

FOXCONN LABOUR UNION ELECTIONS: A WIND OF CHANGE?

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Foxconn's call for labour union elections in its Chinese factories might be a sign that its employees, and even possibly the industry as a whole, will see a positive change in working conditions and wages. This move, to allow its employees trade union rights, may be due to current demographic changes in China, where the growth rate of the country's working-age population has been decreasing. Nevertheless, even if this is a positive step towards better protection of human rights in the technology industry, companies in this sector still have a long way to go before eliminating such issues in the supply chain, whether in China or elsewhere in the world.

Foxconn: a fresh start?

Foxconn, a Taiwan-based electronics manufacturer whose clients are major technology companies such as Apple and Samsung, made headlines in early February this year when it announced their intentions to hold elections for independent labour union representatives in its Chinese factories. Employing 1.2 million people in China, Foxconn is the country's largest private employer and would be the first large company to undertake such an exercise.¹ Traditionally, labour unions in China are controlled by company management and local government, and do not really represent the workforce.

It is to be hoped that the election of independent unions at Foxconn could lead to an improvement in working conditions and increased wages in its Chinese factories and maybe even across the industry. However, earlier initiatives of this sort show that this is far from being an automatic result.

In 2002, for example, Reebok had facilitated elections for a labour union in its Chinese supplier, Shun Da Sporting Good Corporation. Reebok was thus the first multinational corporation to establish such an initiative.² Many observers hoped for an improvement since then in working conditions in the factory. Unfortunately, the benefits hoped to be gained from this approach have proven to be limited. In 2007, the labour researcher, Peter Lee, conducted an investigation in the Shun Da factory to measure improvements in working conditions following the introduction of union elections.

According to the results of the enquiry, working conditions deteriorated between 2002 and 2007, and the trade unions were not properly fulfilling their role as representatives.³

Foxconn: in the spotlight of public opinion

Foxconn first came to the attention of the public in 2010, when several of its employees in China committed suicide, highlighting the harsh working conditions they were exposed to in Foxconn's Chinese factories: 8–11 hours a day, up to 28 days a month⁴ for a salary starting from the legal minimum wage to 2,800 RMB (~ 346€) a month.^{5 6}

The minimum wage in China varies depending on the province; the highest is in the Shenzhen province at 1,500 RMB (~186€)⁷ where Foxconn's biggest factory in China is located. However, many workers have claimed that the minimum wage is not enough to meet their basic needs. As a result, they have to work overtime,⁸ for which, judging by the increase in the number of complaints, they are often not paid. The basic salary level also seems to vary between the factory departments. Workers assembling Apple products are better paid than those working on less well-known brands.⁹

(1) *Financial Times*, Hille, Kathrin and Rahul Jacob (3 february 2013) - "Foxconn plans Chinese union vote".

(2) *International Journal of Occupational and Environmental Health* Vol. 9 O'Rourke, Dara and Garrett D. Brown "(2003) - Experiments in Transforming the Global Workplace: Incentives for and Impediments to Improving Workplace Conditions in China".

(3) *Chinese Labour News Translations*, Lee, Peter (August 2007) - "Reebok's Chinese Trade Union Experiment: Five Years On".

(4) *China Labor Watch* (27 june 2012) - "Beyond Foxconn: Deplorable Working Conditions Characterize Apple's Entire Supply Chain".

(5) *Ibid.*

(6) *Students and Scholars Against Corporate Misbehaviour (SACOM)*, (24 september 2011) - "Slave Behind the iPhone Foxconn Workers in Central China".

(7) *Want China Times* (24 september 2011) - "New wave of minimum wage increases in China set for Jan. 11".

(8) *China Labour Bulletin*, Cheung, Jennifer (13 december 2012) - "Minimum wage increases in 2012 fail to provide workers with a living wage".

(9) *China Labor Watch* (27 june 2012) - "Beyond Foxconn: Deplorable Working Conditions Characterize Apple's Entire Supply Chain".

Finally, since most of their employees are migrant workers from primarily agricultural areas of the country, Foxconn also provides them with accommodation and food, the cost of which is automatically deducted from their salaries. As a rough guide, the dormitories are made up of three-bedroom flats, each shared by 20–30 people.¹⁰ The employees have neither social security, nor any chance of career progression.

‘ According to Chinese economists, the country’s demographic is evolving significantly: the unlimited supply of labour is now a thing of the past.

Chinese magic: from figures to reality

The success of a company in the tech industry depends primarily on its ability to provide its clients with the latest technology, as quickly as possible.

These pressures demand great flexibility on the part of suppliers, and China responds to this demand. In 2007, for example, one month before marketing their first iPhone, Apple suddenly decided to change the material of the touchscreens from plastic to glass. The precision technology required to cut glass screens had not yet been perfected. However, due to the Chinese factories’ ability to quickly scale up and increase hours worked, the necessary technology was perfected quickly enough to ensure the product was ready by the deadline.¹¹

According to Chinese economists, the country’s demographics are evolving significantly: the unlimited supply of labour is now a thing of the past, gradually reducing the competitive advantage of the Chinese factories. The Chinese National Bureau of Statistics estimates that China’s working-age population shrank last year by 3.45 million to 937.27 million, and that it peaked in 2012, three years ahead of the predicted date.

However, care should be taken with these figures. UN figures on China seem to show that working-age population growth is still booming, although it is a fact that the increase is slowing down (see Figure 1). The IMF, for its part, predicts that the country’s Lewis turning point¹² will come between 2020 and 2025.

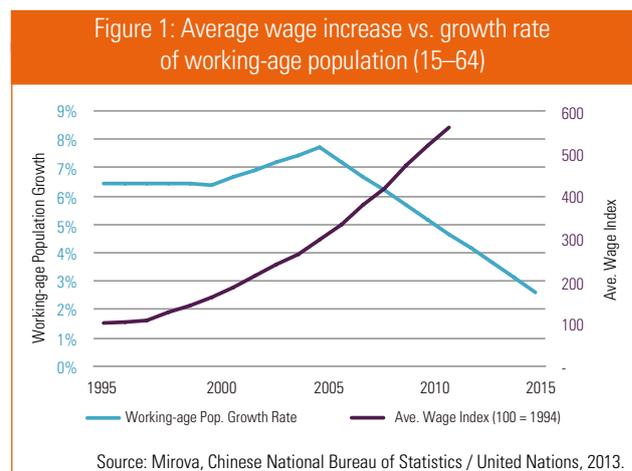
Improving conditions?

It should be noted here that, before Foxconn’s decision to organise union elections, its employees were already benefiting from an increase in their wages of roughly 15–20%¹³ and were also seeing gradual improvements in their working conditions.¹⁴

This trend is not exclusive to Foxconn or the electronics industry. The minimum wage in China has been increasing in recent years.^{15 16} Other companies in China, such as Yum Brands, who own the restaurant chains, Pizza Hut and KFC, have also increased the wages of their employees by 10–17%.¹⁷

For members of the American Chamber of Commerce in Shanghai, the question of rising labour costs is one of the main challenges to be met in their Chinese operations.¹⁸

Ultimately, it would appear that these changes are, above all, a response to developments in the context of Chinese macroeconomics. The increasing shortage of labour over the last ten years has automatically brought about rising wages and improved working conditions in order to attract and retain skills (see Figure 1). With China approaching its Lewis turning point, this trend is unlikely to reverse itself, with or without unions.



(10) SACOM (mai 2012) "Sweatshops are good for Apple and Foxconn, but not for workers".
 (11) The New York Times, Duhigg Charles and Keith Bradsher (21 janvier 2012) - "How the U.S. Lost out on iPhone Work".
 (12) The Lewis turning point is reached when an economy has no more labour forthcoming from the less developed or agricultural sectors and wages begin to rise.

(13) Ibid.
 (14) Forbes, Worstall, Tim (4 february 2013) - "Apple's Foxconn to have Independent Union Elections: Not that It Will Make Much Difference".
 (15) Time World, Ramzy, Austin (8 july 2012) - "A Labor Strike in Southern China Offers Hope for a More Democratic Future".
 (16) Bloomberg news, Huang, Yukon and Clare Lynch (7 march 2013) - "Where have China's Workers Gone?" Bloomberg.
 (17) Wall Street Journal. Orlik, Tom and Bob Davis (15 july 2011) - "Wage Rises in China May Ease Slowdown".
 (18) The Economist (10 march 2012) - "The End of Cheap China".

A real wind of change?

As previously stated, the technology sector's need for flexibility increases the risk of human rights violations and harsh working conditions throughout the entire supply chain. Strong competition in the industry is likely to continue in future years, constantly demanding fast reactions from suppliers in order to meet last-minute demands. China's changing demographics could eventually lead to a loss of competitive advantage in manufacturing, but such changes will not bring to an end the human rights violations and unacceptable working conditions within certain suppliers. Factories could very easily be relocated to countries where the Lewis turning point is still far ahead, such as Vietnam or the Philippines (see Figure 2).¹⁹

‘ **Human rights issues are persistent problems in the technology supply chain.**

Regardless even before relocating factories to these countries, companies can also hire migrant workers from neighbouring countries. For example, Wintek, an electronics company supplying keypads for brands such as Nokia, is located in one of the Taiwan's high-tech parks. Most of its employees are migrant workers from nearby countries such as the Philippines or China. These workers are often described as modern-day slaves. They pay recruitment agencies a commission of around 700€ to find them a job abroad, where the wages are around 420€ a month. After deduction of taxes, monthly agency fees, rent and "forced savings" their final take-home pay is around 230€.

These migrant workers also have to hand over their passports to the recruitment agencies for "safe keeping".²⁰ Their "forced savings" and passports are only returned to the workers once their contracts have been completed.

Figure 2: Changes in working-age population in Indonesia, the Philippines and Vietnam



‘ **The technology sector's need for flexibility increases the risk to the whole supply chain of human rights violations and harsh working conditions.**

Foxconn's decision to allow the establishment of independent labour unions can be welcomed as a first step towards improving the human rights issues and the harsh working environments found in the supply chain.

Apple, whose name is associated with every scandal linked to Foxconn, has itself also decided to put initiatives in place, by auditing its suppliers, in order to improve working conditions and to detect human rights violations.

Conclusion

Despite a growing number of audits, independent reports show that working conditions remain a problem, whether to do with safety or security questions, or unpaid and even, in some cases, forced overtime. Some reports go so far as to state that the situation is deteriorating, in spite of the establishment of audit systems.²¹

Therefore, human rights issues are still a problem in the electronics industry. The challenges to be met to achieve decent working conditions in the technology supply chain are enormous. All players in this value chain have a role to play in addressing these issues.

‘ **As an investor, Mirova seeks to encourage best practice within businesses.**

Ultimately, human rights issues, whether the problems are within the company or in the supply chain, can have a significant impact on the performance of businesses.

Investors, especially when they show a particular concern for the challenges of sustainable development, must, in their investment decisions, take into account the company's exposure to these issues. They must also consider their ability to mitigate these risks, and their intentions or sensitivity toward improving company practices.

(19) Ibid.

(20) Global Post, Adams, John (14 february 2011) - Silicon Sweatshops: Shattered dreams".

(21) CNet News, Whitney, Lance (27 february 2013) - "Apple's Chinese suppliers still exploiting workers, says report".

Investors, then, can strongly influence the practices of those businesses in which they invest. For example, in Apple's 2013 general assembly, shareholders were asked to vote on the establishment of a committee on human rights within the board of management. This committee would have had the role of reviewing the human rights impact of the business, over and above mere legal compliance as defined at a global level, within company boundaries, on its suppliers and on the local communities. Mirova voted in favour of the resolution, but the proposal was defeated for lack of adequate shareholder support.²²

Even though this resolution was not approved, it is important to bear in mind that this sort of voting and commitment always sends a message to the company in question, pressuring it to take more decisive action regarding these issues.

‘ **Investors can strongly influence the practices of those businesses in which they invest.**

(22) *The Independent*, Walker, Tim (27 february 2013) - "Apple rejects call to form human rights committee".

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