

# BINDING LABOUR AND CAPITAL: MORAL OBLIGATION AND FORMS OF REGULATION IN A REGIONAL ECONOMY

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The article is a critique of models of successful economic development in Europe based on the “economic region” idea. These models stress the usefulness of embedding economic relations in the social fabric (“social capital”). The ethnography reveals, however, a conflict-laden space where increased embeddedness produces increased tension within the family and the community. In this “modelic” regional economy in Southern Alicante (Spain), recent violent events have involved local actors in the shoe-wear industry, with resident Chinese entrepreneurs. I will show how this confrontation underlines the rise of local modalities of conflict that build upon the organic and culturally bounded elements of economic production that the model stresses: local homogeneity and common interest. The ethnographic evidence shows the complexity of a “regional economy” in a globalized context where appeals to the State to strengthen and enforce some regulations coexist with appeals to de-regulate other areas of the economy.

KEYWORDS: regional economy, social capital, globalization, regulation, moral obligation, informal economy

This article is based on an ethnography [1995-96] of the Vega Baja del Segura (Valencia, SE Spain)<sup>1</sup> and on recent events in the area — followed through the media and other secondary sources — that have developed as a consequence of the entrance of China in the WTO in 2001 and the opening of the European market to Chinese produced shoes. The area is one of small and medium family firms, some of which were among the more profitable in their sector (footwear) at the time of fieldwork. Following recent sociological and economic models, the area has been described by local experts as an industrial district — or a regional economy —, in reference to its dynamic and flexible economic structure and its entrepreneurial culture.

The industrial district or economic region model was first defined for Northern Italy as an optimistic developmental model based on the relevance of a shared culture and the use of non-economic social networks (Bagnasco 1988, 1994; Becattini 1994; Bellandi 1989; Piore and Sabel 1984). This model has acquired

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an important role in the discourses of institutional policy makers (Woolcock 1998). In it, the concept of “social capital” is highlighted as the main asset to be developed in order for development policies to succeed.

“Social capital” refers in these models to a vague idea of the usefulness of embedding economic relations in the pre-existing social fabric in order for a flexible and successful economic organization to take place. This also means — for certain areas of the economy — the demise of contractual relationships sanctioned by the Law as the main form of structuring social relationships in the context of the Market, highlighting moral obligation and emotional ties instead. As I will try to show, however, this trend is strongly articulated to one that demands *more*, rather than less, regulatory enforcement.

What the ethnography reveals is a complex and conflict-laden space where increased embeddedness of labour/capital relations produces increased tension within the family and the community. Moreover, far from supporting the idea of a fairly homogeneous access to the local pool of social capital on the part of local agents, our ethnography shows how different people have very different capabilities in this regard. However, the discourse of an organic and culturally defined economic region, strongly bonded by a common interest, misrepresents these harsh realities. In the present context differentiation of local economic subjects appears crucial to the “successful” transformation of the local footwear industry in the globalized market. This is accomplished by putting usefully into play the binding and bridging capabilities of “social capital”, but also by playing with appeals to the State to strengthen and enforce some regulations while deregulating other areas of the economy. Last, the recent violent events confronting differently situated traditional actors in the local shoe-wear industry, with local Chinese entrepreneurs who have established shoe-wear import warehouses and commercial outlets, highlight the tension between the multiple levels of regulation, and the discourses produced about what “proper” economic processes are. Moreover, this confrontation underlines the rise of local modalities of conflict that build upon the organic and culturally bounded elements of economic production that the industrial district model stresses: local homogeneity and common interest. This underscores the idea that local economic agents, whatever their position in the process, share the same interests and should share the same strategies. Instead, I will try to highlight the complex and paradoxical nature of global processes that tend to broaden the “rights of capital” while shrinking the “rights of citizens”.

## **The ethnography**

The area of the Vega Baja del Segura is located to the southeast of Spain, in the Autonomous Community of Valencia. The Vega Baja del Segura comprises the

region between the towns of Elche to the north, Crevillente to the northwest and Orihuela to the west, in the province of Alicante.

For the past 30 years the particular mix of agricultural and industrial activities that characterized making a living in the Vega Baja since the end of the 19th century, has strongly tilted toward the industrial sector, particularly shoe manufacturing. During the 1960s and early 1970s large factories were established in the towns of Elche and Crevillente that relied on labor from the villages in the Vega Baja (Bernabé 1975). Most of these factories had contracts with US firms and produced for export.

After Franco's death (1975), the increased capacity of the labor unions to organize for collective action gave labor more bargaining leverage and resulted in higher wages for workers. This, together with other economic changes, including the increased competition made possible by advances in transportation, information technologies and the international division of labor, re-structured production into a decentralized pattern that can be described as a regime of flexible accumulation (Harvey 1989). Locally this took a form resembling the Italian "industrial districts", although with a clear hierarchical subcontracting articulation nested in networks of personalized relations centered on large commercial firms that often only retain marketing and packaging processes (Becattini 1994; Mitter 1994; Sabel 1989; Ybarra 1991).<sup>2</sup>

The present-day structure of industrial production in the area comprises large factories, commercial firms, small, family firms, unregulated workshops, middlemen, home-based workers and industrial wage workers. Only factory workers tend to have some kind of legal contract. Small factories, workshops, middlemen and home-workers rely heavily on family labor, kin, and neighborhood networks to access work orders and labor. Indeed, it is important to note that, *except* for the largest factories and commercial ventures, which have flexible location practices and are able to use information technologies to their benefit,<sup>3</sup> the middlemen, petty entrepreneurs and workers are tightly bound to each other and frequently merge or emerge from one another. This place-boundedness is what defines the "regional economy" as a space of "social capital". There is, locally, a perceived and extremely differentiated network of shifting but necessary alliances expressed in the subjects' characterization of the region as a coherent space with an "entrepreneurial culture", meaning by this the continuous movement of emerging (and declining) economic destinies. This lack of stability seems to generally characterize what has been defined as "petty capitalism" (Smart and Smart 2005).

<sup>2</sup> For a critique of the "industrial district" model, see Amin and Robbins (1994), Gertler (1992), Hadjimichalis and Papamichos (1990), and Smith (1999).

<sup>3</sup> This mobility of the factories makes it possible to reproduce permanently local pools of "reserve army" labor, and generates a strong feeling of labor market insecurity and personal expendability and exchangeability on the part of the workers. This is the impersonal face of the industrial district of the Vega Baja.

Moreover, the instrumental weight of personal and affective relations in the construction and maintenance of these hierarchical networks of production has its corollary in the stress produced on these affective relations, induced by the tension of differentiation within the realms of shared belonging — i.e. the family and the community. As a result, the region appears as a thick network of forced solidarities, which is simultaneously a highly differentiated field of closely-knit feelings of belonging (Narotzky and Smith 2006).

### Chinese shoe imports and the localization of conflict

On September 16 of 2004 a crowd of around five hundred people that had been summoned by an anonymous leaflet distributed in the Elche factories and through word of mouth, assembled in the industrial park of El Carrús, in the outskirts of Elche to protest against “disloyal competition” (*competencia desleal*) of the Chinese entrepreneurs who imported shoes from China and sold wholesale to local retailers. The demonstration proceeded to the cries of “Chinese go away!” (*chinos fuera*) and ended with the burning of two Chinese shoe-wear warehouses and wholesale outlets. The local police did not intervene until the fire, originally aimed at some shoes containers, had spread to the adjoining buildings. These warehouses had been settling in the industrial park since China joined the WTO in 2001. More than 50% of the 44 Chinese owned warehouses in El Carrús were settled in 2004.<sup>4</sup>

Immediately after the event, the municipal council of Elche (majority socialist, PSOE) and the main labor and civil society institutions (Unions, employers’ associations) strongly reacted against what they saw as a racist outburst in the context of a strong crisis of the local shoe-wear sector. The aggressed Chinese entrepreneurs underlined the passive attitude of the police, and recalled how some of them had relocated from Italy where they had suffered similar aggressions. The Chinese embassy while demanding protection for its citizens, tried to calm the spirits and enjoyed Chinese entrepreneurs to act rationally and keep a low profile. The Unions (CCOO, UGT) while rejecting the violence and xenophobia of the events, insisted in the “disloyal competition” argument, demanding that “the rules of the game” be required for all producers alike, meaning that foreign producers be subject to the same legal requirements than the Spanish producers had to follow (social, environmental regulations, etc.). The UGT local union leader recognized that the incidents were “a consequence of a desperate situation (...) the market is being flooded with a product that enters without control” (*El País*, 18-09-04).

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<sup>4</sup> Up from 1 in 2000, 1 in 2001, 3 in 2002, 5 in 2003, making up 10% of all warehouses in the Park (Cachón 2005: 194).

Interestingly, the main entrepreneurial associations and their leaders voiced similar arguments, although somewhat ambivalent. On the one hand they recognized that, being an export oriented industry they needed that “other countries open their doors” which entails that “in fair reciprocity it is logic that we cannot close our [doors to them]” (in Cachón 2005: 210). This argument points to the importance of China as a potential consumer market,<sup>5</sup> and the need to preserve access to it. Entrepreneurs also point to the need to re-structure the shoe industry toward a higher value added product (emphasizing design, quality, etc.) — a discourse that has been voiced for at least ten years by all actors in the sector —, together with the need for more aggressive commercial strategies promoting exports. On the other hand, however, they want foreign competitors to comply with Spanish law in the use of materials and health regulations, import and sales regulations, labor and environmental regulations, fiscal regulations, etc. The non-enforcement of local (Spanish) regulations for imported shoe-wear is what makes the competition with Chinese products impossible (*El País*, 18-09-2004). In the view of a local entrepreneur, “the protest was not addressed to the Chinese collective, but against the commercialization in Spain of cheap footwear produced in China” (*El País*, 19-09-2004).<sup>6</sup>

The picture, however, is not so clear. A few months *before* the event against local Chinese warehouses, in April 2004, the women sewing shoe-uppers (*aparadoras*), mostly unregulated workers were voicing their apprehension concerning job loss in a demonstration in front of the building of the Association of Footwear Industrials (*Asociación de Industriales del Calzado*) in Elche. They protested “against the employers’ intentions to de-localize” production (*Noticias de Elche*, 16-04-2004). Two weeks later, the same group, the *Plataforma de Aparadoras y Trabajadores Precarios* presented more than 2000 signatures at the Municipal Bureau of Citizen Affairs (*Oficina Municipal de Atención Ciudadana*) demanding an active defense of the footwear production sector on the part of municipal institutions (*Noticias de Elche*, 3-05-2004). Ten days later the same organization demanded from the municipality that it “guarantee employment in decent (*dignas*) working conditions” through the creation of a municipal footwear commercial venture. Their explicit fear was that employers would de-localize production to cheaper labor-cost countries, as some had already done: there were rumors that more big firms would soon close down. The *aparadoras*’ actions of April and May were addressed to local employers’ responsibilities and to the institutional responsibility of the state to protect citizens’ wellbeing.

Over the summer, however, conflict orientation had changed and accusations were now addressed to Chinese footwear producers and to Chinese owned local commercial outlets. Different local actors’ discourses converged in

<sup>5</sup> A consumer market not only for finished products but also for footwear components.

<sup>6</sup> For a very detailed analysis of the Elche events of September 2004 see Cachón 2005.

a locally bounded protest against foreign “disloyal competition” represented locally by the Chinese importers and wholesale retailers. All pointed at the need for the State and local government to help the re-structuring (*reconversión*) of the local footwear industry (meaning subsidies from the EU and other institutional channels, and generally a treatment of favor). All signified the importance to orient the consumers toward higher quality products (implying that Asian produced shoes were of lower quality). And last, all blamed the comparative advantage of Chinese products on the non-compliance with local law.

All of the above are ironic and partial interpretations of a complex reality where: 1) Local entrepreneurs, while strengthening design and commercial practices have relied increasingly on informal production networks<sup>7</sup> (Cachón 2005; Ybarra *et al.* 2004) as well as de-localizing production to Romania and China (!) among other low-cost countries, which has made some of the most famous local shoe brands (Kelme, Pikolinos) the first large scale importers and commercializers of foreign, cheaply produced, shoes until very recently. 2) There are different quality imports, and local is not synonymous with higher quality manufacture.<sup>8</sup> 3) Most local entrepreneurs are directly or indirectly — through their subcontracted responsibilities — involved in all sorts of illegal procedures (labor, environmental and fiscal) and this situation is part of the structure of the “industrial district” locally, not a “reaction” to the present-day commercial liberalization.

The irony of the violent aggression against Chinese entrepreneurs is, as the local sections of the newspaper *El País* put it: “Oddly [sic], the majority of the Chinese entrepreneurs in Elche pay their Social Security dues and are up to date regarding their fiscal obligations in Spain. On Thursday [the day of the aggression] it could have been the case that illegal autochthonous employees attacked legal Chinese workers. A paradox” (*El País*, 19-09-2004).

It is, however, the argument of “disloyal competition” that under the pressure of Italian and Spanish euro-deputies was taken by the European Commission in 2004. The European Commission, then, undertook investigations into complaints of dumping filed by the European shoe-wear industry. In an informative Memo 06/95 of the EU (Brussels 23-02-2006) the launching of the process of investigation is described as follows: “To initiate an investigation, a credible complaint has to be received from producers representing 25% or more of European production of the product in question. (...) A dumping investigation investigates three things: 1) if dumping is taking place; 2) if injury is being caused

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<sup>7</sup> Around 50% of the actual production of shoes in the area is done in the informal economy (Ybarra *et al.* 2004).

<sup>8</sup> Indeed there is a process of inscribing quality in regionally bounded spaces that is strongly present as an ideology of the Industrial District /Regional Economy models, very much like what some feminist scholars were showing was at work with gendered skill attribution (Elson and Pearson 1981; Phillips and Taylor 1980).

to European producers competing against dumped imports; and 3) if acting to remove that injury is in wider European economic interests". According to the document, "anti-dumping measures use a tariff to raise the price of illegally under-priced imports to better reflect their actual value" but it is not a protectionist measure because "they do not shield European producers from tough but legitimate competition (...) Anti-dumping measures will not save uncompetitive European producers — but they will create a market in which comparative advantage is exercised fairly" (EU Memo 06/95, 2006: 2).

The European Commission investigation was carried out following the 1994 WTO Anti-Dumping Agreement, which is transposed into EU law. According to EU officials, approximately 15% of the Chinese footwear production sector was investigated and this was done with the assistance of the Chinese government. The first conclusion was that companies in China (and Vietnam) were not operating in market economy conditions: "In all cases there was clear evidence of State intervention or non-standard accounting practice".<sup>9</sup> On these grounds the EU denied Market Economy Status to all companies in the sample investigated. This fact, however, did not per se imply dumping practices, but in order to assess whether these were taking place an analogue country (here Brazil) in which the general capacity and conditions of production closely approximate the non-MES country was taken in order to model the costs of production in market terms "*as if that country operated on market economy conditions (...) because by definition those conditions are not known, or have been distorted by the fact that market economy conditions do not operate*" (2006: 4; original stress).<sup>10</sup>

The conclusion of the EU Commission investigation was that leather footwear produced in China was being dumped in the European market, "that Chinese leather footwear is being sold in Europe at about 80% of its normal value". As a result, serious injury was being caused to European producers: more than 40,000 jobs had been lost in the EU footwear sector since 2001 and more than 1,000 footwear companies had closed.<sup>11</sup> In conclusion, tariffs on

<sup>9</sup> "(...) These conditions included non-commercial loans or capital grants from the State; restrictions on selling in the Chinese domestic market (...); non-enforcement of international accounting standards; improper evaluation of assets; non-commercial conditions for land use (...). EU investigators found clear evidence of factories being provided with land by the State rent-free; [and] other forms of State intervention" (Memo 06/95:5, 23-02-2006).

<sup>10</sup> The question of assessing value in market terms for products where not all factors of production have been obtained in the market is a classical problem of the petty commodity production literature. Here the problem refers to the "distortions" produced by State intervention. We may bear in mind, however, that in a different way, the informal economy often also taps on non-marketed factors of production, mainly labor (such as that of close kin), and facilities (such as that of the home).

<sup>11</sup> EU production of leather footwear has fallen by 30% since 2001, accompanied by a steady fall in import prices and a tripling in imports of leather shoes from China and Vietnam over the same period. Before 2001 European leather footwear production was falling at about 13% a year. Profit margins in the European footwear industry since 2001 have fluctuated between 0-2%, and this represents the successful companies (Memo 06/95:5, 23-02-2006).

Chinese (and Vietnamese) leather shoes (with some exceptions such as children and STAF<sup>12</sup> shoes) were installed in the EU starting on 7 April 2006 at a rate of 4% and raising progressively until August to reach 19.4% for Chinese leather shoes. The reaction to this measure was mixed: while generally footwear producers were very positive about it, importers, retailer and consumer associations were very critical.<sup>13</sup>

The interesting fact here might be the emphasis that the different local and European actors involved in the footwear debate and crisis make on “legality” and “(dis)-loyalty” as the central issues at stake. First, there is a difference between legality — legal regulations sanctioned and upheld by the State —, and loyalty (or its absence) — which is a shared sense of responsibility, upheld by a common understanding of what is morally correct. It is the ambivalence of the way in which the two concepts are put to play in the shoe-wear crisis that seems revealing: accusations of dis-loyalty toward Chinese producers are resolved through claims that they should abide by the Law (Spanish law, WTO regulations, EU commerce law) and fully enter the Market Economy Status. Paradoxically, appeals toward China’s full MES are based on enforcing regulations in China, that most local entrepreneurs evade in their production networks through the informal economy (labour, health, environmental regulations, free market and non-State intervention are to say the least deficiently or intermittently followed).

The confrontation of dis-loyalty and legality is a similar paradox to the tension between protectionism and free-trade that local entrepreneurs are confronting. Tariffs to imports of leather footwear — basically for medium-high range product, concerning a 28% of Chinese footwear imports — that compete with the medium-high quality goods the local industry wants to specialize in, are a protectionist measure. But local entrepreneurs seem to be prepared to continue working with the informal structure that was set up in the 1980s and 1990s for this production, in order to keep low costs in a labour intensive industry, following the “industrial district” model, thus enhancing their competitive edge in a purportedly free trade context. On the other hand, local entrepreneurs bet high stakes on their export potentialities and want the Chinese market to remain open not only to the higher range footwear they produce, but also to the footwear components market, some of which are imported from Europe by Chinese manufacturers. The tension is one between producing trust and loyalty relations as against enforcing law and multiple level regulations. Both local Spanish entrepreneurs and Chinese entrepreneurs (Chan and Unger 1982; Smart 1993; Smart and Smart 1993; Unger and Chan 1999) are dealing with a complex process where regulation and de-regulation are two sides of the same coin of capitalist

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<sup>12</sup> Special Technology Advanced Footwear.

<sup>13</sup> Foreign Trade Association, press release 24-01-2006.

accumulation. Following Saskia Sassen's (1998) insight, the structural conditions of advanced capitalism seem to point toward a situation where two — only superficially opposed — trends are at play. The first, pushes to the “upgrading” of informal production processes within the boundaries of the State, legalizing the evasion from legal regulations that sustains flexible accumulation. The second, pushes toward negotiating a consensus for a body of transnational laws among States (Sassen 1998: 199-200), in what Sassen describes as a new transnational legal regime.

### **Life histories and regional social differentiation**

I will present at this point a few vignettes of the actual social relations that pervade the lives of differently situated subjects of the Vega Baja's regional economy.

Pilar is in her late forties. She works at one of the big shoe-wear factories in town in the quality control and packaging department (*envasa*). She has only recently got this job. Before, she used to work in a smaller factory where she was also in the *envasa*. This job she got through a friend of hers, Eulalia (whom we will meet below), who was the wife of a small factory owner and managed the *envasa* department there. Pilar worked there for ten years, but she finally quit (or was sacked) because tensions rose between the two old friends, who are not in speaking terms any longer. Pilar seems to have strongly resented the authoritarian boss in her old friend “she wanted to be the boss and to have everybody know she was the boss” (1995) but she was also (or had longtime been) grateful at her for giving her a job when she needed one.

Pilar's husband, Mario, is himself a sort of boss in a worker's cooperative that makes boxes for vegetable and fruit transport. The four associate members who were originally friends seem to have had problems deciding who in fact was the boss (compare with Juan Tarres' case below). This still creates tensions among them and changes the qualities of their “friendship”. The cooperative hires additional labor in a classical wage labor form although friendship, kinship or acquaintance is usually an important asset when bidding for the job. Eventually, Mario got increasingly depressed and started drinking heavily. Pilar has become an addict to legal low-intensity over-the-counter drugs (sleeping pills, amphetamines, etc.). Pilar and Mario have three sons, one in university, two still at school. They are members of a catholic base group and are active participants in local folkloric festivals such as the “Moros y Cristianos” which require large personal investment in terms of money and time.

Dolores is in her late sixties and a widow. Her husband worked in construction until he got cancer and died. Her two sons were still in high school then and she wanted them to keep on studying because she highly valued education as a way out of a miserable life. She had worked many years as a

daylaborer and at a vegetable canning factory. When her husband got sick she began to take home-work covering shoe heels.

Dolores gets batches of heels to cover up through a neighbor who works as a middleman for several local firms including that of Juan Tarres that I will describe below. Dolores recalls long days of work until midnight, and the help of her two sons when they got back from school and even of her sick husband. She knows that the glue she uses is highly toxic and flammable and that's why she seats in the middle of a corridor in order to get the air draft. The skin in her hands is peeling off because of the contact with the glue, but the doctor only tells her to stop doing this work... But she needs the money to get her kids through university. She resents her neighbor for not paying her fair wages and endangering her health, and recalls the times when she helped with the neighbor's kids without charging anything, as a favor. On the other hand she is grateful to him for keeping her on his list of home-workers, giving her the opportunity to earn a miserable income.

The case of Juan Tarres's family firm is a different example of the use of local embeddedness and binding relationships, but also of the ability for some people to develop bridging, "relational capital". This middle-aged man in his early sixties owns a factory manufacturing cork and wooden soles for sandals and shoes. The son of a carpenter he had the skill to work wood when he went to Elche in 1964 as a young man to look for work in the shoe industry. He found work there in a plant manufacturing cork soles where he worked for over ten years. When the general crisis hit the industry in 1976 he decided to go back home and open his own firm. He associated with his brother-in-law Miguel and another specialized worker in the trade, a colleague from the Elche factory. His wife Eulalia, and her sister Sonia, Miguel's wife, all work in the firm. Recently Juan and Eulalia's son and his girlfriend have begun working in the firm as well. In addition to family labor, the firm hires 5 male workers in the manufacturing department and some 10 women in the packaging department during the production season, of whom Pilar (above) was one. All of the covering of soles and heels is distributed through local middlemen to local workshops or home-workers such as Dolores (above).

The firm produces 80% for export and the rest for national shoe manufacturers. Management and control of production is in the hands of the family. Juan Tarres is the boss: "we've never had any problems because everyone knows I am the boss". Miguel takes care of relations with purveyors and marketing. Eulalia manages the packaging and quality control department, Sonia is in charge of the finances, Juan's son does research on design trends and designs and travels to international fairs, while his girlfriend works as the secretary. Juan and his associates brought to the firm the different skills (skill was their main capital, "human" capital) necessary for the trade: Juan was a *serrador*, a sawyer; Miguel was a *lijador*, a sander; the non-kin associate was a *tornero*, a

lathe operator. The two sisters, Eulalia and Sonia took care of quality control and book keeping respectively.

When described in this way, the family firm seems a truly cooperative endeavor where different members pool their social and human capital in an entrepreneurial manner. However it is clear that not everyone has access to the same “capital”. In this case, we might say that Juan is the one who becomes the entrepreneur instrumentalizing all the different “capitals” he can claim through his kin and friendship networks. He is the boss, he decides on investments and on production and commercial strategies. But he says: “All of this, the business, the work, I have done it in order to ‘subsist’, not in order to make money but in order to ‘subsist’. But then, if we have made some money, one always is glad that it works well” (1995). The “reproductive” argument or logic is ideologically a very strong component of the small family firm, and we could be tempted to interpret these production units as petty commodity production (such as has been described for many small farm commercial producers). However, the entrepreneurial, capitalist, dimension is overwhelmingly present and social relations in the family, among brothers, sisters, brothers-in-law are contingent on the firm’s expanding needs and management requirements and not the other way round. The firm is presumably closer to what has been defined as petty capitalism (Smart and Smart 2005).

What these vignettes show clearly, I think, is how tensions are generated or aggravated by present-day embeddedness of production relations in the social fabric of the community and the family. Family or neighborly responsibilities are loaded with the transferred tensions induced in social relations of production by the larger context of market competition within the shoe-wear sector and the local and global strategies of capital. Social reproduction of these extremely flexible and dynamic regional economies seems to be based on the parasitic instrumentalization of affective relationships for market oriented business objectives, and this is part of a historical experience of labor/capital relations as they have developed locally.<sup>14</sup>

### **Social capital in the Vega Baja and the “Wenzhou model”**

Social capital in the Vega Baja should *not* be conceived as a generalized and homogeneously distributed “atmosphere” in a region to be used by any entrepreneurial spirit. Social “capital”, or the ability to turn particular non-market relations into “capital”, depends on a concrete social structure where individuals and families are positioned in very different ways in regard to their capacity to access and claim local “social” resources through personalized networks.

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<sup>14</sup> See Narotzky and Smith (2006) for a detailed historical view of social relations of production in the area.

In the context of the Vega Baja, then, it is important not to confuse social relations that are extremely different in their intent. The term “social capital” does so, as it expands by this means the “entrepreneurial” capacity even to homeworkers having to use their children’s labor, in order to make a living. The fact of having to put to use affective, non-market relationships in production processes does not mean that everybody has the same type of social resources, that everybody can put them to the same uses or that everybody will benefit in the same way. Thus, Juan is in a very different position from Dolores, and it would seem a cruel misrepresentation to speak of Dolores’ use of her family’s labor as anything close to “capital”. Conversely, Juan’s entrepreneurial use of affective relations may indeed be thought of as social “capital”, in the sense of Bourdieu (1980). Thus, access to “social capital” is not evenly distributed in a region as the proponents of “regional economy” models would have it. It is not evenly distributed among members of the same family either. Some groups or individuals are consistently unable to use a region’s social “capital”, not because they lack entrepreneurship, but because they lack resources *and* the power to mobilize them.

Let me now turn to the region where “disloyal competition” is set, the region where most footwear production exported to Spain is located: The Wenzhou municipality in Zhejiang province, located in the eastern coast of China, south of Shanghai.<sup>15</sup> Historically, the region specialized in commercial crops and crafts. Rural household industry developed, long-distance trade and smuggling were frequent occupations and a sizeable part of the population turned to out-migration (A. P. L. Liu 1992: 697). The region’s relative political autonomy during the Maoist period (1949-1978) together with a tradition of entrepreneurship are among the main elements adduced by scholars to “explain” the incredible success of the “Wenzhou model” after 1978 (Blecher 1991; Y.-L. Liu 1992: 294). The region was granted the official status of “experimental zone” in 1986 which allowed to legally skirt around government regulations. “The development of the local economy of Wenzhou since 1978 can be characterized as privatization, marketization, and local deviation from State policies” (Y.-L. Liu 1992: 295). Private industry seems to have begun mainly as household industry and eventually developed into private factory industry employing non-family workers, in a process that can be termed petty capitalism (Smart and Smart 2005; Y.-L. Liu 1992: 296). In 1985 the weight of the State sector in the total industry output of Wenzhou was 18,45% and most formally “collective” enterprises were in fact private enterprises or joint ventures (Y.-L. Liu 1992: 297). I am presently unable to provide a more detailed and ethnographic account of the area for I have just started

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<sup>15</sup> Wenzhou is 11,500 km<sup>2</sup> surface, 6,4 million inhabitant (1989), 78% of the territory is mountainous, traditionally isolated from mainland China and connected to the rest by sea (A. P. L. Liu 1992).

exploring the bibliography. I do want to highlight what appear to be salient features, however.

First, the Wenzhou model seems like a Chinese version of the Industrial District model. It is locally bounded; it has a rural hinterland; it has an entrepreneurial culture; it is based on small family business, and *guanxi* — the Chinese form of “social capital” — is central to its operation (Chan and Unger 1982; Smart 1993; Smart and Smart 1993; Unger and Chan 1999; Yang 1994). In the Wenzhou model, for example, the clientelist links between the Shanghai and Wenzhou party establishment seem to have been central to the consolidation of the region’s autonomy from State policies and regulations (A. P. L. Liu 1992). Moreover it has become a “model” of successful economic development, one that is both flexible and competitive.

Second, in respect to state regulatory practices as they affect the region, local cadres in general and the municipal government in particular seem to have adopted an “acquiescent attitude toward certain semi-legal or illegal economic practices which deviate from the existing State policy but are indispensable to the smooth operation of the private economy” (Y.-L. Liu, 1992: 297-8), and this seems to affect mostly labor regulations formally established in China in 1995 (Lee 2002; Unger and Chan 1999). Indeed, the State seems to be intent on “ruling the country by law” in order to establish a stable framework for the new market structure, particularly in reference to property rights and contract law (Lee 2002: 195). At the same time, however, the State seems to confront the paradox that certain forms of law, namely labor law, are resented as obstacles to economic success by petty capitalists who are supported in their claims by local State agents oriented toward regional development.

## Conclusion

Both the Vega Baja and Wenzhou are described as particularly successful economic regions that have responded to the demands of flexible production in advanced capitalism. This has been based on the use of certain “traditional” patterns of the relations of production, namely those that had historically thrived in the crevices and interstices of the highly administered economies of the Francoist and Maoist periods. Indeed, relations of production based on family labor and on other social relations predicated on moral forms of responsibility and reciprocal forms of exchange, rather than on legal forms of responsibility and contract forms of exchange, pervade these successful economic regions. What is described as “social capital” in the literature on regional economies and industrial districts is a form of capital not regulated by the State. This form of capital in the Vega Baja is an extremely differentiated resource and so too seems to be the case of *guanxi* in Wenzhou.

The concept of social capital<sup>16</sup> in the regional economy model is a development of the idea of embeddedness as Granovetter (1985) defines it, in a transactionalist mode. Fine has described the vagueness of this concept of social capital: “it seems to be able to be *anything* ranging over public goods, networks, culture, etc. The only proviso is that social capital should be attached to the economy in a functionally positive way for economic performance, especially growth” (Fine 1999: 5). Two complementary aspects of social relations have defined social capital: “embeddedness” — binding relations — and “autonomy” — bridging relations. Autonomy describes the ability of certain individuals within the community to forge and sustain social relationships with individuals and institutions outside the community (Harrison 1992; Woolcock 1998: 175). While the binding aspect builds upon embedding social relations of production in previous relations of kin, friendship or community belonging, the bridging aspect concerns the capacity to access economic spaces beyond the community and the region. As we can see it develop in the concrete cases: bridging is a commercial function of the likes of Juan Tarres facilitating legal transactions, while binding is a production function substituting for contractual relationships. In this last instance, the consequences for regulation practices of the labor/capital tie and the appeal to law by different social actors in the economic regions is entirely transformed. Workers become in many cases second class citizens unable to claim the protection of the existing legal framework (Bologna 1997).

What emerges from the ethnography is that appeals to regulation and intervention by State institutions at the different levels are continuous. In the Vega Baja, the *aparadoras* ask for the creation of a municipal (i.e. public) commercial firm that would replace the closing factories; they also appeal through the municipal office to their citizen’s rights to decent work conditions; and they appeal to the local business association not to de-localize production. On the other hand, entrepreneurs appeal to the EU Commission and to WTO rules, through their associations, in order to increase tariffs for imported Chinese shoes. This is an appeal to *more* regulation and it is justified by the accusations toward Chinese producers of benefiting from *less* regulations — labor, environment, etc. — and therefore dis-loyally lowering costs.<sup>17</sup> It is to be noted, however, that the decision of the EU investigation team found dumping practices on the basis of general State intervention in the economic process, which is a different argument from that initially expressed by local entrepreneurs.

<sup>16</sup> This is different from Bourdieu’s concept which is part of his definition of the interaction of various types of “capital” — economic, symbolic, cultural and social — in the social reproduction of a society, through the structuring of the *habitus* (Bourdieu 1980).

<sup>17</sup> We have seen that it is not so much that there are no regulations but that the Wenzhou region is mostly dispensed from following them, or simply bypasses them, in much the same way as the local Vega Baja footwear entrepreneurs do through the informal production structure that produces more than 50% in the sector.

These two appeals to regulation by the different social actors are nevertheless quite different, and in fact opposed. The first is oriented to the regulation of social relations of production, relations between labor and capital. The second is oriented to the regulation of relations between capitalists in the product market. In the globalized economy, *more* rather than less regulation is required at the level of inter-regional and inter-state frameworks for the circulation of commodities, including specification as to what counts as a proper commodity. Here trust relies on *formal* institutions and the enforcement of law. And this formal trust creates reliable frameworks for investment. At the level of production, however, *less* rather than more regulation is desired by entrepreneurs in order to lower costs and enhance flexibility, these being described as the dynamic elements of a successful region. Embeddedness, here, substitutes for contract and law, and is the main component of trust.

It is important to note, moreover, that this process, in the Vega Baja and in Wenzhou, occurs in a context where *the State regulates but does not enforce law systematically*, but only selectively. And this seems increasingly feasible as the instances of regulation multiply and are often confuse, to the point where local levels of governance have more power of arbitration and arbitrariness regarding the application of the law and its “interpretation”.<sup>18</sup> What emerges then is a situation that recalls that of the Black Market years after the Civil War in Spain, when, in a context of extreme regulation, enforcement of the law was selective and arbitrary (Narotzky and Smith 2006; Richards 1998). The implications of this for petty capitalists and the mostly informal workforce of the footwear industry is a permanently un-reliable legal framework, one that has paradoxical consequences for employers in that they take advantage of it, but are also its potential victims, often subject to competitive maneuvering through political power brokerage from fellow entrepreneurs. In this context, the hierarchical sub-contracting structure of the footwear industry becomes a measure of protection for the entrepreneurial class.

In sum, informal and formal aspects of the economy have been structurally tied together in the Vega Baja for a long time and their articulation seems as strong as ever. Globalization, as it affects this particular economic region, seems to have linked the destinies of two quite similar “models” of economic development, based on the exploitation of social capital and a political environment open to disregard or “interpret” existing regulation. In this context, workers’ situation at both ends does not seem to be able to improve because both the legal and the moral frameworks that support their work relations are increasingly ambivalent. For workers in the Vega Baja, appeals to regulatory institutions haven’t had any results so far. A shift toward “protectionist” appeals

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<sup>18</sup> This situation which is becoming the norm in Europe (Lovering 1999) seems close to what Lee (2002) calls “disorganized despotism” for China.

in commercial terms seems to be taking place. It would once again stress the corporatist aspect of regional economies, but it would be a significant turn for local workers who have up to now claimed what they considered their rights either in class terms or in personalized clientelist terms (Smith and Narotzky 2005). Now workers are brought to join entrepreneurial claims directly and espouse them as if they were their own. The September 2004 event, for all its apparently spontaneous upsurge, points to a not-so-spontaneous re-orientation of spaces of dissent and conflict away from directly experienced realities and into an elongated and expanded space figuring the global causes of local problems. And this is being framed in a corporatist, often ethnicized, structure of confrontation.

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*Este artigo é uma crítica aos modelos de sucesso de desenvolvimento económico na Europa baseados na ideia de “região económica”. Estes modelos acentuam a utilidade do encastramento das relações económicas no tecido social (“capital social”). No entanto, a etnografia mostra-nos um espaço de conflito onde um crescente encastramento produz um aumento da tensão na família e na comunidade. Nesta economia regional “modelar” do sul de Alicante (Espanha), episódios recentes de violência envolveram actores locais da indústria do calçado com empresários chineses aí residentes. Mostrarei como este confronto ilustra o surgimento de modalidades locais de conflito que se exprimem na base dos elementos orgânicos e de enraizamento cultural da produção económica sublinhados pelo modelo: a homogeneidade local e o interesse comum. A investigação etnográfica mostra a complexidade da “economia regional” num contexto globalizado, onde apelos dirigidos ao Estado no sentido de fortalecer e reforçar algumas regulações coexistem com apelos no sentido da desregulação de outras áreas da economia.*

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