Transcript

Is Wal-Mart Good for America?

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ANNOUNCER: There's never been a company like it.

Prof. GARY GEREFFI, Duke University: Wal-Mart is probably the broadest and most powerful company in U.S. business history.

ANNOUNCER: Its everyday low prices benefit millions of Americans.

BRUCE BARTLETT, National Center for Policy Analysis: Wal-Mart has really given an increase in income to every American.

ANNOUNCER: But some say it's a bad bargain.

STEVE RATCLIFF: It's putting people out of work, that's what it's doing.

ANNOUNCER: Tonight, correspondent Hedrick Smith investigates how Wal-Mart is changing the American economy–

HEDRICK SMITH, *FRONTLINE* Correspondent: The Chinese guys bought the big machine?

ANNOUNCER: –following the trail of low prices in America to low-cost production in China–

DONALD HAY, Entrepreneur: I said, "Hold it. Hold it. Hold it. The next one's China. I got to get here."

ANNOUNCER: –tracking the nation's growing trade deficit–

YVONNE SMITH, Port of Long Beach: Wal-Mart's our number one customer.

HEDRICK SMITH: Wal-Mart's your number one customer?

YVONNE SMITH: Number one customer.

ANNOUNCER: –and examining the growing controversy over the Wal-Mart way.

ALAN TONELSON, U.S. Business & Industry Council: The lowest prices have to lead to the lowest wages and to job loss and to lower living standards.

ANNOUNCER: Tonight on ***FRONTLINE***, *Is Wal-Mart Good for America?*

HEDRICK SMITH, *FRONTLINE* Correspondent: *[voice-over]* It's 6:00 A.M. at the University Arena in Fayetteville, Arkansas, and the faithful are gathering. They've come to cheer their home team. But this isn't your typical home team.

CHEERLEADER: Give me a W!

AUDIENCE: W!

CHEERLEADER: Give me an A!

AUDIENCE: A!

HEDRICK SMITH: This is team Wal-Mart, and this is a shareholders meeting unlike any other.

CHEERLEADER: Give me a T!

AUDIENCE: T!

CHEERLEADER: What does that spell?

AUDIENCE: Wal-Mart!

CHEERLEADER: Whose Wal-Mart is it?

AUDIENCE: My Wal-Mart!

HEDRICK SMITH: And Wal-Mart is a company unlike any other.

WAL-MART EXECUTIVE: Your company was the first company on the planet to report one quarter of a trillion dollars in sales– $256 billion! *[cheers, applause]* Do you know what that is, $256 billion? That's one IBM, one Hewlett-Packard, one Dell Computer, one Microsoft and one Cisco Systems. And oh, by the way, after that, we've got $2 billion left over. *[applause]*

HEDRICK SMITH: As the world's largest company, Wal-Mart has tremendous power and influence. It is now the model not just for retailing but for companies all across the corporate landscape.

Prof. NELSON LICHTENSTEIN, U.C. Santa Barbara: In the 19th century, it was the Pennsylvania Railroad, which called itself the standard of the world. Early 20th century, it might have been U.S. Steel. General Motors, of course, in the mid-20th century. But clearly, Wal-Mart today is setting a sort of a– a new standard that other firms have to follow if they hope to compete. And more than just other firms, it's setting standards for the nation as a whole.

HEDRICK SMITH: By figuring out how to exploit two powerful forces that converged in the '90s, the rise of information technology and the explosion of the global economy, Wal-Mart has changed the balance of power in the world of business.

Prof. GARY GEREFFI, Duke University: It used to be that manufacturers – big multi-national manufacturers – had the most power, companies like General Motors and General Electric. Today, I think that global retailers actually have become the most powerful companies in the global economy.

HEDRICK SMITH: To understand Wal-Mart and how a company with such humble roots has managed to build a global empire, I headed for Bentonville, Arkansas. It's an overgrown crossroads town tucked into the Bible and barbecue belt of northwest Arkansas. Here, in the heart of the old town, sits the five-and-dime store that Sam Walton opened in 1950. A few blocks away I found the Wal-Mart of today, the Wal-Mart we've come to know as consumers, a cornucopia of thousands of different items all under one roof, the epitome of one-stop shopping. Every week, Wal-Mart says, 100 million American shoppers stream into its 3,400 stores

SHOPPER: It's very convenient for me to be able to get a one-stop shop.

SHOPPER: I know I don't have to look and see where I can save the most money. I know when I come in here, I can save money.

SHOPPER: Good prices, good quality of stuff.

SHOPPER: I'm sort of thinking of having my Social Security check deposited directly to wal-Mart since I buy everything at Wal-Mart.

BOB McADAM, VP, Wal-Mart Gov't Relations: What makes Wal-Mart successful, what keeps us motivated and what really challenges us every day, whether it was from the day one when Wal-Mart began or till today, I think it's the same, that we really strive in everything we do to keep our costs as low as possible, so that we can provide the customer a value and still make a reasonable profit for our company.

HEDRICK SMITH: That was Sam Walton's formula: Buy cheap, sell for less than the other guy, and make your profit on high volume and fast turnover. Sounds simple, but this supercenter is a world away from Sam's five-and-dime. How do they keep track of it all? How do they know what to stock? How do they keep prices so low?

LINDA DILLMAN, Wal-Mart Chief Information Officer: What I'm going to do is show you how we use this Telxon unit in our stores.

HEDRICK SMITH: Linda Dillman is Wal-Mart's chief information officer, and she let me in on one of Wal-Mart's most important tools, a little gadget called a Telxon

LINDA DILLMAN: It tells me the sales price of the item, how many I currently have. And it knows what the history looks like for tracking each sale as it occurs. We know what we think it'll be going forward, based on its trend.

HEDRICK SMITH: Wal-Mart was one of the first retailers to understand the power of information hidden in the barcode.

[on camera] This little barcode here is not just a simple thing, it's almost an encyclopedia of information.

LINDA DILLMAN: Absolutely. It allows us to tie this item to a lot of information we know about, we can only collect because we have that barcode.

HEDRICK SMITH: How many items do you have in a store like this?

LINDA DILLMAN: Over 100,000, so– close to 120,000 items.

HEDRICK SMITH: *[voice-over]* Wal-Mart couldn't manage without the barcode. It helps them overcome one of retailing's thorniest problems: getting the right mix of products in the store.

JON LEHMAN, Former Wal-Mart Store Manager: You can track sales on specific items, specific weeks, specific days, specific hours of the day.

HEDRICK SMITH: Jon Lehman worked at Wal-Mart for 17 years. He managed six different stores. Disillusioned, he quit to go work for a union trying to organize Wal-Mart workers.

JON LEHMAN: You can track sales spikes during the year, during certain seasonal periods, and– it's incredible.

HEDRICK SMITH: *[on camera]* Clothes, sizes–

JON LEHMAN: Clothes, sizes, colors, flavors, all of those things. It's– it's just– it's really incredible.

HEDRICK SMITH: *[voice-over]* With its own supercomputer, Wal-Mart streamlined its supply chain, speeding delivery from plant to store shelf.

JON LEHMAN: The sale's recorded, and then an order is automatically generated that evening at midnight. And that warehouse fills that order, and it's sitting back on the shelf the next night or the following night.

HEDRICK SMITH: Wal-Mart became a world leader in logistics and promoted greater efficiency among its suppliers. Some analysts even credit Wal-Mart with increasing U.S. productivity.

[www.pbs.org: Wal-Mart's information technology]

Prof. GARY GEREFFI: Wal-Mart, as an efficiency machine, has just done better than any other U.S. retailer, or perhaps any other U.S. company in history.

HEDRICK SMITH: With other mass retail chains, like Target and K-Mart, Wal-

Mart generated a revolution in how goods are produced, a shift from what's called "push production" to "pull production."

Prof. EDNA BONACICH, U.C. Riverside: The push system involved manufacturers deciding what they're going to produce and then trying to get retailers to buy it and sell it for them. The pull system involves retailers deciding what is being sold, collecting information on what is being sold, and then telling manufacturers what to produce and when to produce it based on what is actually being sold.

HEDRICK SMITH: Wal-Mart's pull is so powerful that here in Bentonville, manufacturers have set up satellite sales offices. In what's now known as Vendorville, I found a Who's Who of Wal-Mart vendors. In one corporate office park, I found a sock manufacturer, Kentucky Derby Hosiery. Its CEO is Bill Nichol.

BILL NICHOL, CEO, Kentucky Derby Hosiery: Yes. If you want to sell Wal-Mart, you know, you need to come to Bentonville. It's been that way for a long time. I don't see that that's going to change. So people who travel a lot found it maybe more convenient just to have an office here, that they were continuously coming to Bentonville, so a lot of them just moved here, or at least opened an office here.

HEDRICK SMITH: The suppliers come in droves, hungry for big contracts. They get herded into little rooms for bargaining sessions with Wal-Mart buyers.

BILL NICHOL: They force all of us, by really good business discipline, to be sure we're paying attention at all times to what their customers want to buy. It serves the purpose of saying, "This is what they want, and they want to buy it at this price." Therefore, that's what we'd better be doing, our little company.

HEDRICK SMITH: The focus is on what matters most to Wal-Mart: prices.

JON LEHMAN, Former Wal-Mart Store Manager: Well, it's very one-sided. There is no negotiation. There's not much negotiation at all. The manufacturer walks into the room. I've been in these little cubicles, I've seen it happen. The buyer says, "Look, we want you to sell it to us for 5 percent on a dollar – at cost – lower this year than you did last year."

They know every fact and figure that these manufacturers have. They know their books. They know their costs. They know their business practices– everything, you know? So what's a manufacturer left to do? They sit naked in front of Wal-Mart. You know, Wal-Mart calls the shots. "If you want to do business with us, if you want to stay in business, then you're going to do it our way." And it's all about driving down the cost of goods.

Prof. NELSON LICHTENSTEIN: The power of Wal-Mart is such, it's reversed a 100-year history in which the manufacturer was powerful and the retailer was sort of the vassal. It's changed that. It turned that around entirely. Now the retailer, the mass global retailer, is at the center. That's the power. And the manufacturer becomes the serf, the vassal, the underling who has to do the bidding of the retailer. That's a new thing.

[www.pbs.org: Read the extended interview]

HEDRICK SMITH: I wanted to see how this bold new world of retail power had changed the game for established brand-name manufacturers, so I headed to Wooster, Ohio, a small college town and long-time home to one of America's best-known brands, Rubbermaid, maker of plastic pails, garbage cans and all kinds of containers.

STANLEY GAULT, Former CEO, Rubbermaid: We were one of the best-known brand names in America because we were in virtually every home, one way or another.

HEDRICK SMITH: Stanley Gault was CEO of Rubbermaid through the 1980s and early '90s. Gault bet Rubbermaid's future on supplying big box discount chains like Wal-Mart.

STANLEY GAULT: The tea leaves said, "You better be a part of this growing– of these growing new segments." They provide a tremendous opportunity for growth and for volume sales. And they can take a new product and make it a success overnight

HEDRICK SMITH: One of Gault's rising lieutenants was Wolfgang Schmitt, who would later become CEO.

WOLFGANG SCHMITT, Former CEO, Rubbermaid: Well, there was a dramatic shift over a relatively short period of time, as we went from thousands of customers that we were selling to, to where five or seven of our customers represented two thirds of our volume.

HEDRICK SMITH: *[on camera]* These big box retailers.

WOLFGANG SCHMITT: The big box mass merchants. You have to have a very tight relationship with them. And you have to be important to them.

HEDRICK SMITH: *[voice-over]* No customer was more important to Gault than Wal-Mart.

STANLEY GAULT: When I came to Rubbermaid, they did not sell Wal-Mart. They were selling K-mart, but they wouldn't sell Wal-Mart. Well, within a short period of time, Wal-Mart – really, within a year – they were our largest customer.

[television commercial]

ANNOUNCER: Tired of dragging your garbage to the end of the drive? Then roll it with a roughneck wheeled refuse container from Rubbermaid. Heavy-duty construction and–

HEDRICK SMITH: The Wal-Mart account helped fuel Rubbermaid's rapid growth. Sales and profits soared. Its products were so highly regarded for quality that Rubbermaid was voted the nation's most admired company in 1994.

CAROL TROYER, Former Rubbermaid Executive: It's really your peer group, the other manufacturers out there in the world, saying, "This is the company that is really doing it. They're doing all the things right, and they're doing the things that make them very admired– our brand name, our quality, our product development."

HEDRICK SMITH: But behind the headlines, Rubbermaid was struggling to maintain its ambitious growth targets. Then, suddenly, it found itself in a showdown with its biggest customer.

CAROL TROYER: The price of resin skyrocketed. And resin is a huge component of any plastic product that you make. And when we went out with a price increase across the industry to all retailers, saying, "Our raw material costs have increased significantly, We have to get a price increase for our products," Wal-Mart would not take that price increase. They flat-out refused to take the price increase.

HEDRICK SMITH: Other mass retailers agreed to a price hike, and Rubbermaid's CEO flew to Arkansas to ask Bill Fields, head of Wal-Mart stores, to reconsider.

WOLFGANG SCHMITT: They were very public in those days, as you might recall, as were a lot of retailers, about saying, "One of the advantages we, as big box retailers, have is we can put the hammer to the manufacturers and we can give American consumers lower prices."

HEDRICK SMITH: *[on camera]* So did Fields put the hammer to you?

WOLFGANG SCHMITT: Oh, in his own way, certainly.

CAROL TROYER: I thought it was a vindictive kind of meeting that said, "Yes, you may be Rubbermaid and you're big Rubbermaid and you got the great name and all that, but you're not going to tell us what to do. We're not going to take your price increase, and we really don't care what it does to you."

HEDRICK SMITH: *[on camera]* So what does it mean to you? Do you lose shelf space? Do you lose volume, to Wal-Mart at that point?

WOLFGANG SCHMITT: Sure. You know, when push comes to shove, their way of disciplining the supplier is to show that, you know, volume can be given or it can be taken.

CAROL TROYER: And they dropped a number of our products for a couple years, just dropped those products. That impacts the company tremendously. To me, it was one of the first signs of the decline of Rubbermaid.

HEDRICK SMITH: *[voice-over]* I asked a Wal-Mart spokesman about the clash with Rubbermaid because Bill Fields, no longer at Wal-Mart, didn't answer ***FRONTLINE***'s inquiries.

RAY BRACY, V.P., Wal-Mart Int'l, Corp. Affairs: Whatever happened there, I'm sorry, I can't comment because it predates me and I'm not familiar with the specifics. But I would just reemphasize that it is not our intent to be bullies as buyers to our suppliers.

HEDRICK SMITH: Wal-Mart's pull-back was a body blow to Rubbermaid. Coupled with lax management at Rubbermaid, it plunged the company into deep trouble. In 1999, Rubbermaid sold out to Newell, a major competitor. By the time I arrived in Wooster five years later, it had come to this, Rubbermaid auctioning off its birthright.

[on camera] Where're the buyers from?

AUCTIONEER: They're from all over. We've got guys from all over the 50 states.

We've got two guys in from South America, two guys from Italy, a guy from Spain, two guys from over in Japan or China area. We've got a guy from Austria–

HEDRICK SMITH: A couple of guys from China?

AUCTIONEER: Yeah.

HEDRICK SMITH: And they're buying here?

AUCTIONEER: They're buying. They bought the one big machine today, yeah.

HEDRICK SMITH: The Chinese guys bought the big machine?

AUCTIONEER: Right. It's an injection machine. They bought it, I believe, for $850,000.

HEDRICK SMITH: *[voice-over]* So Rubbermaid's original plant was closing shop, and countries like China were picking up the pieces.

AUCTIONEER: You know, when you think of Wooster, you think of Rubbermaid. And you think of Rubbermaid, you think of Wooster. I mean, this is what this town is all about.

HEDRICK SMITH: *[on camera]* So what's it going to be without– when you move all this stuff out, you know, you've got a carcass here.

AUCTIONEER: Exactly. There's a–

HEDRICK SMITH: Is the town a carcass, too?

AUCTIONEER: Well, there's about 1,000 jobs that were lost here.

HEDRICK SMITH: *[voice-over]* It seemed to me that it wasn't just a plant dying, a set of corporate values was passing away. Ten years ago, Rubbermaid, with its reputation for quality, was named most admired. Last year, Wal-Mart, with its reputation for its cost-cutting, was most admired.

[on camera] If you look at the shift from Rubbermaid as the most admired company in 1994 and Wal-Mart as the most admired company today, in terms of the larger American economy, what does that mean? What does that say about the touchstones of success?

Prof. GARY GEREFFI, Duke University: Rubbermaid represented an innovation-oriented high road towards U.S. competitiveness. I think Wal-Mart represents a cost-driven, low-price low road towards U.S. competitiveness. And in a sense, they're two dramatically different styles in which the U.S. economy can be organized. I think the Wal-Mart model is winning out.

STORE MANAGER: Good morning, associates. I need all available associates, all department managers–

HEDRICK SMITH: *[voice-over]* Back at the supercenter in Bentonville, employees gather for the morning meeting, a daily ritual at 5,000 Wal-Mart stores all over the world. It's part of the Wal-Mart culture.

STORE MANAGER: Good morning, everybody!

STAFF: Good morning, Matt! *[applause, cheers]*

STORE MANAGER: Everybody doing all right? OK, let's talk about sales. Hey, we had a pretty good day yesterday. We were up 6.5 percent. Meat was up 19.2 percent. Yeah, a great job in our meat department!

HEDRICK SMITH: It's a pep rally around Sam Walton's low-cost, low-price formula for success

STORE MANAGER: Way to go! *[cheers, applause]* Who else has got an item?

1st ASSOCIATE: *[shoelaces]* It's 88 cents. That's an 85.23 percent mark-up. Great item!

STORE MANAGER: All right!

2nd ASSOCIATE: *[paper plates]* They're $1.50 for 24, and a 30 percent mark-up.

STORE MANAGER: All right! Good item!

HEDRICK SMITH: Pay close attention. What they're talking about is how Wal-Mart pulls in millions of shoppers by touting what it calls the "opening price point."

STORE MANAGER: Awesome!

3rd ASSOCIATE: And then we have simply basic socks for your dollar-a-buck, with 94 cents.

STORE MANAGER: Awesome!

3rd ASSOCIATE: We sell– in all the colors, we sell about 60 pairs a week.

HEDRICK SMITH: Opening price points are the rock-bottom prices that Wal-Mart showcases in special displays– the $9.14 saucepan, trick-or-treat jack-o-lanterns for 78 cents.

RAY BRACY: The opening price point is clearly a foundation of who we are and how we interact with our customers. We feel that they need to have the best product, the best value at the best price we can achieve.

JON LEHMAN: It's the heart of Wal-Mart's pricing strategy. Wal-Mart puts a tremendous amount of planning, organization and thinking into what their opening price points are going to be, based on last year's sales, based on customer requests.

HEDRICK SMITH: Every line of goods has an opening price point, the cheapest item in the line. For example, this $29.87 microwave oven. It's a good price, but it's also the bait to lure customers to that department.

JON LEHMAN: It's to get you in. You look at that, and you say, "Wow! What a great price." Then they got you because you walk about 10 more feet, and you see the item you really want in that same category. Then you buy that item, but it's not going to be, probably, the lowest price in town.

HEDRICK SMITH: *[on camera]* So are you saying that the opening price is the lowest price and actually will beat the competition, but maybe other items in the same category aren't necessarily the lowest price?

JON LEHMAN: Oh, absolutely not. Once you walk past that opening price point, they got you because you've already formed the perception that everything in that department is the lowest price in town.

HEDRICK SMITH: And maybe it's not.

JON LEHMAN: No, it's not. No. I can tell you it's not. I can tell you from experience, it's not.

HEDRICK SMITH: *[voice-over]* Back in the 1950s, Sam Walton dreamed up the idea of an eye-popping opening price point.

JON LEHMAN: Sam had an old Ford pickup truck, and he'd go down the road and buy ladies' panties and sell them at a ridiculously low price– you know, 10 for a buck, or something like that.

HEDRICK SMITH: And it worked. Sam got a jump on bigger rivals by targeting territory they ignored, building his early stores near small towns in the south.

RAY BRACY: One thing you have to think about in the history about us is that we're a company that hasn't been that long ago that we were a regional player. What we found is we had to compete with, as a regional player, those that were national players. How did we do that? We had to go overseas to find products in some cases.

RAY BRACY: In the '70s and '80s, Sam Walton would travel overseas looking for goods that would sell in our stores.

HEDRICK SMITH: Despite Wal-Mart's much publicized "buy American" campaign in the late '80s, low-cost imports from Asia became a vital component of Wal-Mart's low opening price point strategy.

Prof. GARY GEREFFI: They were more single-minded in terms of global cost cutting and internal efficiency than any other U.S. retailer. And that helps us understand how and why they were able to pass companies like K-Mart and Sears that were the early leaders in U.S. retailing and offshore sourcing.

JON LEHMAN: There was a lot of talk about those companies being asleep at the wheel, being fat, dumb and happy, you know? And we didn't want to be fat, dumb and happy. We wanted to be aggressive.

HEDRICK SMITH: And they were aggressive. From 38 stores in 1970, Wal-Mart grew to 276 in 1980 and mushroomed to 1,500 in 1990. In 1991, it overtook its long established rivals to become the nation's biggest retailer. Then surprisingly, Wal-Mart began having trouble. In 1992, Sam Walton died, and a year later, with the economy slow and sales sluggish, Wal-Mart's stock price slumped badly.

JON LEHMAN: Wal-Mart got very nervous. It got lower and lower and approaching that $20 mark. And that $20 mark seemed to be the– like, the threshold. If it gets down below $20, it's going to be a panic.

HEDRICK SMITH: Wal-Mart's new management needed to crank up sales and profits, and they hit on a way to do both.

JON LEHMAN: I saw this as a store manager, an influx, a giant influx, of imported merchandise coming in. The stores were inundated with inventory. Inundated! I mean, we had so much of this cheap crap floating around the store, we didn't know what to do with it.

HEDRICK SMITH: Lehman was so overwhelmed with merchandise that he called a vice president at Wal-Mart headquarters to ask what was going on.

JON LEHMAN: He said, "Jon, you know, we got to bring our profit in for the quarter, for the month, for the year. And you know our stock is declining. And you do understand, Jon, that these imports have a high margin, a high markup, and they're going to help your profit-and-loss statement. They're going to help the company's profit-and-loss statement."

HEDRICK SMITH: The impact was dramatic and immediate.

JON LEHMAN: The margins on the merchandise that were coming in from– the Wal-Mart import items were incredible.

HEDRICK SMITH: *[on camera]* Like what?

JON LEHMAN: Like 60, 70, 80 percent, you know? Incredible.

HEDRICK SMITH: Compared with what, some American-made items?

JON LEHMAN: Well, compare that to an electric razor that you might be making 20 percent on or 18 percent on or 22 percent.

HEDRICK SMITH: So you're saying that Wal-Mart is making much bigger profits on these items that are made in China or these low-wage countries. Is that right?

JON LEHMAN: That's absolutely right,

HEDRICK SMITH: *[voice-over]* By the late '90s, Wal-Mart was dependent on low-cost Asian imports, and it began pushing its American suppliers to follow Wal-Mart to Asia.

BILL NICHOL, CEO, Kentucky Derby Hosiery: Their message to us, surprisingly, is, "There's a broad market out there. If you want to focus on the lowest-cost part of the market, it's obvious that you can't do that in the United States."

HEDRICK SMITH: *[on camera]* So if you want to play in that 25 percent of the Wal-Mart market, you got to be in a very low-cost place, China or someplace like China.

BILL NICHOL: That's correct. But China, practically speaking, is it.

HEDRICK SMITH: And a number of suppliers have told us that they have felt real strong, particularly opening price point, pressure from Wal-Mart that has effectively forced them to make decisions to move overseas, specifically to China.

RAY BRACY, V.P., Wal-Mart Int'l Corp. Affairs: I don't know that that is a common practice. I don't know– I can't even confirm that that happened. I suspect that this is a legitimate occurrence that you're citing, and there may be some validity to that. The sad truth is because of perhaps the pressure on price because of this opening price point initiative that we and others have, and because the pressure of costs on the other side, that it's difficult to make that– make ends meet, if you're a business, by staying here.

HEDRICK SMITH: You, as a producer of socks for 30, 40 years, are you now going to find that you need to put a production facility in China?

BILL NICHOL: Absolutely. For us to remain a viable company over the long run, we know we have to compete.

Prof. GARY GEREFFI: Wal-Mart basically tells its suppliers, "We need to get those products at 30 percent lower price. You need to move to Asia, you need to move to China because that will meet our bottom-line price figures."

HEDRICK SMITH: *[voice-over]* Wal-Mart was capitalizing on a watershed moment on the world stage, America's embrace of trade with China in the late '90s. With corporate America hailing China as the new economic frontier, President Clinton signed a permanent trade agreement with the Chinese.

Pres. BILL CLINTON: Our administration has negotiated an agreement which will open China's markets to American products made on American soil, everything from corn to chemicals to computers.

ALAN TONELSON, U.S. Business & Industry Council: The picture painted was that China was a big emerging market for U.S. exports and that U.S. workers and also U.S. companies, companies that made their products here, could profit tremendously from the opening of trade flows with such an enormous country like China. After all, it had 1.2 billion people.

HEDRICK SMITH: To see first-hand how the promise of a vast new market for America was playing out, I headed for China and the heart of its new industrial revolution, Shenzhen, south China's miracle city.

Twenty years ago, this was all rice fields. Today, it's a sophisticated city of seven million, its astonishing rise orchestrated by China's leaders and ignited by a Chinese currency devaluation in the mid-'90s that dramatically lowered its export prices.

KENNETH CHAN, Hong Kong Entrepreneur: It's the opening of China. China is a communist country, and for the longest time, we had closed doors. And when they opened up to Western businesses, the floodgates opened, basically, and it's something that you just can't stop.

HEDRICK SMITH: The boom seemed endless. North of Shenzhen, I found an entrepreneur who was among the first to spot opportunity in the new China.

DONALD HAY: Well, these are the products we make. This gives you some idea of–

HEDRICK SMITH: Australian Donald Hay came to south China 20 years ago.

DONALD HAY: I was in this part of the world, and I could see– I saw the cheap products come out of Japan and I saw then that market went to Korea, then it went to Taiwan. I said, "Hold it. Hold it. Hold it. The next one's China. I got to get here."

HEDRICK SMITH: The backbone of China's new industrial might is the flood of young Chinese pouring into this industrial province, an area no bigger than Missouri now teeming with more than 40 million migrant workers. They come to work and live at the factories. At Hay's company, Hayco, they make $100 month, or about 50 cents an hour. Other companies pay as little as 25 or 30 cents an hour.

DONALD HAY: They want to work. They want to earn the money. They want to get forward. And they will do anything to move forward.

HEDRICK SMITH: Today Hayco supplies electric toothbrushes and home-cleaning products to big American companies like 3M, Procter & Gamble and Wal-Mart.

DONALD HAY: What's happened is the world has come here as a marketplace. It's like a supermarket for manufacturing today, and the quality is up to world standards and a long way past world standards. And that's just what's happened in southern China.

HEDRICK SMITH: All across the region, I saw evidence of the mass corporate migration into China: highways lined with factories like airport hangars. Hundreds of billions of dollars in Western investment have poured into China in the past 20 years.

And Wal-Mart is here, too. It has 35 supercenters in China. And behind one of them, here in Shenzhen, I found Wal-Mart's global procurement center, a huge buying operation tapping directly into China's new workshop of the world.

Prof. GARY GEREFFI: I interviewed people in Wal-Mart's global procurement center in Shenzhen, and I asked them about the total number of Wal-Mart suppliers. And I was told that Wal-Mart has 6,000 global suppliers. Eighty percent of those suppliers are in China.

HEDRICK SMITH: Several hundred employees work at the procurement center, keeping the import pipeline full.

Prof. GARY GEREFFI: Wal-Mart gives Chinese suppliers the specifications for Wal-Mart products, and they teach those suppliers how to meet those specifications. They have to do it with price. They have to do it with quality. They have to do it with delivery schedule. So in a sense, Chinese suppliers learn how to export to the U.S. market through large retailers like Wal-Mart.

HEDRICK SMITH: The Chinese suppliers also learned just how tough Wal-Mart can be.

KENNETH CHAN: Wal-Mart is– they're very shrewd people. They know that they have the volume orders behind them, and they can go into a factory and almost demand, "These are my list of demands. This is what I need."

HEDRICK SMITH: Kenneth Chan is a Hong Kong entrepreneur who used to supply Wal-Mart.

HEDRICK SMITH: *[on camera]* I've even heard sometimes that they will call in three or four manufacturers into one of their little negotiating booths and auction them off, say, "This is what we want."

KENNETH CHAN: Yeah, the big reverse auction kind of thing, where they bid the price as low as possible.

HEDRICK SMITH: What do they do?

KENNETH CHAN: Basically, they bring people into their offices and just put product in front of you and ask you to– everybody to bid their cost on the product. And it's very high-pressure,

HEDRICK SMITH: Have you ever been in that situation, where you had to bid, three or four people in the same room?

KENNETH CHAN: Yeah, I have. All of the things that I was involved in, they were very inexpensive, less than– they were probably, at the most, maybe less than $1.00.

HEDRICK SMITH: So they're pounding for a few pennies.

KENNETH CHAN: Yeah. They're only pounding for, in a lot of cases, just one penny, in fact.

HEDRICK SMITH: Now, the argument is that this is getting a better deal for the consumer. Do you buy that, or do you say–

KENNETH CHAN: No, it's getting a better deal for the retailer or the importer.

HEDRICK SMITH: For the Wal-Mart.

KENNETH CHAN: Yeah, for the Wal-Mart, for the Targets, whoever does it.

HEDRICK SMITH: *[voice-over]* I'd heard about Chinese producing cheap, low-end consumer goods. What was striking to me was how many Chinese companies were going high tech. You may not have heard of TCL, but you've seen their TVs and maybe bought them, marketed under brand names like Philips and RCA. And you'll be hearing more from them soon. They have a wide range of modern electronic products. And they've just merged with French electronics giant Thomson. Together they're now the largest TV maker in the world.

REN KAI, Production Manager, TCL: *[through interpreter]* Ninety-nine percent of our exports are for North America and Europe, where we make a large part of our profit. We need to fulfill the demand of our foreign customers.

HEDRICK SMITH: And only one U.S. customer, it turns out, really matters to TCL.

REN KAI: *[through interpreter]* Selling to Wal-Mart accounts for almost all our sales to the U.S. market. Wal-Mart keeps a very low inventory and a fast turnaround, which forces us to speed up our production to catch up with the international market.

HEDRICK SMITH: It was a familiar refrain – I heard it everywhere – ramping up production, supplying Wal-Mart, shipping to America. And at Shenzhen's main port, I saw a river of exports. Ten years ago, this was all barren land. Today Shenzhen is on the verge of becoming the third busiest port in the world, and Wal-Mart is one of its biggest customers.

Prof. GARY GEREFFI: Wal-Mart has a very close relationship with China. China is the largest exporter to the U.S. economy in virtually all consumer goods categories. Wal-Mart is the largest retailer in the U.S. economy in virtually all consumer goods categories.

HEDRICK: *[on camera]* It sounds like a commercial marriage made in heaven.

Prof. GARY GEREFFI: Wal-Mart and China are a joint venture, and both are determined to dominate the U.S. economy as much as they can.

[www.pbs.org: More on Wal-Mart and China]

HEDRICK SMITH: *[voice-over]* Wal-Mart estimates that it imports $15 billion of Chinese goods every year and maybe a lot more.

[on camera] You've mentioned a figure of $15 billion in direct and indirect imports. Others have given us higher estimates, well into the 20s and maybe $30 billion. Is that possible?

RAY BRACY, Wal-Mart V.P.: I think it's possible. It could be higher and it could be lower. The other thing you have to remember is that we're growing pretty significantly in terms of sales, so next year it will be higher, and the year after that, it's likely to be higher, as well.

Prof. GARY GEREFFI: Wal-Mart is providing a gateway into the American economy for overseas suppliers in China and elsewhere, and it's doing it on a scale that is unprecedented.

HEDRICK SMITH: *[on camera]* Cosco, that's China's ship. And a Japanese ship here.

YVONNE SMITH, Port of Long Beach: But they're all carrying Chinese cargo.

HEDRICK SMITH: *[voice-over]* At the other end of the pipeline, I visited the port of Long Beach in California. I wanted to see how Washington's promise of massive American-made exports to China was working out. The port's communications director is Yvonne Smith.

HEDRICK SMITH: *[on camera]* What are they shipping in and what are we shipping back?

YVONNE SMITH: Well, we're bringing in consumer products. We're bringing in about $36 billion worth of machinery, toys, clothing, footwear.

HEDRICK SMITH: That's $36 billion right here in Long Beach?

YVONNE SMITH: About $36 billion comes through Long Beach from China alone– consumer products.

HEDRICK SMITH: And what are we shipping back?

YVONNE SMITH: We're shipping out about $3 billion worth of raw materials. We export cotton. We bring in clothing. We export hides. We bring in shoes. We export scrap metal. We bring back machinery.

HEDRICK SMITH: So they're doing all the– we're like a third world country.

YVONNE SMITH: We're exporting waste paper, containers full of waste paper. We bring back cardboard boxes with products inside them.

HEDRICK SMITH: *[voice-over]* Add it all up and the U.S. had a record $120 billion trade deficit with China last year, and it's headed even higher this year.

ALAN TONELSON, U.S. Business & Industry Council: The myth of an enormous and growing China market wound up locking the United States into a trading partnership with China that had to benefit China much more than it could benefit us.

HEDRICK SMITH: *[on camera]* Because?

ALAN TONELSON: And the reason was China would always be able to sell the United states much more goods than Americans could sell to Chinese because Americans had the incomes that are needed to buy Chinese products. Chinese consumers overwhelmingly don't have the incomes needed to buy American products.

HEDRICK SMITH: So the whole idea was wrong.

ALAN TONELSON: It was completely wrong.

LARRY MISHEL, Pres., Economic Policy Institute: When you look at the growth of the trade deficit with China, you could say that a very conservative estimate is that we have lost more than a million jobs to China since the early 1990s.

BRINK LINDSEY, Economist, Cato Institute: I think it's impossible to say that we've lost a million jobs to China. Trade policy, or trade flows, one way or another, don't have an effect on overall employment numbers. They affect the kinds of jobs we have. And so some number of jobs have definitely been eliminated because of Chinese competition. Another– elsewhere in the economy, other jobs have been created because of Chinese competition. Because American consumers have saved at Wal-Mart buying Chinese goods, they've got more money in their pocket to buy something else, which creates business opportunities for those other business, which means they hire workers they would not have hired otherwise. The net effect, most economists think, is a wash.

LARRY MISHEL: Theoretically, the gains from trade offset the losses from trade. But nothing says there are more winners than losers, and nothing says that for the bottom three fourths of America, that they are net gainers. In fact, I believe that most people have been losers from trade.

HEDRICK SMITH: The impact of China's export boom has been felt all across the U.S. in towns like Circleville, Ohio, population 13,000, a Norman Rockwell kind of town, with its farms and factories, a solid citadel of middle-class America. Former Republican mayor Ron Wunsch has lived in Circleville all his adult life.

RON WUNSCH, Former Mayor, Circleville: The community basically generated its livelihood off of the industry that came into the community, came in in the 1940s and 1950s. Thomson Consumer Electronics was the last large organization to join it. That came in in the 1970s.

HEDRICK SMITH: *[on camera]* So you had a good living standard, good jobs.

RON WUNSCH: Good jobs, good living standards and good people in the community.

HEDRICK SMITH: *[voice-over]* The French firm, Thomson, which manufactures TV sets, had the largest plant in town. And it was a top performer.

RANDY STRUTZ, Former Thomson Plant Manager: The Circleville plant, in its heyday, probably around 1999, 2000, was producing about 10 million pieces a year for the production of television sets. They made the glass components. About a thousand workers, highly motivated, highly productive, very efficient plants. And at the time, it was one of the most profitable contributors to Thomson's corporate bottom line.

HEDRICK SMITH: Steve Ratcliff was among thousand workers who rode the economic wave with Thomson. As a machine operator, he made up to $59,000 a year with overtime.

STEVE RATCLIFF: I've done this job for the last 30, almost 31 years, and it's become my life. And it's the only thing I've ever known in my adult working career was that job.

HEDRICK SMITH: But from 2002 onward, the tide went out. Plants in Circleville started closing, and the big Thomson plant suddenly faced sharp foreign competition.

RANDY STRUTZ: We started to see more finished Chinese components coming into the market. A few brands come to mind, like Apex. They were selling at prices that most people couldn't' even manufacture out of the U.S., and they're being sold at the same place we all buy TVs– Best Buy, Circuit City, Wal-Mart and Sears. And you know, all of a sudden, you had this end pressure on the retail price driven largely by the Chinese producers.

HEDRICK SMITH: And oddly, Mayor Wunsch says, the Thomson plant ran into big trouble, not just because of the Chinese but also an American company.

RON WUNSCH: In 2003, they lost a sizeable portion of their total production orders from a particular customer.

HEDRICK SMITH: *[on camera]* Sanyo?

RON WUNSCH: Sanyo, I believe.

HEDRICK SMITH: They lost the Sanyo contract because of what?

RON WUNSCH: My understanding, based on what I was told, was that an end-use retailer told the Sanyo people what they were going to pay for the TV.

HEDRICK SMITH: And who was that retailer?

RON WUNSCH: My understanding is that that was Wal-Mart.

RANDY STRUTZ: Wal-Mart's going to say, "If you want our space, you're going to have to match the price or figure something else to do." And so it forces a supplier like Sanyo to go back upstream to the tube, and in our case, glass manufacturers, to look for price concessions. But sometimes they're not there.

HEDRICK SMITH: So if they're not there, then they go to China.

RANDY STRUTZ: Then they go to China, or wherever they can to compete.

HEDRICK SMITH: *[voice-over]* Foreign competition hit other TV makers, too. In east Tennessee, I came across the very last American-owned TV maker, desperately fighting to hang on.

TOM HOPSON, President, Five Rivers Electronics: Well, it's a constant struggle to survive. I mean, it's a very competitive market.

HEDRICK SMITH: Tom Hopson is president of Five Rivers Electronics, an assembler of brand names like Philips, Samsung and RCA. With foreign imports dominating the small TV market, Hopson concentrated on high-end, big-screen sets. But even that was no protection from the Chinese.

TOM HOPSON: By the year 2003, they were, like, increased 1,100 percent in imports. So they just grew at an amazing rate. All of a sudden– they weren't here, they were shipping, you know, maybe 100,000, now they're shipping millions and millions of televisions, all of a sudden, from China.

HEDRICK SMITH: In three short years, Chinese TV makers had grabbed one third of the high-end market, about $350 million of business. But Hopson was convinced he was up against more than just free trade.

TOM HOPSON: You know, we're here to create jobs for our people in Greenville, Tennessee. And on a fair, level playing field, if we can't compete, then we go out of business like anyone else. But if it's unfair and it's illegal and someone's doing something to damage and put these people out of jobs, we're going to try to do something to keep these jobs.

HEDRICK SMITH: Hopson turned to Washington. He filed a trade complaint, charging the Chinese with dumping high-end TVs onto the American market, selling at below free market cost.

SKIP HARTQUIST, Five Rivers Attorney: It's not fair trade. It's not free trade. The Chinese are pricing their products in a manner contrary to the obligations they undertook when they joined the World Trade Organization a few years ago.

The Chinese system has built-in advantages that no one else in the world has. Their currency is undervalued by, we estimate, about 40 percent. Their workers are not treated fairly in terms of worker rights. The government provides subsidies to Chinese producers at preferential interest rates that may not even have to be repaid. It's a rigged system.

HEDRICK SMITH: Chinese TV makers vigorously fought the case, including TCL. Tom Hopson was prepared to take on the Chinese, but stunned at whom else he had to fight.

[on camera] What side did Wal-Mart come down on?

TOM HOPSON: Well, Wal-Mart chose the side of the Chinese. And basically, Wal-Mart spent a lot of time and effort at the International Trade Commission hearings, testifying against us and our case.

HEDRICK SMITH: *[voice-over]* When I asked a Wal-Mart spokesman, he said he could not address this specific case.

[on camera] On the question of dumping, does Wal-Mart have a position on dumping cases?

RAY BRACY, Wal-Mart V.P.: I think we should weigh in if we feel a need, if there is an issue that we see that perhaps needs a perspective from the retail trade ourselves, or if we're asked to.

HEDRICK SMITH: And do you see Wal-Mart's position weighing in on behalf of the American manufacturers, or on behalf of the foreign companies that are supplying you?

RAY BRACY: I think it has to be on a case-by-case basis.

TOM HOPSON: Why would an American company fight American companies and American jobs unless it was for their own profit? I don't understand that. Why would Wal-Mart and other companies actually testify to support jobs in China instead of American jobs, unless there was some benefit to them?

HEDRICK SMITH: *[voice-over]* Last April, Five Rivers won its case. The International Trade Commission determined that Chinese producers were illegally dumping high-end TVs on the U.S. market. It imposed new import duties, effectively raising Chinese prices and making Five Rivers more competitive.

[on camera] If you had a bad case or you'd lost this case, would you have shut down?

TOM HOPSON: Absolutely. There's no doubt in my mind that if we had lost this case, this factory would not be in business.

HEDRICK SMITH: *[on camera]* But it was already too late for other U.S.-based TV suppliers, like that Thomson plant in Circleville, Ohio. Last May, the plant was finally shut down.

[on camera] Did Thomson say that it was shutting the plant down because of competition from China?

STEVE RATCLIFF: Exactly. They basically told us that they could buy the glass from their competitors coming out of China cheaper than what we could actually make it for at our plant.

HEDRICK SMITH: *[voice-over]* Suddenly, 1,000 workers like Steve Ratcliff lost the jobs of a lifetime.

STEVE RATCLIFF: You kind of feel like you've been a failure, in a way. You worry a lot. Like I said, I worry about whether or not I'll be able to find work with, you know, comparable wages and benefits and just what the future will be.

RON WUNSCH, Former Mayor, Circleville: Job opportunities for the kids coming out of high school in this area today are very much lower than they were 10 years ago. There are a lot of people in this community who have families that the father worked 30 or 40 years at a plant, then the son got employed, and a third generation has been employed in some of the plants. And those are gone now. And there's no opportunity for that.

HEDRICK SMITH: *[on camera]* What are those high school kids going to do?

RON WUNSCH: We don't know. We don't know.

HEDRICK SMITH: *[voice-over]* Ironically, it may be Wal-Mart to the rescue. One new job opportunity in Circleville will soon be a new Wal-Mart supercenter that just broke ground on a patch of Ohio farmland right next door to the now vacant Thomson TV plant.

[on camera] How would you feel about working for Wal-Mart?

STEVE RATCLIFF: I don't know where I'd really want to work for Wal-Mart or not, to be honest.

HEDRICK SMITH: Why not?

STEVE RATCLIFF: Wal-Mart's a big contributor, as far as bringing a lot of the foreign products, the cheaper-made products, and so forth. And quite frankly, that's some of what's going on right now with what put us out of business is the foreign competition.

HEDRICK SMITH: *[voice-over]* And for those who lost jobs at Thomson, Wal-Mart jobs represent a steep cut in pay, almost half of the $15 to $16 an hour they made at Thomson and a far cry from the pension, health care and job security benefits long the norm in industry.

Prof. NELSON LICHTENSTEIN, U.C. Santa Barbara: Joseph Schumpeter, who was an Austrian economist, famous, used the phrase "creative destruction." What he meant was that one mode of production, one form of capitalist economics, comes to the fore. It's more efficient. It's more powerful. It destroys, literally, other forms of production, other firms. And that's what Wal-Mart has done. It has discovered, with this low-wage model, with a– technologically proficient, its global reach– it is a sort of new model of world capitalism, really, beginning in America and the rest of the world. And it is destroying, creatively, but nevertheless destroying competitors and, really, other ways of thinking about the way the world works.

HEDRICK SMITH: *[on camera]* I guess my question for you is, is Wal-Mart good for America? Is this strategy of Wal-Mart good for America?

BRINK LINDSEY, Economist, Cato Institute: I think Wal-Mart is good for America. Wal-Mart is doing what America is all about, the American market economy is all about, which is producing things consumers want to buy. And Wal-Mart is offering consumers a wide range of goods at rock-bottom prices, and therefore, it is meeting the market test.

LARRY MISHEL, Pres., Economic Policy Institute: Well, if people were only consumers buying things, lower prices would be just good. But people also are workers who need to earn a decent standard of living. And the dynamics that create lower prices at Wal-Mart and other places are also undercutting the ability of many, many workers to earn decent wages and benefits and have a stable life.

BOB McADAM, Wal-Mart V.P.: We absolutely believe that we are raising the standard of living through lowering the cost of goods for people. There are those who criticize us and make assertions that there is somehow a negative to that. And it's a– it's a– it's a premise that I simply reject.

HEDRICK SMITH: In the end, is Wal-Mart good for America?

STEVE RATCLIFF: If you want these low prices, then you go buy your products from Wal-Mart. But what does that actually do for this country? It's putting people out of work, that's what it's doing. And it's lowering our standard of living. That's the bottom line.

IS WAL-MART GOOD FOR AMERICA?

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