CHAPTER NINE

THE DOUBLE-HEADED DRAGON

Look, I know that Americans have a hard time accepting that sweatshops can help people.

| NICHOLAS KRISTOF, "WHERE SWEATSHOPS ARE A DREAM"

A cheap price is a shortcut to being cheated.

| ANCIENT CHINESE PROVERB

China was not always factory to the world. Until the middle of the last century the laborious process of moving large shipments from Asia was so costly as to be prohibitive. Loose cargo was baled or bundled and piled high on the backs of longshoremen to be loaded and unloaded from truck, barge, train, or ship, a slow process plagued by inefficiencies and corruption. Pilferage was so common that shipping items of value—watches, whiskey, radios, gold—was avoided. Perishables—like shrimp—spoiled. Breakage was also a factor, as was the insurance to cover it. Wages were rock-bottom low in East Asia, South America, and India even then, but for most Americans the exorbitant cost of shipping—10 to 25 percent of the total cost—put most imported goods out of reach. Back then, buying local was not a virtue, it was a necessity.

Shipping containers changed all that. The rectangular steel and aluminum boxes enabled a seamless flow of goods from truck to train to ship and back again. They reduced theft, spoilage, delays, and over 90 percent of the cost. Unloaded by crane from boat to truck to train to barge, no backs were wrenched, no whiskey or watch or gold gone missing. Today, a skeleton crew of a dozen hands can navigate a vessel freighted with up to six thousand containers, each the size and shape of a railroad car. Containers made shipping fast and predictable, enabling the just-in-time delivery system that retailers have come to depend on. In the estimations of some economists, containers made the transport of goods so cheap as to be essentially free. They certainly help make many things from China unbelievably cheap. Big Boxes, Category Killers, Bargain Basements, and Dollar Stores all owe their existence to fast boats from China and the containers they carry.

The Port of Los Angeles is the busiest container port in the United States, a veritable Ellis Island for stuff. Every year the equivalent of 8.3 million twenty-foot-long containers arrive here, the vast bulk of them from China. Some of these get loaded onto trucks and then on trains headed straight across the country. For others the journey is much shorter. I followed one truckload just half a dozen miles or so to Concord Enterprises in Vernon, California.

With fewer than one hundred residents, Vernon is the smallest incorporated city in southern California, only 5.2 square miles. This "industrial Mayberry" is a blur of furniture assembly shops, car part distributors, meatpacking plants, and taco stands. Concord Enterprises, one of the largest import/export dollar store distribution centers in the country, seems right at home here. Concord supplies dollar stores from Alaska to Panama with pallets of cosmetics, razors, toothbrushes, underwear, panty hose, turkey basters, soybased fruit drinks, and an impressive assortment of bongs thinly disguised as vases. The prices of these and the roughly nine thousand other items on display bring new meaning to the word "affordable." A pair of boys' kung fu shoes—black with a red lining—cost 41 cents. A package of twenty-four disposable razors was selling for 65 cents; a trio of toothbrushes—one each in purple, blue, and green—for 18 cents. David, a dapper man in his mid-fifties, had, when we met, worked at Concord for six years. Before that he owned a textile factory in Iran. "My wife would never have dreamed of shopping at a dollar store there,"

DONGGUAN, a boomtown in China's industrial Pearl River Delta region, boasts steel and glass high-rises, staggering traffic jams, and the world's biggest shopping mall. Dongguan lies a few hours' drive north of Hong Kong in Guangdong, China's most populated province and also its richest, thanks to the labor of roughly 30 million workers. Most of these are migrants, peasants from the neighboring provinces of Guangxi, Hainan, Fujian, Hunan, Sichuan, Guizhou, Yunnan, and Jiangxi. A Hainanese or Hunanese farmer stumbling off the overnight train into Guangdong is an alien in a foreign land or at least feels like one. Certainly, he or she is treated like one. Under China's restrictive Household Registration Law, it is extremely difficult for migrants to obtain official city residency or the associated privileges and protections. Among many sad discrepancies is that while 95 percent of official resident children attend school, only 50 percent of migrant children do. Migrants are likely to be illiterate, unschooled in politics, and clueless in matters of labor law. Migrant workers who are aware of their legal rights have little leverage to demand their enforcement, and those who try are regularly turned away by government labor inspectors and police. Complicating matters is the widespread perception that migrant workers are low-class and unworthy, a belief that not a few migrants believe themselves. My translator in Shanghai, a college-educated sophisticate, told me she could spot a migrant instantly: "They are badly dressed, and their faces look stupid."

As a consequence of their low status and lack of leverage, migrants are more likely to accept low-paid dangerous jobs. So Deng, a migrant to Guangdong from a mountainous region of central China, told a *Washington Post* reporter in January 2009 how he had stood knee deep in vats of hot toxic dye, seven days a week, twelve hours a day, at his job in the Overseas Fur Factory for a salary of $15 a month. Deng said many workers lost their footing or passed out in the fumes, but that did not deter him from persuading his seventeen-year-old son to sign on. In 2005, China reported 717,938 workplace accidents and 127,089 deaths, and since then the reports list more than 100,000 occupational deaths each year. But these are official government numbers; the actual numbers are thought to be much higher.

A diaspora of migrant workers who are funneled into China's industrialized south make almost everything that is cheap in America: toys, clothes, bedding, stationery, sports equipment, electronics, lunch boxes, dashboard bubbleheads, fuzzy dice, hair elastics, Christmas ornaments, pencils, pens, and so on. Essentially, these migrants are America's indentured servants. Uprooted from their home villages, scraping together the fare to travel by train or bus hundreds or even thousands of miles and sometimes standing the whole route, migrants arrive in China's great cities dazed, broke, and ready to take whatever jobs they can find under any conditions. Bosses assign them to dormitories and deduct room and board from their wages. Work contracts are sporadic and unpredictable. In news reports these workers are as cavalier about the dangers of their workplace as they are about the quality of the products they make. "In China no one worries about things lasting a long time," my translator said. "Labor is so cheap that if something falls apart, we just make another one."

LIKE MANY American companies, RC2 Corporation, based in Oak Brook, Illinois, has a motto: "Compelling, passionate parenting for all ages." On its Web site the company boasts building "consumer loyalty by fulfilling passions of targeted consumers with branded toys, collectibles, hobby or infant products that encourage repeat purchases and are fun to own and use." Selling toys to encourage the buying of more toys is an ingenious strategy, though most parents would probably prefer it not be targeted to them specifically. Safe to say this message was meant not for parents, however, but for RC2 shareholders, apparently with little worry that the two categories would overlap.

The toys made for RC2 in Dongguan—Thomas the Train sets aimed at children ages three to five—were finished with a liberal spraying of lead paint. Lead is a neuron-toxin known to lower the intelligence quotient of children who ingest it. Adults who inhale lead dust can suffer brain damage, kidney failure, memory loss, and miscarriage. This leads to the puzzling question of why an American company would purchase lead-painted toys from any factory, let alone one where underage workers without face masks spend their days spraying lead paint on children's toys.

RC2 had a history of difficulties with its Chinese suppliers. It had recalled other products, like the Shake 'n Jingle Keys and John Deere Real Keys, baby toys with a tendency to break into a choking hazard. The company was also forced to recall the Learning Lamaze Activity Toy, due to its contamination with *pseudomonas aeruginosa* and *pseudomonas putida* bacteria. Considering this bleak record, it is sobering to consider that 80 percent of all the toys in the world today—most of them marketed by American and multinational companies—are made by migrant workers in Chinese factories.

Substandard and fake goods are so common in China that the Chinese have an expression, heixin (pronounced *hey-sin*), to describe those who make, sell, or profit from them. Heixin roughly translates as "black heart." The Chinese, though perhaps not comfortable coexisting with these black hearts, appear to be resigned to them. The problem is not confined to exports but to the things Chinese use themselves, including food. Writing in *The New Yorker* magazine, Chinese food expert Fuchsia Dunlop quotes restaurateur Dai Jianjun: "You just can't trust the ingredients you buy in the markets. Vegetables laced with chemicals. Fake birds' nests held together by glue." For his own elegant restaurant Jianjun assures safety by sending assistants out to the countryside to buy food directly from farmers or even to forage for it themselves in the wild.

The Chinese government has taken steps to deal with the problem of tainted goods, most dramatically with the very public 2007 execution of Zhen Xiaoyu, the director of the China Food and Drug Administration who was convicted of taking bribes from drug companies. (His corrupt practices were linked to forty deaths in Panama from cough syrup that contained diethylene glycol in place of glycerin.) But efforts to improve conditions for the Chinese people themselves, particularly Chinese workers, have been slow in coming. America's demand for cheap encourages and enables this complacency.

AMERICAN COMPANIES claim to source from responsible factories with health and safety protections, and fair wages and working hours. But in China graft is rampant, and transparency is not. After a decade of monitoring Chinese factories, most outsiders have no idea what goes on once the inspectors go home—and some prefer not to know. Often, dummy or model factories serve as the public face for other illegal factories operating completely off the books. *New York Times* correspondent David Barboza covered the Chinese factory beat for several years. "Everything is linked," he told me. "Factories that observe the rules outsource to factories that observe only some or none of the rules. But, anyway, enforcement of rules is not a priority."

Americans don't like tainted dog food or exploding tires or other dangers traced to Chinese manufacturers. We prefer our milk straight, not laced with melamine to artificially boost its protein content. We do not approve of spraying children's toys with lead paint. Still, increasingly, we are not willing to look too deeply at the causes or real solutions of these problems. Responding to the lead paint incident, *New York Times* business columnist David Leonhardt wrote, "This isn't really about replacing toy trains. It is about the realities of offshoring, and it doesn't yet have a tidy, Thomas-style ending. What happens in Chinese factories determines how good—how reliable and how safe—many products are. So there is no way for executives to distance themselves from China without also distancing themselves from their own product."

Sellers of consumer goods of all kinds typically obscure the pedigrees of their products, making it difficult for consumers to know just what it is we are getting. Tracing the lead-painted Thomas the Train caboose to the Ohio-based RC2 Corporation, one would assume it was made in the American Midwest, not the Pearl River Delta. The same might be said for many other toy manufacturers. How are we consumers to know where our purchases come from when even Mattel's iconic American Girl Doll is made in China?

And the pricier the purchase, the more difficult it is to trace—be it to China, Vietnam, India, or Latin America. Executives at high-end shirt maker Tommy Bahama may not want customers to know that its $100 Tortola Trance shirts are made by Oxford Industries, the same parent company that makes $12.99 Mercerized Simple Luxury Polos for Dockers. Nancy Cleeland won a Pulitzer Prize for her reporting on the working conditions in factories where companies like Oxford do their manufacturing. Her focus was on Latin America, which, being closer than China to the United States, is where many manufacturers of fashion goods once preferred to locate—at least until price pressures sent them elsewhere. "I went to San Pedro Sula, Honduras, and saw big sewing factories there," she said. "There was a huge flow of women coming in from the countryside—always women, because they are supposed to be better workers than men." At the Oxford Cosmos clothing factory Cleeland spoke with Isabel Reyes. Reyes was an eleven-year veteran of the factory. She sewed sleeves on shirts at a rate of twelve hundred a day for a wage of $35 a week. Her arms were too sore to keep working or even to pick up her daughter without daily doses of pain medication. She was exhausted from overwork and sleep deprivation. But the kicker Cleeland told me was this: Reyes lost her job. Apparently $35 a week was too high to accommodate Oxford's low-price demands. The company had assigned a manager, Chuck Wilburn, to scout out a new location. Wilburn was very unhappy about having to lay off thirteen hundred workers in San Pedro Sula. Years before, he was equally unhappy about laying off even more workers in North Carolina where Oxford closed all forty-four of its factories.

Richard Locke, professor of Entrepreneurship and Political Science at the Sloan School of Management at the Massachusetts Institute of Technology, is an expert on economic development, comparative labor relations, and political economy. To his mind, he said, there is worldwide only one force powerful enough to enforce workers' rights and protection: guilt. And there is only one institution capable of evoking that force: the Vatican. So far the Vatican has not gotten into the factory inspection business, but no other entity on earth, Locke said, can prevent global industry from exploiting and abusing global labor. "There is no enforced international law on the books that limits and sets hours, child labor, or anything else," he said. "The laws are not enforced because there is no global governing institution. In this vacuum there are many private codes of conduct by individual companies, but there is neither the will nor the capacity to monitor, to see whether companies are living up to these codes."

Locke explained that even when an overseas factory is audited, the information does not often lead to change. "If you look at audit scores of factories, they go in and out of compliance all the time," he said. The offending factory is given time to improve and often does on the factor for which it is cited. The problem is that in the next inspection, new and different violations pop up to take their place. "Bad audits," Locke said, "have no consequences."

A handful of multinationals badly burned by embarrassing publicity have created what they claim is a vigorous system of auditing their suppliers. Locke oversaw a famous case study of one of these companies, Nike, and to his surprise found that the longer a foreign supplier was associated with this "enlightened" company, the worse it treated its workers. Nike invested $11 million in audits and other measures over two years, yet according to Locke's findings, conditions in their suppliers' factories improved only marginally. This disappointing performance, Locke said, is typical across industries and across the developing world.

In 2006 the Fair Labor Association released a study based on unannounced audits of eighty-eight factories in eighteen countries and found an average of eighteen violations in each—of excessive hours, underpayment of wages, health and safety violations, and worker harassment. The association cautioned that this number was probably far too low as "factory personnel have become sophisticated in concealing noncompliance related to wages. They often hide original documents and show monitors falsified books."

Auditing is important, but it is not enough. "What's critical," Locke said, "is rule of law." There is a clear correlation between the purchasing power of a nation's citizens and the power of the rule of law in that country: Countries with better incomes are more lawful, and countries with lower incomes are less so. "All studies show that when rule of law strengthens, working conditions improve," Locke said. "So the United States might be wise to work with [low wage] nations to improve their rule of law," and working conditions, presumably, will follow.

But logic does not link rule of law with low price. Indeed, the preferred option for many multinationals is to relocate to countries where there is little or no rule of law, where workers have little or no leverage. Some argue this trend may look bad to Western eyes, but that it has greatly benefited workers in China, India, Vietnam, and other low-wage countries. Ira Kalish is director of Global Economics and Consumer Business for Deloitte Research. "A lot of people criticize the labor standards in places like China as unacceptable," he told me. "But they have to compare these to the lives migrant workers led before they came to the factories. The point is they are moving one rung up the ladder."

Certainly there is truth to this argument. Life in rural China is extremely difficult and the flight from the countryside remarkable: In 1978 only 18 percent of Chinese were urban dwellers; by 2008 that figure had leaped to 40 percent. China's rural population suffers from shortages in health care, schools, and opportunity. Chinese farmers on average are poorer than city dwellers, at least in cash. Most Chinese leave their farms not because anyone forces them to but in pursuit of a better life in the city or to earn money to send back home to sustain relatives in their native village. Influential New York columnist and old Asia hand Nicholas Kristof put it bluntly: "Anyone who cares about fighting poverty should campaign in favor of sweatshops." In January 2009, Kristof wrote that Cambodia has "pursued an interesting experiment by working with factories to establish decent labor standards and wages. It's a worthwhile idea, but one result of paying above maker wages is that those in charge of hiring often demand bribes—sometimes a month's salary—in exchange for a job. In addition, these standards add to production costs, so some factories have closed because of the global economic crises and the difficulty of competing internationally." Kristof reminds us that just a century ago the United States suffered similar growing pains on its march toward industrialization and prosperity.

Such arguments, while compelling, tend to oversimplify historic events. Workers' rights in this country were forged in a crucible that was

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highly visible to consumers. The Triangle Shirtwaist fire of 1911, the worst workplace disaster in the history of New York City for ninety years, galvanized the American labor movement for the very reason that the victims of this tragedy were within sight of other Americans, most of them workers themselves. It is this identification that led to the strikes, riots, and union efforts that forced reform. But the thousands of similar tragedies killing and injuring workers in Cambodia, China, and other low-wage countries happen out of sight—and out of mind—of the American and European consumers who purchase the fruits of their labor. All we see is the price, and few of us stop to think about how it got to be so low.

Robert Pollin, a professor of labor economics at the University of Massachusetts at Amherst, does not agree with Kristof and other observers that sweatshops are a necessary stage in the growth of developing economies. Sweatshops, he said, are thuggery and a form of theft. "It's a complete failure of imagination to say that the choice is between sweatshops and starvation," he told me. "Are we saying that a country is better off with no labor standards, no rights? The cost of wages matter; the cost of labor matters." Yes, better treatment of workers does lead to increased production costs, as Kristof states, but this should not deter us from insisting on improvements. Pollin has done the math and calculated that increasing the wages of, for example, apparel workers in Mexico by 15 or even 30 percent would raise the price of a shirt in the United States by 1.2 percent. That is, a 30 percent increase in wages for the workers results in a leap in price of a $20 shirt to $20.24. Surveys indicate that most American consumers are willing to accept this additional cost without fuss, especially if they understand the reasons for it. So far, several small producers have taken up the challenge, but few multinationals have been willing to put it to the test.

University of Michigan political scientist Mary Gallagher told me that in China laws are increasingly more attentive to critical social problems but that they are likely to fail at the implementation and enforcement stages. The reason, she said, is foreign demand for low price. "The American manufacturers, like Nike and Reebok, do not own their factories," she said. "They use Chinese suppliers and try to get them to comply with labor and environmental standards. But they also insist on workers in China are required to have contracts, but in reality untold millions of workers—in particular migrants—do not, leaving them completely vulnerable to exploitation and abuse. Without a written contract, Chinese laborers have no evidence that they are employed, and employers can simply deny their existence.

Laced throughout AmCham's objections were thinly veiled threats to curtail investment and hire fewer workers in China if the new law was implemented. The strategy worked. According to a lawyer who represented American business interests: "Comments from the business community appear to have an impact. Whereas the March 2006 draft offered a substantial increase in the protection for employees and a greater role for union than existing law, [the new draft] scaled back protections for employees and sharply curtailed the role of unions." Outraged global human rights organizations shamed some players—notably Nike and the European Union Chamber of Commerce—into reversing their stands. But AmCham held firm, and its tireless efforts weakened key provisions, sharply scaling back protections for employees and limiting the role of unions—this despite AmCham's boast of "universal principles" that "American business plays an important role as a catalyst for positive social change by promoting human welfare and guaranteeing to uphold the dignity of the worker and set positive examples for their remuneration, treatment, health and safety." Siva Yam, president of the U.S.-China Chamber of Commerce, summed matters up with some reluctance "As long as consumers are looking for the lowest possible costs," he said, "[regulations are] not going to have a long-term impact."

ROUGHLY 25 PERCENT of the global workforce is now Chinese. Given such enormous firepower, China inevitably sets the norm for wages and working standards in the global supply chain. American corporate interests have chipped away at those standards and wages in order to maximize profits and influence, and to serve their shareholders. The chronic disregard for workers' rights in China's foreign-invested private sector threatens wages and working conditions around the globe, including the hard-won gains of American workers.

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Labor scholar Robert Bruno, a political economist at the University of Illinois, has observed that most Americans tend not to think of themselves as "workers." This demands some level of cognitive dissonance because most of us do work for a living. But in a society where salesclerks in discount stores are called "associates" and garbage collectors "sanitary engineers," the term "worker" has lost meaning. Bruno is certain that this is no accident, and explained why in one of several conversations we had over many months.

"The Labor Department classifies 45 percent of Americans as 'working class,' but Americans all consider themselves part of the middle class. It's hard in America to be working class. There has been such a concerted effort to 'disappear' that concept, to bury the very idea of the working class. If you compare our culture now with the 1930's and 1940's, there's been an 'erasure' of the working class. Labor issues just aren't talked about, not by most people. Take the newspaper. There's a business section but very little about labor issues. There used to be a good number of labor reporters, but now I think there are about two. And kids don't read about the labor movement in high school textbooks. And how many ministers preach sermons about the sanctity of labor on Labor Day Sunday? I can tell you: not many. We identify as consumers, as citizens, as members of a religious group or ethnic denomination. We get worked up about cultural issues—not work issues. We don't identify around class, and that leads many of us to lobby against our own best interests.

"Corporate giants have become our heroes," he continued. "We are so focused on the dream of wealth that we identify with billionaires, with whom we have nothing in common. Where fifty years ago we had labor identity that pit workers against management, today we have a system that pits worker against worker. And that includes workers in the United States against workers in the developing world."

Mark Barenberg, a professor of law at Columbia University and a renowned expert on international labor law, authored a trade petition on labor rights in China for United States representatives Benjamin L. Cardin and Christopher H. Smith in conjunction with the AFL-CIO in 2006. In it he argued that Chinese labor practices enable the exploitation not only of the Chinese but of workers throughout the developing world.