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A geopolitical crisis cripples H&M. Nike, Adidas, and Visa could be next

‘Brands can no longer please both China and the West. They’re going to have to pick a side, and there will be fallout whatever they choose.’



Watchtowers and razor-wire fencing at a “vocational education center” on the outskirts of Hotan, in Xinjiang. [Photo: Greg Baker/AFP/Getty Images]



H&M has spent 15 years setting up shop in China, trying to woo the country's fast-growing middle class. But this year, it has discovered just how tricky it is to navigate human rights issues in the Chinese supply chain, while also making money from Chinese consumers.

Many Western companies, from H&M to Nike to Burberry, have said they will no longer source materials and manufacturing resources from Xinjiang, a region in China's northwest that produces a **fifth** of the world's cotton, because of **reports** that China is forcing hundreds of thousands of minorities into manual labor in cotton fields. China has responded with fury: Government spokespeople called these allegations of forced labor "malicious lies," Chinese brand ambassadors **cut ties** with these brands, and some local consumers have reportedly vowed to boycott them.



A person walks by an H&M store in Shanghai, China, on March 24, 2021. [Photo: Feature China/Barcroft Media/Getty Images]

H&M has been hit particularly hard. In late March, the company's 400 stores were wiped from Chinese maps and ride-hailing apps, and the brand's online store no longer showed up on web searches. China is H&M's **third-biggest** market by sales and accounts for **6%** of the company's overall revenue, so this ban could result in significant losses.

For the past decade, fashion labels—including H&M—have been trying to be more values-driven, catering to **millennial consumers** who care about sustainability and the ethical



A cotton warehouse on April 2, 2021, in Maralbexi County, Kashgar Prefecture, Xinjiang. [Photo: Cai Zengle/VCG/Getty Images]

A HISTORY OF LABOR VIOLATIONS

Forced labor is nothing new in China. When Deng Xiaoping became China's paramount leader in 1978, he created policies that helped transform the country into a global manufacturing hub, which served to improve the standard of living in the country. But as human rights researcher Karine Lepillez explains, this growth came at a cost. "The country's unique combination of Communist ideology and decentralized economic power has contributed to the use of both state-sanctioned and unsanctioned forced labor," she **writes** in the journal *Human Rights and Human Welfare*.

Scholars don't have a clear sense of how much forced labor has taken place in the country, because the government doesn't offer much transparency, but there is enough **research** and reporting on the subject to know that it has been a problem from the **1950s** into the **2000s**. Lepillez says that a pillar of the Chinese Communist Party is "reform through labor," which argues that it is possible to reeducate people and transform them into socialists through hard work. In the past, the government created networks of prison labor camps to indoctrinate anyone seen as a threat, from political dissidents to religious minorities, and **included school-**

age children. An estimated 40 to 50 million (PDF) people have been subject to this system throughout its history.



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American and European companies who struggled to ensure their supply chains were not tainted by forced labor. U.S. law prohibits companies from buying products from state-sanctioned labor camps, and the Chinese government prohibits these items from being exported, earmarking them for the domestic market. But Lepillez says that brands may have bought them unwittingly because they are often indistinguishable from factory goods. For instance, several companies listed on the global marketplace Alibaba appear to be regular businesses but are actually [prison labor enterprises](#) (PDF).

More commonly, Western companies have been called out for sourcing products from Chinese factories that have treated workers poorly. In 2018, for instance, [undercover investigators](#) from China Labor Watch found that a factory making toys for Hasbro, Mattel, and Disney forced workers to work unreasonable hours and provided them with unsanitary living quarters. Meanwhile, Apple has come under repeated scrutiny for the treatment of workers at the Foxconn complex, where it manufactures electronics and where conditions were so bad 10 years ago that the factory had to [install](#) nets because so many workers were committing suicide by jumping off the building. These reports sparked outrage among American consumers, prompting companies—including Apple—to enhance their efforts to [monitor and report](#) on these facilities.



On June 2, 2019, an AFP video journalist (left) was escorted away from a village while filming buildings at the Artux City “Vocational Skills Education Training Service Center” (at rear). [Photo: Greg Baker/AFP/Getty Images]

The situation in Xinjiang today is a continuation of that history. Since early [2017](#), the government has waged a sweeping campaign to imprison Uighurs, a Muslim minority, on the

While the Uighur forced labor camps are an evolution of what we've seen in the past, they are also unprecedented in scale, abuse, and surveillance. "Xinjiang is massive in scope," says Jude Blanchette, chair of China studies at the nonprofit Center for Strategic and International Studies. "The challenge we have is not simply people who are in factories: The entire region has been turned into an Orwellian police surveillance state that blows away anything you would have seen in East Germany or the Soviet Union in terms of its sophistication. We know of widespread abuse, including systematic campaigns of torture and rape."



In 2019, a woman walks below surveillance cameras in Akto, south of Kashgar, in China's western Xinjiang region. [Photo: Greg Baker/AFP/Getty Images]

CHINESE CONSUMERS ARE A "GEOPOLITICAL WEAPON"

Western brands are now in a tricky position. If they comment on the human rights abuses in Xinjiang, they risk angering Chinese consumers, some of whom have accepted their government's line that nothing untoward is happening in the region. And Chinese consumers are an increasingly powerful economic force: China is **expected** to overtake the United States as the world's largest economy by 2028, five years sooner than previously forecast, thanks to its skillful management of the COVID-19 crisis. "It is becoming increasingly hard for companies to be truly multinational in the context of ongoing U.S.-China tensions because it's

Today, Western companies like H&M, Nike, New Balance, Adidas, and Burberry have said they are cutting ties with suppliers from the Xinjiang region because of reports about forced labor. The problem is that the Chinese government denies that any forced labor is happening in Xinjiang at all, so when brands pull out of the region for ethical reasons, they are effectively accusing the Chinese government of lying. On March 24, H&M released a statement saying the company is ". . . deeply concerned by reports from civil society organizations and media that include accusations of forced labor and discrimination of ethnoreligious minorities in Xinjiang Uyghur Autonomous Region. We strictly prohibit any type of forced labor in our supply chain, regardless of the country or region."

In response, a Chinese Foreign Ministry spokesperson **said** these allegations were fabricated by "anti-China forces." The state broadcaster **published** a viral post on the Twitter-like platform Weibo saying, "Earn a huge profit in China while slandering China . . . these kinds of enterprises have no basic business ethics." Then, in a final blow, H&M was erased from the Chinese internet. This is a new move, Blanchette says, and it is directly related to the fact that Chinese consumers have so much spending power. "In the past, while China was frustrated when companies spoke up over labor conditions in factories, they weren't actively punishing those companies for giving in to the demands of consumers from their home country," he says. "Beijing now views China's market power as being one of its most significant geopolitical weapons."

China's efforts to punish H&M appear to be yielding results. I reached out to H&M for comment about the situation, and the company pointed me to its most **recent public statement** from March 31, which strikes a conciliatory tone toward China and does not mention Xinjiang at all: "China is a very important market to us and our long-term commitment to the country remains strong." While H&M is sticking to its earlier decision not to source from the Xinjiang region, Blanchette believes this latest statement reveals that the company is trying to placate China. "It didn't say 'screw you, Beijing,'" he says. "It was a weak, milquetoast statement. China's strategy of intimidating these brands has been shown to be pretty effective."

While H&M is in the hot seat right now, it'll only be a matter of time before other brands find themselves in a similar situation. The next big test could come during the Winter Olympics, which are set to take place in Beijing in 2022. The games have already been dubbed the Genocide Olympics by several U.S. **newspapers**, because they will be taking place in the capital of a country currently attempting to destroy an entire ethnic group. **Representative John Katko** (a Republican from New York) has asked President Biden to officially boycott the Olympics to protest China's treatment of the Uighurs, and the editorial page director of **The Washington Post** has argued that brands that choose to support the games this year will be turning a blind eye to China's human rights abuses.

This puts brands that are typically Olympic sponsors, such as Nike, Coca-Cola, General Electric, and Visa, in a tough situation. If they don't sponsor the games, Beijing will perceive it as a slight. If they do, Western consumers will accuse them of being complicit with China's crimes against humanity. "Brands can no longer please both China and the West," says Blanchette. "They're going to have to pick a side, and there will be fallout whatever they choose."

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