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Kumar, Ashok (2019) Oligopolistic suppliers, symbiotic value chains and workers' bargaining power: labor contestation in South China at an ascendant global footwear firm. *Global Networks* 19 (3), pp. 394-422. ISSN 1470-2266.

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# Oligopolistic Suppliers, Symbiotic Value Chains and Workers' Bargaining Power

## Labor contestation in South China at an ascendant global footwear firm

This paper examines a 2014 strike in South China of Taiwanese footwear giant Yue Yuen to analyze changes in the power relationship between lead firms, manufacturers and workers. The paper demonstrates a connection between increased labor costs and capital consolidation and greater value capture at the bottom of the global supply chain. It is argued that footwear value chains are undergoing a falling degree of monopsony power and an emergence of enormous oligopolistic suppliers, transforming the power imbalances of global supply chains towards a more mutually dependent 'buyer-producer symbiosis'. The Yue Yuen strike uncovers a maturing industrial working class and pressures on social reproduction in China, adapting its bargaining strategies vis-à-vis the developmental state. Influxes of profit raise the ceiling for what can be demanded of employers, stimulating those same employers to pursue more aggressive means of holding onto their profits. The example of the Yue Yuen strike is an indicator of what are fundamental changes in the production process, dynamics within the value chain, and power and agency of workers in labor-intensive production. The strike demonstrates that consolidation is playing a decisive role in shaping the power relationship between domestic manufacturers and transnational brands, this, in turn, directly affects the bargaining power of workers.

**KEYWORDS:** China, strike, symbiosis, consolidation, workers, footwear

China's industrial capacity has outpaced labor, causing a pronounced power shift, since 'bosses are short of workers and workers are short of patience' (*The Economist* 2010) despite reports of a manufacturing downturn in 2012 following a two-year strike wave (Barboza 2012). The export-oriented industrial provinces of Guangdong and Zhejiang in South China have become a hotbed of worker unrest (Silver and Zhang 2009), and, since strikes are not permitted within the law, have made China the site of more wildcat strikes than any other country in the world (Friedman 2015). And as labor shortage and worker pressure mounted employers were forced to accommodate, allowing real wages to rise more than 7% per annum.<sup>1</sup> Workers often succeeded in wresting double-digit salary increases from their employers (Friedman 2014). Indeed, 'by the end of 2010, Chinese media commentators were [already] declaring that the era of low-wage labor had come to an end' (Friedman 2012).

I examine the 2014 strike at Yue Yuen in China, the largest strike at a single private company in contemporary Chinese history, which resulted in \$27m in losses to the company due to the disruption of the strike as well as \$31m in concessions to workers. The strike contributes to ongoing theoretical debates that caste value chains within labor-intensive sectors, such as shoes, clothing, furniture, and consumer electronics, as decidedly 'buyer-driven'. I argue that firms, adapting from assembly-only

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<sup>1</sup> This is also state policy, in part due to pressure from labor, but also as a strategy to steer the Chinese economy into a more 'value-added', technologically advanced direction (*The Economist* 2010).

affairs to integrated oligopolistic suppliers, transformed previously asymmetrical power imbalance between global brands ('buyers') to producers ('suppliers') to a more symbiotic relationship.

Enhanced value-capture by firms at the production-end may also, past a certain point, bridge the divide separating value capture from value creation in the footwear sector, calling into question established value chain theories, and bringing new emphasis to labor tactics against their direct employers. Indeed, underdeveloped in Global Value Chain (GVC) literature is an analysis the supply chain as dialectical and evolving due to an underlying logic. This logic is outlined in the model of GVCs mapped in Galanis and Kumar (2018). Whereas typologies developed in Sturgeon (2001; 2003), Humphrey and Schmitz (2002), Palpacaur (2000) Gereffi, Humphrey, and Sturgeon (2005), and others are helpful indicators of changes in the GVC they are implicitly fixed categories. However, the symbiotic state described here builds upon and goes beyond these categories by treating the value chain as evolving and dynamic leading to shifting value distribution, power relations, and firm oligopsony/oligopoly. Ultimately, the symbiotic state leads to the lead firm needing to counter its profitability crisis through a radical spatial, technological, organizational or other some other kind of reorientation. Indeed, this paper should be read as the first empirical case study that applies the GVC model outlined in Galanis and Kumar (2018).

I attempt to expand the GVC approach, which takes the interactions, power, and governance of the range of activities involved in the garment commodity from extraction, manufacture, design, and marketing, to retail. The Yue Yuen strike reveals that the actions of workers, domestic manufacturer and transnational capital are both antagonistic and symbiotic and cannot be delinked from national labor relations regime. This counters the dominant value chain analysis, which tends to downplay the role of the state. I argue that the growth of supplier-end firms into larger, integrated firms, throwing their weight into higher value activities, affects not only the relationship between buyers and suppliers by deepening embeddedness leading to greater upgrading on the shop floor, enhancing the bargaining power of workers to exact a larger share of value from their now value-laden direct employer. Ultimately, a crisis in social reproduction of an aging Chinese working class coupled with the combined development of rising costs, state interventions, value chain consolidation and the extinction of small firms—brought the struggle back to the point of production and the workers themselves.

The paper is structured into three sections: conceptual framework, the case study of Yue Yuen, and results. I describe the hitherto power dynamics within the garment sector, which I then contest by outlining the developments in Chinese labor relations, the emergence of large firms in Asia, and the relationship between this structure and workers' agency through the case study of Yue Yuen and the 2014 labor strike. The study is based on a combination of sources including news reports from on the ground, detailed accounts on the strike from Hong Kong-based NGOs, as well as five key informant phone interviews conducted with NGO workers at Hong Kong-based organizations. Company data was retrieved from Yue Yuen's annual financial statements at the Hong Kong Stock Exchange of which Yue Yuen is listed (retrieved through Capital IQ corporate database).

### **Power and Value**

The process of 'globalization' has seen sectors with high variable capital — toys, garments, footwear, etc.— relocate production from the global North to the Global South. This globalized 'race to the bottom' intensified the asymmetry between producers and buyers (Ahmed and Nathan 2016, Hale and Wills 2005b, Armbruster-Sandoval 2004, Kreider 2000). In the 1990s, Gary Gereffi (1994) and others began to advance the theory of Global Commodity Chains (GCC), noting the existence of global 'buyers' (transnational brands and major retailers), which maintained a high degree of control in spite of globally dispersed and outsourced 'producers'. Globalized brands exercised a high Degree of Monopsony Power (DMP), or oligopsony power, over producers through their ability to select from a large pool of outside firms for almost every phase of the value chain — textiles, production, transportation, processing, warehousing, etc. — to capture the lion share of the value in the garment and footwear industries.<sup>2</sup> Suppliers unable to reach the price demands of these transnational brands risked the loss of orders or even closure. This dependence left manufacturers in a state of perpetual instability, unable to muster the capital necessary to escape the orbit of brand power

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<sup>2</sup> Garment and footwear production have fundamental differences. Footwear tariffs were loosened in the 1980s and thus have greater consolidation at country and firm levels in production, consumption, and assemblage relative to garments. For example 90% of Athletic footwear are produced in 3 countries (Merk 2014) while garments are far more globally dispersed. Both footwear and garment sectors are identified as 'low-technology, labor-intensive' (Scott 2006; Gereffi 2009), 'buyer-driven' (Gereffi 1994; Schmitz and Knorringa 2000), and are used interchangeably in studies (see Miller 2004; Schmitz 2006). Additionally, analysis of footwear may foretell changes within apparel, which remained more globally dispersed through the MFA until it was phased-out 2005 potentially delaying both country and firm consolidation.

and pursue their own development, with the possibility of losing a purchasing contract an inexorable existential threat<sup>3</sup>.

The footwear value chain has remained labor-intensive and vertically disintegrated for the past half century and as globalization intensified these dynamics were transformed from domestic to global production and consumption (Herrigel and Zeitlin 2010). With twenty-one billion shoes – or about three pairs for every person on the planet – produced in 2017 the global footwear industry is expected to grow sharply – at least 5.1% - over the next decade (Singh 2017). Brands and large retailers have maximized profits by throwing manufacturers into bidding wars. Factory owners, in order to stay afloat and respond to competitive demands, increased downward pressure on workers. Consequently factory-floor workers always straddled the poverty-line as workplace conditions deteriorated. The concentration of capital at the top of the supply chain — Nike and Adidas, for instance, control over 50% of the global athletic shoe market (Merk 2008) —only served to further entrench this structure, which remains a key obstacle to greater workers' bargaining power in the sector (Moran 2010, Hale and Wills 2005b, Armbruster-Sandoval 2004, Ross 2004).

Gereffi's (2002) theory draws a distinction between the 'buyer-driven' chains of labor-intensive production and 'producer-driven' chain in capital-intensive production. He states that, 'producer-driven chains usually belong to international oligopolies. Buyer-driven value chains, by contrast, are characterized by highly competitive and globally decentralized factory systems with low barriers to entry in production.' Gereffi (1994) posited that footwear, as a labor-intensive sector, maintained a 'buyer-driven' value-chain. Schmitz and Knorrinda (2000, 3) empirically supported Gereffi's theory of footwear, finding that 'big buyers [...] are the key players.' Yet, despite these early theories, the past decade has seen an increased recognition of the complexity of inter-firm relationships. More recently, Gereffi et al (2005) go beyond the buyer and producer-driven binary, proposing a five-part typology to value-chain governance taking account of the evolving nature of Global Value Chains (GVC) and upgrading potential. Gereffi's

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<sup>3</sup> Notably, Henderson, Dicken, Hess, Coe, and Yeung (2002) develop a framework to account for the development of 'strategic alliances' between firms ('relational rents') taking account of contextual conditions, technological and licensing agreements, and lead firm strategies to confront the contradiction of place and global flows. To Henderson *et al* (2002) the GCC dualism relies too heavily on barriers to entry within particular sectors, treats the production and distribution process as linear, limits itself to existing chains, and lacks recognition of state and local policy in firm development.

(2014) most recent research goes further in announcing a new phase of global governance structures and recognizes the growing consolidation of contractor firms such as Foxconn in electronics, Li & Fung in apparel, and Yue Yuen in footwear, with larger suppliers exerting greater pressure against buyers.

This paper contributes to ongoing debates by introducing 'buyer-producer symbiosis' as a formation of evolving power between actors in the global supply chain. While the typologies proposed by Gereffi et al. (2005) updates theories developed by Gereffi (1994, 2002) they remained static and too homogenising with geographical, social and institutional specificities unaccounted for. The GPN literature, responding to this critique, added much needed complexity by understanding global governance as a multifactorial and contingent process. A GPN is defined as 'the nexus of interconnected functions, operations and transactions through which a specific product or service is produced, distributed and consumed' (Coe, Dicken, and Hess, 2008, p. 272) performed by firm and non-firm actors, like regional, national and international institutions, labour groups and relevant stakeholders.

With these critiques in mind, a succeeding version of the GPN framework, GPN 2.0 (Yeung and Coe, 2015), reframed the GPN-GVC approaches. Yeung and Coe (2015) highlight the 'structural competitive dynamics' and the 'actor-specific strategies' that shape and control production networks. Instead of the three determining factors (transactions complexity, information codifiability and supply capabilities) found in Gereffi *et al.* (2005), Yeung and Coe (2015) introduce three 'structural competitive dynamics', the optimization of the ratio between costs and production capabilities, the market development and financial discipline, which generate, under uncertain and risky conditions, four distinct corporate 'strategies' which bear resemblance to governance structures.

For the GPN approach, power is tightly connected to the influence firms, institutions and stakeholders, exert over other actors in a production network. Thus, power is related to decision-making and resource allocation, in which additional bargaining power is sourced from an actor's position in a production network (Henderson *et al.*, 2002; Dougherty, 2008; Yeung and Coe, 2015). On the other hand, labour, as an active agent of production with the potential to exert and demand a

significant amount of bargaining power, is, to a large extent, at best absent and worst passive within the analytical frameworks of GCC, GVC and GPN, despite the latter's attempt to formalise the power of labour unions in the "conceptual category" of "collective power".

*Buyer-producer symbiosis* fills this lacuna by recognizing the evolutionary and dynamic power relationship in the GVC between large buyers and large suppliers. Similar to Gereffi's (1994), 'buyer-producer symbiosis' is not limited to the calculable relationship (i.e. transaction costs) between buyer and producer but resembles one-half of Gereffi's (1994, 95) original formulation which was to, 'show how 'big buyers' have shaped the production networks in the world's most dynamic exporting countries, especially in the newly industrialized countries of East Asia'. As Starosta (2010, 437) stated, 'the concept of governance was originally devised to depict the diversity of authority and power relationships that give overall coordination to the division of labor within the value chain'. In this vein, the introduction of 'symbiosis' is an observation of the power relationship, through an analysis *inter alia* of changes in structure, technology, and territoriality, as the consequence of the emergence of giant capitals on either side of the footwear GVC. Tied to the logic outlined in Galanis and Kumar (2018), deregulation leads to high DMP, which increases the share of value to the lead firm. This intensifies competition, which, through downward pressure, reduces the number of suppliers able to compete and shrinking DMP. Falling DMP increases the consolidation of supplier firms, increasing the share of value to the supplier and raises barriers to entry. Thus moving the value chain towards a symbiotic steady state with oligopolistic firms at either end of the chain.

A move towards low DMP catalyzes consolidation and technological investment and reduces the spatial flexibility of lead firms. Historically, global brands in footwear resorted primarily to, what Harvey (2006) calls, a 'spatial fix' rather than a 'technological fix.' Indeed, this was central to the historic growth strategy of global brands and retailers. These various 'fixes' represent the intrinsic mechanism by capital to overcome its inherent crisis tendency. This structure results in low surplus value at the production phase of the supply chain, ensuring chronically low capital investment in industrial upgrading, and low bargaining power for workers. A move away from this relation may have the opposite affect on workers' bargaining power.

In short: Low capital investment in manufacturing creates low barriers to entry, resulting in bidding wars between thousands of smaller firms from around the world (Mahutga 2012; Gereffi 2002). Global brands and retailers tend to reward firms with the lowest labour costs, resulting in persistent downward pressure on workers (Anner, Bair, and Blasi 2012). Thus the footwear value chain is 'buyer-driven' (Gereffi 2002), insofar as brands and retailers command it. Within this asymmetrical power relationship, worker action or organization results in order-loss, and so the global 'race to the bottom' must entail labor discipline (Kumar 2014). The structure of the footwear value chain draws value to the top of the supply chain, to global brands and retailers. Thus power of labor in the footwear value chain has been curtailed (Hale and Wills 2005). Finding themselves thrown out of work by pyrrhic victories over factory owners, and too isolated to pressure international brands, workers have appealed often to 'anti-sweatshop' allies in the Global North to increase sourcing prices to manufacturers and make them more responsible for labor rights (Kumar and Mahoney 2014). Thus the spatial and political distancing between areas of value creation and value capture left workers without a means of direct resistance that the Global North-based anti-sweatshop movement attempted to partly ameliorate, specifically by attempting to relocate the site of struggle from the sphere of production to the sphere of consumption (Kreider 2000; Ross 2004; Hale and Wills 2005).

However, these dynamics are changing. Labor shortage in South China is reverberating across the value chain<sup>4</sup>. This transition from labor surplus to labor shortage (sector-specific or otherwise) is part of a labor-market squeeze which is reflected in the events at Yue Yuen. This paper analyses the emergence of an 'organizational fix', vertical and horizontal expansion, signaling a lurch away from the 'spatial fix', which was integral to absorbing garment capital crisis tendencies for the past century. Simply put, when supplier firms grow, they purchase technologies and expand, often along the supply chain, erecting new barriers of entry as they grow, and thereby fundamentally changing the relations between producers and suppliers, workers and their employers.

## **The Chinese State and Labor-Capital Relations**

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<sup>4</sup> China's labor shortage is not uncontested. Elfstrom and Kuruvilla (2014) maintain growing labor shortage is driving labor unrest, while others argue that shortages are specific to labor-intensive GVCs (Cai 2015).

China has emerged as an economic superpower, following ‘probably the most remarkable economic transformation in history’ (Stiglitz 2006, 1), and is expected to surpass the U.S. GDP by 2019 (Peck and Zhang 2013). Whilst neither embedded neoliberalism nor embedded socialism (Peck and Zhang 2013), Anner (2015, 292) categorizes China as an ‘authoritarian state labor regime’ because of its control of both legal and extra-legal apparatuses aimed at limiting independent worker organization. To Anner (2015) the efficacy of this regime explains China’s dominance of global apparel and footwear production despite wages at four times that of neighboring Bangladesh.

Yet, China’s labor unrest continues to grow. This phenomenon cannot be delinked from the changing relationship between the state and capital. Friedman (2015) argues that since 2010 there has been a weakening of the alliance between global capital and the Chinese state in the repression of strikes. He claims that both the Chinese central government and Guangdong provincial authorities sought a new means of accumulation and were even willing to ally with workplace radicals to realize these aims. At the same time, the central government continues to intensify its opposition to civil society by restricting the bounds of official tolerance, especially against labor rights-related individuals and NGOs (Jacobs and Buckley 2015)<sup>5</sup>.

Strikes also make visible the internal tensions of the state. The shift away from a centrally planned economy in 1970s empowered increasingly autonomous provinces to institute market reforms. The result was a race to the bottom with the most ‘successful’ provinces serving as ‘models’ and promoted across China (Friedman and Kuruvilla 2015). Decentralization has fostered a space in which capital remains meaningfully autonomous from a central state while integrating itself into the provincial government. This, in part, explains the differentiated reactions by national and provincial officials, mirrored in the official union All China Federation of Trade Unions (ACFTU), to the Yue Yuen strike. The ACFTU is integral to the central government’s changes in labor relations such as collective bargaining.

Despite an immense body of work on industrialization and the developmental state the relationship between export processing and the state has remained undertheorized, particularly in China. Smith (2014) argues that the role of the state should not be relegated to policy functions but situated within a wider analysis of accumulation given its central to the development process of the firm and the GVC.

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<sup>5</sup> Zhang Zhiru, who operates a Shenzhen-based labor rights organization and was the principle legal consult to the Yue Yuen workers on strike, was forced to close his organization after police intimidation.

Indeed, the explosive growth of Asian firms in China is a consequence of the conscious interventions by the Chinese state (Woo 1991; Kohli 2004), through market distortion (Amsden 1989), industrial policy from import substitution to export oriented (Stubbs 1999) with the state often taking the role of entrepreneur (Amsden 1989) or state-driven globalization through joint ventures (Huang 2003). For example, Ngai and Chan (2012: 385) maintain that the state facilitated mergers, acquisitions, and geographic expansion to help transform Apple supplier Foxconn in the direction of a firm with monopolistic characteristics that 'it now dominates the global market'. This process shares similarities with the growth of Yue Yuen. However, Yeung (2014) maintains that inter-firm dynamics and the process of strategic coupling in East Asia command domestic firms, which are gradually dis-embedding themselves from the developmental state and re-embedding themselves within different GPNs. In the case of Yue Yuen we find a firm moving towards a more mutually dependent embedded interfirm relation – symbiosis – profoundly circumscribed by the developmental goals of the Chinese state.

### **Emergence of Large Labor-Intensive Firms in Asia**

There are a number of studies in consolidation of capital-intensive firms, however research in consolidation in labor-intensive GVCs is limited (notable exceptions include Merk 2008; Gereffi 2013; Azmeh and Nadvi 2014; Appelbaum 2008). Milberg and Winker (2010) maintain that geographic consolidation, both horizontally and vertically, became even more pronounced in 'buyer-driven' value chains since the 2008 global financial crisis. In the labor-intensive footwear sector tariffs were relaxed in the 1980s, which is one explanation for the consolidation of buyers and suppliers firms in the 1990s.

Concentration of production in fewer countries was accompanied by consolidation of capital in the hands of fewer firms (Azmeh and Nadvi 2014). In what Nolan, Zhang and Liu (2008) label the 'cascade effect', global industrial concentration across the value chain has grown since the 1980s due to intense downward pressure by large buyers. Nolan, Zhang and Liu (2008: 45) demonstrate that 'at every level there has taken place an intense process of industrial concentration, mainly through merger and acquisition, as firms struggle to meet the strict requirements that are the condition of their participation in the system integrators' supply chains.' Through the active selection of the most capable suppliers, buyers adopt 'aligned suppliers', and what

follows, as we see in the case of Yue Yuen, is the eventual growth of some preferred suppliers who corner significant proportions of the sector.

In the post-Multi-Fibre Agreement (MFA) period, garment producers based in Asia have grown apace; Korea-based Yupoong Inc., has become the world's largest producer of hats, Datang is now responsible for more than a third of the world's sock output, Taiwan-based Nien Hsing, has reached the summit of denim production; and Panarub, in Indonesia, is Adidas' exclusive cleats manufacturer. As Richard Appelbaum (2008, 70) notes, 'we are now entering an era in which a qualitatively higher degree of integration between production and distribution has begun to reshape the entire buyer-driven global commodity chain...[that are]... altering the relationship between 'manufacturer' on the one hand and 'retail buyer' on the other.' Changes in the production process are a reaction to changes in the labor market, which in turn prefigure new oppositional forces.

Gereffi (2009) notes that China has undergone unprecedented development by leveraging its abundant and low-cost labor, land, electricity and raw materials, taking the lead in upgrading in a number of industries with high and medium-technology exports outpacing low-technology by around 2008. The emergence of large-scale production and place-specific value-chain agglomeration has led to the FDI-driven clusters of what has been called 'supply chain cities' primarily in Guangdong and Zhejiang and strategic coupling between TNCs, provincial governments, and their outsourced manufacturers. '[Supply chain cities] bring together multiple parts of the firm's supply chain—designers, suppliers, and manufacturers—so as to minimize transaction costs, take advantage of economies of scale, and foster more flexible supply chain management' (Gereffi 2008, 46). Gereffi (2009) argues that foreign-led clusters concentrated in the South China provinces of Guangdong and Fujian mainly in low-cost manufacturing sectors such as textiles and apparel due primarily to government policy, low-cost labor, and relative proximity to major transportation centers.

The strike at Yue Yuen facilities confirms that Yue Yuen 'has emerged as a major economic powerhouse' (Appelbaum 2008, 73) and is rapidly attaining oligopolistic power. Oligopoly power, or popularly referred to as *Monopoly power*, is not meant to imply a single seller exercising sole proprietorship of a market (a rare phenomenon), but, as is in economic parlance, denotes a phase of capitalist development in which giant firms 'limit new competitors entering the industry, even if there are high profits' (Foster, McChesney, and Jonna 2011). The monopoly firm has an incredible capacity to

generate profits assisted by economies of scale and scope (Baran and Sweezy 1969, 52. I use Yue Yuen as an ‘ideal type’ (to borrow Max Weber’s expression)<sup>6</sup> not to highlight the exceptional but, as Baran and Sweezy (1969, 15) aptly state, ‘the ideal type will display with sharpness and clarity what may appear in everyday economic life in a disguised form, difficult to recognize and easy to misinterpret.’ The Yue Yuen strike and brand reaction demonstrates the burgeoning power of oligopolistic suppliers vis-à-vis oligopolistic brands as well as workers vis-à-vis suppliers. Yue Yuen to influence the sector in fundamental ways comes through a combination of the strength of its productive capacity relative to its competitors and the scale, size, and mutual-dependence of its buyers.

### **Workers’ Unrest and Oligopoly Power**

The labor unrest escalating in China since 2004 has been the subject of extensive reportage and research (Friedman 2012; Silver and Zhang 2009). In the first quarter of 2014 *China Labour Bulletin*, a leading Hong Kong-based rights group, recorded 319 strikes in China, a 30% increase from year-to-year, mostly in the manufacturing sector. Efstrom and Kuruvilla (2014: 454) find that, ‘Chinese workers are increasingly using strikes and protests proactively to demand higher wages, better working conditions, and increased respect from employers.’ As a consequence of the labor shortage, changes in state policy, and workers’ agitation, wages have increased by 7% per annum and Chinese capital is losing its labor cost advantage. The new era of competition has thinned the herd, leaving larger amalgamated firms with enhanced production-side value capture (Azmeh and Nadvi 2014). These dominant firms have reinvested into laboursaving technology, deepening their advantages in Chinese clothing and footwear production (Zhu and Pickles 2014).

Labor-intensive industrial firms within Guangdong Province, the scene of Yue Yuen’s production, that once occupied a large segment of the province’s economic geography, have left en masse<sup>7</sup>. Firms have resorted to a ‘spatial fix’ (Harvey 2006), relocating to other areas of China and Asia, where labor was cheaper. Yue Yuen survived in situ only because it possessed sufficient resources to effect organizational

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<sup>6</sup> Similar to Baran and Sweezy (1969) and Braverman (1974) ‘monopoly capital’ is intended more as an analytical device rather than a quantitative measure. In the context of this paper, I propose this theory to outline the meteoric rise of large outsourced firms with incredibly high competitive advantages, shifting power relations within the GVC, and opening up new vistas for labor strategies.

<sup>7</sup> For extended research on strikes and footwear in Guangdong province see Chan (2011).

and technological 'fixes', mitigating labor costs, while also relocated part of its production to Indonesia and Vietnam. As a conglomerate spanning multiple phases of the production process, across several countries, Yue Yuen is maturing towards oligopolistic power. Although the firm has not acquired full monopoly power, its growth represents a trend: a departure from a high DMP GVCs, which saw domestic firms simply piggyback on transnational capital, towards low DMP GVCs in which oligopolistic suppliers are gaining power in the value chain by growing, vertically-integrating, and transnationalising. Oligopoly is better understood as process and not as an anomaly, or aberration, but as a logical consequence of competition, and the consolidation it engenders. Monopolization 'is in the DNA of capitalism' (Foster, McChesney, and Jonna 2011).

But what does industrial upgrading and oligopoly power mean for workers? Wible, Mervis, and Wigginton (2014) describe Yue Yuen's parent company Pou Chen as in league with Apple manufacturer Foxconn, 'connect[ing] vast underlying commodity and labor markets that are relatively hidden from public eye.' They maintain that this 'sprawling web of supply chains can raise living standards, improve conditions for workers, and help alleviate poverty.' Indeed there has been an upsurge in discussion of the relationship between the gains to capital, or 'economic upgrading', and working conditions and benefits, or 'social upgrading' (Barrientos *et al* 2011; Bernhardt and Milberg 2011). These debates move away from 'trickle down' theories based on the axiom that firm growth improves labor conditions. While these recent interventions make critical inroads in filling a lacuna within GCC/GVC/GPN frameworks, within much of the economic/social upgrading debate there is a failure to recognise the inherent antagonism between capital and labor. Indeed as Selwyn (2013) has articulated, the literature continues to frame capital-labor relations as mutually beneficial and a causal 'top-down' relationship mediated through elite institution such as the World Bank<sup>8</sup>. The case herein demonstrates that principally, alongside factors such as state policy, the combination of consolidation and economic upgrading (material conditions) and the sheer dint of *force* (subjective agency) have resulted in increased share of value for labour<sup>9</sup>.

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<sup>8</sup> For a critique of attempts at establishing workers' rights through capitalist institutions see Kumar (2015).

<sup>9</sup> This emergent organizational fix (or oligopolistic capital) at both production and brand/retail is the result of a combination of the geographic limits of the state alongside an emergence of a multipolar economic landscape of power, positions the developmental states as a mediator between the dominant 'fracture' of transnational brands and domestic suppliers to meld a 'total' capital (Mezzedra and

While the firm concentration and consolidation increased the rate of exploitation it also made the firm more vulnerable to effective labour unrest. Selwyn (2008) applies the so-called 'bullwhip effect', or small disruptions in one part of a supply chain leading to growing disruption elsewhere in the chain, to labour unrest and competition in a global context. He cites changes of the global distribution sector which saw the introduction of new technologies and the radical reduction of delivery times as central to strategies of competitive accumulation. These technological innovations, namely bar codes, high-speed conveyers with advanced routing and switch controls, reliable laser scanning of incoming containers, and increased computing capacities, facilitated 'time-space compression' with the GVC becoming more interdependent and the result was lean production, lead distribution, and just-in-time deliveries.

A leading example was found in the United Parcel Service (UPS) in which the increase emphasis on time put greater downward pressure on workers and increased work intensity. But as Selwyn (2008, 164), 'whilst these innovations, particularly those in the labour regime, took place with the acquiescence of labour unions and reflected the latter's weak associational power, it altered but did not diminish workers structural power.' By 1997, the 185,000 UPS Teamsters Union members struck immediately crippling UPS's global supply chain. Within two weeks only 10% of UPS deliveries were at normal capacity with the company losing \$50m a day. The workers won a 25-35% five-year pay rise with the union retaining control of the pension fund. As Selwyn (2008, 164) concludes 'for all its global and labor regime restructuring, UPS Achilles heel was the capacity of its workforce to withdraw its labor and disrupt the entire UPS supply chain. The globalization of the distribution industry supply chain and the decreased lead-times only accentuate UPS' vulnerability'. Similarly, Selwyn (2008, 167) highlights a number of successful auto factory strikes in the 1990s stating that 'workers ability to disrupt production is in some ways intensified, precisely because of firms' attempts at time-space compression.'

As the case of Yue Yuen demonstrates, the growth of suppliers in labor-intensive production does not automatically 'raise living standards', but constitutes a dialectical

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Neilson 2013).. Thus, such fractures in capital and distribution of relative surplus value within the supply chain may advantage workers to bargain at the point of production.

process that results in downward pressure on workers as well as raising the possibility for effective workers' actions. The sheer size of company like Yue Yuen affords it the resources to endure minor episodes of labor unrest, outlasting and undermining workers, while pressing state and police into service as guarantors of its physical and financial stability. Size can prove a liability, however, by amplifying the effects of worker actions on value chains where large firms have integrated, fusing together successive phases of production. Appelbaum (2008, 82) observes, 'if production is concentrated in a few giant factories, work stoppages can have a significant impact not only on the factory itself, which may have significant capital investment, but also on the entire supply chain.'

Both Merk (2008) and Appelbaum (2008) published papers on the growth of Yue Yuen in 2008, six years before the strike, which is the subject of this paper. Schmalz, Sommer and Xu (2016) analyze the larger political and demographic explanations for the Yue Yeun strike. I build upon these texts, exploring the strike in the context of a changing political economy and shifting power dynamics in labor-intensive GVCs.

### **The Case of Yue Yuen**

Formed in 1969, Taiwanese-based Yue Yuen Industrial (Holdings) Limited has become the world's largest manufacturer of branded casual and athletic footwear, producing 300 million pairs of shoes a year, or 20% of the global production of sports and casual-wear shoes. Over a half million workers man its factories, churning out goods for more than 30 different brands including Nike, Adidas, Reebok, Puma, Asics, Under Armour, New Balance, and Timberland.

Yue Yuen, a subsidiary of Pou Chen – a conglomerate controlled by the billionaire family of Tsai Chi Jue, grew quickly. 'From slippers, we made sandals. From sandals we made shoes. From shoes we made sports shoes,' recalls a member of Jue's family (Merk 2008, 86). Today the majority of Yue Yuen production is based in China's Pearl River Delta Region (PRD), but facilities can be found as far afield as Vietnam, Indonesia, and even the U.S. In recent years Yue Yuen has continued to expand; acquiring smaller firms in quick succession, and growing at ~20% per annum throughout the 2000s (for reference, the total market for athletic shoes grew only ~10% per annum during the same period). Except for Nike and Adidas, Yue Yuen's profits exceed their brands.

In the 1970s and 1980s, Yue Yuen became indispensable to industry heavy-hitters, attracted to its epochal innovations in cost and turn-around time. Indeed, both Reebok and Nike would go on to name it their ‘most important producer’ (Merk 2008, 86). It is during this era that Yue Yuen incorporated the Original Design Manufacturer/Original Equipment Manufacturer (ODM/OEM) designation, signalling its entrance into the design field, and its ambition to bring all phases of production — from conception to distribution — under the Yue Yuen label. By the 1990s it had relocated its production facilities from Taiwan to China, Indonesia, and Vietnam.

Yue Yuen now enjoys the advantages of scale. Assembly takes place in imposing facilities that employ as many as 10,000 workers and set the curve for inventory turn-over, emptying and replenishing stocks of product a full 5 to 20 days faster than industry competitors (Merk 2008). And, as it happens in competitive economies, strength has led to strength, and out of one advantage—well-leveraged—can develop into another: technology. Yue Yuen’s laborers, though already the most numerous, can be said to do the least individually in the sector since they operate the most advanced (*ergo most automated*) equipment. While its buyers outsource more and more of their production, Yue Yuen expands and deepens its operations, integrating horizontally and vertically, and investing heavily in research and development. This has allowed Yue Yuen to market itself as a one-stop shop, ‘full package’ to global buyers, handling raw materials, assembly, design, and distribution of products. As one Morgan Stanley report noted, the ‘smaller players without sufficient resources will find it difficult to match Yue Yuen’s services to its customers’ (Merk 2008). Valued at a comfortable \$5.6 billion Yue Yuen ‘has emerged as an economic powerhouse in its own right’ (Appelbaum 2008, 73).

Yet, something is rotten in the state of Yue Yuen. On April 15<sup>th</sup>, 2014, 43,000 of the 60,000 workers employed in its Gaobu factories, in Guangdong Province, downed tools and walked off the job. Within two weeks the largest strike of a private company in Chinese history<sup>10</sup> had drained Yue Yuen of more than \$60 million in lost profits and exacted benefits.<sup>11</sup>

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<sup>10</sup> Some strikes in China have caused greater economic damage, in ports or public sector for example, but in terms of number of private-sector workers and length of strike Yue Yuen is among the ‘largest recorded industrial disputes in living memory’ (Borromeo 2014) and the largest at a single company in Chinese history [based on claims in Valdmanis (2014)].

<sup>11</sup> Yue Yuen workers previously conducted smaller strikes such as in 2008 in Dongguan over wages, with workers refusing to sign their contracts, resulting in a company lock-out (Gongchao 2014).

## *A Demand for Social Insurance*

The strike at Yuen Yuen centered on the issue of social insurance. China's social insurance system dates to the early 1980s, and remains an opaque and complicated affair that manufacturers either recklessly undermine or simply avoid. Chinese law stipulates employees and employers alike are responsible for funding the employee social-insurance accounts administered by the local government. Large employers are wont to calculate social insurance payments using the minimum wage, while smaller employers find it easier to engage in complete non-compliance, and hide in the lower end of government priorities. Workers depend on these accounts, which also include health, injury, maternity, medical, unemployment compensation insurance, and, crucially, pensions for what they hope will be relatively burden-free retirements, often to their ancestral villages. Yue Yuen, however, calculated its contribution using a basic wage not accounting for overtime. Although the average monthly Yue Yuen wage comes to about 3,000 yuan (\$490), with the inclusion of overtime pay, workers reported employer contributions proportionate to an average of only 1,810 yuan (\$296). China's central government confirmed the discrepancy and publicly accused Yue Yuen of 'wrongdoing,' entreating them to take corrective measures. According to Agence France-Presse (AFP), labor rights activists had estimated arrears in the range of 100-200 million yuan (\$16-32 million). In light of this, Yue Yuen employee contracts were deemed invalid. In 2014 workers discovered that the company had been engaged in the practice of miscalculating social insurance for years with, it appeared, the active collusion of local government officials. As *The Economist* (2014) observed, strikers' chants often mingled lyrics highlighting government corruption and complicity with those indicted Yue Yuen.

Yue Yuen workers complained that 'the factory has been tricking us for 10 years [...] the district government, labor bureau, social security bureau and the company were all tricking us together' (Gongchao 2014). And the problem, it appears, is endemic. According to the state newswire *Xinhua*, local officials often created legal loopholes specifically designed to attract capital. 'Some local governments even allow foreign companies to escape payments to attract their investments,' observes He Gaochao, a political scientist at Sun Yat-sen University (Valdmanis 2014).

Yue Yuen did not back down. Its (alleged) allies in government employed aggressive police tactics throughout the strike, detaining, arresting, and even hospitalizing protesters. The state newswire, *Xinhua*, however, reported little of the

strike, and contradicted all reports of worker injuries, despite myriad claims by international press and activists. Eventually employees, facing threats and an overwhelming police presence, began to trickle back in but employed ‘work-to-rule’ tactics through work slowdowns.

But by the strike’s end, workers’ demands had grown to include a new contract, better working conditions, better funded government housing, an enshrined right to conduct a union election within the plant, concrete assurances against employer retribution, and a transparent and accountable government to execute and administer all the above. Thus, an economic demand—in this case, honesty in wage reportage (that is, pension and social insurance payments in accordance with the law)—give rise in due course to further demands, for institutional and social reforms, and would consolidate and build upon economic victories.

### *A Strike Escalates*

The strike had been set off by a Yue Yuen employee who, after putting in her paperwork to retire, discovered that her 20+ years of service to the company—in a managerial role, no less—had left her with a mere 600 yuan (roughly \$100) in social insurance, to sustain her through old age. Understandably upset, she stormed off to a company dormitory. Word spread.<sup>12</sup>

On April 5<sup>th</sup>, 2014, several hundred workers at a Gaobu factory clocked in and promptly walked out; they then gathered at a bridge to block traffic. By April 14<sup>th</sup>, the strikers’ numbers had swollen to 10,000 and come to include workers from all six of Yue Yuen’s Gaobu factories—among them even a few contingents from management. Though only partial, the strike was already significant in absolute terms, since the Gaobu factories accounted for 10% of Yue Yuen’s total output (Qi 2014). An army of riot police was dispatched.

Meanwhile, on the 15<sup>th</sup>, 43,000 walked out. Yue Yuen responded, offering to sit down with workers; negotiations fell through, however, when Yue Yuen refused to concede to any of the strikers’ primary demands. ‘It was rumored,’ according to workers<sup>13</sup>, that ‘the company agreed to pay the full social insurance to be calculated

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<sup>12</sup> *Phone Interview*, Taiwan-based labour activist August 24th, 2014. Additionally, this account is supported by extensive *Reuters* interviews (Harney and Ruwitch 2014). Some claim company managers orchestrated the strike by encouraging frontline workers to walkout (Harney and Ruwitch 2014).

<sup>13</sup> *Phone Interview*, Francine Chan, Worker Empowerment, August 24th, 2014.

from the date that workers returned to work, which would not include back pay, a central worker demand. Workers insisted on cash payment since an agreement's implementation was never guaranteed.' A group of worker representatives were then arrested with the purported help of officials of the state union ACFTU (Gongchao 2014). On April 17<sup>th</sup> Yue Yuen announced publicly that it would pay the full social insurance calculated from the May 1<sup>st</sup>, but not retroactively, and this only on condition that workers returned to work.

In the face of this offer, 'workers [continued] striking, and the numbers ... probably increased' despite 'the factory releas[ing] a notice saying it [would] dismiss the workers if they continue[d]' (AFP 2014). AFP (2014) spoke to a Yue Yuen striker who said she and the other workers had been offered the welfare payments until 2016, but that she was not satisfied. 'The factory could just leave in the middle of the year, and we might end up without welfare payments.'

By Friday, the 18<sup>th</sup>, the same day that the wives and children of jailed Gaobu workers demonstrated in front of the district office, 2,000 Yue Yuen workers in the neighboring province of Jiangxi, responsible chiefly for producing Adidas shoes, joined the strike and walked out. The spread of the strike occurred without central coordination. Labor activist Francine Chan<sup>14</sup> described the strike's propagation, noting that, though 'some workers passed information through the social networking site *weibo* and the instant messaging service *qq*, [most of] the workers are older [and therefore] most of the news spread through word-of-mouth, [since] strike organizers had already developed contacts with worker leaders at other Yue Yuen factories during smaller strikes in the past.' Workers were able to circumvent government imposed news blackout (*The Economist* (2014) reported that though foreign journalists were allowed onto Yue Yuen's property at Gaobu, Chinese citizens had been barred).

On April 21<sup>st</sup> Yue Yuen made a statement to the Hong Kong stock exchange, where it is registered, reassuring investors that it would return calm to the factory floor by raising workers' living allowance to 230 yuan (\$37) per month, and promised to make up unpaid social security payments, though the contributions was not quantified at the time (NDTV 2014). Workers were informed through loudspeaker and fliers distributed by ACFTU. As one Taiwan-based labor activist stated,<sup>15</sup> 'workers rejected this offer. It sounds nice but workers didn't know how long they would be working and this was

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<sup>14</sup> Phone Interview, August 24th, 2014

<sup>15</sup> Phone Interview, July 21st, 2014

based on future earnings. The offer was tiny compared to what they were owed and couldn't be enforced by them anyways'.

The following day factory gates were closed behind workers, to prevent them from pressing their timecards (i.e.: and then leaving). Those who did manage to find their way inside were arrested when they refused still to work. In response to a call to arms by Taiwanese labor activists, a series of demonstrations sprang up in front of prominent international Adidas retailers, placing additional—albeit indirect—pressure on Yue Yuen. Protests erupted in Istanbul, Melbourne, Bangalore, London, Taiwan, Hong Kong, New York, and elsewhere.

By April 24<sup>th</sup> Yue Yuen had garrisoned its factories with riot police. Four days later, the company reported that 80% of the workers employed at the Gaobu factory, where the strike had started, had returned to work (Qi 2014). Labor activists and workers, however, accused the government and police of physically compelling workers return (Yue Yuen, it was said, asked they 'rectify the situation'). The AFP (NDTV 2014) compiled testimonials from workers who claimed to have 'only returned because of intimidation.' One, who asked not to be named, stated, 'at the moment the factory is controlled by police.'

Eventually the company agreed to pay full pensions, with an additional living allowance, starting May 1<sup>st</sup>, 2014—but no retroactive pay. The offer, announced over loudspeakers on Yue Yuen's corporate campus, elicited 'howls of derision' from picketers, who tore up copies of the ACFTU mediation letter in response (*Economist* 2014). The majority of workers understood this to not be a victory, and the irony involved in considering it as such was palpable. Li, a 45-year-old sanitation worker, explained (NDTV 2014), 'the workers were not successful: the government is forcing us back to work.' Tan, a 17-year old worker in the accessories unit: 'Factory officials have warned us that those who make a fuss will be sacked without compensation,' therefore 'the strike has failed, we didn't get the result we wanted.' But misgivings and all, the workers accepted and the strike lifted.

Yue Yuen estimated direct losses from the April 2014 strike at \$27 million, with an additional \$31 million in exacted concessions for 2014 alone (Qi 2014). By May 3<sup>rd</sup>, days after the strike, shares of Yue Yuen had dropped 4.6%, to a 5-month low, *Forbes* conceded that, 'the strike and extra payments involving Yue Yuen... underscores the rising cost of doing business in China, the country's declining competitiveness for labor-intensive manufacturing and investment' (Flannery 2014).

Failures or no, its influence was nonetheless felt. On July 21<sup>st</sup> of the same year, workers at a Yue Yuen factory in the Chinese city of Zhuhai in Guangdong Province themselves struck over slow social insurance processing, prompting immediate corrective measures by company officials. 'At this point all the misunderstanding has been resolved,' company official Jerry Shum announced shortly after (Lin 2014). In mid-March 2015, around 5 thousand Yue Yuen workers in the PRD downed tools and walked out once again in opposition to the reorganization of the production process. In late-March and into April 2015 up to 90,000 footwear factory workers at Yue Yuen's Vietnam subsidiary Pou Yuen went out on weeklong strike, described as 'one of the longest and largest that has ever happened in Vietnam' (BBC 2015). Their demands centered on social insurance distribution - mirrored those of Guangdong workers a year earlier, while targeting changes in state policy. In response the Vietnamese government announced they would amend the law to incorporate workers' concerns. Major brands reportedly monitored the Vietnam case closely, however production remained unmoved, stressing that their deliveries were unaffected by the strike (Barrie 2015). In February 2016, 17,000 workers at the Bien Hoa City plant struck in opposition to Pou Chen's intransigence with Vietnam's law requiring 12 days of paid annual leave, and a raft of new reward-and-punishment measures, capitulating to workers' demands after four days remunerating workers for strike days (Rogers 2016).

## **Understanding the GVC through a Strike**

### *Brand Reaction and Geographic Relocation*

Even before the strike Yue Yuen had begun relocating production inland from China's industrial southeast, away from the region's rising labor costs (Zhu and Pickles 2014). Despite rumors and reports to the contrary (Qi 2014), an Adidas spokesman confirmed with me<sup>16</sup> the official Adidas statement, that 'the Adidas Group has a highly flexible supply chain in place. [And] in order to minimize the impact on our operations, we are currently reallocating some of the future orders originally allocated to Yue Yuen Dongguan to other suppliers. At the same time, we'd like to point out that we are not pulling out of the Yue Yuen factory in Dongguan and we have no plans to do so. A press release by China Labour Watch claiming this is incorrect.' A few months later it was

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<sup>16</sup> *Email correspondence*, Ben Goldhagen, Adidas Marketing Director (UK), April 24th, 2014

revealed Adidas had indeed shifted a number of orders to other suppliers but ‘at no point did [it] consider pulling out of the factory at Dongguan’ (Borromeo 2014).

In the waning days of the Yue Yuen strike Nike chief executive Mark Parker mentioned at a press conference that Nike was mulling its own relocation of production, to follow the path of least worker resistance in China. But though ‘we [i.e.: Nike] didn’t move product out in this case, [we’re] staying close to it. We’ve been in a position to do that [...] we’re always considering it’ and that, despite maintaining ‘close contact’ with Yue Yuen, it had ‘not yet taken a position on that’ (Valdmanis 2014). He reassured the financial press that Nike had ‘a factory base where [it] can move product around as [it needs to, in order to] make sure that [it doesn’t] have issues with production.’

However far paying retroactive wages to workers would have gone towards rehabilitating its corporate reputation, it was apparently not enough—legal obligations or no—and Yue Yuen refused. Presumably, the strike’s end, in Yue Yuen’s eyes, had put a cap on its responsibilities to labor. As a case-in-point, Nike’s non-binding code of conduct includes a clause protecting worker compensation, asking that, ‘contractor employees are timely paid at least the minimum wage required by a country’s law and provided legally mandated benefits’ (Valdmanis 2014). Yet Nike made no public statements during the strike regarding labor conditions despite protests at their retail-end across the world, instead reassuring investors on the potential relocation of orders in order to resume production.

Two months after the strike an article in *The Guardian* (Borromeo 2014) titled, ‘how Adidas supported worker rights in China factory strike’, analyzed how major brands responded to the strike.<sup>17</sup> As is commonplace during labor factory fires or collapse in the global garment sector, transnational brands immediately disassociated themselves. Similarly with Yue Yuen, the brand Timberland, for example, stated that ‘Timberland products are manufactured in some Yue Yuen locations...but not in the locations that were involved in the strikes’ despite being featured prominently on Yue Yuen’s website. While Nike stated it was working closely with Yue Yuen, the company emphasized that this was not the brand’s responsibility but an issue between workers, Yue Yuen, and the government.

The most far-reaching statement came from Adidas who stated, ‘throughout the strike, the Adidas Group was closely monitoring the situation and in touch with our

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<sup>17</sup> As an aside, the article series sponsored by brand-retailer giant H&M.

partner Pou Chen Group [...] Pou Chen Group was in direct discussion with the local government and the trade union federation to seek ways to address the concerns expressed by the workers [...] with respect to the arrest of two workers' representatives, Mr. Zhang and Mr. Lin, we were engaged with several labour groups in Southern China, to try to determine where they were being detained and offered our support to secure their release. We also wrote to the Dongguan mayoral office, calling for his immediate release' (Borromeo 2014). Adidas' attempts to place principal responsibility on the manufacturer and the local government as well as identifying itself as a third-party advocacy group who, alongside labor groups, were lobbying local government rather than an intimately enmeshed actor within the forces of production. Nonetheless, the recognition by Adidas that a modicum of responsibility must be assumed to 'address the concerns expressed by workers' is distinct from other brands. Indeed, this may reveal the efficacy of the global solidarity campaign of which Adidas was the sole target<sup>18</sup>.

### **The State and Social Reproduction**

The Yue Yuen strike represents the most significant private sector strike over pensions in Chinese history,<sup>19</sup> indicating demographic change and a crisis of social reproduction in China. The shifting demand from wages toward pensions, housing, and other forms of social care is illustrative of China's maturing workforce specifically within labour-intensive manufacturing.

The age for retirement in China is generally 60 for men and 50 for women and the workforce at Yue Yuen are mostly in their 30s and 40s, with many having worked at the company for a decade or longer. Seventy-percent of Yue Yuen's workers are women and a similar percentage of the workforce had been employed for five years or longer (Gongchao 2014), meaning they had accrued more from their pensions, contrasting with the high turnover that plagues worker capacity building in the sector. Across the PRD maturing workplaces and fewer younger migrants have forced suppliers to find ways to retain employees for longer periods. Consequently, workers shifted away from immediate wage-oriented demands, taking stock of a changing landscape of factory closure, reorganization, and relocation. The longer a worker is employed the greater the

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<sup>18</sup> Major brands maintain Corporate Social Responsibility (CSR) policies including 'codes of conduct' protecting legally mandated social security. Yet brands either failed to notice (signalling incapacity), or noticed but failed to intervene (implying complicity). Regardless, this case contributes to mounting evidence of a failure in the CSR regime (see Kumar and Mahoney 2014).

<sup>19</sup> Based on the assertion by Geoffrey Crothall of the China Labour Bulletin (Economist 2014)

potential payoff after a closure or restructure, as such the possibility of closure moves social insurance-related demands to the fore amongst an aging workforce. Nearly eight months after the end of the Yue Yuen strike, the *Wall Street Journal* (Magnier 2014) highlighted a burgeoning movement of Chinese migrant workers forging demands over pensions with workers identifying the Yue Yuen strike and agreement as the ‘turning point’ which ‘sparked further worker actions,’ citing a number of strikes and employer concessions regarding social insurance for workers at electronics, apparel, and toy factories. Ji Jiansheng, a worker at a sports-equipment maker claimed, ‘Yue Yuen’s success has made a big difference.’

The focus on social benefits is also important for Dongguan’s population where nearly 80% of its 8.3m residents either moved in or are children of those who moved from other parts of China. Under the *hukou* system, Chinese law mandates that individuals register as either ‘rural’ or ‘urban’, excluding rural-urban workers from state-subsidized reproduction at their urban residence. This creates a bifurcation between urban production and rural social reproduction (Schling 2014). Internal Chinese migration results in split-households and so-called ‘left-behind’ children who remain in the care of grandparents in the village. Thus China’s internal ‘care chain’ means that ‘elder care’ is also an issue of ‘child care’, or the generational reproduction of labor power (Murphy 2004). Although a Guangdong Province law means that rural migrant workers are entitled to some social insurance since the late 1990s (Cheng, Nielsen, and Smyth 2014), the fusing of Yue Yuen’s demands around social insurance reveals an intersection between spatiality, gender, and an aging industrial working class in the PRD<sup>20</sup>.

For the past decade the central government has enacted a number of pro-labor laws in an attempt to pacify growing worker unrest (Friedman 2014), such as a 2008 labor law requiring employers contribute to social security. The Yue Yuen strike coheres with Friedman’s (2014) characterization of labor unrest in China as a form of ‘alienated politics’ with workers unable to articulate larger politics despite antagonism towards their employer, local government, and the ACFTU. Yet, contrary to Friedman’s claims, the strike spread to other factories and provinces, effectively communicating demands internally and to the outside world despite a media blackout, and is therefore not entirely ‘cellularized’. Yue Yuen also represents an example of a trend in the PRD of demands

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<sup>20</sup> In Western China there is an expansion of vocational schools which function as a ‘labor fix’ for relocated factories of the PRD.

for full implementation of the law. Lee and Zhang (2013, 1504) have shown the use of force has become undesirable as the market economy has reduced a popular dependence on the authoritarian state. They maintain that the Chinese government developed a catalogue of measures to manage unrest, allowing a space for aggrieved citizens to obtain material concessions and symbolic rewards from the state which they term ‘bargained authoritarianism.’ It is clear that the state is changing tact from authoritarian to more clandestine means of reaching governmentality; that is to say, the Chinese state has taken on a more ‘paternalistic’ character and less manifestly antagonistic to workers’ demands.

### **Too Big To Annul**

GVCs are not static and just as ‘the increase[ed] disaggregation of value chains [...] allowed new kinds of lead firms to capture value’ (Pickles and Smith 2016, 25) so too consolidation into large capital holding firms allow new kinds of footwear supplier firms to capture value<sup>21</sup>. Yue Yuen represents an ‘ideal type’ of this phenomenon whose size, integrated supply chains, and technologically upgraded factories led to reduced lead times and costs, aggregating the price differentials with its closest competitors, and making it increasingly prohibitive for buyers to adopt alternative suppliers. Through consolidation Yue Yuen has accumulated considerable value in a historically low-value sector, which is reinvested into industrial upgrading, helping reinforcing its market share, to erect insurmountable barriers to entry. Consequently, these firms exert greater influence in the GVC.

The power of footwear brands rests in their capacity to seamlessly move production at little cost but with devastating effects on producers and workers (see Moran 2010; Armbruster-Sandoval 2004). Despite brand assurances to investors of their capacity to replace Yue Yuen, the unwillingness or inability for them to relocate a noticeable proportion of their production from Yue Yuen, despite an increased risk of resurgent and costly labor unrest, is one indicator of Yue Yuen’s power in the GVC. Brands retaining production after the strike’s end is unprecedented in the history of

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<sup>21</sup> The use of enhanced value in the case of Yue Yuen can be inferred by bringing together a range of factors such as upgrading, consolidation, and that Yue Yuen’s gross profits surpassed all but two of the over thirty brands it supplies for. As with other studies of consolidation in GCC/GVC/GPNs (see Appelbaum 2008; Azmeh and Nadvi 2014), the utility of ‘value capture’ in this paper is primarily at a conceptual level (for a more comprehensive analysis of the spatialized and contextualized conceptual understanding of value capture in production networks see Pickles and Smith (2016)).

global garment sector where relocation follows even the mildest labor unrest (see Kumar and Mahoney 2014). The growth of firms like Yue Yuen makes replacing it increasingly onerous. The size, in terms of net profits, of Yue Yuen now exceeds almost all of the branded firms it produces for<sup>22</sup>. The effect of which should not be understated. The ability of buyers to dictate terms to suppliers has as much to do with barriers to entry as it does with monetary power. In addition to capacity, an obstacle to relocating production is intellectual property, further evidence of embeddedness of transnational brands with domestic firms. Teresa Cheng, a labor activists, posited<sup>23</sup> that ‘similar to Foxconn and Apple, brands could see the critical importance of keeping design functions within a trusted producer like Yue Yuen.’ This represents a radical departure from previous brand action in the sector and cannot be separated from the emergence of so-called ‘full package’ producer like Yue Yuen. Furthermore, by developing ODM/OEM design capability, Yue Yuen has expanded into a higher-value phases in the supply chain. As one director at a large Hong Kong shoe supplier reportedly told the *Wall Street Journal*, ‘If Yue Yuen said today ‘I wont supply anymore to Nike’ then Nike would be scared’ (Merk 2008, 88).

While major brands are outsourcing tasks, Yue Yuen is insourcing more of it, moving upstream on the global commodity chain. Large full package agreements, like Nike’s, of which Yue Yuen is the sole manufacturer worldwide, functions to steel-reinforce the high barrier to entry for competitors. Consequently, Nike and Yue Yuen have become ‘highly dependent on one another’ (Appelbaum 2008, 80), giving Yue Yuen greater leverage when negotiating agreements with brands. Over time this relationship becomes irreversible, with competing firms becoming absorbed into the whole or vanishing altogether, as Marx<sup>24</sup> (1867, 435) anticipated, that the ‘laws of the centralization of capitals [...] larger capitals beat the smaller [and] it always ends in the ruin of many small capitalists, whose capitals partly pass into the hands of their conquerors, partly vanish.’ The result is a deepening of Yue Yuen’s power to dictate prices, dramatically reconfiguring the Gereffi’s ‘buyer-driven’ paradigm into a kind of *buyer-producer symbiosis*. This new mutually dependent relationship makes identifying the driver of GVCs difficult and, as the Yue Yuen strike illustrates, forces larger buyers to buttress their relationship with suppliers despite growing liability brought on by labour

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<sup>22</sup> Based on annual Yue Yuen and brand report data (retrieved April 24th, 2016)

<sup>23</sup> Phone Interview, July 15th, 2014

<sup>24</sup> For an elaboration on the tensions between GCC/GVC/GNN approaches and the Marxian ‘law of value’ see Starosta (2010).

unrest. Symbiosis within the value chain is part of a larger trend of economic growth and purchasing power within emerging markets and falling consumption patterns within saturated economies. As Henderson *et al* (2002, 450) state, ‘the source of power within the GPNs and the ways in which it is exercised is decisive for value enhancement and capture and thus for the prospects for development and prosperity.’

Thus, Yue Yuen’s fully integrated supply chains brought under one roof competitively higher-volume production ready for market at considerable cost-savings. Yue Yuen’s capacity expanded so significantly that if Nike or Adidas chose to go directly to a standalone production firm in China instead of a supply-chain integrated firm because ‘the organizational costs might be too high to afford’ (Lo, Wu, and Hsu 2014). Notably, despite its means, expertise, and strategic position Yue Yuen has not produced its own brand. Doing so, despite the potential profits, would turn Yue Yuen from high value supplier into direct competitor with its vital branded clients. Such is the relationship between Yue Yuen and the brands it produces for, but one that is always changing.

### **Workers’ Power**

Industrial geography informs labor-capital relations at Yue Yuen’s primary facilities. Despite Guangdong housing 20% of China production, recent years has witnessed rising production costs due in part to labor shortage. Yet, through consolidation and upgrading Yue Yuen retained much of its production in Guangdong, unlike many other labor-intensive manufacturing firms. Labor shortage optimized conditions for an escalation of labor demands. In what Hobsbawm (1952) calls ‘collective bargaining by riot,’ Yue Yuen workers cannot mediate their concerns through an independent union. What they have is a single official union ACFTU utilized, as Pringle (2013) and Howell (2008) have shown, to stifle their militancy. The risks of organizing such strikes are too high, due to government spies or company-side informers, so they take on a ‘spontaneous’<sup>25</sup> character, based on word of mouth, erupting and fizzling-out with equal precision.

The size and longevity of the Yue Yuen strike is unprecedented in labor-intensive sectors. Particularly remarkable is a singular demand coalesced against a single target utilizing the same tactic – the wildcat strike - across different factories, provinces, and

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<sup>25</sup> ‘Spontaneity’ of strikes is addressed in Leung (2015) through first hand accounts of labor struggles in the jewel sector in Guangzhou.

even countries over time, rebutting the claim that '[In China] when workers do protest collectively, it almost never extends beyond a single workplace' (Friedman 2014, 1002)<sup>26</sup>. The strike reveals changes in labor-capital relations not only in global footwear but also across labor-intensive manufacturing. These sectors once consisted of many small factories where workers' demands were atomized, a notable difference to Yue Yuen where demands cohered against a single employer albeit in uneven ways. Striking workers had an intuitive sense of Yue Yuen's power in the global supply chain and the efficacy of a large and escalating strike. Once the strike began at Gaobu, a historically militant factory, it expanded to other factories and provinces despite a rejection of the official government union, with neighboring strikes emerging even after the original strike had ended. For example Yue Yuen HQ immediately capitulated to workers at the Zhuhai facility who struck for social insurance a few months after the end of the main strike, extending the counter hegemonic power of the original strike to make gains for the Chinese working class beyond a set time or space.

Enhanced value capture at supplier-ends begins to change workers' strategies and tactics. As stated earlier the employer contribution to social insurance is often under calculated by larger employers and completely avoided by smaller firms. The profit margins of Yue Yuen motivated workers to action, as one activists<sup>27</sup> aptly captures this relationship, 'I've never seen social insurance as a demand at smaller companies where there are many other difficulties, workers I spoke to on the Yue Yuen strike knew exactly how much the company was worth and the issue that drove them was knowing the company could easily pay them.' Indeed, there is much evidence that demonstrates the increases in value and investment at the point of production influences the bargaining power of workers. Moody (2017, 56) states, 'like the formation of larger firms along definite industrial lines, greater capital intensity offers expanded opportunities for successful direct action and increased power in collective bargaining' (Moody 2017, 56). This is in the same vein as Lund-Thomsen and Lindgreen (2018, 87) writing of GVCs in labour-intensive sectors, 'if suppliers earn lower unit rates over time, workers also tend to receive lower wages. If suppliers must reduce lead times, workers will have to engage in overtime work. Thus, the optimum point for suppliers and workers is inherently linked.' Further, Anwar Shaikh (2016, 751) writes, 'capital-intensive industries will also tend to have

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<sup>26</sup> Similarly the 2010 Honda 'strike wave' spread across the country coalescing around wage demands and for an independent union. However, automobiles remain capital-intensive and as such different workers' bargaining power than that of footwear.

<sup>27</sup> Phone Interview, July 21st, 2014

high levels of fixed costs which will make them more susceptible to the effects of slowdowns and strikes. At the same time, because labour costs are likely to be a smaller portion of their total costs, such industries are able to tolerate wage increases’.

## **Conclusion**

The conventional wisdom of capital flows in footwear production is that profits are predicated on the global ‘race to the bottom’ where employers are able to choose from an almost unlimited number of producers in an arena with low barriers to entry. However, as I’ve argued here, freer capital flows can contribute to the vanishing of smaller firms and an even great enlargement of enormous suppliers. Greater bargaining power for suppliers in the GVC can change the possibilities for workers. Whereas a strike at a smaller firm would signal its death knell, Yue Yuen’s size means it can absorb much of the liability brought on by labor unrest. This is indicated by both the \$27m cost of the strike, the company’s ability to ensure the obedience of local officials and police, as well as the inability of brands to either effectively pressure Yue Yuen or move production significantly. However, as an outgrowth of Yue Yuen’s capacity it was able to agree to \$31m in workers’ benefits. Despite the failures of the strike and continued reported difficulties in ensuring the enforcement of the agreement the levels of compensation was unparalleled in the sector<sup>28</sup>.

Through an ‘organizational fix’, an integration of once exogenous phases in the value chain, and the emergence of new large-scale oligopolistic network and territorially embedded firms in the sector is resulting in supplier-end upgrading, raising insurmountable barriers to entry and calling into question established orthodoxy. These economies of scale that form out of the transition towards oligopolistic power has the effect of changing the oligopsonistic relationship between global buyers and producer into a buyer-producer symbiosis, adding restraints to a historically footloose capital, and may someday help grind this ‘race’ to a halt. By technological upgrading, organizational consolidation, and even relational rents, firms like Yue Yuen are ‘locking-in’ buyers, resulting in enhanced value capture at the bottom of the global value chain, of which its

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<sup>28</sup> Hitherto footwear workers of Global South coordinated with Global North activists targeting spaces of high value capture in the supply chain – the brands. The Yue Yuen strike reveals changes in consumption patterns and points of leverage. During the Yue Yuen strike storefront solidarity actions against Adidas erupted around the globe, and in a significant departure the Yue Yuen strike saw retail targeted in cities of the Global South exposing the growth of Asia’s proportion of global consumption (Russell 2014). Thus the emergence of multipolar world in which products are produced and consumed within the Global South hints at the prospect of multiple points of leverage for workers. It also counters the claim by Anner (2015) that China’s ‘authoritarian state labor control regime’ prevents links between workers international advocacy groups and workers.

profit margins are but one indicator, opening up a space for workers to finally make material demands on their direct employer. Simultaneously, however, the transformation to higher value capitals allow them to materially withstand sufficient economic pressure, such as undermining industrial action through its ability to absorb losses brought on by strikes, as well wielding greater influence with the state apparatus, such as province officials and the police, in reproducing labor power.

Yet, it would seem that Yue Yuen strike, by pressing for labor-law compliance are largely 'defensive' and it is still unclear if any enduring organization develops from it despite its clear influence on further strike actions and China's migrant workers' demands for social security. Indeed, the strike at Yue Yuen may represent another example of what Chan (2010) has called 'class struggle without class organization.' However as the strike progressed and additional demands were added the strike on a more 'offensive' or proactive character similar to what Elfstrom and Kuruvilla (2014) have described in Guangdong's capital-intensive automobile industry. Still, the Chinese state's reaction remains inconsistent, in some instances they stand aside during workers' strikes while in the case of Yue Yuen they returned to their authoritarian practices with a vengeance.

However, questions of capital flows are live ones. Since 2012 Pou Chen has continued to move production internally out of South China to Vietnam (a process that has only intensified following the introduction of the Transatlantic Trade Partnership (TPP) in 2015), but there is no indication brands have sought alternative producers to Pou Chen (Ting Fang 2015)<sup>29</sup>. In 2016 Adidas unveiled a robot-operated, vertically integrated, large-scale 'speedfactory' in Ansbach, Germany, announcing future plants in Britain and France, with Nike also developing its own robot-operated shoe factory (AFP 2016). As a direct consequence of rising costs in Asia, Adidas and Nike are replacing humans with machines and 'returning' production to Europe, where shoes will be produced faster, with quicker turnaround times, and significantly reducing freight and labor costs.

Additional research is needed on how economic changes in China are effecting the spatial, technological and organizational reconstitution of capital in labor-intensive production. The Yue Yuen strike draws an initial picture, namely of a restless maturing Chinese industrial working class with greater bargaining power against a vertically

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<sup>29</sup> Consequently, Vietnam has seen a dramatic increase in its footwear production (see Phan, Pham, and Pham (2016).

integrated and enlarged domestic capital. In a strategy that traces its roots to the early 2000s, private sector workers are utilizing a legal framework by which to uphold their demands, and these demands are now spreading to other factories against a single enemy. Finally, economic leverage has spread out of the factory and against retailers, not only with allies in the Global North but by garments workers themselves in the Global South through person-to-person connections and material solidarity made possible by the emergence of a global consumer class. Thus fortifying the bonds between workers across the region, making a development of workers struggles to meet the development of capital. For as Marx (1848) stated, ‘the real fruit of their battles lies, not the immediate result, but in the ever-expanding union of the workers.’

Thus, greater value-capture at the producer-end is dramatically altering questions of power and production. The Yue Yuen strike is a sign, a shift away from giant oligopolistic footwear brands placing downward pressure on a seemingly endless reserve of small, powerless suppliers with an army of workers left unable to exert power. The case of Yue Yuen demonstrates that workers help shape the actions of the state, which attempts to placate them through legislation, and capital: by driving up labor costs and forcing vertical and horizontal integration, moving the struggle to the more direct and brutal organizational fixes, which are clearly in the workers’ court: the point of production itself.

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