



# **The Regional Transition of China's Manufacturing Industries and Its Impact on Social Responsibility: the Case of Textile Industry**

**China National Textile and Apparel Council  
Centre for CSR of the Embassy of Sweden in Beijing**

<b>Principal Drafters</b>				
	Liang Xiaohui	Liu Xin		
	Zheng Jian	Ren Xiaolei		
<b>Reviewers</b>				
	Yan Yan	Liang Xiaohui		
	Anders Wollter			
	Anna Kieter			
<b>Field Investigators</b>				
	Wei Yanxia	Zheng Jian	Liang Xiaohui	Hu Kehua
	Zhai Yunpeng	Ren Xiaolei	Zhang Xu	



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Since the early 21st century, the Chinese manufacturing industries have been in a sizable transition to the inland regions in the center and west from the more developed coastal areas in southeast, which has become a notable economic phenomenon in recent years. The textile and apparel industries have been the pioneer and backbones of such transitions, and so far, the move has been progressing smoothly due to the efforts of governments and industrial associations, as well as the active participation of textile enterprises.

The on-going industrial transition to underdeveloped regions, which combines the advantages of areas in the east, center and west, can not only optimize the productivity distribution and facilitate reasonable industrial division setup, but is necessary for upgrading the country's economic development mode and improving people's livelihoods and social development in the central and western regions. Also, the transfer of textile and apparel industry to these regions can on the one hand open up new development space for the industry, and on the other hand, provide a precious opportunity for enterprises to reform themselves, seek changes in positioning, and add values. Therefore, both recent national work plans for the industry, i.e., the *12th Five-year Plan for Development of Textile Industry* and the *"Guideline for Building China into a Textile Power (2011-2020)"*, deem this trend a historical chance to realize industrial upgrading from "big" to "great". In our view, an orderly and sound industrial transition is signified by enterprises' fully honoring their responsibilities towards employees, local communities and environment while making reasonable use of the competitive advantages of the central and western regions, so as to avoid responsibility gap before and after transition, as well as responsibility deficit in local operations.

In recent years, China National Textile and Apparel Council (CNTAC) has made the promotion of orderly transition of the industry one of its focuses. In 2011, CNTAC set up the Textile Industrial Transition Office which specially provides enterprises with consultation services, and submits proposals to administrative authorities. In 2012, CNTAC and the Ministry of Industry and Information Technology jointly held an experience-exchange conference on national textile industrial transition in southwest China's Chongqing Municipality. All these efforts aimed at guaranteeing a healthy and sustainable industrial transition and securing industrial development and corporate profits.

Meanwhile, we believe it is necessary to conduct field research on the interactive relationship between the industrial transition and corporate social responsibility. In 2011, the Office for Social Responsibility of CNTAC began partnering with the Corporate Social Responsibility Centre of the Embassy of Sweden to take textile sector as a sample to study how the regional transition of industries would influence social responsibility, and finally completed this study report after half a year's visit to nearly 50 companies located in more than ten provinces and autonomous regions. The report presents and analyzes potential opportunities and challenges with regard to social responsibilities during the industrial transition, and puts forward a series of action and policy suggestions concerning various



stakeholders. In addition, we hope that the report could be helpful to social responsibility issues relating to other sectors during similar cross-region transition.

Several departments of CNTAC, including the Office for Social Responsibility, the Textile Industrial Transition Office and the Statistic Center, have participated in the field investigation and report writing. Besides, many local governments, industrial associations, textile and apparel companies and brand companies have provided valuable support to this project, and I would like to extend my sincere gratitude to them.

Sun Ruizhe

Vice President, CNTAC

Director, Office for Social Responsibility, CNTAC

Spring, 2013

Sweden is privileged to have close cooperation with China on the promotion of Corporate Social Responsibility (CSR). CSR Centre of the Embassy of Sweden in Beijing is the key organization for cooperation on the Swedish side. Our mission is to increase knowledge and practices of responsible business in China, and to create Sino-Swedish partnerships and dialogues in this field.

We have partnerships with several stakeholders in China that are instrumental in spreading and promoting CSR practices in China – for example the China Ministry of Commerce, MOFCOM, and the State-owned Assets Supervision and Administration Commission, SASAC. We have a dialogue with Chinese and Swedish companies, as well as international stakeholders, to understand trends and needs, and how we can act as a catalyst.

China National Textile and Apparel Council (CNTAC) is one of our very trusted partners. The new report on transitions in Chinese textile industry and the impact on CSR is one of the important outcomes of our partnership with CNTAC.

The report provides valuable, new insight into the present shifts taking place in Chinese textile industry both in terms of production and consumption. It guides the reader through structural changes and their impact on CSR. Textile industry is the focus, but the conclusions may be applicable to other industries as well. The findings which we now learn of are indications of mega-trends in Chinese CSR development.

The systematic use of CSR practices not only allows the company to reduce negative impacts of its operation. It also helps maximising positive impacts. Global experience has proven that the results came in the forms of better use of resources (thus savings), effective quality management, and advanced productivity which contributes to higher profitability. Although some investments to this end may sometimes (but not always) seem burdensome at first, practice has shown that payoffs to such investments can also be sizable.

It is my genuine hope and belief that Chinese, Swedish and international companies and stakeholders will find the report to be an important tool in their market analysis, operations and relations, providing a solid foundation for their CSR strategy and favourable business development in general.

Anders Wollter  
Minister Counsellor at the Embassy of Sweden in Beijing and  
Head of CSR Centre  
March 2013

## I. Background, Objective and Basic Information of the Survey

The global textile and apparel industry has gone through four development eras: manual spinning stage, mechanical spinning stage, modern spinning stage, and intelligent spinning stage. Each of them is essentially characterized by the improvement of production technologies, the restructuring of production processes and the transition of production locations.

China has a long history of textile development. As early as 5000 B.C, weaving of ko-hemp and silk emerged in the Yellow and Yangtze River Valleys. Textile industry became one of the nation's industrial pillars in the Republic of China era, and spinning and weaving mills extended primarily along the coastal areas from Shanghai to Guangzhou. After the founding of the People's Republic of China in 1949, as a traditional sector with advantages, the textile industry played an important role in national economic development. Regional distribution though, went through substantial changes.

Since 1979, China has made great efforts to become one of the world's largest producers of textiles, and the role of the market has been increasing in the development of China's textile and apparel industry. Furthermore, China's entry into the WTO in 2001 brought another great opportunity for China to make its textile industry bigger and stronger. During this period, taking advantage of pioneering in opening-up as well as its unique geographical position, the eastern region seized the opportunity of the industrial transition in the developed countries, Hong Kong, Macao and Taiwan, and received and developed a number of processing industries which were mainly labor-intensive, including textile and apparel production.

The five provinces in eastern coastal areas, i.e., Jiangsu, Zhejiang, Guangdong, Shandong and Fujian, have made full use of their advantages in systems, funds, talents, market and geographic position, and become the current center of China's textile industry. In recent years, key indicators such as industrial output, employment and export levels in the five provinces still account for more than 70% of the national textile industry.

The shift "from decentralization to centralization, from the whole country to the southeast region" greatly promoted economic development in southeastern coastal areas, and drove economic growth in the long term. However, it also brought some negative consequences, including massive layoffs in the industry in other regions, cutthroat competition among textile enterprises in the southeastern coastal areas, frequent infringement of labor rights and heavy environmental pollution.

As a result, a third round of macroscopic regional transition was triggered at the beginning of the 21st century. Some of the enterprises in the east began to invest in the central and western regions, thus starting another regional transition from east to west, and from south to north.

Since the beginning of this century, the appeal of the central and western regions of China to textile and apparel industry has gradually increased, while that of southeast coastal regions has



decreased, due to enormous changes in factors such as market demand, labor, land resources, natural resources and environmental carrying capacity. In recent years, the textile and apparel industry has developed rapidly in the central and western regions. It has seen significant growth in investment in particular, which has contributed greatly to the development of the whole industry.

Numerous factors have motivated the transfer of the textile and apparel industry in China from the southeastern region to the central and western regions. Be it market demand, labor factors, natural resources or environment, they are also core elements representing and reflecting corporate social responsibility performances.

In order to better understand the interaction between the industrial transition and social responsibly, the Office for Social Responsibility of China National Textile and Apparel Council (CNTAC) conducted in 2012 a special survey on the industrial transition and its implications on social responsibility, with the support from the Corporate Social Responsibility Centre of the Embassy of Sweden. In half a year, the survey covered nearly 50 enterprises in 11 provinces (autonomous regions/municipalities) through questionnaires and interviews. Apart from enterprises in the regions, those surveyed include stakeholders such as local governments, industrial organizations, and employees. The survey collected a total of 148 responses, including 41 from enterprises, 18 from governments/organizations and 89 from employees. We hope this study can help present and analyze potential opportunities and challenges with regard to social responsibilities during the industrial transition, and put forward action and policy suggestions concerning various stakeholders of China's textile and apparel industry.

## II. Impacts of Industrial Transition Policies on Social Responsibility

Industrial transition is the result of uneven economic development between regions. It is a process where enterprises in more developed areas, adjusting to the changes in comparative advantages among different regions, make direct investment in non-local territories to transfer some industries to less developed regions, thus giving rise to the transition from developed to less developed areas from the perspective of geographical distribution of industries. In recent years, the textile industrial transition has become a focus of governments and the society, making the promotion of an orderly transition an important task of governments, which have formulated various policies in order to realize amicable development among regions, and drive industrial structure adjustment and accelerate changes in economic development mode. From the perspective of contents, industrial transition policies mainly include land policies, fiscal/taxation policies, financial policies, investment policies, trade policies, human resource (workforce) policies. From the perspective of forms, industrial transition policies include general policies and purpose-specific policies. Additionally, according to policy makers, industrial transition policies can be divided into policies at the central and regional levels.

Based on the economic positions of different regions, various areas can be categorized into source regions (such as coastal provinces in southeast) and recipient regions (i.e., the central and western regions). Generally, the recipient region's policies are "attraction" and "support" oriented, to create a good environment for incoming enterprises. Industrial transition policies of source regions, however, focus more on "guidance" and "adjustment" and emphasize driving "industrial upgrades" by means of "industrial transition."

Undoubtedly, one of the fundamental goals of industrial transition policies is to promote economic development, regardless of whether it is from central or local levels, or its specific contents. For example, the *Guiding Opinions on Central and Western Regions' Receiving of Industrial Transition* issued by the State Council in 2010 provides, "oriented by market, based on the precondition of voluntary cooperation, taking structural adjustment as a priority, mechanism innovation as a driving force, (the industrial transition shall) put efforts in improving investment environments, advancement of concentrated distribution of industries, enhancement of supporting services...promoting free flow of factors, to realize favorable interactions among the eastern, central and western regions, and gradually form a modern industry system featuring reasonable work divisions, distinctive features and complementary advantages". As specified by other policies too, economic goals are "quantitative goals" of industrial transition policies. They are explicit and easily measured - bestowing them with a high priority.

In addition, both central and local industrial transition policies include one common concept for realizing economic goals: optimizing industry distribution and promoting industrial upgrades, rather than simply facilitating development of relocated industries. In this sense, sustainable development and "responsible" transition are the intentions of industry policies. However, they are only established as "qualitative goals" in such policies, coming in the form of "principles" or "aims" instead of specific measurable targets — reducing them to soft goals in reality.

In local policies, issues of sustainable development related to environmental protection and resource saving receive the most direct and extensive attention. Most local policies (particularly those of the recipient regions) expressly require energy saving/emission reduction and environmental protection to be taken into consideration. However, even environmental protection issues that have received general, intense attention in central and local industrial transition policies are confronted with grave challenges at lower levels. Some governments of less economically developed regions tend to put "subsistence" ahead of "environmental protection."

Other core social responsibility elements, including protection of employees' rights, fair competition and community participation are either seldom mentioned in these local purpose-specific policies or, even worse, sacrificed in favor of stimulating industrial transition.

This reflects another collective feature of these policies: stressing the relationship between the

government and enterprises in transition whilst ignoring the enterprises' impact on other stakeholders. In this manner, during the industrial transition, enterprises tend to take short-term advantage of government policies or evade them, ignoring the establishment of long-term engagement and communication mechanisms with various stakeholders in social responsibility.

With regard to the implementation of such policies, the survey found that its influences on corporate social responsibilities fall into two scenarios: inter-regional implementation coordination challenges, and intra-regional implementation guarantee deficiencies. The former would cause waste of resources on a huge scale and make recipient regions "race to the bottom" in social responsibility requirements in a bid to win further transition projects. The intra-regional implementation guarantee deficiencies of recipient regions include a genuine lack in scientific screening of incoming projects' technical levels and added value, as well as the incoming enterprises' management level, their social and environmental impacts; risks of negative environmental and social impacts triggered by the implementation of such policies in the factor realm; the difficulty in mobilizing "policy chains" closely related to the industrial transition; and the failure of local governments in fulfilling policy promises punctually or adequately. All these implicate structural social responsibility risks.

### III. Influences of Industrial Transition on Corporate Social Responsibility

With the economic growth in eastern regions, as well as rising labor costs and greater pressure in resources and environmental protection, many eastern enterprises have moved or planned to make a transition. Through the survey, we have drawn a clear picture of the industrial transition in China's textile and apparel industry, and learned the influences of such transition on social responsibility of enterprises in both recipient and source regions. Although the selection of sample enterprises was not made on a strictly random basis, the overall scale of the enterprises in recipient regions is comparatively larger (in terms of employee numbers) than those in source regions, and the scale distribution of enterprises in the former is also relatively even. Although the garment industry occupies an almost equally important position in both source regions and recipient regions, the proportion of weaving and textile enterprises was remarkably higher in recipient regions than in source regions.

From the perspective of employees, male employees make up a higher proportion than females in source regions, while the case is opposite in recipient regions. This highlights the gender perspective of the industrial transitions. That is, the transition to central and western China provides more job opportunities to women. Moreover, the source regions along the coast in eastern China have developed relatively strong human resource advantages, while enterprises moving to central and western China are faced with a severe talent bottleneck.

The survey also included some specific research on the economic influences of the industrial



transition. It was found that, during interviews in source regions, 38.46% of enterprises had already moved, while 30.77% had a plan to transfer in the future. This shows that transition has already become an important choice for enterprises in the coastal regions of southeastern China. In both types of regions, local governments and industrial organizations were well aware of the economic influence of the industrial transition. The difference was that those in source regions seemed to have balanced understanding of the pros and cons, while recipient regions focused more on various positive influences exerted on the local economy. Though governments and industrial organizations in both types of regions highly value economic contribution from the industrial transition, the survey showed that the economic performances of most enterprises in recipient regions were not favorable. The survey showed that the profitability rates of over 60% of the enterprises in recipient regions were below 10%, with 21.74% of such enterprises showing a loss.

Along with the rapid growth of corporate social responsibility awareness in China in recent years, mainly thanks to government guidance and promotion as well as the focus and supervision on corporate practices in the society, the gap between the two types of regions regarding awareness of social responsibility is also narrowing. However, when it comes to the responsibility management level and incentive mechanisms of social responsibility, enterprises in recipient regions fell quite a lot behind that of source regions. The lack in incentive mechanisms may be related to some structural features of the industrial transition (such as focusing more on intermediate products like weaving products; end products mainly being supplied to domestic market, etc.), but the lack of ability and mechanisms for corporate social responsibility originated more from inside these enterprises.

One of the most direct impacts of the textile enterprises' transition on recipient regions is the creation of a large number of job opportunities, which has turned those once hometown-leaving migrant workers into workers employed in their hometown, thus raising local economic and social vitality. One of the driving forces of the industrial transition is the pressure of labor costs in coastal regions. However, the survey shows that moving to central and western China will not necessarily reduce human resource costs. Firstly, lack of professionals and technicians is a common challenge faced by enterprises before and after the transition. Secondly, although the average salary level of source regions is prevalently higher than that in recipient regions, the gap is not large, and keeps narrowing. Lastly, employees hold high expectations regarding salary increases in all regions.

Working hours of enterprises in both types of regions were roughly the same. This suggests that the transition has brought the same production efficiency to central and western China as that in eastern China, and that the transition has provided no good solution to the working time issue.

Influenced by the difficult recruitment situation in recent years, safe and healthy working environment has become increasingly important for enterprises. Therefore, enterprises in both regions stress the safety and health of employees. But in recipient regions, most employees are closer to

their families and community environments and their social demands are better satisfied than migrant workers, hence cultural entertainment facilities are not needed as much as in source regions in coastal areas.

Like source regions, employees in recipient regions seldom shy about giving advice, suggestions or complaints. Channels for delivering these in both types of regions were limited mostly to a suggestion box, mobile SMS or simply face-to-face talk. The survey also found that, as employees of enterprises in recipient regions were mostly natives, their families and social relationships played a certain role in preventing and addressing labor disputes.

When it comes to the actual practices in recipient regions, environmental protection, which has received extensive attention from governments and society, is a relatively complicated issue. Firstly, textile and apparel industries that had transferred to central and western China were mostly weaving and garment making industries. They are two relatively cleaner industries and dyeing and printing sector, a process between these two has relocated much less. The “missing in-between processes” situation would offer some protection to the environment of recipient regions, while limiting the local establishment of a complete textile and apparel industrial chain, making it difficult for raw material resources to realize higher added value. Therefore, whether dyeing and printing industry should be introduced was a question widely discussed in many places in central and western China. Moreover, although the environmental protection facilities are well in place at enterprises in recipient regions, the key environmental protection challenge of these enterprises lies in their outdated environmental protection management.

As far as community involvement and development are concerned, over half of the enterprises in both source and recipient regions were committed to assisting in solving community and social issues. The difference lies in that enterprises in source regions focused more on “interaction” with the local community, while enterprises in recipient regions were more concerned about “integration” into the local community. By supporting local infrastructure construction, making reasonable compensation for use of local resources and other means, they sought to “find themselves a place” and “set root” in local development.

## IV. Recommendations

The survey indicates that there are many problems and challenges in social responsibility and sustainable development during the industrial transition. In our opinion, all stakeholders should devote to dialogues, engagement and cooperation with each other on the basis of fulfilling their respective responsibilities.

### Governments

- © All governments, especially local ones, must give full consideration to both economic and responsibility targets in formulating policies encouraging the reception of industrial transition. At the same time they should elevate the concept of sustainable development and social responsibility to the strategic level.
- © Local governments should improve their holistic understanding of social responsibility, apart from environmental protection, energy conservation and emission reduction.
- © Local governments must evaluate the effects of economic activities stemming from industrial transition policies, particularly the structural and systematic negative effects on social responsibilities.
- © The central government needs to keep strengthening its coordination, guidance and macro-planning on inter-regional industrial connections.
- © Governments at all levels, though particularly local ones, need to pay more attention to the implementation methods of industrial transition policies to guard against any possible negative effects on the environment or society.

### Enterprises in transition

- © Enterprises in relocation must uphold updated development concepts whilst avoid opportunism in the industrial transition. They must clearly understand that the industrial development model based on competitive advantages of resources, labor force and ecological environment will in no way sustain.
- © Enterprises that have relocated to recipient regions shall put more focus on introducing and transplanting social responsibility practices and actions, while continuing promoting correct ideas on social responsibility.



### Brand companies and buyers

© International brand companies and buyers should put more resources on improving the awareness and capacity in social responsibility of inland suppliers, while strengthening the management of social responsibility of their second-tier suppliers after transferred to central and western regions.

© Whether or not taking into consideration industrial transition, domestic brands should first focus on the establishment and improvement of social responsibility management mechanism within their supply chains.

### Industrial and social organizations

© As opinion groups, industrial and social organizations can monitor, investigate and conduct research on social responsibility issues in the industrial transition, propose initiatives and solutions, and engage in policy lobbying and communication with businesses.

© As action groups, they can offer related training and consultation to governments and enterprises, take part in the formulation of regional and industrial social responsibility policies or action guidance, and assist local enterprises in fulfilling responsibility.



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“It is a clear autumn morning, with a sky that is seemingly endless overhead. A resonant siren arises from a colossal ship in the distance, floating over the shimmering Zhuxi River, a branch of the Yangtze River. A new day has started in Wanzhou, a district of Chongqing in the center of the Three Gorges Reservoir Area.

It is a little before 8 a.m. when thirty-six-year-old Liao Hongmei walks out of her house by the riverside. She climbs up the long stone steps for 5 minutes before taking a bus to the Three Gorges Textile Company where she works, and has recently been promoted to the head of a workshop. She walks around to check the product quality, stopping to speak with workers from time to time. The young woman, one of the Three Gorges immigrants, was once a farmer, and had made a living growing vegetables and doing part-time jobs. Now though, she has become used to her nine-to-five factory job.

In response to the nation’s call to develop the west, the Shandong Ruyi Group founded its world-class textile company in Wanzhou in 2006. The recruitment statement attracted thousands of local laborers, Liao being one of them...In the past five years, Liao and her husband’s salaries have gradually increased, and now they are able to earn more than 5,000 yuan each month.”

— People’s Daily, front page, October 4, 2012

## Chapter I **The Status and Motivation of Regional Transition of Textile and Apparel Industry in China**

### **I. Transition History of Global Textile and Apparel Industry**

The global textile and apparel industry has gone through four development stages, each essentially characterized by the improvement of production technologies, the restructuring of production processes and the transition of production locations.

#### **1. Manual spinning stage**

As far back as the agricultural age, handicraft production and family workshops played a major role in textile development. During that period, yarn manufacturing, cloth weaving and garment processing existed in Asia, Africa, South America and Europe. Both China and India have long histories in textile production. Fabrics such as silk and cotton from China and India were sold all over the world, and the two countries were the dominant suppliers in global textile trade.

#### **2. Mechanical spinning stage**

Textile industry entered the mechanical age during the Industrial Revolution in England. Thanks to the invention of the flying shuttle, and a series of spinning machines, efficiency was significantly improved. With the establishment of textile factories, production gradually shifted away from traditional small workshops to an industrialized setting. As the first country to carry out industrialized textile production, England became the “world factory” and “world trade centre” for fabrics.

#### **3. Modern spinning stage**

After the World War II, up to the 1990s, innovations in spinning equipments and technologies were constantly refined. The development of modern ring spinners and automatic looms, along with non-woven technologies contributed to a qualitative breakthrough in textile production. In particular, the emergence and development of chemical fibers broke the restriction of dependence on natural materials. The industry moved into a stage of

rapid development, and the current pattern of globalized production chain and trade organization began to take shape. During this stage, developed countries such as the U.S., Germany and Japan, became the world's largest producers of textiles.

#### 4. Intelligent spinning stage

Since the 1990s, the structure of the textile industry has been upgraded steadily and the scope of product utility has evolved further. After the previous age of expansion in developed countries, the industry evolved from being labor-intensive to capital and technology-intensive, and showed a trend towards knowledge-based production. Due to the large-scale application of e-commerce systems, quick response systems and dedicated software, the focus of business operations shifted from conventional product manufacturing to the satisfaction of consumer demands. During this stage, China and the other developing countries in Southeast Asia grew and developed into the center of the global textile industry.



■ Figure1.1 Transition of Global Textile and Apparel Industry

Source: compiled by the author

As shown above, the global textile production center has returned to its origins from a geographical perspective. After 200 years of development, however, the return of production center to its roots is by no means a simple backflow, but the certain outcome of the evolution of production and trade from local markets to a globalized one. It is also worth pointing out that along with the multiple transitions in global regional layout of textile industry, great social changes always take place and have significantly affected everybody's daily life.



## **II. Regional Transition of Textile and Apparel Industry in China**

### **1. Transition Course of Textile and Apparel Industry in China**

China has a long history of textile development. As early as 5000 B.C, weaving of ko-hemp and silk emerged in the Yellow and Yangtze River Valleys, whilst in 500 B.C, hand reeling machines and treadle looms were already being used.

The industrialization of China's textile sector began sprouting in the middle to late Ming Dynasty. It became one of the nation's industrial pillars in the Republic of China era, and spinning and weaving mills extended primarily along the coastal areas from Shanghai to Guangzhou.

After the founding of the People's Republic of China in 1949, as a traditional sector with advantages, the textile industry played an important role in national economic development. Regional distribution though, went through substantial changes. From 1949 to 1978, before Reform and Opening-up, a number of industrial centers for textile machinery, yarn manufacturing, weaving, printing and dyeing were set up in Zhengzhou, Xi'an, Xianyang, Tianjin, Beijing, Shanghai and so on, all according to the industrial development strategy set out during the time of a planned economy. In addition, several production bases for chemical fibers, such as viscose rayon and vinylon, were also built in Shanghai, the Northeast of China, Tianjin and Sichuan. Thus the textile industry was spread out all over the country. The regional shift during this period, from centralization to decentralization, from the southeast to the whole country, improved the national production capacity, which was able to meet the needs of the Chinese population and put

an end to an era where people had a cloth quota of only 7 *chi* per capita per year, as it had been in the early days after the liberation.

After 'Reform and Opening-up', i.e., ever since 1979, China has made great efforts to become one of the world's largest producers of textiles, and the role of the market has been increasing in the development of China's textile and apparel industry, which was signaled by the cancellation of the cloth coupon in 1983, 30 years after its adoption. From 1998 to 2000, a series of reforms were introduced to state-owned enterprises. Through restrictions on production, rescaling of spinning mills, personnel reductions and restructuring, great improvements were achieved in quantity, quality and efficiency. Furthermore, China's entry into the WTO in 2001 brought another great opportunity for China to make its textile industry bigger and stronger. During this period, taking advantage of pioneering in opening-up as well as its unique geographical position, the eastern region seized the opportunity of the industrial transition in the developed countries, Hong Kong, Macao and Taiwan, and received and developed a number of processing industries which were mainly labor-intensive, including textile and apparel production.

Induced by the aforesaid factors, a second regional transfer started in China's textile and apparel industry, forming a shift back from decentralization to centralization, from the whole country to the southeast region. Alongside this transition were substantial changes in society and the economy. In positive terms, the

transition greatly promoted economic development in southeastern coastal areas, drove economic growth in the long term, propelled large-scale migrations of surplus rural workers in the central and western regions to the southeastern coastal areas, and helped China take half of the global textile and apparel market. However, it also brought some negative consequences, including massive layoffs in the industry in other regions; regions, cutthroat competition among textile enterprises in the southeastern coastal areas, frequent infringement of labor rights and heavy environmental pollution.

As a result, a third round of macroscopic regional transition was triggered at the beginning of the 21st century. As social and economic conditions changed, some of the enterprises in the east began to invest in the

central and western regions, thus starting another regional transition from east to west, and from south to north. This round of transition transformed the development trend in China's textile and apparel industry. In terms of static layouts, the eastern regions still play a leading role; while in terms of dynamic layouts, the central and western regions are contributing more and more to industrial development. This report will focus on the study of the characteristics, motivation, policy environment and enterprise practices of the current transition, and explore its impact on and interaction with corporate social responsibility. Unless otherwise specified, the "industrial transition" referred to hereinafter shall be interpreted as the regional transition of China's textile and apparel industry starting from the beginning of the 21st century.

## 2. Industrial Transition and Its Static Regional Layout

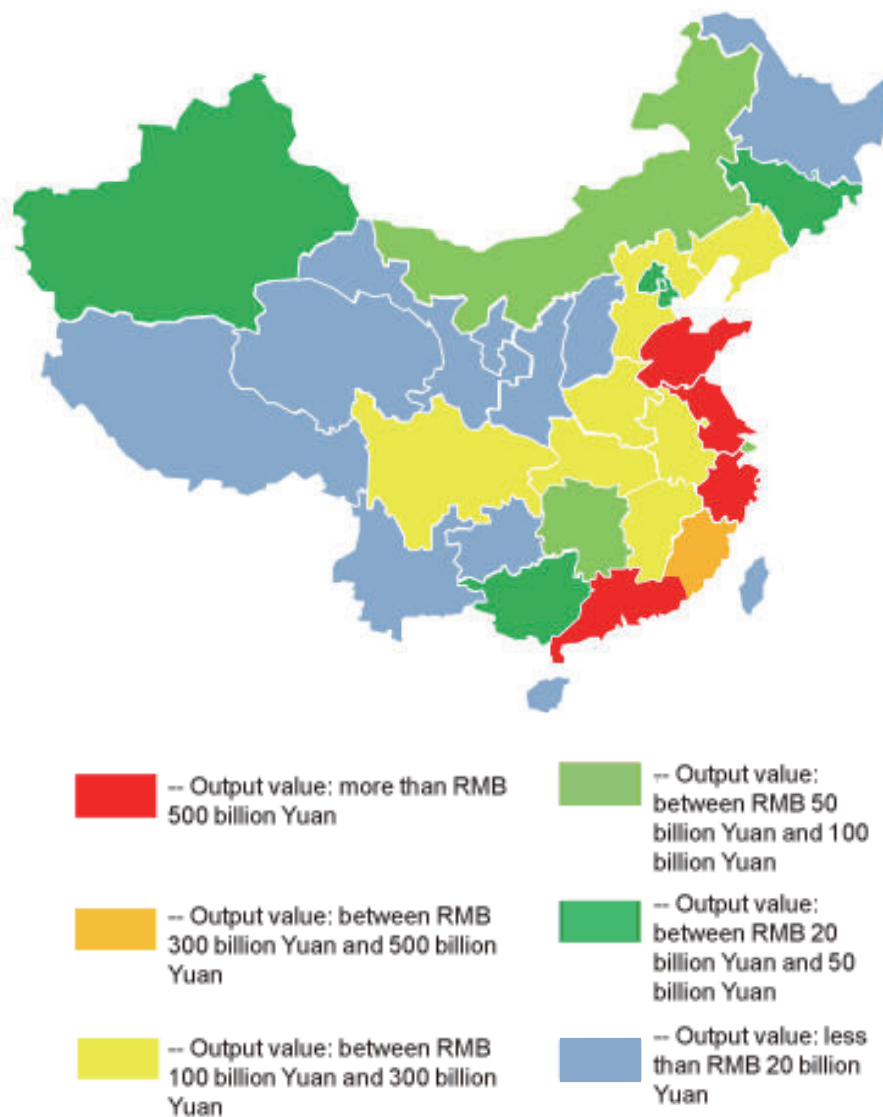
In terms of static layouts, the five provinces in eastern coastal areas, i.e., Jiangsu, Zhejiang, Guangdong, Shandong and Fujian, which were the first movers after China's Reform and Opening-up, took the initiative to vigorously develop the textile industry, expanded production capacity and improved the industrial system by making full use of their advantages in systems, funds, talent, market and geographic position. They fully grasped the historic opportunity brought by the changes in circumstances at home and abroad during that time. Although the third round of transition started in those regions, they are still the current center of China's textile industry. In recent years, key indicators such as industrial output, employment and export levels in the five

provinces still account for more than 70% of the national textile industry.

Because of relatively tardy development, and a less advantageous geographic position, the textile industry is still rather small in the central provinces of Henan, Hubei, Hunan, Anhui and Jiangxi, all of which played an important part in the industry before the second transition, and enjoyed abundant labor and advantages in resources, including raw materials. It is also true to the western provinces, including Xinjiang, Shaanxi and Sichuan, and three northeastern provinces, i.e., Heilongjiang, Jilin and Liaoning, though they have already laid foundations to improve the situation.

## (1) Regional Distribution of Production of Textile and Apparel Industry

These five eastern provinces are the mainstay in the production layout of the textile and apparel industry in China. The specific status in 2012 is shown in the following diagram.



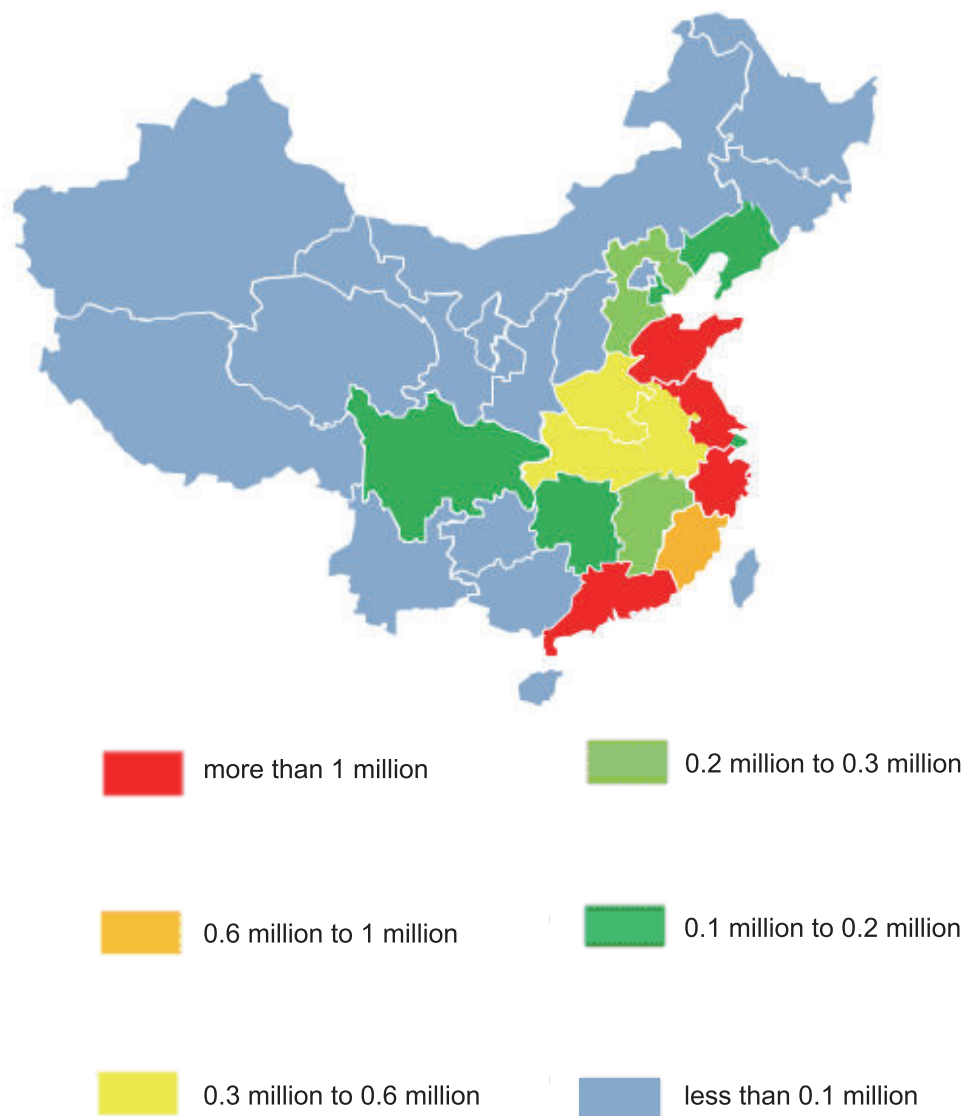
■ Figure1.2 Textile and Apparel Production Distribution in China (2012)

Source: National Bureau of Statistics of China

According to statistics, textile enterprises above designated size in the five eastern provinces cumulatively generated 4131.835 billion Yuan in gross industrial output value in 2012, accounting for 71.47% of all textile enterprises above designated size in China.

## (2) Regional Distribution of Employment in Textile and Apparel Industry

In regard to the employment in China's textile and apparel industry, the five provinces also post the highest rate. The situation in 2012 is shown in the following diagram.



■ Figure1.3 Regional Distribution of Employment in Textile and Apparel Industry in China (2012)

Source: National Bureau of Statistics of China (the data is that of enterprises above designated size for January-November 2012)

According to statistics, the textile enterprises above a designated size in the five eastern provinces employed 6.6977 million workers in the period of January to November 2012, accounting for 68.28% of all textile enterprises above a designated size in China, which employed a total of 9.8096 million workers in this period.

### (3) Regional Distribution of Export of Textile and Apparel Products

Benefiting from advantages in geographic position and faster development, enterprises in the eastern coastal areas are the main exporters of China's textile and apparel products. The situation in 2012 is shown in the following diagram.



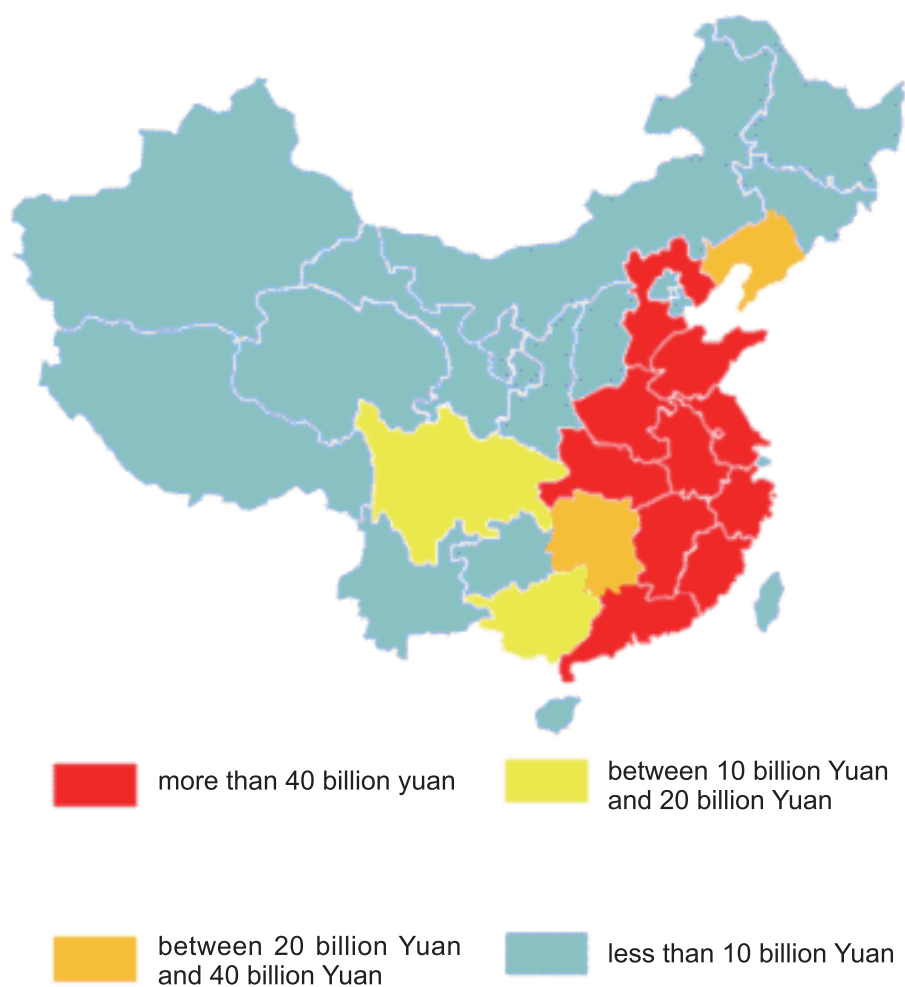
■ Figure1.4 Regional Distribution of Export of Textile and Apparel Products in China (2012)

Source: China Customs

According to statistics, the textile enterprises in the five eastern provinces cumulatively exported \$187.939 billion worth of textile and apparel products in 2012, accounting for 71.58% of the national total.

#### (4) Regional Distribution of Investment in Textile and Apparel Industry

In terms of absolute value, the eastern regions still take a leading investment role in the industry. The regional distribution of investment in textile and apparel industry in 2012 is shown below.



■ Figure1.5 Regional Distribution of Investment in Textile and Apparel Industry in China (2012)

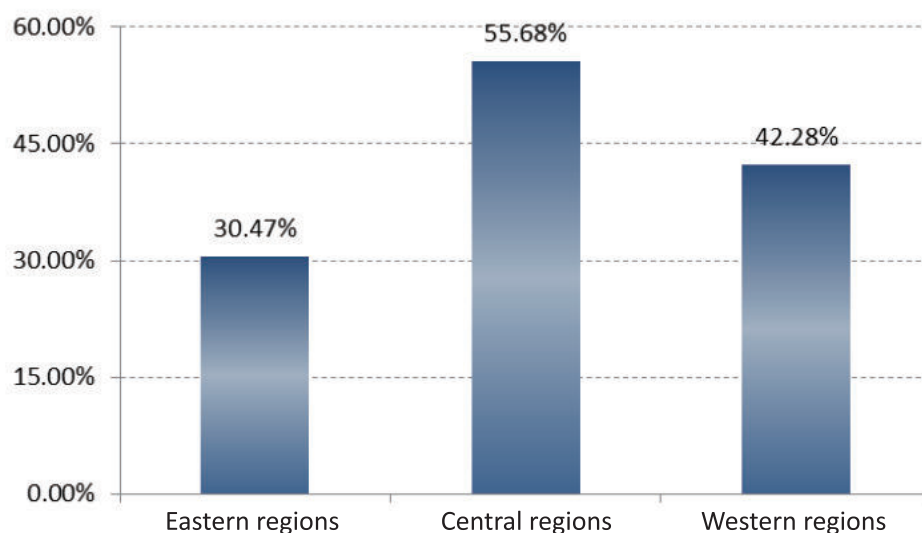
According to statistics, the total investment amount of fixed assets in the textile industry in the five eastern provinces amounted to 370.801 billion Yuan in 2012, accounting for 47.58% of the whole industry.

## 3. Industrial Transition and Regional Dynamic Changes

Dynamically, the textile and apparel industry in the central and western regions has developed rapidly in recent years. In particular, the regions have seen significant growth in investment, which represents an increasing contribution to the development of the whole industry.

### (1) Regional Dynamic Changes in Investment in Textile and Apparel Industry

In recent years, central and western regions have seen greater increases in average annual investment growth than in the eastern regions. The average annual growth rates of investment in different regions are presented in the following chart.



■ Figure1.6 Average Annual Increase of Investment in Textile and Apparel Industry in China (2005-2012)

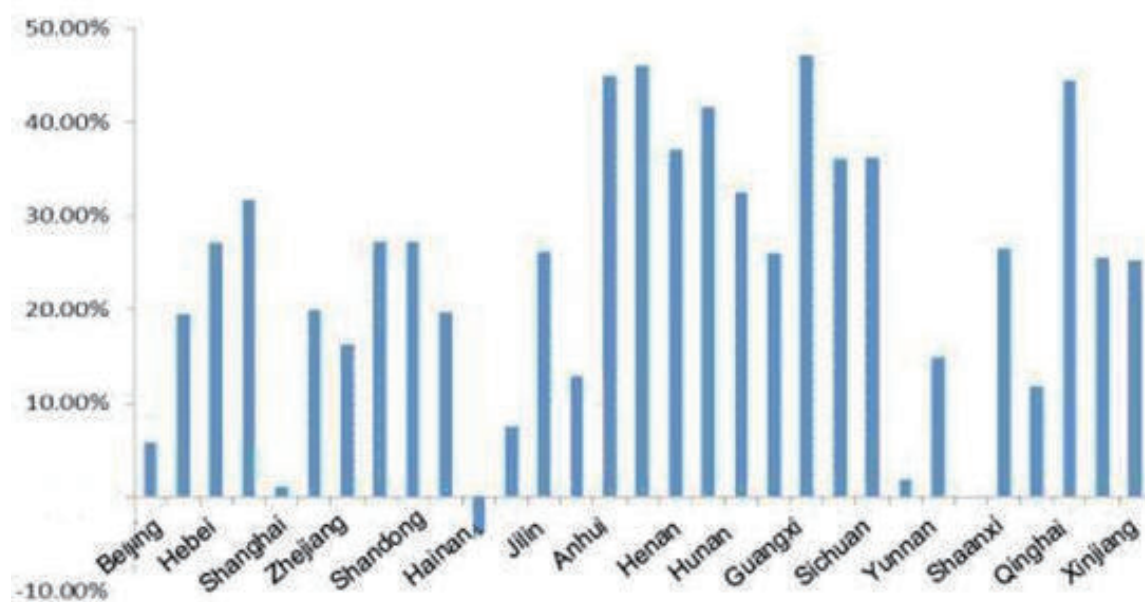
Source: Estimated data from National Bureau of Statistics of China

Due to the growth of investment, the shares of investment in central and western regions in the national textile industry in 2011 increased by 15.73 percentage points and 1.27 percentage points respectively, compared with those of 2005, while investment in eastern regions fell by 17 percentage points.

### (2) Regional Dynamic Changes in Production of Textile and Apparel Industry

Propelled by more investment, textile enterprises in the central and western regions began to make more contribution to the outputs of the whole industry. The output growth rates of textile and apparel industry in various provinces in recent years can be seen from below.





■ Figure1.7 Average Annual Output Value Growth Rate of Textile and Apparel Industry in China (2005-2011)

Source: Estimated data from National Bureau of Statistics of China

According to estimates, the average annual output value growth rate of textile enterprises above designated size in the central regions was 38.5% for the period 2005 to 2012, while the average annual output value growth rate of those in the western regions stood at 31.64%, both higher than the 20.63% of textile enterprises above designated size in the eastern regions. The gross industrial output value of textile enterprises above designated size in the central and west regions reached over trillion yuan in 2011, which was more than doubled that in 2009. Their shares in the textile industry of China rose from 15.5% in 2009 to 19.7% in 2011. The employment of textile enterprises above designated size in these regions grew by 16.7% on YoY basis, compared with 2.8% for the eastern region. Also, the cost profit rate of the textile and apparel industry in the western regions in 2011 grew 1.3 times than that in 2009.

In conclusion, although the current regional transfer in the textile and apparel industry has not radically changed the leading position taken by enterprises in southeastern coastal areas, it has definitely granted the central and western regions second-mover advantages. However, the extent to which such second-mover advantages challenge the leading role of the southeastern coastal areas will depend on the various economic and social factors that are driving the current industrial transition, and the interaction between such transition and these factors-the influence of industrial transition on social responsibility will also reveal itself in the interaction.

### III . Motivations for the Regional Transition of Textile and Apparel Industry in China

Since the beginning of this century, the appeal of the central and western regions of China to the textile and apparel industry has gradually increased, while that of southeast coastal region has decreased, due to numerous changes in factors such as market demand, labor, land resources, natural resources and environmental carrying capacity.

#### 1. Market Demand

The eastern coastal region of China was the first to open to the outside world, and has seized the opportunity of the industrial transition from developed counties, Hong Kong, Macau and Taiwan regions, with its unique advantages in product exports and raw material imports. The “orders from abroad, production at home” economic pattern of the eastern coastal regions catered to the opening-up development policy as well as the rapidly growing demand from the developed countries in the mid to late 70s.

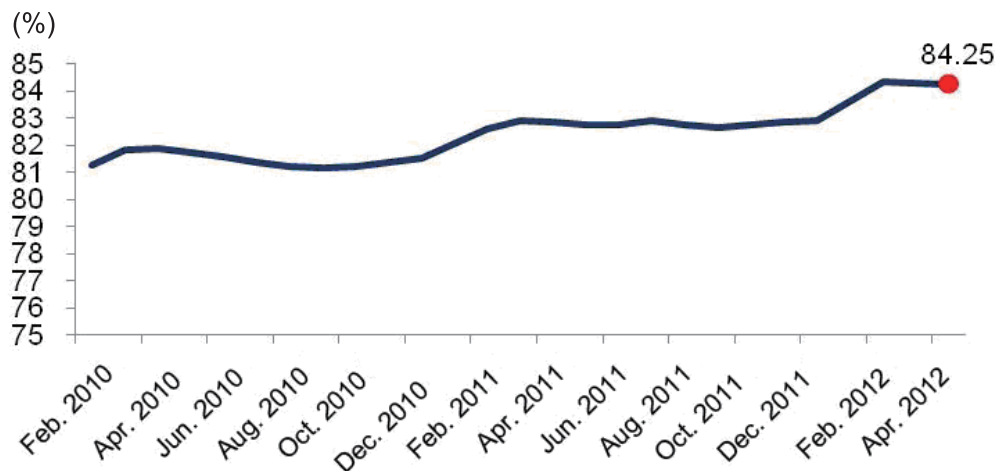
At the 116th executive meeting of the State Council, in August 1986, top Chinese leaders made it clear that the export trade of China should focus on the textile and apparel industry for a certain period. Accordingly, the then Ministry of Textile Industry implemented the strategy “focusing on expansion of textile exports” by establishing export bases in 12 major coastal cities, including Beijing, Tianjin and Dalian. The textile and apparel industry became the top earner for foreign exchange through exports, providing an influx of foreign currency and original accumulation for national economic construction on the eastern seaboard.

■ Table 1.1 Exports of China's Textile and Apparel Industry since 1978

Year	Value of Exports (100 million US dollars)
1978	24.31
1983	49.66
1987	113.38
1992	252.80
2000	520.80
2005	1150.30
2012	2625.63

Source: China Customs

In recent years, the vigorously-growing domestic market has developed into the primary driving force for the textile and apparel industry in China, mainly due to constantly accelerating urbanization and a continuous improvement of living standards. As of 2011, garment consumption of urban residents reached 1674.70 Yuan, 2.96 times of that of 2000 (565.29 Yuan). Garment consumption of rural residents reached 341.34 Yuan, 2.30 times of that of 2000 (148.57 Yuan). The proportion of output value in the domestic market increased from 67% in 2000 to almost 85% in 2012.



■ Figure 1.8 Proportion of Sales in Domestic Market for China's Textile and Apparel Industry  
Source: China National Textile and Apparel Council

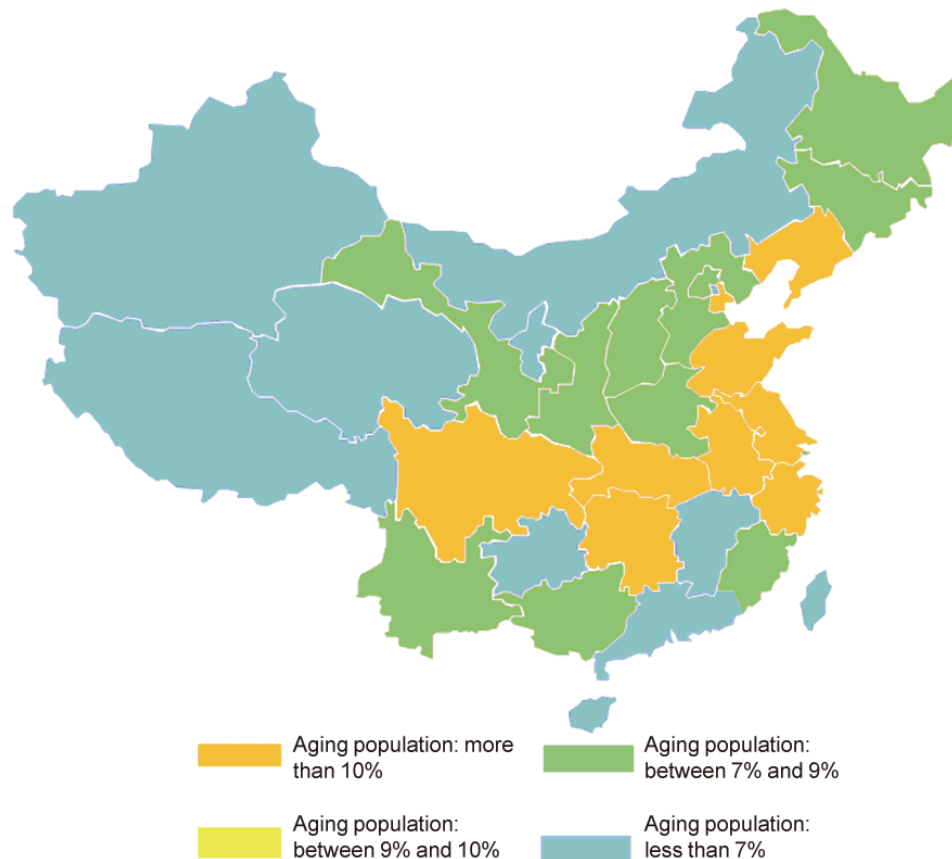
In the mean time, the financial crisis in Europe and America since 2008 has resulted in a severely shrunken international market for textile and apparel products. Therefore, exports may no longer give support to the industry in China for a long time. On the contrary, domestic market, especially in rural areas, poses great potentials, resulting in a gradually shifting focus onto the domestic market. In a market structure dominated by domestic sales and complemented by overseas demands, the regional geographical advantage of the eastern coastal regions in facilitating international trade has been weakened, and that of the central areas in reaching out to domestic terminal market is instead highlighted. The shift of enterprises to the central and west regions actually shortens their distance to potential massive markets.

### 2. Labor Factors

Since the Reform and Opening-up era, the eastern region in China has gradually established sound industrial bases and attractive wage levels compared to other regions, helping to gather and develop an abundance of skilled labor forces. However, the development of local economies and social progress has resulted in higher wages (including prices of production factors such as raw materials) and increasing enterprise costs and deteriorating development conditions of the labor-intensive textile and apparel industry. Comparative advantages of labor resources in the eastern regions have gradually faded out.

#### (1) Changes in Labor Factor

The proportion of aging population in China is on an increasing trend “from the west to the east” with relatively big gaps between different areas. The population over 65 years old accounts for over 10% of the total population in eastern coastal areas, while those in the central and western regions are still relatively low. Some areas are still typical younger-oriented population regions.



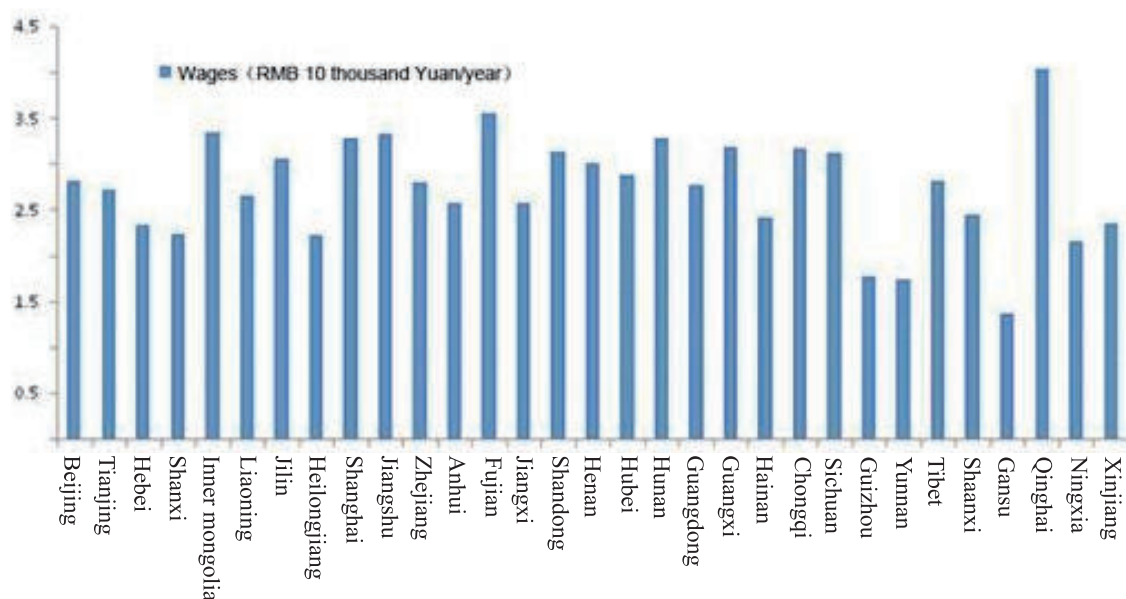
■ Figure1.9 Proportion of Aging Population in China (2011)

Source: Estimated data from 2012 China Statistical Yearbook

The working-age population is the main source of labor, making the core of the whole population, but an increase of the proportion of elderly people will result in decreases in working-age population.

## (2) Changes in Labor Price

In recent years, wages of all areas have been increasing in China, though the absolute value of wages for workers in the eastern regions is still higher than those in central and western ones. According to figures from the National Bureau of Statistics, in 2010 wages for workers of textile enterprises above designated size in the east were 30.3 thousand Yuan per capita, while those in central and western regions were 28.4 thousand Yuan per capita. On the one hand, rises in labor costs have become an inevitable influencing factor for labor-intensive enterprises in the east. On the other hand, simultaneous rises in wages in the central and western regions have weakened the appeal of wages in the east for workers. Therefore, from the perspective of gradient changes in labor factor prices in eastern, central and western regions, the previous advantages of the east have been gradually lessened for both enterprises and employees.

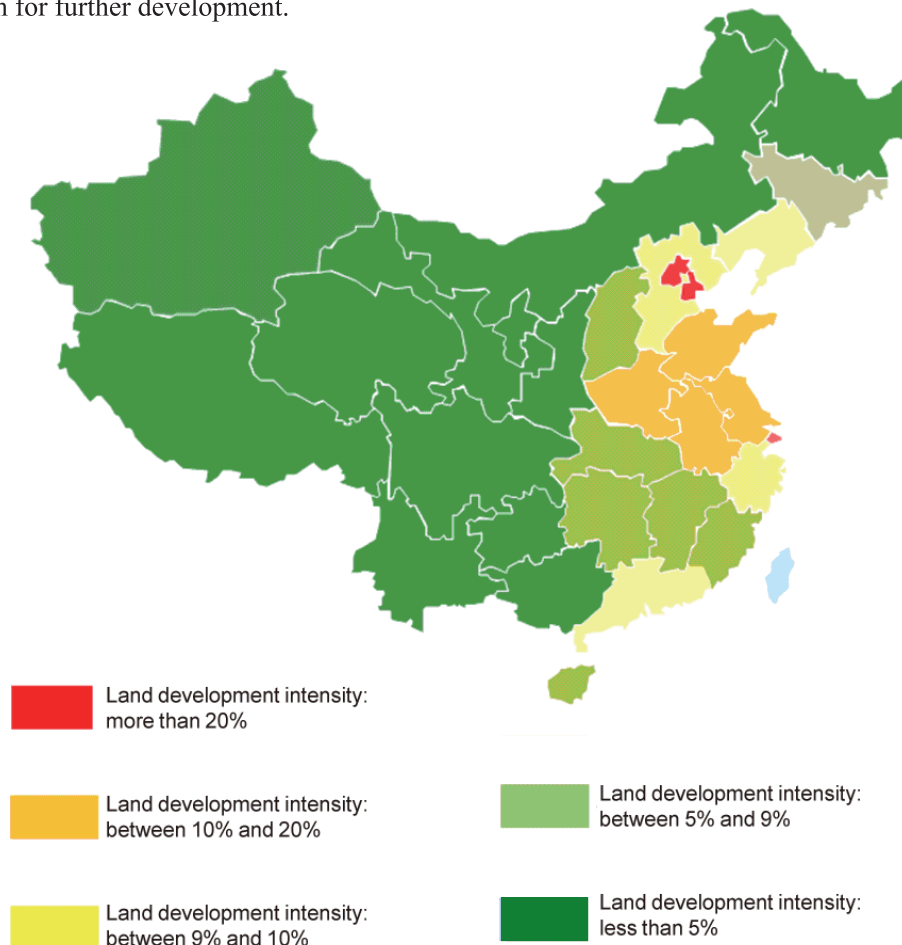


■ Figure1.10 Wages for Workers of Textile and Apparel Industry in China (2010)

Source: Statistical Yearbook of Textile and Apparel Industry 2011

### 3. Land Resources

Over the past 30 years, the land development intensity of Eastern China has been relatively higher, with Shanghai, Beijing and Tianjin ranking top among all cities. The development intensity is now on a decreasing trend from east to west though. According to statistics, the land development intensity of the Shanghai Municipality reached 30.83% in 2011. At the same time, the land development intensity of the central and western regions was relatively low, leaving room for further development.



■ Figure1.11 Land Development Intensity in China (2011)

Source: Estimated data from China Statistical Yearbook 2012

The usage cost of land in the eastern regions has continuously increased, along with ever-rising land development intensity. According to relevant statistics, the average leasing price of land in 2010 in the Shandong Peninsula, Yangtze River Delta reached 1.1476 million Yuan/*mu*, and 1.1406 million Yuan/*mu* respectively, with that of the Pearl River Delta at a similar level. During the same period the average leasing price of land in the Wuhan Metropolitan Area was 0.4708 million Yuan/*mu*.

Therefore, a decrease in absolute inventory of land resources in the eastern region, and the relatively high prices of land resources, have impelled local enterprises of the textile and apparel industry to the turn to the central and western regions for new development spaces.

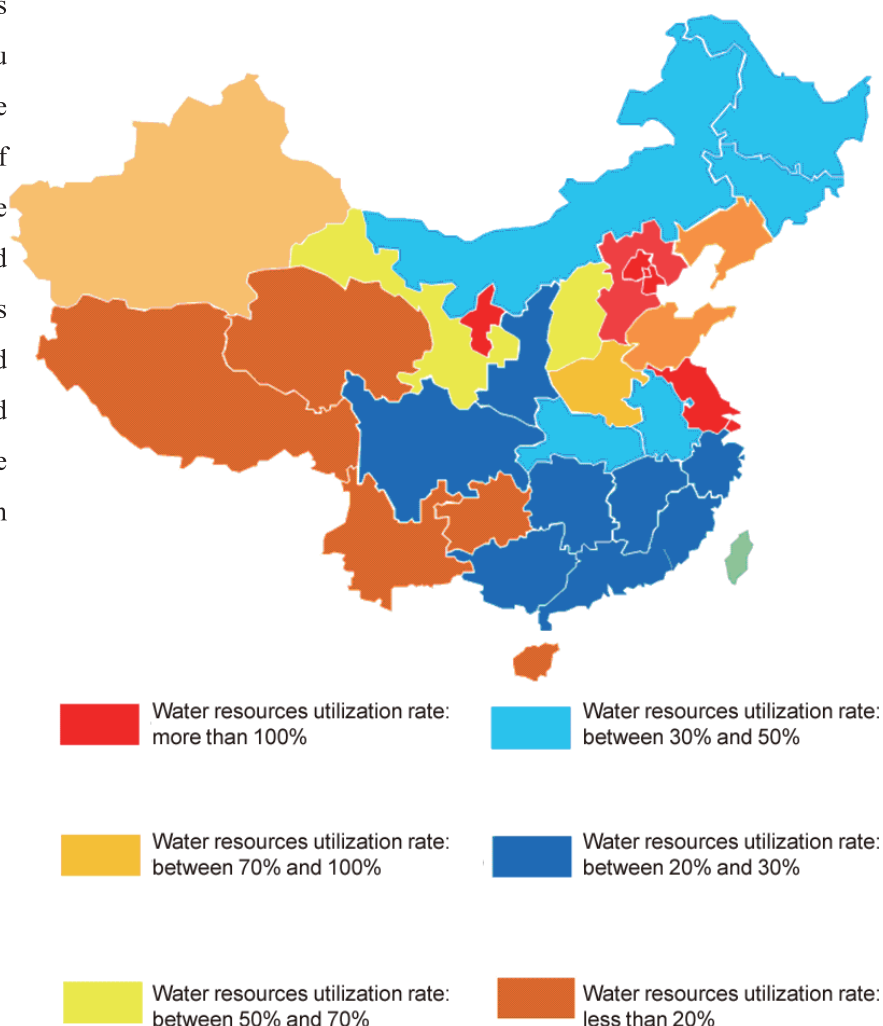


#### 4. Natural Resources and Environmental Carrying Capacity

The coastal area of eastern China is now facing enormous pressures in regard to environmental issues, due to the dense numbers of cities and towns, complex water systems and overdeveloped natural resources. By contrast, the central and western regions of China have lower population densities, abundant natural resources as well as a relatively strong environmental capacity.

##### (1) Water Resources

China is a dry and thirsty country, possessing 2.8 trillion cubic meters of fresh water, which accounts for 6% of the total water resources worldwide and makes China No. 4 in the world. However, China is one of the thirteen countries with the least per-capita water resources in the world, with 2,300 cubic meters per capita. According to calculations, utilization rates (per capita consumption/per capita resources) of water resources in some eastern provinces and municipalities such as Shanghai, Beijing, Tianjin and Jiangsu have exceeded 1. That means these areas have to borrow huge amounts of water from other provinces to alleviate imbalances between supply and demand. By contrast, utilization rates of water resources in some central and western regions, such as Yunnan and Qinghai, are lower than 10%, while those of Sichuan, Shaanxi and Hunan are no more than 30%.



■Figure1.12 Water Resource Utilization Rates in China (2011)

Source: Estimated data from China Statistical Yearbook 2012



## (2) Electricity

In recent years, the electrical power deficit in China has reemerged, expanding and becoming more serious in 2010 and 2011 in terms of scope, length of time, and intensity. In 2011, the biggest gap of supply and demand for electricity in China was 30 million KWHs. The eastern coastal regions were the main electrical consumption and load areas in China. According to statistics, the electricity consumption of the five eastern provinces accounted for 36.04% of the total consumption nationwide in 2011. The traditional “local balance” electricity distribution mode is no longer able to meet the current requirements of economic development, and this has become a major barrier for the expansion of textile and apparel industry in the eastern region. Yet some provinces and municipalities in central and western regions, such as Hubei, Chongqing and Gansu as well as Xinjiang Uygur Autonomous Region, possess relatively abundant electrical resources.

■ Table 1.2 Power Consumption in China (2011)

Unit: 100 million KWH

Provinces or Municipalities	Electricity Consumption	Provinces or Municipalities	Electricity consumption	Provinces or Municipalities	Electricity Consumption
Beijing	821.71	Anhui	1221.19	Sichuan	1751.44
Tianjin	695.15	Fujian	1515.86	Guizhou	944.13
Hebei	2984.9	Jiangxi	835.1	Yunnan	1204.07
Shanxi	1650.41	Shandong	3635.26	Tibet	23.77
Inner Mongolia	1864.07	Henan	2659.14	Shaanxi	982.47
Liaoning	1861.53	Hubei	1450.76	Gansu	923.45
Jilin	630.15	Hunan	1293.44	Qinghai	560.68
Heilongjiang	801.87	Guangdong	4399.02	Ningxia	724.54
Shanghai	1339.62	Guangxi	1112.21	Xinjiang	839.1
Jiangsu	4281.62	Hainan	185.28		
Zhejiang	3116.91	Chongqing	717.03		

Source: China Statistical Yearbook 2012

### (3) Environmental Stresses

Provinces in eastern China discharge huge amounts of waste water, and Guangdong, Jiangsu, Shandong and Zhejiang rank as the top four provinces with the most waste water in China. In 2011, the five provinces of eastern China discharged 38.81% of all waste water in China. Despite great efforts have been made in recent years, and international-level environmental standards have been achieved in some eastern provinces, yet the industry setup in the eastern regions has been in place for decades, and the upgrading and reconstructing of existing companies and industry parks implicate huge investments and great difficulty, therefore, the environmental costs in the eastern regions are hardly affordable for a considerable part of companies with low bargaining power. The production capacity of the textile and apparel industry in the southeast region has overwhelmed local environmental capacity, and meanwhile environmental protection costs in eastern China are increasing rapidly.

From an objective point of view, environmental carrying capacities of the central and western regions are much higher than those of the eastern region, while environmental protection standards for industrial parks in the central and western regions are much higher than those in the eastern region, which have been developed over a period of 30 years. Newly planned industrial parks with modern environmental protection facilities can assist related enterprises meeting environmental requirements and help disperse related costs, which has also driven textile and apparel companies in the eastern region to go westward determinedly.

## IV . Conclusions

Numerous factors have motivated the transfer of the textile and apparel industry in China from the southeastern region to the central and western regions. Be it market demand, labor factors, natural resources or environment, they are also core elements representing and reflecting corporate social responsibility performances. Therefore, any decisions relating to these elements by enterprises will not only influence their social responsibility performances, but also exert significant impacts on stakeholders such as business partners, competitors, employees, communities, consumers and the natural environment.

On the other hand, the relevant interactions between these elements and an enterprise, as well as their social impacts are not only determined by economic decisions and business operations of the enterprise, but also government guidance and regulations. In fact, these two sets of relations will not only define the status and nature of the current industrial transition, but also lay the foundation for performance and future trends of social responsibility of enterprises involving in transition. The next two chapters of this report will carry out in-depth analyses from the perspectives of government policies and enterprise practices.

## Chapter II Industrial Transition Policies and Their Influences on Social Responsibility

### I. The Status of Industrial Transition Policies

#### 1. Definition and Classification

As stated above, industrial transition is the result of uneven economic development between regions. It is a process where enterprises in more developed areas, adjusting to the changes in comparative advantages among different regions, make direct investment in non-local territories to transfer some industries to less developed regions, thus giving rise to the transition from developed to less developed areas from the perspective of geographical distribution of industries. In this sense, industrial transition is a process for reconstruction of spatial productivity distribution and re-definition of work division system, as well as potential opportunity for pushing forward industrial structure adjustment and accelerating changes in economic development mode.

Therefore we define policies relating to industrial transition as follows: the aggregate of various policies that influence industrial transition activities, as formulated by central or local governments, in order to realize amicable development among regions, push forward industrial structure adjustment and accelerate changes in economic development mode. From economic perspectives, governments may make up for defects of the market mechanism by intervening in market activities. In this regard, industrial transition policies should also be the aggregate of policies used by governments to make specific interventions in industrial transition activities to avoid the failure of markets. From

the perspective of contents, industrial transition policies mainly include land policies, fiscal/taxation policies, financial policies, investment policies, trade policies, and human resource (workforce) policies and so forth. From the perspective of forms, industrial transition policies include general policies (such as the *Decision on Quickening Advancing Reception of Industrial Transition* issued by the People's Government of Ganzhou, Jiangxi Province,) and purpose-specific policies (such as the *Circular on Fiscal/Taxation Policies for Accelerating Textile Industry Development in the Autonomous Region* issued by Xinjiang Government). Additionally, according to policy makers, industrial transition policies can be divided into policies at the central and local levels.

#### 2. Essential Content of Industrial Transition Policies

Industrial transition policies have mostly been issued in the past five years since 2008. Those issued in the early stages of this period were mostly local policies. The *Guiding Opinions on Central and Western Regions' Receiving of Industrial Transition* (hereinafter referred to as the *Guiding Opinions*), issued by the State Council on August 31, 2010, served as the core of these industrial transition policies at the central government level. The *Guidance Catalog of Industrial Transition*, issued by the Ministry of Industry and Information Technology (MIIT) in July 2012 (hereinafter referred to as the

*Guidance Catalog*), brought the *Guidance Opinions* into operation. It proposed “111 zones/belts (parks) for receiving industrial transition and speeding up industrial development, as well as 2,537 catalog entries on industries to be transferred and developed”, involving 15 different sectors (including textile and apparel industry). With regard to the textile industry, the *Adjustment and Revitalization Plan of the Textile Industry*, issued by the State Council in 2009, specified eight key tasks, one of which was to strengthen industrial transition and “optimize regional distribution.” In July 2010, the MIIT issued the *Guiding Opinions on Advancing the Textile Industrial Transition*, indicating that the focuses of industrial transition and regional development of textile industry lay in: accelerating industrial upgrading in the eastern region, improving the manufacturing system in the central region, developing featured industries in the western region, and speeding up development of advantageous industries in the northeastern region.

Local industrial transition policies are generally formulated by local governments above county level (purpose-specific policies may also be formulated by relevant government agencies). The 2010 *Guiding Opinions* required central and local governments to

“provide necessary policy-based support in taxation, finance, investment, land and other aspects for the industrial transition in central and western regions.” After its issuance, provinces and cities issued further detailed local policies, based on the *Guiding Opinions*. According to statistics made by the research team of this study, by the end of 2012 all provinces in central and western regions, including the Tibet Autonomous Region, have issued provincial level policies on the industrial transition (see Table 2.2). So far, over 200 policy documents were issued by local governments at or above county level, and Shenzhen alone issued 11 relevant documents.

Based on the economic positions of different regions, various areas can be categorized into source regions (such as coastal provinces in southeast) and recipient regions (i.e., the central and western regions). In some eastern provinces, such as Shandong and Guangdong, two patterns of transfer have evolved, namely inter-province and intra-province transitions. Generally, the recipient region’s policies are “attraction” and “support” oriented, to create a good environment for incoming enterprises. Specific types of policy for these recipient regions are shown as follows.

■ Table 2.1 Types and Contents of Transition Policies of Recipient Regions

Policy types	Typical contents
Land policy	Higher priority in providing land for allocation; reduction or exemption of land use right fee, leasing fee, etc.
Fiscal/taxation policy	Providing direct or indirect preferential investment incentive to enterprises, such as transfer payment, pre-tax deduction, accelerated depreciation, capital allowance, reduction/exemption of fees for supporting facilities of urban construction, government procurement.
Financial policy	Encouraging financial institutions to provide credit support to industrial transition programs, and providing diversified services to transferring enterprises; supporting condition-compliant enterprises to issue corporate bonds, financing bonds and IPOs and support financial institutions in the central and western regions when taking part in investment/financing activities in diversified markets.
Investment policies	Higher priority given to approval of establishment for industrial transition programs; preferential policy treatment equal to that provided by the incoming enterprise's current local region; for regions capable of forming a complete industrial chain, providing comparatively strong industry supporting capability and having a good industry glomeration effect, enjoying higher priority when they are integrated into industry development planning and distribution, while more support will be provided.
Trading policy	Convenient customs clearance mechanisms provided to incoming enterprises; simplified inspection procedures for passport control; bonded logistics mechanisms; support for enterprises in developing multimodal transport to reduce logistic costs.
Human resource (workforce) policies	Encourage introduction of advanced technology, management and HR; culture specialty professionals; creating good working environment by improving services, attracting HR support and securing workforce supply.



Water Bill				
Consumer Type	Final Bill	Including		
		Water only	Principal and Interest	Sewage Disposal Fee
Residential living	2.15	1.10	0.25	0.80
Administration	2.52	1.32	0.30	0.90
Industrial water	2.42	1.32	0.30	0.80
Commercial and capital construction	2.83	1.43	0.30	1.10
Special industry	7.30	5.80	0.30	1.20

Social Insurance			
	Endowment Insurance	Unemployment Insurance	Medical insurance
Enterprise	20%	2%	7%
Individual	8%	1%	2%

Labor Wages	
Management	Worker
Over 1,500 yuan/ month	Over 1,200 yuan/ month

■ Figure 2.1 Factor Prices Listed in a Brochure of a Recipient Region

Industrial transition policies of source regions, however, focus more on “guidance” and “adjustment” and emphasize driving “industrial upgrades” by means of “industrial transition.” The main contents of such policies include building up an industrial transition platform, listing a categorized catalog for industrial transitions, rendering relevant services, in order to guide labor-intensive, resource-based industries and enterprises lacking potentials to move out from the region. Some local governments also encourage enterprises to move out by taking measures including fiscal subsidies. It is worth noting that the reverse pushing mechanisms, such as work force and environmental protection, are also key drivers for local governments to promote industrial transformation, upgrading and transition. For example, the *Notice on Further Strengthening Two Transitions* issued by Shenzhen in 2011, explicitly specifies that environmental protection related thresholds for market access should be raised, standards on pollutant emissions should be strictly implemented, and pollution-generating enterprises engaged in textile, dying, organic solvents, etc. should be eliminated or transferred.

## The Regional Transition of China's Manufacturing Industries and Its Impact on Social Responsibility: the Case of Textile Industry

■ Table 2.2 Policies Relevant to Industrial Transition Issued by Some Provinces

Name	Transition type	Issued on
Opinion on Implementation of Continuing Transferred Industry issued by Sichuan Province	Recipient	June 8, 2011
Some Opinions on Promoting Industrial Development of Wuyi New Zone issued by Fujian Province	Recipient	November 7, 2011
Opinion on Implementation of Speeding up Development/Opening and Continuing Transferred Industry issued by Gansu Province	Recipient	May 1, 2012
Decision on Promoting Industrial Transition and Workforce Transition issued by Guangdong Province	Outgoing	May 4, 2008
Guidance on Further Promoting Cooperation and Co-construction for Provincial Industrial Transition Parks issued by Guangdong Province	In-province transition	July 11, 2011
Scheme for Specific Work to Receiving Transition of Textile and Apparel Industry issued by Henan Province	Recipient	November 13, 2012
Some Opinions on Speeding up Promotion of Jingzhou in Hubei in its Construction of the Demonstration Zone for Receiving Transferred Industry issued by Hubei Province	Recipient	September 5, 2012
Notice on Relevant Questions on Speeding up Development of Heze issued by Shandong Province	In-province transition	2004
Notice on Strengthening Efforts on Receiving Transferred Industry issued by Shaanxi Province	Recipient	September 2008
Notice on Relevant Fiscal/Taxation Policies for Speeding up Development of Textile Industry in the Autonomous Region issued by Xinjiang Uygur Autonomous Region	Recipient, in-province transition	September 19, 2010
Some Opinion on Implementation of the New Round of Coordination between Mountainous Regions and Costal Regions issued by Zhejiang Province	In-province transition	May 15, 2009
Opinion on Implementation of Receiving Transferred Industry issued by Hainan Province (Trial)	Recipient	April 2011
Opinion on Speeding up Development of Strategic Emerging Industries by Chongqing Municipal Government	Recipient	May 9, 2011
Opinion on Further Speeding up Development of Textile Industry by Chongqing Municipal Government		May 15, 2012



## II. The Positioning of Industrial Transition Policies and Corporate Social Responsibility

### 1. Economic and Responsibility Goals of Industrial Transition Policies

Undoubtedly, one of the fundamental goals of industrial transition policies is to promote economic development, regardless of whether it is from central or local levels, or its specific contents. For example, the 2010 *Guiding Opinions* provides, “oriented by market, based on the precondition of voluntary cooperation, taking structural adjustment as a priority, mechanism innovation as a driving force, (the industrial transition shall) put efforts in improving investment environments, advancement of concentrated distribution of industries, enhancement of supporting services...promoting free flow of factors, to realize favorable interactions among the eastern, central and western regions, and gradually form a modern industry system featuring reasonable work divisions, distinctive features and complementary advantages”. Like other regions, the *Notice on Strengthening Efforts on Receiving Transferred Industry* issued by Shaanxi Province in 2008, specified concrete economic development goals, including “with 3-5 years of effort, the whole province should receive 5,000 industrial transition programs, bring over RMB 300 billion, and form approximately 20 industrial clusters and 100 industrial parks/zones with sizable scale, with supporting facilities for industrial coordination and sound infrastructure.” All these show that economic objectives are “quantitative goals” of industrial transition policies. They are explicit and easily measured - bestowing them with a high priority.

In addition, both central and local industrial transition policies include one common concept for realizing economic goals: optimizing industry

distribution and promoting industrial upgrades, rather than simply facilitating development of relocated industries. Therefore, the *Guiding Opinions* issued by the State Council have specified that industrial transition shall be based on the principle of “orderly transition and scientific reception.” To carry out this principle, the *Guiding Opinions* explicitly requires “efforts be made to guarantee development during reception, enhancement of independent innovation capability and promotion of industrial optimization/upgrade; strengthen environmental protection, make economical and concentrated use of resources and promote sustainable development; make efforts to guide labor to local work, promote industrial and population concentration, and speed up urbanization.” One of the aims of the *Guidance Catalog* issued by the MIIT, was “to promote healthy, harmonious and sustainable development of the regional industrial economy.” In the “Industry Distribution” part of the policies of Shaanxi Province, such concepts as “green food” and “green energy” show up 8 times. Specifically, when it comes to textile and apparel industry, one of the basic principles of the *Guiding Opinions on Advancing the Textile Industrial Transition* issued by the MIIT, was “sticking to the combination of energy-saving, environmental protection and sustainable development.” This shows that sustainable development and “responsible” transition are the intentions of industry policies. However, they are only established as “qualitative goals” in such policies, coming in the form of “principles” or “aims” instead of specific measurable targets - reducing them to soft goals in reality.

"Let's move along our path, a path of scientific development, and leave others arguing behind us. Whatever others say, we should be resolute in the two transitions and in clearing unwanted industries for introducing what we need. Never implement whatever programs just to keep growth rates."

——Wang Yang, former Secretary of Guangdong Provincial CPC Committee

Text analysis also shows that among central-level industrial transition policies and general local transition policies, there is an innate consistency between quantitative economic goals and qualitative sustainable development goals (or responsibility goals), i.e. economic growth should comply with the “scientific development” approach — this entirely differs from the “pollution first, treatment later” approach exhibited

in the last round of industrial transition from the very beginning of China’s Reform and Opening-up. However, such consistency tends to gradually reduce as the levels of policy makers go down, and as general policies are refined to purpose-specific policies, which eventually results in contradiction between economic goals and responsibility goals. In such cases, the quantitative goals with substantial priority tend to prevail.

## 2. Social Responsibility Elements in Industrial Transition Policies

In local policies, issues of sustainable development related to environmental protection and resource saving receive the most direct and extensive attention. Most local policies (particularly those of the recipient regions) expressly require energy saving/emission reduction and environmental protection to be taken into consideration. For example, the *Twelfth Five-Year Development Plan for Textile Industry of Xinjiang Uygur Autonomous Region* indicates that one of the major measures for its textile development is to focus on sustainability of transferred industries, and expressly requires “prohibiting enterprises with outdated equipment or those producing high pollution levels from moving in, restricting disorderly distributions.” The *Agreement on Joint Promotion of Industrial Transition Recipient Demonstration Zones of City Belts along Wan River*, jointly signed by the Ministry of Environmental Protection and Anhui Provincial Government in 2010,

further highlights the importance of environmental protection issues during industrial transition. The two sides agreed to cooperate in six aspects such as establishing policy/legal regulation systems, tightening environmental thresholds for market access, increasing environmental protection funding, unified planning on urban/rural environmental protection, etc., to explore new methods and processes for a more structured reception of industrial transitions. In the area of energy conservation and environmental protection, some regions even adopt incentive measures, including financial rewards. For example, according to *Some Policies for Hefei’s Reception of Transferred Industry and Quickening of New-style Industrialization Development* (Trial), “for projects with comprehensive utilization of resources and energy-saving/environmental protection, upon its completion and operation and tax payment, a one-off reward amounting to RMB 100,000 will be provided to

the enterprise's management team.”

However, other core social responsibility elements, including protection of employees' rights, fair competition and community participation are either seldom mentioned in these local purpose-specific policies or, even worse, sacrificed in favor of stimulating industrial transition. For example, workforce exporting provinces are generally recipient regions in the industrial transition. In order to secure a workforce supply for incoming enterprises, some regions often use policy-based measures to encourage the return of migrant workers and discourage others from moving away. From the perspective of social responsibility, an increase in local workforce has a positive influence on local employment rates and urbanization, while working at one's hometown means lower living costs and more family time as far as the employees are concerned. This serves to raise the employee's living quality and happiness while alleviating, to some extent, such social issues as 'empty-nest' elderly and left-behind children in rural areas. Still, some local governments, intentionally or otherwise, ignore the social responsibilities of enterprises, thus limiting such positive effects. For example, some local policies provide favorable treatment in terms of basic amounts for social security charges, insurance premium rates and payment modes. Another example is that in 2010, the education department of a certain province in central China issued the *Emergency Notice concerning Matters Relating to Organization of Students from Middle Occupational Schools to Take Replacement Work and Internship at Foxconn Technology Group* (a purpose-specific policy), which required relevant schools to organize their current students to “work and intern” at the specific enterprise. This was to ensure the enterprise's formal settlement in the province and to enable a “sufficiently high-caliber

workforce” for mass production. Such policies would potentially constitute forced labor of minors, and would harm their right to a good education.

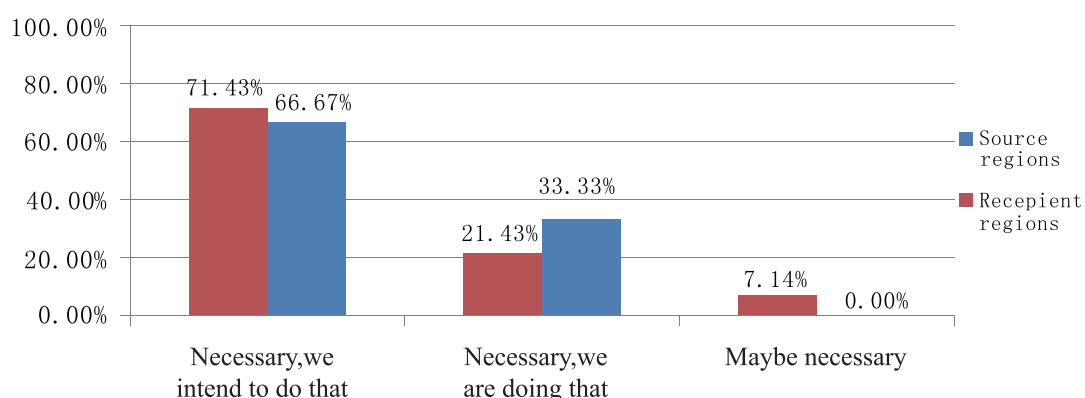
Even environmental protection issues that have received general, intense attention in central and local industrial transition policies are confronted with grave challenges at lower levels. Some governments of less economically developed regions tend to put “subsistence” ahead of “environmental protection.” For example, the *Opinions on Further Easing Investment Policies* issued by a certain county in north Jiangsu Province provides that, “for major units that are listed as protected, and for key projects in conformity with national stipulations, various fees for excessive pollution discharge will be nullified in the first year after production begins, and will be levied at 10% of standard rate in the following five years.” Such policy stipulations, disguised as reducing charges for the sake of enterprise costs, will actually allow, or even encourage, enterprises to lower their responsibility towards the environment. Meanwhile, environmental issues are likely to cause social issues, too. In recent years, a number of mass protests relating to environmental concerns dealt with relocation of pollution-generating industries.

Other topics of social responsibility, including corporate governance, fair competition and community participation/development have barely been given any consideration or attention in almost all industrial transition policies. This reflects the other collective feature of these policies: stressing the relationship between the government and enterprises in transition whilst ignoring the enterprises' impact on other stakeholders. In this manner, during the industrial transition, enterprises tend to take short-term advantage of government policies or evade them, ignoring the

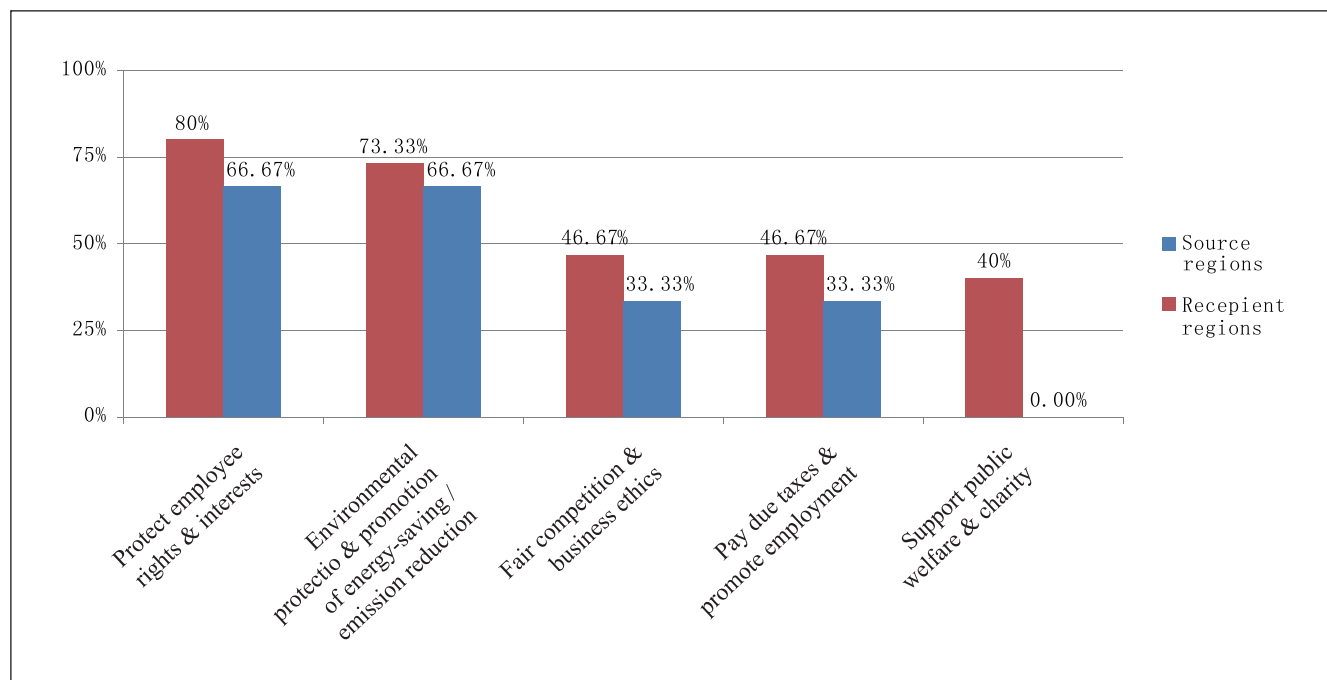
establishment of long-term engagement and communication mechanisms with various stakeholders in social responsibility. This demonstrates that the content of most industrial transition policies fail to provide a well-established starting point for enterprises in transition to fulfill their social responsibilities in a comprehensive way.

### III. The Implementation of Industrial Transition Policies and Corporate Social Responsibility

Our survey found that the contents of industrial transition policies seem to have come adrift from the initial goals of the policy makers. Regarding the question of “whether relevant local governments or industrial associations need to propose social responsibility requirements or support for enterprises in transition (including incoming and outgoing)”, over 70% of governments of recipient regions and 2/3 of source region governments held that it is “very necessary, and we are going to do this.” Only 7% of recipient region governments stated that it “may be necessary” (refer to Chapter III for basic data of this survey). When it comes to the question “if relevant local governments or industrial associations would propose social responsibility related requirements for enterprises in transition, which aspects should be covered”, the top 3 choices made by regional governments were the same, namely, employee rights and interest protection, environmental protection, energy-saving and emissions reduction, and fair competition-two of these items are not often mentioned in most industrial transition policy documents. This implies that in practice, industrial transition policies will encounter potential conflicts between economic goals and responsibility goals.



■ Figure 2.2 Necessity for Local Governments or Industrial Associations to Require Social Responsibility



■ Figure 2.3 Concerns of Social Responsibility by Local Governments or Industrial Associations

"While having to tell enterprises intending to move-in that the salary level in our region is not high, and our government has policies to facilitate workforce recruitment and employment subsidy, I also have to tell local worker applicants that the newly moving-in enterprise offers both good working conditions and decent remuneration..."

— A staff member of the management committee of an industry park in a recipient region

The survey found that the influences of industrial transition policies on corporate social responsibilities during their implementation fall into two scenarios: inter-regional implementation coordination challenges, and intra-regional implementation guarantee deficiencies.



### 1. Inter-regional Implementation Coordination

Industrial transition is a cross-regional distribution of economic organizations, so it involves the relationship between at least two regions, such as the relationship between a source region and a recipient region, as well as the relationship between different recipient regions. The survey found that both types of relationships face a lack of macro-level coordination, implicating structural social responsibility risks.

The industrial level gaps between source regions and recipient regions are also a motivation of the industrial transition. The survey on policies found that source regions strongly stress industrial upgrading and structural optimization effects brought about by the transition on local economies. Therefore, by way of raising standards in policies, they intend to drive out “low-end industries” which may have adverse impacts on employees, resources, environment and market competition. Although some regions may be reluctant to see industries moving out over concerns that such transitions may lead to challenges in employment reduction, industrial hollowing-out, and tax revenue decrease. However, the transition trend is hardly escapable given the limitations in the local market and resources. Recipient regions accentuated the industrial agglomeration and driving effects brought about by the industrial transition. Therefore, by controlling policy thresholds, they allow in incoming industries and expect them to have a positive effect on local employment, resource development, market exploration and other economic activities. However, these policies were implemented with a lack of strategic coordination and due diligence in values. Eventually, both “suppliers” and “acquirers” of the industrial transition may fail to achieve all their goals: “low-end industries” with

negative social and environmental impacts are being transferred to and gathered in recipient regions - but the industrial upgrading of source regions is not necessarily realized as a result. The simple agglomeration of the transferred industries would not only fail to form a highly efficient industrial system in recipient regions, but also duplicate such social responsibility challenges as labor rights, environmental impact, and resource and market competition from their originating areas.

Amongst recipient regions in the vast area of central and western China, policies issued by different regions have been similar from content planning to implementation approaches. The *Guidance Catalog* formulated by the MIIT for a holistic plan on regional distribution of industries and national macro-guidance, has not made any noticeable effect yet after implementation. In fact, there exist widespread industrial similarities and duplicated construction, worsening the imbalance of regional distribution of industries and production capacities. For example, the survey learned that in over 70% of the policies from recipient regions, textile and apparel industries were all targeted for reception, particularly the garment making sector. This shows that policy makers lacked a systematic understanding on industrial distribution and development focuses, both inside and outside their own areas. In particular they failed to perform analysis on factors such as local industrial bases, resource advantages and market potentials, thus giving rise to a bandwagon effect and competition relationships at the policy level. From the perspective of social responsibility, such an implementation situation would waste resources on a huge scale and cause recipient regions to “race to the bottom” in social responsibility requirements in a bid to win further transition projects.

## 2. Intra-regional Implementation Guarantee

The lack of coordination among the various areas is one problem, but the issue of guaranteeing policy implementation within recipient regions seems to be more severe. First of all, policies for encouraging and attracting industrial transition in recipient regions have formed “policy lowlands” to facilitate incoming projects. However, when it comes to the policy implementation, there is a genuine lack in scientific screening of incoming projects’ technical levels and added value, the incoming enterprises’ management level, their social and environmental impacts and so forth. This not only provides opportunities for the transition of outdated production capacity, but also leads to ambiguous leading industries, low industrial relevancy, poor industrial complementarity and difficulty in forming and giving play to effective industrial concentration. Secondly, the basic method for policies to attract transition projects is to “input factors for benefit output,” but the implementation of policies in the factor realm often trigger risks of negative environmental and social impacts. For example, in some places, the implementation of land policies led to illegal occupancy of rural residential and farming land, or led to seizure and ‘stocking up’ of land. Another case was the abuse of student laborers in a semi-forced manner, just to implement human resource policies. Successful industrial transition demands effective support from infrastructure, logistics, financial services and relevant industries. This means the implementation of industrial transition policies needs to mobilize a series of “policy chains.” However, in many recipient regions, such “policy chains” closely related to the industrial transition, are often hard to link up. As a result, incoming enterprises fail to relocate and recreate their industrial chains. Finally, a general phenomenon in the implementation of policies in recipient regions as identified by our survey is that these policy promises often failed to be realized punctually or adequately. Recipient regions are often highly efficient in implementing policies for promoting relocation of transferred projects, but policies to help them “set root,” including policies related to corporate management of social responsibility, were often partially implemented.

**Industrial and commercial administration:** responsible for the industrial and commercial registration of the enterprise prior to April 13.

**Environmental protection administration:** responsible for the registration of environmental impact assessments prior to April 13.

**Bureau of housing and urban-rural development:** responsible for issuing notice on project planning conditions prior to April 13, issuing permit of construction land planning prior to April 20, issuing permit of project construction planning prior to April 25, and issuing project commencement permit as scheduled.

**Development and reform bureau:** responsible for project approval and registration prior to April 14.

**Land resources bureau:** responsible for issuing construction land listing-for-sale announcement on April 15 and issuing land use certificate as scheduled.

**Administration of work safety:** responsible for registration of construction safety assessment prior to April 15.

**Water authority:** responsible for connection of water supply pipes for project construction prior to April 25.

**Rural electrification bureau:** responsible for completion of power line construction and power facility installation for project construction prior to April 25.

**Fire brigade:** responsible for issuing fire-fighting permit prior to April 25.

**State taxation bureau and local taxation bureau:** responsible for registration of corporate taxation prior to May 15.

**Education bureau:** responsible for coordination of employment training for the enterprise, i.e., proposing financial subsidy plans for training prior to April 18 and raising subsidy of RMB 200,000 for training prior to June 1.

**Civil affairs bureau:** responsible for coordination of employment training for the enterprise, i.e., proposing financial subsidy plans for training prior to April 18 and raising relief fund of RMB 900,000 for rural poverty-driven residents prior to June 1.

**Human resources and social security bureau:** responsible for coordination of employment training for the enterprise, i.e., proposing financial subsidy plans for training prior to April 18 and raising subsidy of RMB 550,000 for training prior to June 1.

**Federation of trade unions:** responsible for coordination of employment training for the enterprise, i.e., proposing financial subsidy plans for training prior to April 18 and raising subsidy of RMB 100,000 for training prior to June 1.

**Women's federation:** responsible for coordination of employment training for the enterprise, i.e., proposing financial subsidy plans for training prior to April 18 and raising subsidy of RMB 50,000 for training prior to June 1.

...

**Labor office:** responsible for releasing recruitment plans to towns and organizing labor stations to participate in recruitment work for the enterprise prior to April 17, and organizing persons in charge in township labor stations to lead people to county-level vocational high schools for employment interview on April 27.

From a schedule prepared with coordination of local government agencies on construction progress of a production base for an incoming enterprise (issued on April 11, 2011)



## **IV. Conclusions**

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Policies are necessary means for promoting orderly and scientific industrial transition. In recent years, policies related to the industrial transition came in great number at both central and local levels, making it a target of policies nationwide. In comparison to responsibility goals, these policies (especially local policies) focus more on realization of economic goals, so they stress adjustment of economic activities and somewhat ignore impacts of the industrial transition on social responsibility. With lack of coordination among regions and intra-regional supervision guarantees, the implementation of these policies is likely to pose challenges to the realization of both kinds of goals. We hold that economic policies can not succeed if they are separated from social and environmental contexts. In fact, social conditions, which include rights, interests and expectations of various stakeholders, are one of the determinant elements for the effectiveness of economic policies. Below in the present report, the subtle relationship between the two will be revealed with the results of a survey at the corporate level.

## Chapter III Regional Transition of Textile and Apparel Industry and Social Responsibility

### I. Transition Survey and Its Social Responsibility Implications

In order to draw a clear picture of the industrial transition of China's textile and apparel industry in recent years, and determine the influence of such transition on social responsibility in both recipient and source regions, the Office for Social Responsibility of China National Textile and Apparel Council (CNTAC) developed a topic-specific survey in 2012. The survey was carried out in 11 provinces/autonomous regions/municipalities, and was titled the *Regional Transition of China's Textile and Apparel Industry and Its Influence on Social Responsibility*. Apart from enterprises in both recipient and source regions, those surveyed include stakeholders such as local governments, industrial organizations, and employees. The regional distribution and composition of stakeholders of survey samples are shown in the table below.

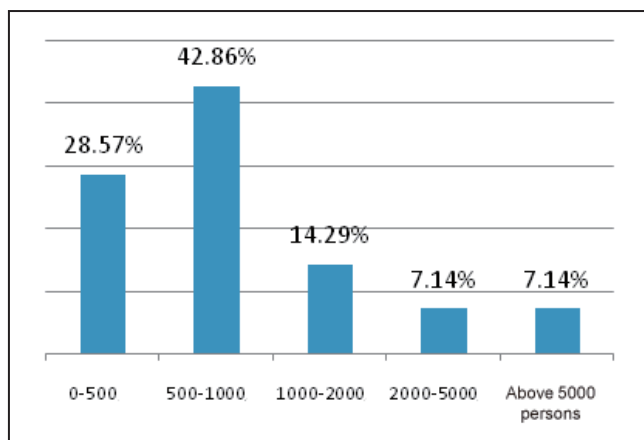
■ Table 3.1 Distribution of Survey Samples

Types of Survey Samples	Source Regions	Number of Samples	Recipient Regions	Number of Samples	Total Number of Samples
Enterprises	Guangdong, Zhejiang, Shandong	14	Xinjiang,	27	41
Government/ Association		3	Gansu, Shaanxi, Shandong,	15	18
Employees		32	Jiangxi, Anhui,	57	89
Total		53	Henan, Hubei, Chongqing	95	148

Note: Provinces such as Shandong and Guangdong have also seen in-province transitions. The survey specifically involved internal transitions within Shandong Province.

### 1. Sample Enterprises

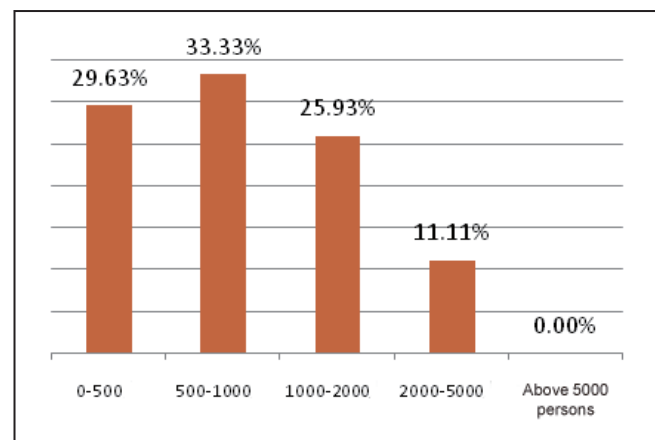
The survey team visited 41 enterprises, including 14 (local) enterprises from source regions, and 27 enterprises that had moved to a new region (recipient regions). In all the sample cases the investors in recipient regions were from coastal regions in southeastern China. Although the selection of sample enterprises was not made on a strictly random basis, the overall scale of the enterprises in recipient regions is comparatively larger (in terms of employee numbers) than those in source regions, and the scale distribution of enterprises in the



■ Figure 3.1 Size of Enterprises in Source Regions

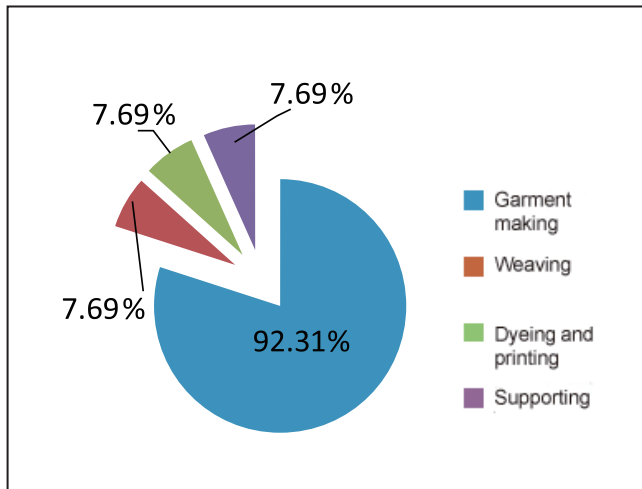
The survey also found that, although all regions were industrially diverse, and although there were a substantial number of apparel companies in recipient regions too, the proportion of weaving and textile enterprises was remarkably higher in recipient regions than in source regions. The *Survey Report on the Reception by Central and Western China of Transferred Textile Industries*, issued by the MIIT in 2012, also showed that in recent years the cotton weaving and garment making industries experienced an obvious regional adjustment, while weaving industries, represented by cotton weaving, grew particularly fast. “In recent years, over 6 million cotton weaving spindles have

former is also relatively even. We hold that the reason for this is that, in terms of both policies and practices, recipient regions tend to recruit sizable enterprises, which are usually confronted with more pressure in transformation and upgrading, hence are more inclined to move. Enterprises moving to central and western China are usually of a larger size with higher economic position, enabling a relatively longer term investment transition. Therefore, these enterprises certainly exert a greater and more prolonged influence on social responsibility in recipient regions.

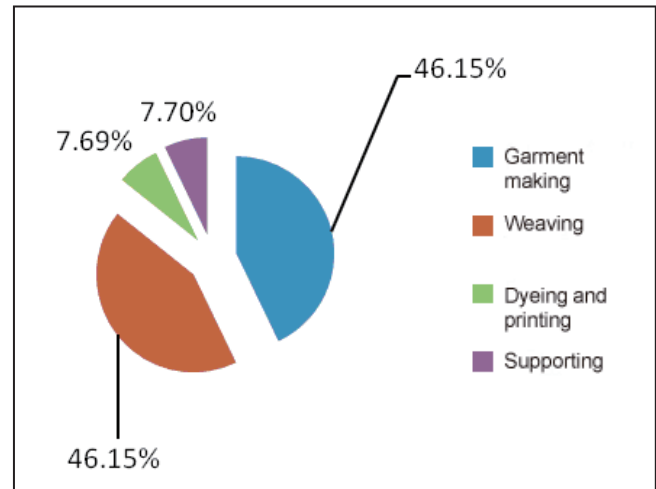


■ Figure 3.2 Size of Enterprises in Recipient Regions

been moved to central and western China. In 2010 and 2011, yarn production volume in those regions grew by 18% and 20.6% respectively, higher than average of 4.3% and 8.2% respectively.” We hold that the reason for this is that the weaving industry demands a relatively high investment, making it easy for such enterprises to meet the investment threshold proposed by recipient regions. Motivation for the industrial transition also counts, i.e. in addition to the workforce factors, recipient regions can, in a more effective manner, supply large volumes of land, raw materials, energy and other factors to the weaving industry. Influence on social responsibilities, which are related to these factors, is worth noting.



■ Figure 3.3 Sectors of Enterprises in Source Regions



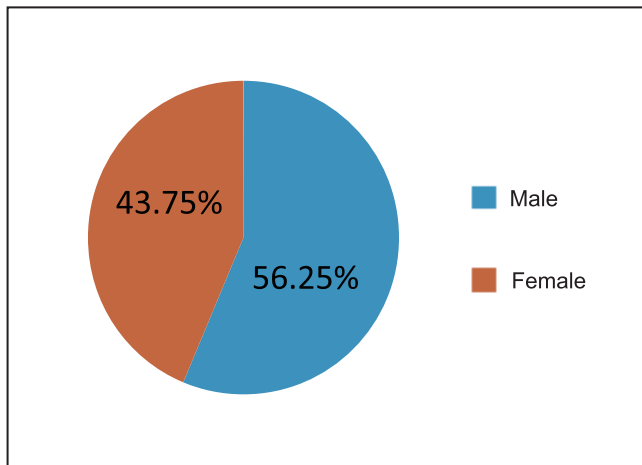
■ Figure 3.4 Sectors of Enterprises in Recipient Regions

Note: Some enterprises belong to multiple sectors, so the sum of all sections in the pie chart exceeds 100%.

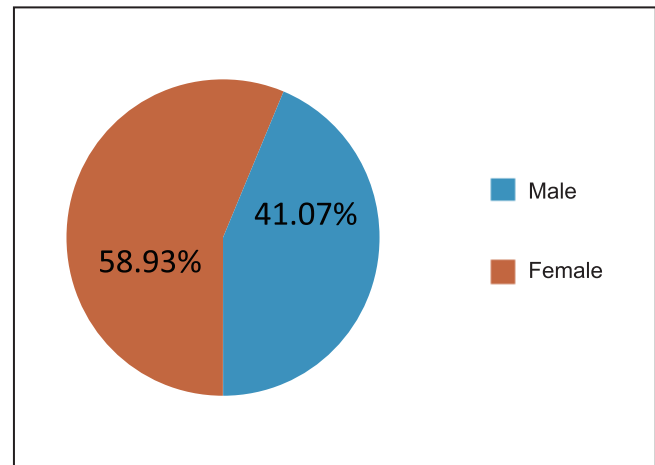
## 2. Employees Interviewed

In the survey, a total of 89 employee questionnaires were randomly distributed. Among them, there were 32 from source regions and 57 from recipient regions. The survey showed that male employees make up a higher proportion than females in source regions, while the case is opposite in recipient regions. Such results may indirectly show that male laborers are more likely to work far from their hometowns, while females are more likely to live nearer to theirs'. This highlights the gender perspective of industrial transitions. That is, the transition to central and western China provides more job opportunities to women, enabling them to look after

their own families while working. This could contribute to a rise in women's social and family status in central and western China. Additionally, according to the 2011 *Survey and Monitoring Report of China's Migrant Workers* from China's National Bureau of Statistics, the proportion of married local workers is 90.2%, much higher than that of non-local workers. We speculate that the industrial transition towards central and western China will turn what used to be "non-local migrant workers" into local workers. This should contribute to an improvement in the living quality and satisfaction level of workers and their families.



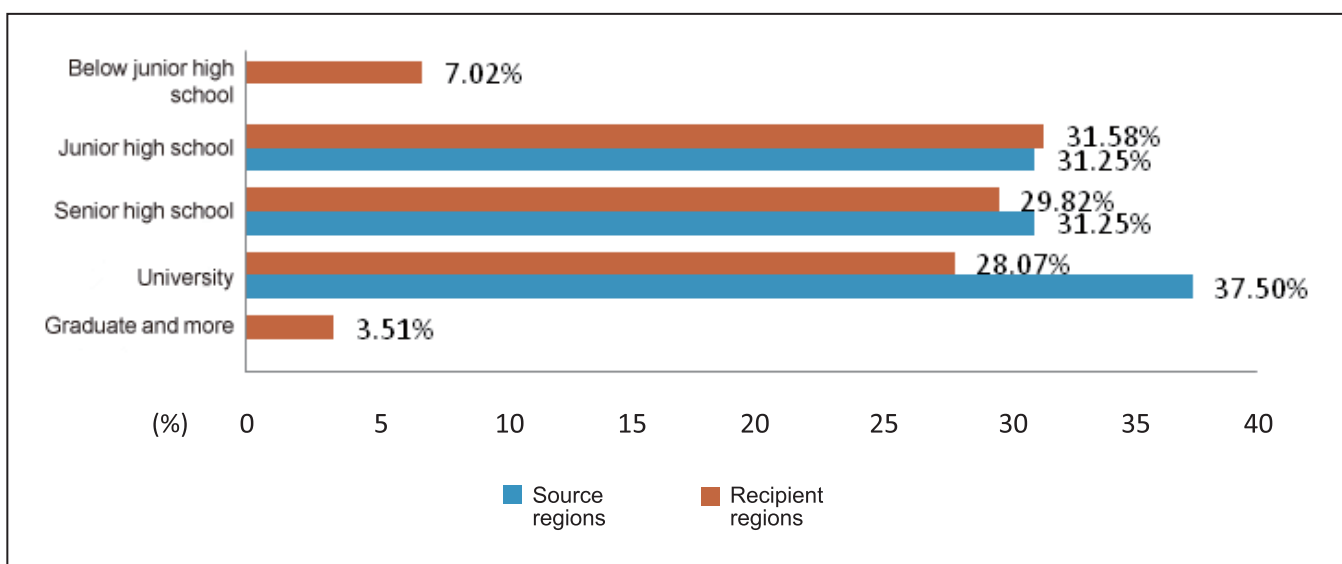
■ Figure 3.5 Male/Female Employee Ratio in Source Regions



■ Figure 3.6 Male/Female Employee Ratio in Recipient Regions

When it comes to the education level of employees, interviewed employees from enterprises in source regions had education from junior and senior high schools to colleges, relatively evenly distributed among the three categories, and there were no employees with education below middle school or above graduate level. However, employees from enterprises in recipient regions mostly came with junior or senior high school education, with a small number also having an education background either below junior high school or beyond graduate. In

our opinion, long-term improvement of corporate social responsibility relies on a well-functioning management system supported by human resources. The source regions along the coast in eastern China have developed relatively strong human resource advantages over 30 years of development, while enterprises moving to central and western China are faced with a severe talent bottleneck, which will impact their social responsibility management capacity for some time to come.

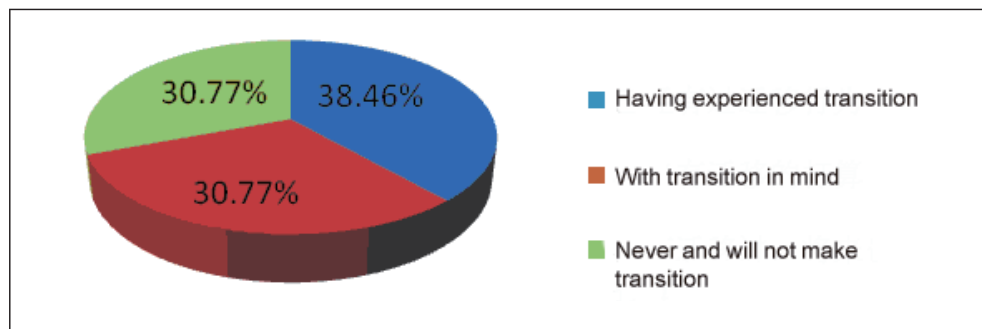


■ Figure 3.7 Education Backgrounds of Employees in Enterprises in Source/Recipient Regions

## **II. Economic Dimensions of the Regional Transition of Textile and Apparel Industry**

The regional transition of enterprises is, primarily, an economic trait, but there is direct relevance between the economic significance of the industrial transition and its social responsibility impacts. Therefore, the survey also conducted some specific research on the economic influences of the industrial transition.

Firstly, industrial transition is an inevitable trend that will exist for a long time. It was found that, during interviews in source regions, 38.46% of enterprises had already moved, while 30.77% had a plan to transfer in the future. This shows that transition has already become an important choice for enterprises in the coastal regions of southeastern China. In consideration of the fact that it generally takes two or more years for a transition project to go from feasibility study to actual implementation, and numerous enterprises have the intention to make the step, it is certain that the industrial transition will be a trend for many years to come.



■ Figure 3.8 Relocation Intention of Enterprises in Source Regions

Secondly, although governments and industrial organizations of both source and recipient regions show a remarkable difference in recognizing the role of the industrial transition, they all hold high expectations for it. The survey discovered that in both types of regions, local governments and industrial organizations were well aware of the economic influence of the industrial transition. The difference was that those in source regions seemed to have balanced understanding of the pros and cons, while recipient regions focused more on various positive influences exerted on the local economy. It is particularly worth noting that governments and industrial organizations in both sets of regions believed the industrial transition contributes to local industrial upgrading - though in our opinion, in source regions, this means more about the improvement in industrial quality and efficiency, while in recipient regions it focuses more on improvements in industrial structure, including forming new industries or improving existing industrial chains so that new industrial clusters take shape.

## Regional Transition of Textile and Apparel Industry and Social Responsibility

This mindset of governments and associations also demonstrates that the nature of industrial transition being a means of development opportunity. The definition of development purposes set out by various regions will influence choices and implementation of the “means.” In particular, as far as recipient regions are concerned, if the purpose of scientific development is not integrated into the “means” of the transition when economic goals are emphasized, it is very likely that in the end, the economic benefits in employment opportunities, tax revenues or industrial upgrades will face unsustainable prospects. During the survey, it was found that, regarding economic influence of the industrial transition, most governments and industrial organizations in recipient regions mentioned the adverse impact on local environment. This seems to show that they are also worried about the economic development pattern after the transition.

■ Table 3.2 Economic Influence of Industrial Transition as Recognized by Governments/Associations

	Influence on Source Regions	Influence on Recipient Regions
<b>Government/Association of Source Regions</b>	<ul style="list-style-type: none"> <li>• Influencing local GDP and tax income;</li> <li>• Influencing local employment opportunities;</li> <li>• Easing local pressure in land, resource, etc.;</li> <li>• Good for local industrial upgrades.</li> </ul>	<ul style="list-style-type: none"> <li>• Creating job opportunities;</li> <li>• Increasing tax income;</li> <li>• Forming new industrial cluster;</li> <li>• Good for technical advances and industrial upgrades.</li> </ul>
<b>Government/Association of Recipient Regions</b>	<ul style="list-style-type: none"> <li>• Easing local pressure in land, resources, etc.;</li> <li>• Influencing local GDP and tax income;</li> <li>• Influencing local employment opportunities;</li> <li>• Influencing local industry (industrial cluster)</li> </ul>	<ul style="list-style-type: none"> <li>• Creating job opportunities;</li> <li>• Forming new industrial clusters;</li> <li>• Increasing tax income;</li> <li>• Good for technical advances and industrial upgrades;</li> <li>• Causing adverse impacts on local environment.</li> </ul>

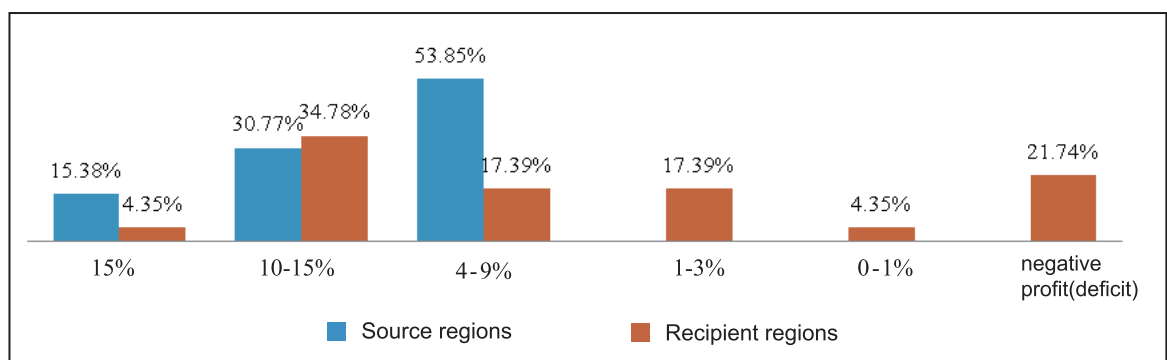
Thirdly, the business performances of moving-in enterprises were not very good. Though governments and industrial organizations in both types of regions highly value economic contribution from the industrial transition, the survey showed that the economic performances of most enterprises in recipient regions were not favorable. The survey on profits from the major businesses in both



types of regions in 2011 showed that enterprises in source regions had hardly any loss of profits, and actually their profit rates mostly went beyond 4%. The profitability rates of over 60% of the enterprises in recipient regions were below 10%, with 21.74% of such enterprises showing a loss. This shows the lack of economic maturity between the industrial transition and reception, and also indicates that recipient regions' output efficiency in human resources and environmental resources remained relatively low. The survey found that there was no simple, single reason that led to such situations. Besides global macro factors, such as the international economic environment, fund-raising difficulties, exchange rate fluctuations and inflation, causes also included cross-region differences, such as transportation costs (for example, the transportation cost for materials outside of a surveyed enterprise in Chongqing were about RMB 1,000 higher than that in coastal regions), as well as local factors in recipient regions, the most obvious being a lack of market support and social support systems (such as human resources, raw material/finished products and service markets). The survey found that economic performances of enterprises influenced the social responsibility vision and inputs of enterprises, while lack of local market and social conditions could also limit the strategies and actions of enterprises in social responsibility.

"My enterprise moved into this town known for being 'a land flowing with milk and honey'. It is surrounded by farmland and vegetable plots, but to my surprise, the worst issue I had to face every day was the lack of large volumes of vegetables while running the enterprise. That is because there is no large-sized vegetable wholesale market for me to easily buy various vegetables for over 1,000 employees. As a result, vegetable supply fell short and there was not enough variety, and my employees were unsatisfied. To settle this, I have to incur expenses to buy from urban markets faraway. I also have to send staff to buy vegetables door to door in villages nearby..."

— A manager of a Guangdong enterprise relocated to a province in central China



■ Figure 3.9 Profitability Rates of Enterprises in Source Regions and Recipient Regions in 2011

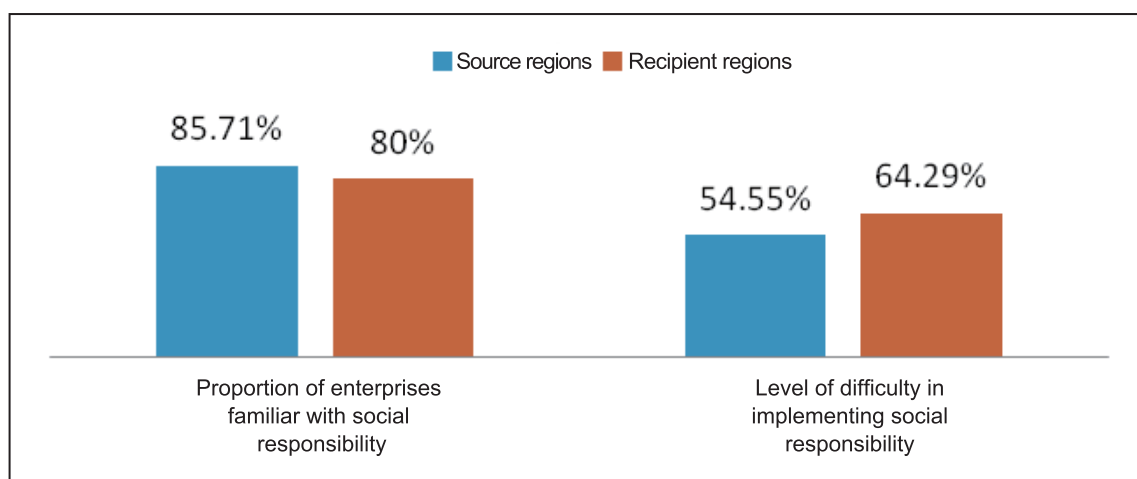


### III. Corporate Social Responsibility Performances in the Context of China's Textile and Apparel Industrial Transition

Textile and apparel enterprises in eastern coastal regions were the first ones to get in touch with concepts and mechanisms of social responsibility; they also have better social responsibility management and performance. The survey showed that 85.71% of enterprises in source regions were familiar with the concept of corporate social responsibility. 58.33% of them had functions to manage social responsibility, while 25% of them had set up independent social responsibility offices or departments. The core issue of the survey was whether, and how, the concept, mechanisms and practices of corporate social responsibility were introduced into central and western China alongside the industrial transition.

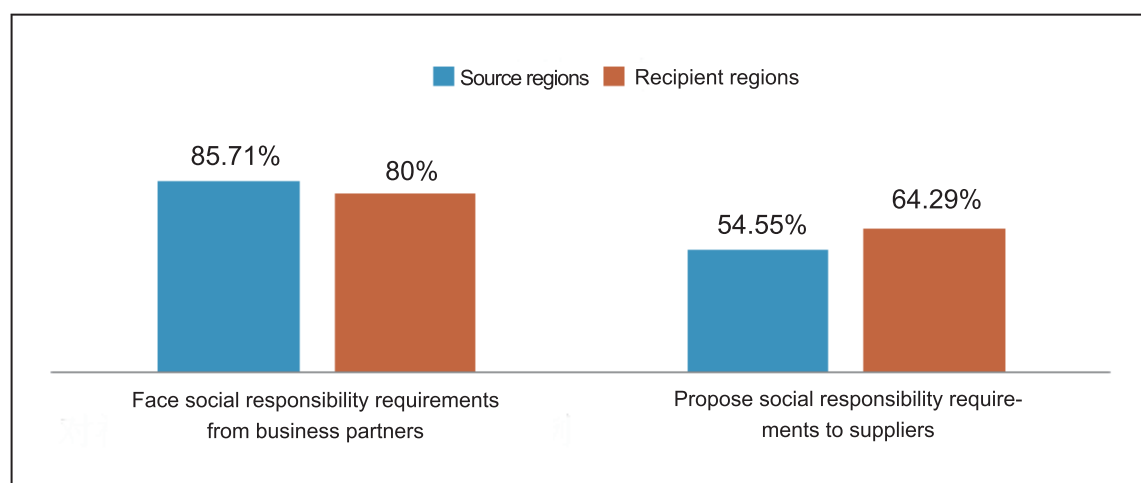
#### 1. Responsibility Awareness and Management

Along with the rapid growth of corporate social responsibility awareness in China in recent years, mainly thanks to government guidance and promotion as well as the focus and supervision on corporate practices in the society, the gap between the two types of regions regarding awareness of social responsibility is also narrowing. The survey revealed that 80% enterprises in recipient regions were aware of the concepts and issues of corporate social responsibility. Though the rate was a little lower than that of enterprises in eastern coastal regions, it was sufficient evidence that the concept of corporate social responsibility has spread over time in central and western China. Furthermore, the inward industrial transition is still increasing social responsibility awareness of enterprises and relevant parties in recipient regions.



■ Figure 3.10 Understanding of Social Responsibility of Enterprises in Source Regions and Recipient Regions

However, when it comes to the responsibility management level and incentive mechanisms of social responsibility, enterprises in recipient regions fell quite a lot behind those in source regions. First of all, a greater number of enterprises in recipient regions stated that requirements of social responsibility were hard to meet (64.29%). Secondly, in recipient regions, barely any enterprises have set up independent departments for social responsibility. Thirdly, in source regions, 71.43% enterprises face social responsibility requirements/audits imposed by their business partners, while in recipient regions this figure only stood at 33.33%. Finally, 64.29% of enterprises in source regions proposed requirements related to social responsibility to their suppliers, much higher than such portion in recipient regions (31.82%). The lack in incentive mechanisms may be related to some structural features of the industrial transition (such as focusing more on intermediate products like weaving products; end products mainly being supplied to domestic market, etc.), but the lack of capacity and mechanisms for corporate social responsibility originated more from inside these enterprises.



■ Figure 3.11 Corporate Social Responsibility Management in Source and Recipient Regions

## 2. Employee Responsibility

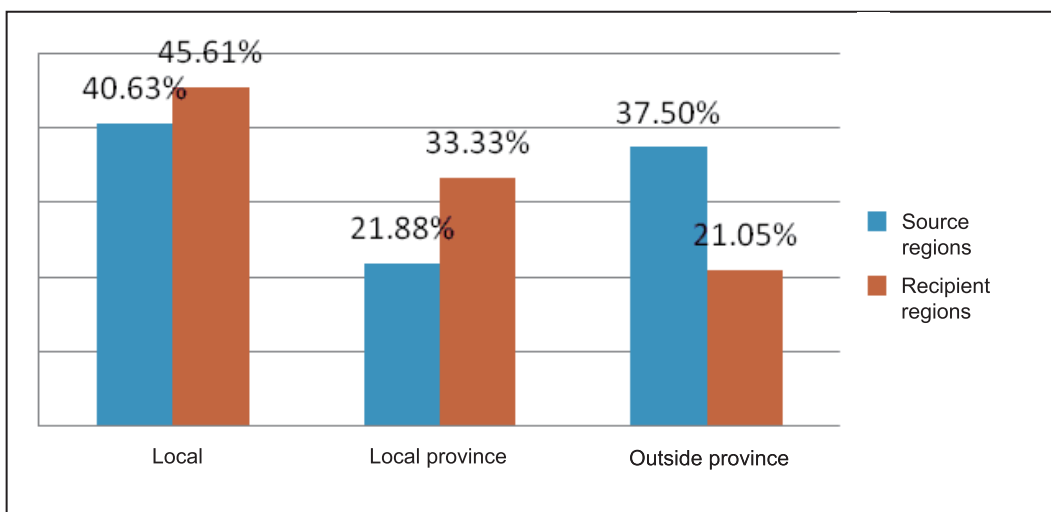
### (1) Employment Promotion

According to the survey jointly carried out by the MIIT and the Industrial Transition Office of CNTAC, over 70,000 job opportunities were created in 2011 thanks to the textile and apparel industrial transition projects. The survey showed that 83.33% of enterprises believed their development in central and western China relied on the abundant labor resources in those areas. In our opinion, non-local workers in enterprises in eastern coastal regions are gradually turning to local labor resources in recipient regions. That is to say, textile enterprises' transition to central and western China not only created a large number of job opportunities, but also turned those once hometown-

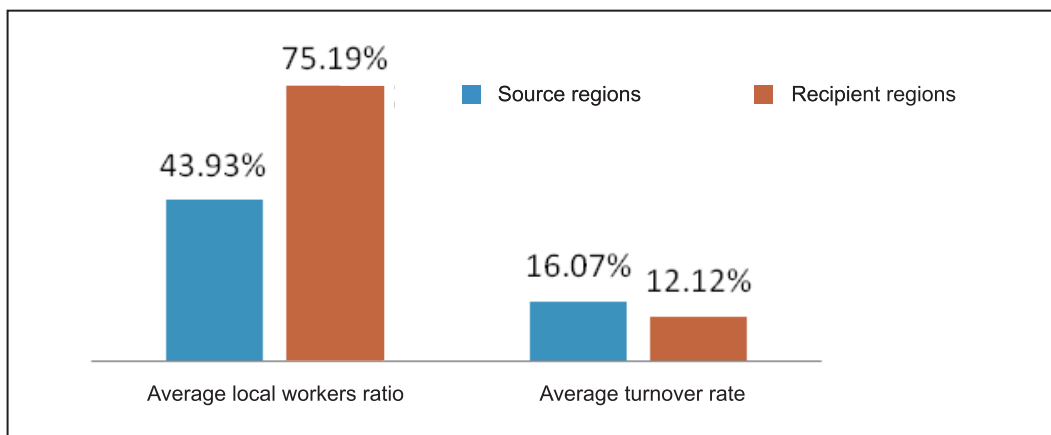
leaving migrant workers into workers employed in their hometown, thus raising local economic and social vitality. In spite of this, the survey also found that staff turnover rates of enterprises in recipient regions did not go much below that of source regions - quite different from our expectations. In fact, as the opportunity cost for job-hopping in recipient regions was lower, local employees were more prone to move employment more frequently. We predict that in the future, along with increasing number of enterprises moving there, and an increasingly dynamic and diversified economy, retaining local workers by way of human-based social responsibility management raises higher requirement for enterprises in recipient regions.

“Factories outside my hometown did not provide me such remuneration or a promotion ladder, and I had no opportunity for promotion. I have been engaged in a post somewhere in Zhejiang Province, doing that production-line job all the time I stayed there. But here I have more opportunities for promotion. The prospect for development and promotion is very important to me.”

— An employee of an enterprise in a recipient region



■ Figure 3.12 Origin of Enterprise Employees in Recipient and Source Regions



■ Figure 3.13 Average Turnover Rates of Employees in Source and Recipient Regions

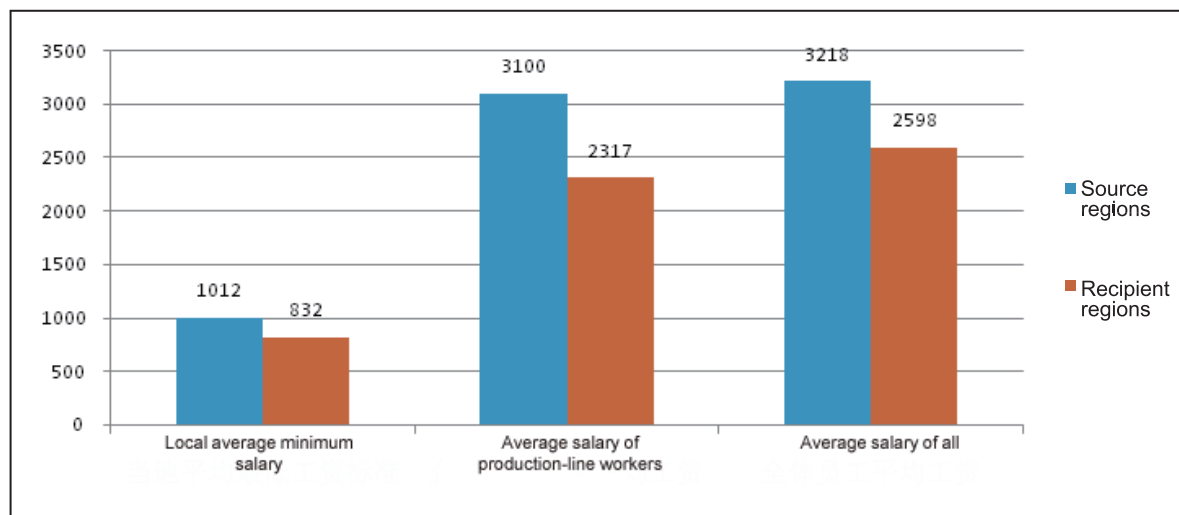
On the other hand, the survey showed that if an enterprise hopes to reduce its human resource costs by moving to central and western China, it may be disappointed. Firstly, lack of professionals and technicians is a common challenge faced by enterprises before and after the transition. Skills of employees in central and western China are lower than those in the eastern coastal regions. As many workers of the former directly come from rural populations, costs of enterprises in training professionals and technicians are not lower than in eastern coastal regions. During the survey, employees of source regions were asked whether they would choose to work in their hometown if there were suitable jobs for them in newly established factories there. Though 17.27% said they would, the other 65% said they would choose to stay in source regions on the condition that “more experience and skill could be gained” alongside “a higher salary.” Therefore, whether in source or recipient regions, an essential, long-term challenge to enterprises is to continually provide employees competitive salaries, better career paths and development opportunities. In this regard, no regional difference or exception can be found.

“Employees with non-local working experience were prevalently more calibered than those without such experience. We have to make great efforts to turn farmers into industrial workers by continuously providing training and education.”

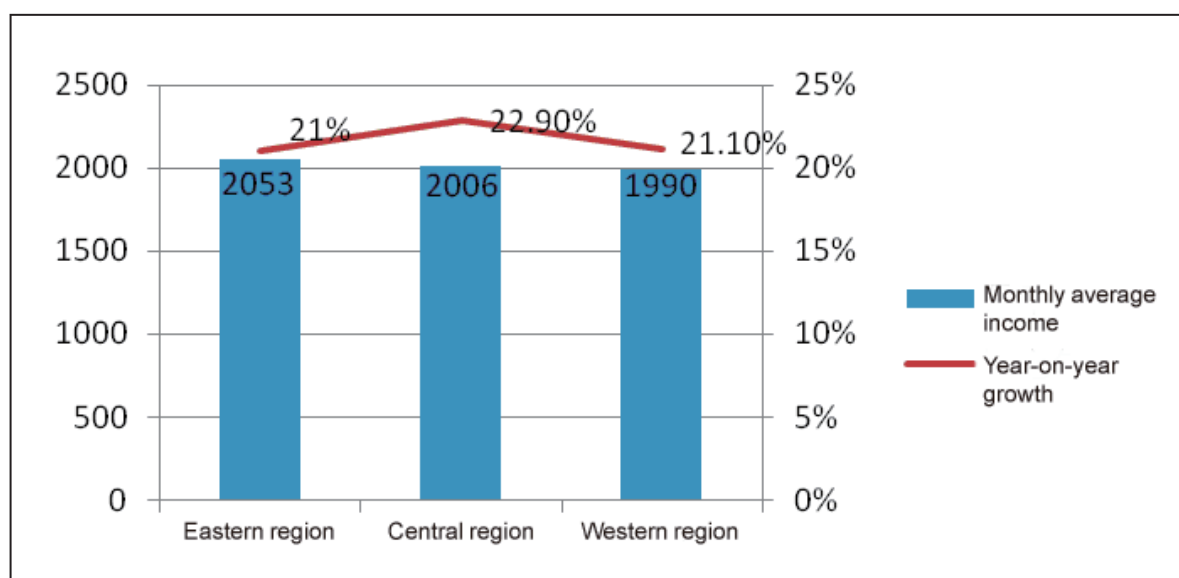
— A manager from an enterprise in recipient region

Secondly, though the average salary level of source regions is prevalently higher than that in recipient regions, the gap is not large, and keeps narrowing. This is a major finding of the survey. The rise in salary of coastal regions has also pushed up the salary level in central and western China. With the expansion of industrial distribution scope, human resource supply will likely get even tighter. This may soon result in a same labor price throughout China. Therefore, the survey discovered that even in recipient regions, 36.84% enterprises still claim to fall short in labor supply. Labor cost rises are also a major difficulty following the transition. Survey data for 2011 from China's National Bureau of Statistics shows that the gap in income between migrant workers in the eastern regions and central and western regions is narrowing; moreover, its rate of growth in central and western China ran higher than that in eastern China.

## Regional Transition of Textile and Apparel Industry and Social Responsibility



■ Figure 3.14 Average Salaries in Source and Recipient Regions (Unit: Yuan/Month)

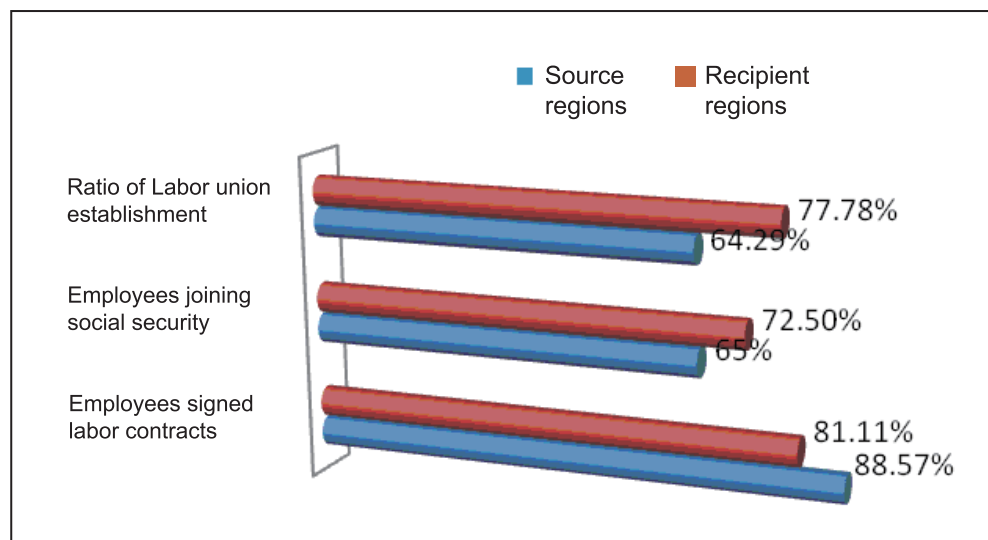


■ Figure 3.15 Incomes of Migrant Workers in Central, Eastern and Western China in 2011 (Unit: Yuan/Month)

Data source: National Bureau of Statistics

Lastly, employees hold high expectations regarding salary increases. In all regions, about half of the employees surveyed thought their salary were proportionate to their workload and local living standards, just good to meet basic living needs. Among employees in recipient regions, 37.5% thought their salary level was (slightly) more than enough for basic living needs, whilst this figure was 28.13% in source regions. This shows that though the average salary of employees in recipient regions was lower than that in source regions, employees in recipient regions were more satisfied with their salaries. One reason for this could be that living costs in recipient regions were lower than those in source regions, so the economic pressure of employees in recipient regions was lower. Moreover, most employees there were locals, so they could enjoy social and family benefits more conveniently. For example, the survey discovered that in recipient regions, the proportion of employees joining social security was remarkably higher than that in source regions, and local workers took up a major proportion of this figure.

■ Figure 3.16 Employee Right/Interest Protection in Enterprises of Source and Recipient Regions



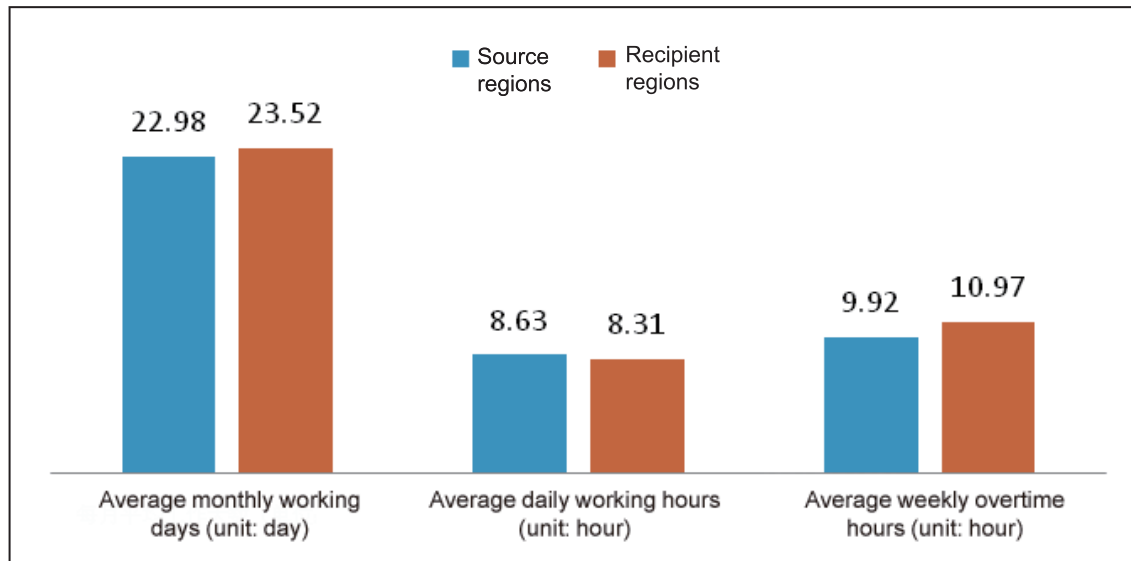
"Work at hometown, get paid as in the coastal area, and buy house at much lower price"

— Recruitment advertisement of an enterprise transferred to Hubei

### (2) Working Hours

The survey showed that working hours of enterprises in both regions were roughly similar. The average monthly working days in recipient regions was 23.52 days while that of source regions was slightly less. The average weekly overtime work of the former was one hour more than that of the latter, while the daily average working hours were roughly the same. Regarding whether they were paid for overtime work, 66.67% of enterprise employees in recipient regions were aware that their employers paid for the overtime as per state regulations; 21.57% were aware that their

employers paid for the overtime, but did not know whether the amount complied with state regulations or not. Working hour is a fundamental challenge of the textile industry. The similarity of working hours between enterprises in both regions indicates that the transition has brought the same production efficiency to central and western China as that in eastern China, and that the transition has provided no good solution to the working time issue.



■ Figure 3.17 Working Time of Enterprises of Source and Recipient Regions

### (3) Safety, Health and Cultural Entertainment

Influenced by the difficult recruitment situation in recent years, safe and healthy working environment has become increasingly important for enterprises. Therefore, enterprises in both regions stress the safety and health of employees. All enterprises have formulated safe production mechanisms (or working regulations) and provided job-specific skill trainings, safety facilities or labor protection supplies to their workers.

The only difference between the two types of regions lies in that, in recipient regions, a small number of enterprises (about 8%) failed to provide cultural entertainment facilities or related activities to their employees. This is probably due to the fact that, in recipient regions, most employees are closer to their families and community environments and their social demands are better satisfied than migrant workers, hence cultural entertainment facilities are not needed as much as in source regions in coastal areas.

### (4) Employee Communication

The survey found that like source regions, employees in recipient regions seldom shy about giving advice, suggestions or complaints. Channels for delivering these in both types of regions were limited mostly to a suggestion box, mobile SMS or simply face-to-face talk. Likewise, in recipient regions, salary rises and welfare treatment were the top two requirements of employees,

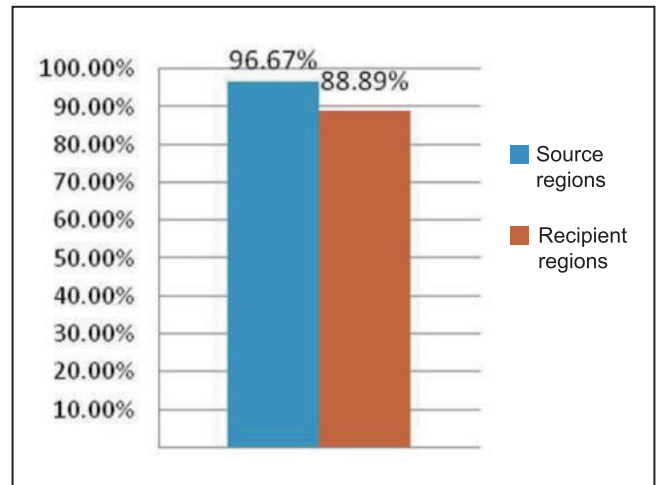


while personal skills improvement, spare-time cultural life, canteen and dormitory conditions, humanistic care were also high on the concern list of most employees. 88.89% of employees in recipient regions hoped some institutions (or organizations) could help them address labor disputes or other related issues, lower than 96.67% in source regions. The survey found that, as employees of enterprises in recipient regions were mostly natives, their families and social relationships played a certain role in preventing and addressing labor disputes. This might explain the roughly 8% gap in dispute addressing mechanisms between the two types of regions.

### 3. Environmental Protection

As elaborated in the previous chapter, environmental and energy saving requirements have been included in the industrial transition policies of most local governments. The survey found that the actual practice in environmental protection in recipient regions is a much more complicated issue. Firstly, textile and apparel industries that had transferred to central and western China were mostly weaving and garment making industries. They are two relatively cleaner industries and dyeing and printing sector, a process between these two has relocated much less. Advantages and disadvantages of the “missing in-between processes” are evident: it protects the environment of recipient regions, while limiting the local establishment of a complete textile and apparel industrial chain, making it difficult for raw material resources to realize higher added value, and increasing costs of apparel products in recipient regions. Therefore, whether dyeing and printing industry should be introduced was a question widely discussed in many places in central and western China.

Secondly, the survey discovered that in newly built enterprises in recipient regions, the environmental impact



■ Figure 3.18 Ratio of Employees Need Assistance in Addressing Labor Disputes

assessment and the “three simultaneous” (in construction projects, measures for preventing pollution should be designed, constructed and put into use simultaneously) mechanisms are being implemented in a relatively strict manner. Environmental protection facilities are also more advanced. Most enterprises can reach or exceed the level of existing enterprises in source regions. Enterprises constructed in parks/zones under unified planning of governments in recipient regions particularly comply better with state and local governmental regulations, in terms of their environmental protection hardware and supporting facilities.

Enterprises did things the same way before and after the transition in terms of treatment to employees and environmental protection. For example, for adhesive viscose factory, we thought it inappropriate to discharge waste water directly into the desert. We don't mean to transfer pollution; we mean to transfer industries and use local advantages to develop our industry.

— An industrial association staff member in an eastern province

Lastly, the real environmental protection challenge of enterprises in recipient regions lies in their outdated environmental protection management. The survey discovered that 80% of enterprises in recipient regions have established environment management systems based on environmental protection requirements, lower than the 85.71% among enterprises in source regions. In recipient regions, only 15.63% employees were familiar with relevant factory requirements and mechanisms regarding environmental protection (sewage, waste, waste gas emission, etc.), power/water saving and so on, while in source regions, the number was 28.57%. Therefore, enterprises built with a better hardware basis in recipient regions will face more severe challenges than those in source regions in aspects like environmental protection management, employees' environmental protection awareness and capacity.

#### 4. Community Development

As far as community engagement and development are concerned, over half of the enterprises in both source and recipient regions were committed to the employment of special populations in local communities, so as to support and promote community education and occupational skills. From the strategic perspective of community engagement, enterprises in source regions focused more on “interaction” with the local community. By encouraging and supporting employees to join community service projects (64.54%), making regular communications with and hearing suggestions or advice from local stakeholders (58.85%) and actively responding to concerns and appeals of community organizations (46.15%) and other means, they sought to establish good community relationships. Enterprises in recipient regions were more concerned about “integration” into the local community. By supporting local infrastructure construction (44%), making reasonable compensation for use of local resources (36%) and other means, they sought to “find themselves a place” and “set root” in local development.

“I left here to set up my business in Guangdong and eventually built my own company there. Later some said I should pay back my hometown by contributing money, building roads and bridges or things like that. But I thought it would be better to set up a factory rather than building roads here, for that can bring job opportunities and income for my hometown fellows. So I returned to my hometown and set up this garment factory three years ago and some orders received by the factory in Guangdong were also fulfilled out here. But in fact, I have also done a lot in contributing money, building roads and sponsoring education since this factory was built ...”

—— An enterprise owner in a central-China province

## **IV. Conclusions**

As a historical process in the general course of development, textile enterprises, mainly in the weaving industry, are moving into central and western regions of China. These enterprises generally are of a sizable scale, so they create huge social influences in their recipient regions. The survey, carried out over a half year duration in 11 provinces/ municipalities, convinces us that the industrial transition as a whole presents very positive impacts on social responsibility. In central and western China, it has spread and intensified the concept, quickly narrowing the gap between eastern and western China in terms of awareness in social responsibility. Regarding local workers and society, the westward textile and apparel transition is also bringing about some fundamental changes: it has created local job opportunities for millions of laborers in central and western China, and provided more job opportunities to women there, and will for sure raise the role of social units such as family, in local economic life, in addition to other advantages.

However, the continued functioning of these positive impacts are facing various restrictions and challenges, such as the human resource bottleneck, low management levels, poor business performances and so on. Many stakeholders hold varied but high expectations about the industrial transition, but we believe in the middle to long term, the industrial transition cannot reduce labor costs, or provide lasting environmental spaces to enterprise, nor does any good to working hour issues. In fact, due to a lack in the supply chain driving mechanisms, distance to end consumers, and non-sustainability of local policies, the social responsibility challenges of enterprises moving to central and western China have only just begun.

## Chapter IV Recommendations and Good Practices

The survey indicates that the industrial transition has become better integrated with social responsibility on both policy and enterprise practice levels, thus creating a number of innovative practices for reference. However, there are also many problems and challenges in social responsibility and sustainable development during the industrial transition. In our opinion, all stakeholders should devote to dialogues, engagement and cooperation with each other on the basis of fulfilling their respective responsibilities.

### I . Governments

As stated above, government policy plays a decisive role in the industrial transition. Therefore we recommend governments at all levels integrate social responsibility with the industrial transition at the policy level.

**First of all**, all governments, especially local ones, must give full consideration to both economic and responsibility targets in formulating policies encouraging the reception of industrial transition. At the same time they should elevate the concept of sustainable development and social responsibility to the strategic level. Local governments should integrate risk assessment and performance indicator requirements within industrial transition policies, and ensure project evaluation is carried out to comprehensively assess overall impacts on local economic and social development. We hold the opinion that the formulation and implementation of industrial transition policies must abide by other related policies, such as the *Notice of State Council on Further Strengthening of Elimination of Outdated Capacity* (2010), *Guidance Directory on Elimination of Outdate Process Equipment and Product of Certain Industries* (2010) and *Provisional Regulations on Risk Assessment of Social Stability of Major Fixed Assets Investment* (2012) and other relevant industrial access standards and requirements.

**Secondly**, local governments should improve their understanding of social responsibility and add

requirements on social responsibility management, fair competition, community participation and development in industrial transition policies to ensure that enterprises put emphasis on, not only the relationship with the government, but also their influences on other stakeholders. With this, enterprises will merge social responsibility with their corporate strategies and operational ideas.

**Thirdly**, considering the direct connection between economic policies and social responsibility, local governments must evaluate the effects of economic activities stemming from industrial transition policies, particularly the structural and systematic negative effects on social responsibilities. For instance, industrial transition and reception must be conducted within the capacities of the local environment, resources and labor force, ensuring sustainable development. Meanwhile, there must be strict assessments carried out on industrial positioning, scientific and technological levels, integration suitability with local existing industrial chains and effects on upstream and downstream industrial chains, as well as contributions to local sustainable development. Only then can positive and sustainable

industrial transition be realized.

**Fourthly**, the central government needs to keep strengthening its coordination, guidance and macro-planning on inter-regional industrial connections to promote rational allocation of industrial factors and resources in a wider geographic area. This should be done by guiding the initiatives of local governments, giving full play to local advantages whilst concentrating on the weakening of administrative barriers and local obstructions. The central government should also establish a nationwide information platform for the industrial transition. In this sense, the *Guidance Catalog* (2012 Edition) is a good beginning. Such policies can help avoid structural waste of resources and destructive “race to the bottom” competition of local governments on social responsibility thresholds.

**Finally**, governments at all levels, though particularly local ones, need to pay more attention to the implementation methods of industrial transition policies to guard against any possible negative effects on the environment or society. Examples that have been previously noted include forced land expropriation at prices below market rates, potential forced labor caused by apportion of employment targets, or simplification and reduction of environmental impact assessment procedures.

**Good practices for reference:** As the main

cotton-producing region in China, Xinjiang Uygur Autonomous Region has witnessed rapid development of its cotton industry in recent years, mainly driven by massive relocation of textile enterprises from the eastern regions. However, large quantities of cotton fabrics produced in Xinjiang have to be transported to coastal areas for printing and dyeing, due to lack of related industries and equipments in Xinjiang. If relevant printing and dyeing enterprises could be relocated to Xinjiang, a complete industrial chain from cotton planting to garment manufacturing would be established. Governments at all levels in Xinjiang have adopted a prudent approach, and have insisted on stringent requirements in the development of printing and dyeing industries. According to the *General Ideas for Development of Textile Industry in Xinjiang Uygur Autonomous Region during the “Twelfth Five-Year” Plan*, related enterprises must “strictly abide by national Access Standards for Printing and Dyeing Industry, and build relevant capacities in Aksu Textile City and Shihezi Textile City in accordance with national and provincial sewage treatment standards, annual discharge limitation indexes, related environmental requirements and adopt the centralized processing and discharge methods.” Furthermore, it also requires relevant enterprises to utilize modern equipments to ensure a substantial reduction in energy consumption.

## **II . Enterprises in Transition**

Enterprises are subjects of both the industrial transition and social responsibility; therefore, they must conduct “double transitions” on both concepts and actions of social responsibility, while abiding by relevant laws and regulations and utilizing related economic policies rationally.

On the one hand, enterprises in relocation must uphold updated development concepts whilst avoid opportunism in the industrial transition. They must clearly understand that the industrial development model based on competitive advantages of resources, labor force and ecological environment will in no way



sustain. As a matter of fact, our survey clearly indicates that the recent industrial transition has had to meet higher requirements regarding social conditions and environmental challenges. They can hardly follow the same old track as developed from the beginning of the “Reform and Opening-up” era. The above analyses on such topics as industrial transition policies and labor prices have shown that the industrial transition will no longer be able to provide traditional competitive advantages in wages, hours, environment or resources. For enterprises in transition, the long-term significance of this process lies in the achievement of related goals in market development, value chain integration and spatial arrangement, which require long-term support of stakeholders such as employees, consumers, partners and local communities. Therefore, enterprises can never guarantee the sustainability of long-term business values if social values are sacrificed in the transition.

On the other hand, our survey clearly indicates that the industrial transition has helped to bring the concept and awareness of social responsibility to central and western regions in China. Now and in the future, enterprises that have relocated to these regions shall put more focus on introducing and transplanting social responsibility practices and actions, while continuing promoting correct ideas on social responsibility. According to statistics of China National Textile and Apparel Council, so far, no textile enterprises in the central and western regions (including relocated ones) have implemented the CSC9000T social responsibility management system for textile and apparel enterprises in China, while the social responsibility reports issued by enterprises in the above-mentioned regions account for less than 3% of the industrial total. Most enterprises relocated from southeastern coastal areas, unlike

local ones in the central and western regions, have experienced the development of social responsibility practices in the region in the past two decades, and have attained quite some social responsibility practices and strong capabilities. Therefore, when they transfer to the central and western regions, they should pay more attention to transplanting such practices and capacities in the process of localization. Actually, we believe transition and relocation has provided good opportunities for enterprises to conform to the social trends and expectations of stakeholders, so as to improve their value proposition and social responsibility management.

**Good practices for reference:** The tenet of a textile enterprise that has relocated to Xinyu in Jiangxi Province is “to organize production and operation activities in a more responsible and friendly way to our employees, environment and customers.” It has established its own CSR Center and a social responsibility column on its website as a way to demonstrate activities for performing its social responsibility. It also provides social responsibility training and assessment for both managers and employees on a regular basis. Because its employees are mostly local workers, the enterprise attaches great importance to contributing to and integrating into the local community through a variety of social responsibility initiatives. For instance, the factory provides annual leave with pay for employees during busy farming season. It has also hired volunteers from Shanghai to offer local rural children with extracurricular art education and other courses including chorus, English language, computer, and football. These practices have not only provided a platform of off-campus education for rural children, but also have greatly improved the loyalty of their parents to the company.

### **III . Brand Companies and Buyers**

Brand companies and buyers have made significant contributions to the development of both the Chinese textile industry and corporate social responsibility. The factory auditing practices of brand companies and buyers in China's southeast coastal area have not only strengthened the awareness and capabilities of local factories and employees on social responsibility, but also motivated numerous discussions on the effectiveness of social responsibility implementation mechanisms.

In implementing this survey, we interviewed five brand companies and buyers that have a long procurement history, and have ordered a great quantity of textile products from China. We discovered that all buyers have long been paying attention to the domestic inter-regional textile industrial transition. However, there's still no sign of massive relocation of suppliers and orders to central and western regions in China, mainly as a result of less developed awareness and capability, underdeveloped industrial support systems and high logistics costs. The above-mentioned brands believed that it might not be difficult to transplant mature practices from coastal areas to inland areas, though social responsibility risks were one of their concerns. A social responsibility manager of a brand expressed that once the cooperative relationship with suppliers in inland areas is established, "we must apply social responsibility standards and implementation measures identical to those in coastal areas."

We believe, besides audits and monitoring, suppliers from inner land regions with less social responsibility awareness and capacity need more awareness raising and capacity building, therefore we suggest international brands and buyers put more social responsibility resources into these areas. Furthermore, as one of the

major sectors in transition is textile and weaving industry which constitutes second-tier suppliers of brands and buyers, they should strengthen the management of social responsibility of these second-tier suppliers after transferred to the central and western regions, even though brands and buyers have not relocated the production of end products to these regions.

From the perspective of industrial transition, domestic brands can become either transition subjects as investors, or buyers partnering with upstream and downstream supply chain businesses. In the former case, domestic brands shall be regarded as enterprises in transition, while in the latter case domestic brands may be faced with social responsibility challenges identical to those of international brand companies and buyers. However, most domestic brands do not have a well-established supply chain management system, and hence when extending their purchase chains to suppliers relocated to the central and western regions, they may not be able to transplant existing requirements, systems or experiences. Therefore, when it comes to social responsibility, we hold the opinion that, whether or not taking into consideration industrial transition, domestic brands should first focus on the establishment and improvement of social responsibility management mechanism within their supply chains.

**Good practices for reference:** According to a research conducted by an international brand company in 2011, which analyzes the "twelfth five-year" plan at the national level as well as local policies of central and western regions, 15% of its suppliers had the intention to relocate themselves. Although most suppliers were satisfied with where they were, the brand decided to start conducting assessment and research on selected



supporting supply chains for future business in inner land provinces. At the same time, it decided to apply social responsibility initiatives in related new regions, so that “new suppliers from inland areas meet these minimum standards” for “business development in the right

direction.” Furthermore, the brand expressed its wish to find business partners in the central and western regions that share its corporate value, vision and aspirations for “development of good social and environmental practices.”

## IV . Industrial and Social Organizations

Industrial organizations, including associations and chambers of commerce, as well as other social groups shall play unique roles in the promotion of social responsibility in the process of industrial transition. As opinion groups, industrial and social organizations can monitor, investigate and conduct research on social responsibility issues in the industrial transition, propose initiatives and solutions, and engage in policy lobbying and communication with businesses. As action groups, they can offer related training and consultation to governments and enterprises, take part in the formulation of regional and industrial social responsibility policies or action guidance, and assist local enterprises in fulfilling responsibility. In particular, as far as related regional industrial organizations are concerned, they shall do their utmost to promote well-organized and sustainable transition and reception of local industries.

**Good practices for reference:** A chamber of commerce of a town in a coastal township has visited many places in Midwest, investigating local policy environment, industrial chain setup and the social support system and finally assisted local enterprises in “collective transition” and “chain-type transition” into Hubei province for further development. They believe that the structural collective transition will help form a value chain to produce higher efficiency and improve the survival of relocated enterprises. From the perspective of social responsibility, the collective transition featuring coexistence and interdependence can make local businesses build a strong sense of collective honor and responsibility at the new location, which will boost mutual supervision and healthy competition to prevent “damage to the good reputation of our town’s industry that has been established over several decades.”