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"Binding labour and capital: moral obligation and emotional ties in a regional economy"

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The paper is based on an ethnography [1995-96] of the Vega Baja del Segura (Valencia, SE Spain)[1] 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, 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 an important role in the discourses of institutional policy makers (Woolcock 1998). In it, the concepts of "social capital" (binding) and its twin "relational capital" (bridging) are highlighted as the main assets 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. The dominant model of economic development incorporates now the importance of "non-economic" social relations.

These are deemed increasingly necessary for the local establishment of dynamic entrepreneurial practices and flexible relations of production. 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 is 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 highlights the rise of local modalities of conflict that build upon the organic and culturally bounded regions 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. It is the southernmost part of this Autonomous Community and is located in the province of Alicante, bordering the Region of Murcia to the south. The Vega Baja del Segura is the irrigated plain in the basin of the river Segura, near its mouth. This area comprises the region between the towns of Elche to the north, Crevillente to the northwest and Orihuela to the west.

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. In those years, many men and women migrated to reside in the towns where the factories were located. However, during peak production seasons, home-based piecework remained a complementary device to increase production capacity in the more labor-intensive parts of the process, mirroring putting-out practices of old. This concerned mostly sewing shoe uppers, *aparado*, a highly skilled and gendered operation. Generally, foremen in the factory became intermediaries distributing outwork, using their kin and female local networks to get the extra work done.

After Franco's death (1975), the increased capacity of the labor unions to organize for collective action gave them 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 (Sabel, 1989; Becattini, 1994; Ybarra 1991; Mitter, 1994)[2]

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[3], 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 & Smart 2005).

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. Issues of individual as opposed to collectively grounded claims pervade the region and are often voiced in terms of a personalized sense of binding responsibilities rather than in abstract citizenship or class terms. 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 & 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, (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).

Immediately, 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. Political parties differed in their diagnosis of the events. While parties in the left were very insistent on the importance of the shoe-wear industry crisis as an explanatory although not exonerating factor, the right minimized the crisis in the footwear sector, saying that there was no crisis, only 'some' firms had problems, while joining in the general condemnation of violence. 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 they all pay their taxes, Social Security dues, and be subject to the same legal requirements than the Spanish producers (social, environmental, 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).

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,[4] 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. This points to what entrepreneurs define as "confronting without second thoughts the challenge of globalization" (Cachón 2005:210). 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 shoe-wear produced in China" (El País, 19-09-2004).[5]

The picture, however, is not so clear. A few months *before* the event against local Chinese warehouses, in April and May 2004, the women sewing shoe-uppers, mostly unregulated workers organized in the "*Plataforma de aparadoras y trabajadores precarios*", 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 "Plataforma de aparadoras" 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 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 in the informal production networks described above[6] (Ybarra et al. 2004, Cachón 2005) as well as de-localizing production to Rumania 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. 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 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 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".[7] 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 asses 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).

The conclusion of the EU Commission investigation was that leather footwear produced in China (and Vietnam) 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 40000 jobs have been lost in the EU footwear sector since 2001 and more than 1000 footwear companies have closed.[8] In conclusion, tariffs on Chinese (and Vietnamese) leather shoes (with some exceptions such as children and STAF[9] 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.[10]

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, claims toward full MES are based in enforcing regulations (social protection, labour standards, environmental protection, but also in general free market for all factors of production and state non-intervention) 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 (Smart & Smart 1993, Smart 1993, Chan & Unger 1982, Unger & Chan 1999) are dealing with a complex process were regulation and de-regulation are two sides of the same coin of capitalist 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 *statu quo* of 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. Thus, in her view, the 'informal economy' is not an anomaly or a 'violation' but the expression of a 'fracture' of the previous regulatory regime, calling for a re-drawing of regulations that may allow this reality to exist within a legal framework (1998:155).

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 biding 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 got an invalidity pension until he died. Her two sons were still in high school and she wanted them to keep on studying because, coming from a daylaborer family she highly valued education as a way out of a miserable life. She worked many years as a daylaborer and at a vegetable canning factory, and when her husband got sick she began to take home-work covering shoe heels.

Dolores gets her batches of heels 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 ailing 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 were 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 such as Castañer, a high fashion firm. 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 has two other brothers whom he helped organize an auxiliary industry that recycles the sawdust they produce and turns it to agglomerate that can be re-used for cheaper quality sole manufacture, or other industrial uses in furniture firms. Juan says he sold his part of this auxiliary firm to his brothers because they were having lots of problems between them because they both wanted to be in control and that could not work: "one has to be the boss".

In the first years after setting the firm, most clients came through Sonia, who had been working as a secretary in the Elche cork soles factory and had been in personal contact with clients, she had built relational capital. Eulalia and Sonia's parents took charge of all home and board expenses during the first year enabling them to invest their savings in buying second hand machines and hiring the plant. 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”. Juan, for example, is the only one to have had an ‘artisanal’ apprenticeship in his father’s shop before migrating to Elche, his skill is of a general type. Moreover, very saliently, gender differences crystallized in formal job opportunities in the Elche years and were therefore incorporated in human capital in a gender specific mode. These are crucial differentiating processes within the family firm. 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 & 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. These tensions arise from conflicting loyalties towards those who are part of people’s sense of belonging, those around which personal and

collective identities are constructed and security against uncertainty is intimately build. But there is more to it: the aggravation of in-family tensions reveals the transfers of conflict-laden relationships from the market and the state into the intimate realm of affects and the realities of making a living. 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.[11] But also, reproduction of social identities is increasingly linked to the reproduction of work opportunities and in general to the access of economic resources through affective networks. We see people trying to construct their individual identities through consumption, while collective identities are increasingly tied to participation in festivals such as the Moros y Cristianos, which are also dependent on consumption capabilities. We see mothers working as homeworkers in very harsh conditions in order to give higher education to their kids, while these same kids help them with the handwork. It is this very messy reality, fraught with tensions that express ongoing processes of social differentiation that social scientists and policy makers hide behind the economistic –and therefore rational and non-emotional—concept of "social capital".

The ethnography however, enables us to perceive that these tensions do not affect in the same way people in this regional economy. The closer to the "capital" side of the labor/ capital divide are the economic agents, the more explicit is their instrumentalization of affective relationships. But also, the higher the potential benefits for all those involved, although these will be distributed not so much within the

framework of a generalized reciprocity ‘family’ pattern, but following an ‘entrepreneurial’ idea of fair returns for each member’s capital investment. Often, however, this is couched in an ambivalent discourse where survival of the firm and of the family are difficult to disentangle.

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, in much the same way as any other resource is not naturally and equally available to all local residents, either. 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. Moreover, we should briefly mention here the history of the region.

First, at the turn of the 20th century we found a tension between two different experiences of exploitive relations of production, the one supporting collective –class-- strategies in order to push forward claims, the other based on personalized –clientelist-- politics. After the Spanish Civil War a violent politically repressive regime excluded those that were vanquished in the war, the ‘reds’, precisely those that had supported collective public politics, while imposing by force a corporatist framework for labor relations, one that relied strongly on networks of personal relations and patronage. In the extremely regulated context of autarky, the Black Market (*estraperlo*) thrived, producing a generalized acceptance of illegal practices on the one hand, while, on the other hand, highlighting the arbitrary application of the law and its selective use to enforce ideological positions. This period was also one where petty entrepreneurial

practices were intimately tied with different forms of solidarity (Narotzky & Smith 2006, Richards 1998).

Finally, the 1970s' experience of industrial factory work was interpreted in an ambivalent fashion by local subjects. It did empower workers through inscribing them in the regulated framework of contract law and legal labor institutions through which conflict was channel and protest could be waged. The results, however, were perceived as fatal for the industrial structure in the long run.

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 home-workers 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. Access to non-market, reciprocal, affective resources, as happens with market resources, is unevenly distributed following a differentiation process that is rooted in history and tends to reproduce itself. 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 Zheijiang province, located in the eastern coast of China, south of Shanghai.[12] 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 (Y-L. Liu 1992:294, Blecher 1991). 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-factory workers, in a process that can be termed petty capitalism (Y-L. Liu 1992:296, Smart & Smart 2005). In 1985 the weigh 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 won't get into a more detailed description of the region because I have just started to explore its social relations of production, their connection with "social capital" or *guanxi*, and the relative weight of state regulation. 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. 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 exiting 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 1995 (Unger & Chan 1999, Lee 2002). 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. Against this, new forms of labor insurgency try to appeal to the protection of the state of law in what appears as a citizenship-type consciousness formation within the memories of the socialist state provisioning figure (Lee 2002).

Third, regarding the local form of social capital, guanxi, an intriguing paper by Guthrie (1998) proposes, *contra* most other scholars (Yang 1994, Smart 1993, Smart & Smart 1993, Chan & Unger 1982), that traditional modes of guanxi practice in its more manipulative and instrumental economic aspect are declining in China leaving a mere “relational” form of guanxi: good connections being useful for business in an uncompromising way, just as “in any other place”. This perspective might be the result of his fieldwork site in northern China, with an industrial situation very different to that

of southern China. What seems interesting in my view, however, is the argument expressed by the economic actors that were interviewed for the decline of guanxi practices and the alleged increased attention paid to "the laws, rules and regulations of the Chinese state": in a competitive market context regulations make the *investment environment* much better. This contrasts with the increase in guanxi practices that other scholars point at in the more prosperous southern coastal provinces (Unger & Chan 1999, Smart & Smart 1993). 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 regions autonomy from state policies and regulations (A.P.L. Liu 1992).

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. That is, 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[13] 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. Autonomy would enable some economic agents in a community to overcome the centripetal forces and closure that are generally attributed to social and cultural proximity. Autonomy, then, would be as necessary as embeddedness for social links to successfully work as social capital (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. This carries consequences for regulation practices and the appeal to law by different social actors in the economic regions (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.[14] 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.

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 part of the dynamic elements of a successful region. Embeddedness, then, 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 were local levels of governance have increasing power of arbitration and arbitrariness regarding the application of the law and its “interpretation”.[15] 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. 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 hasn't had any results so far. A shift toward "protectionist" appeals in commercial terms, following local petty capitalists' strategies would not be a new thing in Spanish history (Izard ***). It would once again stress the corporatist aspect of regional economies, but it would be a significant turn for local workers who have hitherto claimed what they considered their rights either in class terms or in personalized clientelist terms. Here 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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Notes

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[1] This was part of a collaborative research with Gavin Smith (University of Toronto) who had done fieldwork in the same area in 1978-79.

[2] For a critique of the “industrial district” model Hadjimichalis and Papamichos, 1990; Amin and Robins, 1994; Gertler, 1992; Smith, 1999.

[3] 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

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and personal expendability and exchangeability on the part of the workers. This is the impersonal face of the industrial district of the Vega Baja.

[4] A consumer market not only for finished products but also for footwear components.

[5] For a very detailed analysis of the Elche events of September 2004 see Cachón 2005

[6] Around 50% of the actual production of shoes in the area is done in the informal economy (Ybarra et al. 2004)

[7] "(…) 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)

[8] 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)

[9] Special Technology Advanced Footwear

[10] Foreign Trade Association, Press release 24-01-2006

[11] See Narotzky & Smith 2006 for a detailed historical view of social relations of production in the area.

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[12] Wenzhou is 11,500 km2 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)

[13] 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).

[14] 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.

[15] This situation which is becoming the norm in Europe (Lovering 1999) seems close to what Lee (2002) calls "disorganized despotism" for China