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BUSINESS

It's China vs. Walmart, Latest Western Brand Entangled in Human Rights Dispute

Beijing has attacked the retailer over Xinjiang, after similar moves against Intel, Adidas and H&M

Sam's Club owner Walmart faces backlash in China after social-media users alleged its namesake and Sam's Club stores there had stopped stocking produce from Xinjiang.

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By Liza Lin Follow *in Singapore and Stu Woo* Follow *in London*

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A New Year's Eve salvo from Beijing accusing Walmart Inc. WMT -0.03% ▼ of "stupidity and shortsightedness" has driven home a stark challenge for Western businesses in one of their most promising markets: As governments ratchet up accusations of human-rights violations in China, officials there are pressuring foreign companies to take China's side.

Western businesses have suffered through various waves of geopolitical headwinds as they have sought to do business in the world's most populous country. But the experiences of Walmart and semiconductor giant Intel Corp. in recent weeks—and a consumer backlash against big brands such as H&M Hennes and Mauritz AB and Adidas AG last year—demonstrate a new willingness by Beijing to confront criticism by Western governments with counterattacks on Western companies.

The push represents a similar geopolitical challenge to the one companies faced after the 1989 Tiananmen Square massacre, said Jörg Wuttke, the Beijing-based head of the European Chamber of Commerce in China. This time, though, the stakes are higher: “The importance of China has risen many, many times,” he said.

At the same time, Western brands are under pressure as never before from their governments, from investors and from consumers at home over a growing host of political, social and environmental issues. That makes any perception of complicity with Beijing over alleged human-rights abuses a bigger reputational risk.

By going after Intel and Walmart, Beijing is targeting two icons of American business, widening its net beyond the mostly European fashion brands it went after last year. Beijing’s new assertiveness comes as other big American companies, including Coca-Cola Co. and Airbnb Inc., navigate their sponsorship of the Beijing Olympics next month. Western brands have been treading carefully over how, or whether, to use the Games for marketing purposes amid rising U.S. criticism of China over human rights.

Adidas and H&M have faced backlash in China after an industry coalition vowed to stop working in Xinjiang over forced-labor concerns.

PHOTO: ROMAN PILIPEY/SHUTTERSTOCK

The recent flashpoint with Beijing centers on Xinjiang, where the U.S. and others have accused China of committing genocide against the region’s Uyghur ethnic minority. Washington has invoked a diplomatic boycott of the Olympics—refusing to send official representation but allowing American athletes to compete—over the allegations. Beijing denies accusations of genocide and other human-rights abuses in the region.

H&M and Adidas both belong to a fashion-industry group that raised concern about the allegations in Xinjiang, a cotton-rich region, in 2020. Both became targets of government criticism and consumer boycotts in China last year. H&M was essentially erased from China’s internet, with its products and store locations wiped from most Chinese shopping and map apps.

Both have lost millions of dollars in sales in what was once one of their fastest-growing markets. H&M has kept up an online statement about its concerns over forced-labor allegations in Xinjiang but has declined to comment further on the issue. Adidas has said it faces geopolitical challenges in China but declined to elaborate.

“Many investors have been engaging with their portfolio companies on this Xinjiang issue for some time now,” said Anita Dorett, director of the Investor Alliance for Human Rights, whose members include more than 200 institutional investors that manage a combined $7 trillion in assets. She said investors are concerned about operational, financial, legal and reputational risks that companies might face, if they don’t manage human-rights challenges.

Xinjiang hasn’t been the only controversy for Western businesses to navigate. Over the past few years, foreign companies have increasingly found themselves targeted over geopolitical issues raised by Beijing, including how companies characterize Taiwan and Hong Kong. Businesspeople in China say multinationals are finding it harder to do business there now, too, because of stronger domestic competition. More recently, Chinese authorities have tightened their control over several levers of the economy, including its hold on data collection.

Last month, the U.S. passed a sweeping law prohibiting most imports from Xinjiang. Days later, Chinese officials publicly chastised Intel for asking suppliers not to source goods from the region. Intel said it had written to suppliers to comply with U.S. law and that the action didn't represent Intel's stance on Xinjiang.

An Intel spokeswoman declined to elaborate.

Intel also is a key Olympics sponsor. In a hearing of the Congressional-Executive Commission on China in July, Congress members asked corporate Olympic sponsors whether they would ask the International Olympic Committee to postpone the coming Beijing Winter Games to give China time to address human-rights concerns. Of the five sponsors at the hearing, only Intel answered yes. "We have stressed with the IOC the importance of human rights to Intel and have encouraged them to take these matters most seriously," said Intel executive Steve Rodgers.

On Friday, the country's anticorruption agency harshly criticized Walmart and warned of a consumer backlash against it, days after social-media users alleged its China-based Walmart and Sam's Club stores had stopped stocking produce from the Xinjiang. Walmart declined to comment on the issue.

Many foreign firms are still thriving in China, and some recent business surveys show that confidence in China's growth potential among foreign executives is high. Apple Inc., for instance, has become China's top phone vendor by market share.

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PHOTO: SHELDON COOPER/ZUMA PRESS

China also is a critical market for Tesla Inc., providing one-quarter of the Austin, Texas-based auto maker’s revenue in the first nine months of 2021. Chinese regulators and homegrown competitors have sparred with Tesla over the years, but Beijing has generally helped foster its growth in the country.

There have been other big bumps for foreign firms since China opened up to them decades ago. After Chinese troops violently ended a pro-democracy protest in Beijing’s Tiananmen Square in 1989, amid a recession, new foreign direct investment in China plunged. Businesses sought alternate supply sources in Asia.

In 1993, Levi Strauss & Co. ended its sourcing relationships with factories in China over what it called the country’s pervasive violation of human rights. A Chinese government spokesman said at the time that the move had nothing to do with human rights and that the country still had tens of thousands of American businesses there. The company returned to China five years later, saying it believed that it could find responsible business partners there.

In 2010, China’s human rights record again made headlines, this time when search engine giant Google withdrew from China over concerns of censorship and cyberspying. Beijing called Google’s move “totally wrong,” and a Chinese spokesman said the Google case had harmed the Silicon Valley firm’s own reputation more than it had hit China.

Human-rights groups have said that starting around 2017, Chinese authorities in Xinjiang began detaining as many as one million Uyghurs and other mostly Muslim ethnic minorities in camps and subjecting some to forced labor. The U.S. government last year declared the situation a genocide. Chinese officials call the allegations lies, describing the camps as vocational centers that provide economic development and combat religious extremism.

In 2020, the Better Cotton Initiative, an industry coalition comprising many of the world’s major brands including H&M and Adidas, said it would stop working in Xinjiang over forced-labor concerns. Starting last March, Chinese news outlets and social-media users attacked the coalition and some of its members for highlighting the allegations. They called for a boycott of Adidas and Puma SE. Each reported third-quarter sales declines of about 15% in their Chinese markets. The biggest loser was H&M; its latest quarterly report showed that sales in China fell at least 37%.

Some competitors have taken advantage: Chinese sportswear giant Anta Sports Products Ltd. and Muji, a Tokyo-based clothing and homewares brand owned by Ryohin Keikaku Co. , publicly committed to keep using Xinjiang cotton, winning plaudits in China.

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