and union-breaking tactics that have become so characteristic of American management in recent years.[12]

At the same time, Walmart has projected a corporate culture that has celebrated family, community, and a faux-egalitarianism, uniting ten-dollar-an-hour sales clerks with the millionaires who work out of the Bentonville corporate headquarters. Although Sam Walton died in 1992, the company's communitarian ethos has long been identified with the founder's persona. As early as 1985, *Forbes* magazine calculated that Walton was then the richest man in the United States, but he still projected a sense of populist egalitarianism. Walton derided computer-age expertise and ostentatious displays of wealth, instead celebrating hard work, steadfast loyalty, and the mythos of small-town America as the key that unlocked success both for the corporation and the individuals employed in its many stores and warehouses.

Although his company avidly adopted the latest telecommunications and inventory-control technologies, the founder deemphasized the centrality of all that hardware. "We are no tech; not high tech or low tech," Walton told thousands of admirers who attended his last shareholder meeting in 1991.[13]

Walton and other executives institutionalized this imaginary social construction through an adroit shift in the linguistic landscape. They labeled all employees "associates," routinely used first names in conversation and on identification badges, and renamed the personnel department the Walmart "people division." Associates who perform below par are not disciplined but rather "coached" to achieve their potential.[14] Symbolic leveling of this sort often takes on a Carnivalesque flavor at the corporation's stadium-size annual meeting, where top executives are put through skits, songs, and vaudeville-like routines that embarrass them before thousands of raucous associates.[15] Even more important than this faux classlessness is the Walmart culture of country, faith, and entrepreneurial achievement. Don Soderquist, Walmart's chief operating officer during the early years of the company's overseas expansion, has taken it on himself to be the foremost articulator of the Walmart culture. He wrote in his 2005 memoir, *The Wal-Mart Way,* "I'm not saying that Wal-Mart is a Christian company, but I can unequivocally say that Sam founded the company on the Judeo-Christian principles found in the Bible."[16]

Soderquist is right to emphasize the extent to which Walmart exists within a particular kind of Protestant cultural universe, even if corporate officers refrain from declaring this evangelical sensibility to be an overt component of the Walmart culture. Arising out of an American South that spawned so many megachurches and TV evangelists, Walmart is immersed in a Christian ethos that links personal salvation to entrepreneurial success and social service to free enterprise.[17] Walmart publications are full of stories of hard-pressed associates, once down on their luck, who find redemption (economic and spiritual) through dedication to the company. Selfless service, to the customer, the community, and to Walmart, will soon reap its own reward. Thus a 1991 *Associate Handbook* declared that Walmart "believes management's responsibility is to provide leadership that serves the associate. Managers must support, encourage and provide opportunities for associates to be successful. Mr. Sam calls this 'Servant Leadership.'"[18] That phrase, which has gathered a subtle Christian connotation though secular in its first use, has appeared with increasing frequency in Walmart publications and also among a growing number of company vendors.[19]

It is one thing to have formulated a distinctive corporate culture; it is quite another to have preserved and reproduced that set of ideological and organizational structures when building stores and distribution centers outside the home territory, but Walmart has succeeded. In the 1970s and 1980s the company did not leap across into the rich but culturally alien suburban markets, but instead spread through tier after tier of rural counties where many small towns and distant suburbs welcomed the big-box stores. Although Walmart was opening or acquiring hundreds of stores, in the late 1970s the average distance of a new store from Bentonville was only 273 miles. For years Walmart recruited executive talent almost exclusively from the south-central states, and when Walmart did put its stores beyond a hard drive from northwest Arkansas, its high degree of centralization ensured that the Bentonville ethos would not be diluted.[20] Walmart's large fleet of corporate jets enables many regional managers to live in Bentonville, even while administering a far-flung retail territory. The company's famous Saturday morning meetings, during which sales reports are interspersed with appearances by country singers or athlete celebrities, put the top brass, scores of middle managers, and a selected group of lesser folk together in a ritualized setting that may be "quaint and hokey" but which a visiting *Fortune* reporter avers "makes the world's largest enterprise continue to feel as small and folksy as Bentonville. And what ever makes Wal-Mart feel smaller and folksier only makes it stronger. Or scarier."[21]

Logistics and Procurement: At Home and Abroad

During the company's years of dramatic growth in the last three decades of the twentieth century, a distinctive corporate culture gave Walmart managers a powerful sense of élan, but that alone could not account for the company's revolutionary transformation of American retailing. Dramatic innovations in logistics and procurement represent an equally important contribution to Walmart's rapid growth and high profits during the three decades after 1970. Because the company was focused initially on establishing stores in such remote and rural locations, distribution costs were very high and deliveries unpredictable. Walton had to do his own warehousing and build his own trucking and communications network to service his ever-expanding set of stores.

This required large capital investment, but it gave Walmart the lowest distribution costs in retail. Indeed, Walmart is a company driven far more by "operations" than by "merchandising." Purchasing, warehousing, distribution, trucking—what we today call "logistics"—have become the corporation's core competencies. Before the 1980s, "logistics," the task of scheduling production, storage, transportation, and delivery, was a purely military term.[22] The Vietnam War, though a humiliating U.S. military defeat, turned into a triumph of supply chain logistics when civilian-run container ships proved enormously efficient on the trans-Pacific run between Oakland and Cam Ranh Bay. A decade later, Japanese "just-in-time" production methods, initially in automobile and electronic production, demonstrated that inventory and labor costs could be slashed if subcontractors were kept on a tight leash by the firm that stood at the apex of the manufacturing supply chain.[23]

Walmart has deployed its hyper-efficient operational arm, not in upmarket product design, but to move the mountain of goods that flow across its shelves to put a conventional basket of branded consumer goods before the public at a consistently low price. At the core of the Walmart system stand more than a hundred huge distribution centers. A typical "DC" sprawls over 1.2 million square feet, about the size of a dozen Walmart stores all put together. Two or three hundred trucks arrive each day, either from the company's suppliers or ready to pick up a load for one or more of the stores. Each truck nestles into one of the hundred or more bays that penetrate every side of the mile-long exterior wall. Boxes large and small are quickly fed up one of the many small conveyors—there are more than twenty miles of them in all—that reach into the interior from each loading dock. These riverlike streams of boxes soon consolidate themselves into four larger tributaries at a "merge center" from which the torrent of boxes, each carefully labeled and assigned, stream into a mechanized sorting area. There, electric arms reach out and guide the boxes ordered by particular Walmart stores off the main river and down into one of the facility's one hundred chutes, which lead onto a waiting truck, all at the rate of two hundred cartons per minute, seven days a week, twenty-four hours a day.[24]

Given the Walmart drive for efficiency and cost-cutting, Sam Walton and his successors were determined to cut out the middlemen. Even before his company built its first DC, Walton hated jobbers and salesmen. He resented the expense, the overhead, the time, the meeting and greeting that had long been part of the American merchandise-buying system. Out-of-town buyers visiting New York City on their annual or semiannual sojourn had long mixed business with pleasure. After a day on Seventh Avenue buying blouses and underwear, stockings and bras, there would be

plenty of time for a good meal, a play or concert, and then a restful night in a nice hotel. But not for Sam Walton's crew. Gary Reinboth, an early store manager who doubled as a buyer, remembered:

"Sam was always trying to instill in us that you just didn't go to New York and roll with the flow. We always walked everywhere. We never took cabs. And Sam had an equation for the trips: our expenses should never exceed 1 percent of our purchases, so we would all crowd in these little hotel rooms somewhere down around Madison Square Garden. . . . We never finished up until about twelve-thirty at night, and we'd all go out for a beer except Mr. Walton. He'd say, 'I'll meet you at six o'clock.'"[25]

Such frugality did not cease once Walmart became large enough to buy 20 or 30 percent of everything that a single manufacturer turned out. By the 1980s much of the purchasing was taking place via computer-assisted transactions; thus the 5 percent commission charged by wholesalers and manufacturing representatives seemed to Walton like wasted cash, charged to Walmart's ticket. Indeed, Walton inculcated an outright hostility to the hail-fellow-well-met culture that had long characterized the retail/wholesale buying relationship, either in New York, Chicago, or out in the hinterland. The friendships, lunches, and kickbacks were over. "All the normal mating rituals are verboten," a marketing vice president for a major Walmart vendor told *Fortune* in 1988. "Their highest priority is making sure everybody at all times in all cases knows who's in charge, and it's Walmart. They talk softly, but they have piranha hearts, and if you aren't totally prepared when you go in there, you'll have your ass handed to you."[26]

As early as 1972, Walmart began getting rid of the manufacturing representatives, the middlemen who visited every store, took orders, and stocked shelves. Those who sold sparkplugs, windshield wipers, and other automotive supplies were the first to go. By eliminating this wholesaling service, which cost Walmart 10 or 15 percent on the base price of its automotive merchandise, it could buy direct from the manufacturer.[27] It took a few years, but by 1986 Walmart had eliminated all the reps who handled auto parts and accessories. Next came an across-the-board edict, promulgated by Walmart in November 1991. In a letter to all its vendors, CEO David Glass declared that henceforth Walmart would no longer negotiate purchasing contracts with anyone except top executives employed directly by the manufacturing firm in question.[28]

Walmart also moved quickly to cut out as many middlemen as possible in its overseas buying operations. Pacific Rim logistical innovations were assimilated into the retail supply chains when, in the 1970s and 1980s, Sears, K-Mart, and numerous U.S. apparel makers began to take advantage of the cheap labor and growing sophistication of the export manufacturers fueling the rapid growth of the Asian tiger economies, especially Hong Kong, Taiwan, and South Korea. At first this was largely through contract manufacturing, whereby U.S. retailers directly sourced batches of differentiated goods specially ordered for sale in niche American markets. The bulk of the importing was done by the manufacturers selling goods to Walmart and other mass merchandisers. However, why should the company buy goods through the New York import houses when it could purchase children's apparel directly from Central America, shoes from Korea, and electronics goods from Taiwan? A Walmart purchasing office was therefore set up in Hong Kong in 1981 and in Taipei in 1983, with five regional offices on Taiwan in just five more years. By 1989 there were ninety staffers in what Walmart called "the Orient." These operations were kept on a tight leash from Bentonville because all purchasing decisions were made at the Arkansas home office. There buyers would take a look at sample goods brought by salesmen and then ask Hong Kong or Taipei to find a direct supplier.[29]

Staffers at the Asian offices searched out manufacturers, negotiated prices and production schedules, and monitored quality. When orders were finally in production, shipments went directly to Walmart storage warehouses located in Edmond, Oklahoma and Macon, Georgia. Of course, direct imports by Walmart and other discounters only made up a small share of all the imported goods they sold in the United States; in the mid-1980s, Sam Walton estimated that his company's direct imports accounted for only 5.8 percent of its total sales. But if one counts as Walmart imports all the Asian-made products and components that its U.S.-based vendors incorporated into their merchandise, then the proportion of all Walmart sales derived from Far Eastern exports pushes that proportion far higher, to perhaps as much as 40 percent of Walmart sales in that decade alone.

Until about 1985, the supply chains that led from East Asia to the United States were loosely linked and relatively unstable. In that year, or shortly thereafter, production began a decisive shift to mainland China because a 40 percent revaluation of most East Asian currencies negotiated between the United States, Japan, and the Asian "tigers" in September 1985 at the Plaza Hotel crippled the export advantage long enjoyed by these Pacific Rim economies. Combined with rapidly rising real wages in South Korea and Hong Kong, the so-called Plaza Accords set off a scramble for a new set of export platforms, chiefly in Guangdong and other sites in coastal China.

This production shift was rapid but not difficult. Some pioneering Taiwanese and Hong Kong contractors manufacturing in China had already begun to supply the American retailers.[30] Walmart buyers also became directly involved in this production shift, training mainland Chinese how to make goods that would sell in the United States, tightening up the retail supply chains, and giving the big box stores even more leverage against their vendors, both foreign and domestic.

The "Buy American" Road to China

Walmart led the way in squeezing labor costs out of its vendors both at home and abroad, and ironically the company's famed "Buy American" campaign of the late 1980s proved most useful here. The origins of the program lay in a confluence of political and economic factors. Beginning in the late 1970s, international competition had hit U.S. workers hard, not just from high-profile durables like Japanese cars, German cameras, and electronics manufactured throughout the Far East but also in those items that discount stores like Walmart sold in such abundance: children's clothing, women's apparel, underwear, footwear, hardware, small kitchen appliances, radios, television sets, and the first generation of electronic calculators, watches, and toys. In the apparel industry, imports accounted for 31 percent of U.S. sales in 1976, shooting up to 57.5 percent in 1987. More than 250 domestic garment factories closed between 1980 and 1985.[31]

The unions, which still had a good deal of clout in Washington, complained loudly. The AFL-CIO had been free-trade militants all during the Cold War, but this changed in the 1970s, as their members lost jobs and income trying to compete with countries where workers took home wages that were but a small fraction of even the lowest paid U.S. employee. Since democratic rights and independent trade unionism were often absent within the working class of the new Asian and Central American export nations, U.S. labor often found a large and vocal set of allies at home. Free-trade opponents of the labor movement called the union strategy "protectionism," but labor partisans continued to fight for what they saw as a "level playing field" that eliminated tax incentives for U.S. corporations operating abroad, prohibited the low-wage "dumping" of surplus product in the American market, and even raised tariff and quota barriers to some foreign goods. To this end, the unions played the nationalist card: the International Ladies' Garment

Workers Union [ILGWU] spent millions on a campaign designed to fuse the call to "Buy Union" with a new and forthright "Buy American" imperative.[32] The iconic Buy American image of the next decade consisted of an angry group of unemployed auto workers wielding a sledgehammer to smash a Toyota at a union picnic. Since then thousands of workers slapped on bumper stickers that proclaimed "Buy American: The Job You Save May Be Your Own."

Although the poor working conditions that he witnessed when he visited Central American garment factories in 1984 may have offended Sam Walton, he was aware in the early 1980s that the company was now so big and so involved in Central American and Far Eastern sourcing that any successful legislative effort designed to curb imports would have an immediate impact on its competitiveness. In 1983, in an early Washington foray, Walmart had made clear its opposition to import quotas on foreign-made apparel. However, something had to be done. The closure of several Arkansas firms had led to an outcry against the import practices of big retailers, and Governor Bill Clinton was among many state officials who appealed to Walton to reconfigure his purchasing program in order to keep more production at home.

In 1984, Clinton learned that Phillips-Van Heusen was moving its production offshore to meet demands from Sears and Penney for lower prices. Arkansas had been hit hard by the recession of the early 1980s which wiped out more than 1.6 million blue collar jobs nationwide. At Brinkley, a small manufacturing and cotton-processing town deep in the heart of the Mississippi Delta, ninety jobs, held by a workforce largely composed of African-American women, were at stake. Clinton got on the phone to David Glass, then head of Walmart stores, and asked whether the Bentonville merchant could send some business to the locally owned firm. Sam Walton immediately called up Ferris Burroughs, president of Ferris Fashions, a producer of plaid work shirts, and invited him to Bentonville to see if his plant could be converted to produce a shirt that Walmart had previously imported from abroad. Thus, in early 1985 Ferris Fashions signed a contract for production of nearly a quarter of a million cotton flannel shirts. Clinton helped get the company a $300,000 economic development loan and Walton touted Ferris Fashions as a prime example of a product "conversion" that could "Bring it Home to the USA." At a press conference announcing the Ferris Fashions deal, Clinton pronounced Walmart's Buy American program "an act of patriotism and it makes good economic sense in the long run."[33]

Discount Store News' rueful remark that Walmart's "Buy American" program proved "a public relations coup historic in its dimensions" reflected the chagrin of the Bentonville retailer's competitors.[34] Walmart buyers referred to "conversions," in which products once purchased abroad were "converted" for manufacture in the United States. Since the company asked state economic development agencies to help find U.S. manufacturers for these conversions, Walmart won extravagant praise from governors and other political officials around the country.[35] However, Walmart never released any firm figures on the proportion of its product costs that came from overseas. In fact, Asian procurement rose steadily all during the heyday of the Buy American program as the corporate buying staff resident in East Asia more than doubled in size.[36] Sam Walton did not deny that Asian imports were still rising, but he sought to distance the company from this uncomfortable fact, especially following the brutal suppression of the Chinese democracy movement in Tiananmen Square in 1989.

One way to avoid this potential public relations problem was to create a buffer—a middleman or a buying agency that would purchase Asian products without showing Walmart's hand. "The decision was to set up an exclusive buying agency," remembered a Walmart buyer closely involved with the decision. "The main reason for going into [the deal] was not to be exposed as going into Communist China."[37] Walton turned to a close friend and tennis partner, George Billingsley, to serve as head of the operation. Billingsley knew little about retail or procurement, but he held Walton's absolute confidence, which was the key thing in a multi-billion-dollar business that might well come under a barrage of media scrutiny. To run this import business, Walmart brought in Charles Wong, a seasoned Walmart vendor who would run the day-to-day operation out of Hong Kong. Within two years, Billingsley and Wong had set up Pacific Resources Export Limited (PREL), actually a shadow organization, as Walmart's exclusive buying agent, and PREL shifted onto its payroll virtually the entire Walmart buying staff in Asia. PREL soon had twenty-nine offices throughout Asia, from Dhaka to Seoul. With a staff of more than seven hundred, it was the largest commissioned buying agent in the world.

Billingsley served Walmart well. He kept PREL's overheads low enough to satisfy Bentonville's relentless cost squeezers. Equally important, Billingsley presided over Walmart's first factory inspection regime. Because Filipinos knew English and were prepared to travel widely, PREL hired Filipino inspectors, not Chinese or U.S. nationals, to make annual visits to some of the five thousand factories from which Walmart sourced its products.

They had a checklist, covering both product quality and factory working conditions. On occasion, PREL pulled a contract from a vendor whose hazardous conditions posed a threat, either to the workers themselves or to Walmart's reputation. For example, PREL dropped a factory in Shenzhen two years before a fire there killed thirty-nine people. An inspector had noted that four exits were blocked. If the factory had still been a Walmart vendor, Billingsley told a reporter in 2001, the story on the front page of the *New York Times* would have read "39 Dead at Walmart factory in China."[38]

Walmart's Buy American campaign and its increasing reliance on Asian imports were inexorably linked. Walmart would increase domestic purchasing, but use the prospect of such procurement to drive down supplier costs, including wages and profits, and transform these vendors into Bentonville pawns.[39] The company knew that U.S. labor costs were much higher than in Central America or East Asia, but it sought to make up the difference by freezing wages and forcing logistic and production "efficiencies" on its suppliers.[40] As a result, vendors saw their gross sales skyrocket and their net profits plunge. Indeed, a packaged goods vendor told *Discount Store News,* "Walmart's highly proactive approach to product development may, unintentionally, be making American business less competitive." Because Walmart now set the parameters of product development, companies like his were "no longer manufacturers" but were becoming sources that "produce only the products that Walmart has decided it wants to sell, which in turn make R&D and introduction of new products redundant and unprofitable."[41]

Such was the case with Ferris Fashions; after the 1984 deal with Walmart, the shirt manufacturer was now Walmart's creature. The big retailer designed the shirts, sold them under its "American Edition" label, found a Taiwanese supplier from which it purchased the flannel in huge bulk, and bought the entire factory output. Employment soon rose to three hundred, but the jobs were poorly paid, without health insurance, and often subject to chaotic and inequitable piece-rate variations. Walmart's pressure for lower production costs never slackened. Pointedly, the company continued to import a nearly identical shirt sporting Walmart's "Ozark Trail" label from Turkey, Pakistan, and Kenya. When Ferris Fashions workers signed up with the Amalgamated Clothing and Textile Workers Union in 1990, Ferris Burroughs told them "to stop messing around with the union" because Sam Walton "wouldn't buy union goods." Since the company was now dependent on Walmart for the vast majority of its sales, it had neither the money nor the freedom to develop new products or diversify its customers.

When consumer demand for its distinctive plaid product declined after the turn of the millennium, the company's fortunes plunged. In October 2005, the factory joined the line of abandoned stores and gas stations on Brinkley's desolate main street.[42]

A report from the U.S.-based Economic Policy Institute calculates that, between 2001 and 2006, Walmart, which then accounted for 9.3 percent of total U.S. imports from China, had alone been responsible for job losses amounting to almost 200,000 American workers, largely in consumer-goods manufacturing. Since Walmart and the other big box retailers export almost nothing to China, the United States sustains a giant trade deficit, which China has funded by purchasing more than $1 trillion in U.S Treasury bills and other government securities.[43]

By this point, of course, Walmart had long since abandoned its Buy American program. Imports from Asia had begun to soar in the mid-1990s after China devalued the yuan almost 40 percent against the dollar. In 2006 the company bought about US$27 billion worth of Chinese-made goods, up from US$22 billion the previous year and US$9.5 billion in 2001, the year before Walmart and China consummated a qualitatively closer connection. That was the first year in which China was a full-fledged member of the World Trade Organization. Walmart, no longer fearing an import backlash in the United States, abandoned PREL and brought its vast buying and inspection apparatus under direct company control. Walmart moved several hundred staffers to Shenzhen where they occupied three floors of a nondescript glass office tower. Within a year of the move, Walmart made the Shenzhen office its global purchasing headquarters, an emphatic declaration of China's central importance to the company's fortunes. By 2006, about 80 percent of the six thousand foreign factories in Walmart's supplier database were located in China.[44]

Walmart did not own any of these vendor factories, but in many ways the company had become a de facto manufacturing enterprise, with skilled buyers who helped vendors develop and design products according to the tastes and proclivities of its customers, as analyzed by the "data mining" made possible by Walmart's sophisticated Information Technology department in Bentonville, not to mention a computer data facility said to be second in size only to that of the National Security Agency. Because Walmart has an intimate understanding of the manufacturing process and because its purchasing power is so immense, the Bentonville company was able to transform its five thousand Chinese suppliers into powerless price-takers, rather than partners, deal makers, or oligopolistic price administrators.[45]

After a devastating 1992 NBC exposé that documented abusive child labor practices in Bangladesh, Walmart drew up an elaborate factory certification program. Since then, Walmart has replicated many of the features found in the factory inspection and certification programs that have been supported by branded companies like Nike and Liz Claiborne. At least once each year Walmart audits the fifty-three hundred factories from which it purchases directly. The company's Ethical Standards Department employs more than two hundred, half in China. It has established an elaborate green–yellow–red "traffic light" system that categorizes factories according to their adherence to Walmart's labor and environmental code; 1 percent of all factories are dropped from the Walmart supply network after failing the inspection.[46]

None of this has enabled Walmart to escape a barrage of criticism, however. The AFL-CIO has proved an early and persistent critic, focusing on the use of prison labor by Walmart suppliers in China. Then in 1995, when Kathie Lee Gifford was confronted with evidence that the factories producing her clothing line, marketed at Walmart, employed children in Honduras sweatshops, she broke into tears on national television, thereby adding a bit of glitz, and a satisfying victory, to anti-Walmart campaigners. In more recent years the drumbeat of criticism has been almost constant. In 2001, KLD, the largest mutual fund aimed at social responsibility, said that it had sold its shares of Walmart and removed it from the Domini 400 Social Index because Walmart wasn't doing enough to prevent sweatshop abuses. Five years later, the Norwegian government also divested its shares. Meanwhile, Walmart has refused to join the Fair Labor Association, a monitoring group endorsed by many companies in the apparel and shoe industry. In 2005 the International Labor Rights Fund inaugurated a lawsuit against Walmart on the grounds that it fails systematically to enforce labor standards in its corporate code of conduct, and then lies about it to the American public.[47] Thus Walmart is the "dirty king" of South China, as one of our NGO informants told us; the "the lowest of the low," as a Reebok executive observed.[48]

Why is Walmart's record so poor? There are three reasons. First, there is an absolute conflict between Walmart's drive for low prices and its attempt to enforce a code of conduct, as discussed in detail in the chapter by Xue Hong. The Chinese vendors are prepared to take a loss on a first Walmart contract in the hope that they will eventually recoup their fixed costs. However, given Walmart's enormous appetite, and its bias toward large suppliers, the vendors must subcontract, as must the subcontractors.[49] No one can effectively police the complex network of contractors, subcontractors, and family workshops.

Second, contributing to this price and production pressure is the telecommunications infrastructure that has so integrated the trans-Pacific supply chain. Walmart was the first to install the system. These instantaneous links between Bentonville and Shenzhen put relentless pressure on the Chinese vendors to meet production and shipping deadlines. A quarter of a century ago, the time-frame for inaugurating or increasing an overseas order was close to a year. Goods shipped from Hong Kong moved to warehouses in Oklahoma or Georgia, after which they were shipped on to the Walmart stores when managers noted that stocks had begun to run low. Such "out of stocks" represented a huge lose of sales, especially when demand for a hot item really spiked. By the 1990s, however, the perfection of Walmart's inventory control system meant that Bentonville could now measure all sales continuously. Because Walmart can so accurately forecast its inventory needs, and change procurement orders almost instantly, it now expects the same kind of flexibility from its manufacturers. A "spike" in the sale of a particular item in the United States, usually in apparel or electronics, is now instantly translated into a production "spike" at a factory in China or Bangladesh.[50] Hence the stop and start nature of work in so many Chinese factories, the heavy overtime required to meet an unexpected demand for product, punctuated by short work weeks and unpaid vacations.

Third, although Walmart itself is a "brand" in a way, few of the products it now sells depend on the kind of brand reputation so carefully nurtured by Nike, Levi-Strauss, or some of the fashion apparel makers. Originally, Walton and his key executives had built their Every Day Low Price strategy not on selling off-brand merchandise but on making well-known national brands available at highly competitive prices. However, in the early 1990s, as Walmart accelerated sourcing from China, Goldman Sachs analyst George Strachan released a study concluding that Walmart was in the midst of "a major strategic merchandising revolution . . . breaking from a history of almost exclusive commitment to national-brand products, expanding and improving its private-label offerings . . . and marketing them more aggres sively than ever before." For most Americans low-prices trumped brand loyalty, so Walmart ramped up its unbranded productions. This surge in the sale of Walmart house brands proved a watershed.[51] By the early years of the new millennium, Walmart was sourcing about a quarter of its goods from branded manufacturers and the rest directly out of Chinese factories.[52]

All this made Walmart far less vulnerable to consumer pressures targeted at a well-known product.[53] The commodities that Walmart sells are interchangeable. The advantages of all this were driven home to us when Tiger Wu, a production manager at Nike, drove us over to the local Walmart to inspect the shoe department. Nike does not sell its shoes to Walmart, in either China or the United States, but it has recently purchased the nonbrand "Starter" line, which Yue Yuen now produces in increasingly large quantities.[54] At the Dongguan Walmart the shelves were full of cheap Starter athletic shoes. Mr. Wu was contemptuous of their workmanship, but even more so of their invisibility as an attractive "brand."[55] From Walmart's perspective, though, this is highly advantageous; it has no investment in the brand reputation, so it can easily and rapidly shift production from one Chinese source to another. The work of Pun Ngai and Yu Xiaomin in this volume further emphasize the propensity of big retailers like Walmart to source private-label products. As they point out, such lines give retailers more control of product development, pricing, and the production process, and also better profit margins.

Walmart's Troubled Future

Walmart and its defenders emphasize the extent to which the company and its emulators have been in the vanguard of a revolution that has squeezed billions of dollars out of a once-bloated system of manufacture, transport, distribution, and sales, thus contributing decisively to a cheaper market basket for millions of hard-pressed shoppers.[56] But not everyone is persuaded that this Walmart bargain is either beneficial or long for our world. When Walmart locates one of its grocery-selling Supercenters in metropolitan America, it asserts the legitimacy and power of a brand of capitalism that is antithetical to the regulated marketplace and the high-wage nation that was built by reformers and unionists during the middle decades of the twentieth century. The company is therefore constantly defending itself against a set of class-action lawsuits—some involving race and gender discrimination, others charging company violation of state and federal laws governing overtime pay, lunch breaks, and health and safety standards—filed by those who seek not only compensation for their clients, but reform of Walmart's internal pay and promotion practices.

Likewise, Walmart finds itself in the midst of a permanent political campaign, promoting its expansion plans for retail outlets before scores of zoning commissions, city councils, and county supervisory boards all across the United States. Here local merchants, environmentalists, liberal activists, and labor partisans have drawn the line against Walmart's effort to impose its alien business model on their home turf. As U.S. politics becomes increasingly polarized, it is certain that Walmart and every other employer of low-wage labor will become embroiled in a fierce political battle over the cost of an expanded health insurance system, an increase in the minimum wage, the definition of free trade, and the effort to unionize the retail sector. Walmart's omnipresence in commerce and culture has therefore drawn a new set of fault lines within American politics, creating the conditions for a day of reckoning, both at home and abroad, that is likely to transform almost every aspect of its far-flung operations.

As for manufacturing, the evisceration of U.S. consumer goods production has been largely completed, but the fate of the hundreds of thousands of entrepreneurs and the tens of millions of workers in Central America and East Asia is hardly settled. The commodities produced by this vast new working class are the lifeblood of the retail revolution, but it would be a mistake to count forever on this torrent of cheap and sweated products. As the Chinese yuan is revalued upward, and as the pay of East Asian workers continues to rise, so too will the cost of imported shoes and other consumer goods inch higher.[57] China, the most dynamic economy in the world, is also an exceedingly unstable place, plagued and energized by strikes, protests, marches, and demonstrations each year.

The market-minded Chinese government still in control of that mega-nation vacillates between repression and accommodation, while Western investors have jacked up both wages and prices, at the same time that they search for new lands and new hands with which to fill the insatiable supply chains that feed the big box universe. History teaches us that rapid industrialization cannot be sustained for long on the backs of an impoverished and unfree working class. From the mines and mills of Victorian Britain to the shipyards and shoe factories of contemporary East Asia, the search for a higher standard of living and a more democratic society in China seems to be beginning in earnest in the heartland of the industrial South. The revolt of the Chinese migrant workers may yet represent an insoluble challenge to the world Sam Walton built.