

Conditions of Women Workers in Special Economic Zones and Labour Standards in Supplier Factories of German Garment Retailer Companies and Brands in China

**Hong Kong Christian Industrial Committee
16 September 2004**

The Chinese EPZ Model

The “Four Modernization” is the core of the Open Door Economy Policy adopted by China in 1979. The background of the project is the low economic productivity, political instability and the accumulation of a huge surplus labor supply both in the rural and the urban cities¹ after the devastation of the Cultural Revolution. The engineering of the Open Door Policy was designed to attract the much-needed foreign capital, technology and management skills. Like other developing economies that were following the export-oriented economic model of the Four Dragons in East Asia², China opened up certain regions and areas strategically to prioritize export processing and labour intensive industries. “The Chinese socialist market economy is an open economy. Since the establishment of socialist market economy system, the multi-level echelon-shaped opening-up strategy of ‘attracting importance to opening coastal regions and gradually opening the hinterland’ has been clearly confirmed to form an all-directional, multi-layered and wide-ranging opening pattern.”³ In July 1979, the CPC Central Committee and the State Council agreed that four Special Economic Zones be set up in Shenzhen City, Zuhai City, Shantou City (all in Guangdong province next to Hong Kong) and Xiamen City (located in Fujian province which is the province opposite to the Strait between China and Taiwan). The Regulation on Special Economic Zones in Guangdong Province (referred as the Regulation below) was approved in the 15th Meeting of the Standing Committee of the Fifth National People’s Congress on 26 August 1980 to legalize the construction of Capitalist market economy within the Socialist system. In 1988, Hainan Island in the south was added as the fifth SEC. Three characteristics are remarked for the SECs. (1) The SECs were using state as well as foreign capital to build the necessary infrastructure from 1980-1985. Starting from 1986, the SECs were

¹ The surplus labour supply in the urban cities resulted as the young intellectuals and red army students returned from the “going up to the mountain and going down to the rural” finished. The unemployment rate was high as the state-owned and public enterprise was the only economic sector of employment. The economic efficiency and financial funding of the state-owned enterprises was low to fully absorb such surplus labour.

² Taiwan for instance took the lead in establishing the world’s first Export Processing Zone in Kaoshiung City in late 1970s. The model was quickly copied in other developing countries.

³ Ministry of Commerce of the PRC in July 1987. Source:
http://english.mofcom.gov.cn/article/200406/2004/0600239135_1.xml

focusing on developing export-oriented industrialization. (2) Economic activities within the SECs were supposed to be regulated chiefly by the market under the overall guidance and control of the State. (3) The selection of the location of the SECs was done strategically to attract foreign investors, particularly the overseas Chinese, compatriots from Hong Kong and Macau to open export-processing factories there⁴.

The management of the SEZs as approved by the central government gives insight to the strategy of the modernization program of the Chinese government in the initial stage. Remarkable is the delegation of authority to the local government in attracting foreign investment and managing social relations within the SEZs. The Guangdong Provincial Committee for the Administration of Special Economic Zones was set up to exercise unified and full control over the construction and the management of the SEZs (Article 3 of the Regulation). A public-owned company, the Guangdong Provincial Special Economic Zones Development Company was set up to raise funds, engage into joint ventures with foreign enterprises, provide services and act as agents for investors in the transaction of materials in trade with the interior. (Article 25 of the Regulation). Favorable economic policies included tax exemption for imports of machinery and materials, preferential income tax rate at 15% with greater concession for investment scale more than US\$5 million and investment period more than 5 years, free and open foreign exchange transactions, concessions on land use etc. Regulation over labour management was minimal allowing for complete privatization of labour relations within the SEZs. Only four articles were devoted to labour management on the following aspects⁵. Labour management within the SEZs was delegated to the labour service company to be set up in each SEZ. Labour relations were privatized and bounded by labour contracts signed by the enterprise and the employees without any state regulations. Substantive labour standards were not provided at all regarding wages, employment and dismissal as well as other working conditions. The language on the regulation on labour protection was weak. The Committee was delegated the power to play the contradictory roles of promoting economic development as well as safeguarding the rights, the educational, cultural, health and various public welfare interests of the employees within the zones (Article 23, Regulation). Note that the Labour Law of the PRC was not approved until 1995. The old labour law written in the 1950s when state-owned and public enterprises were the only economic sectors in China was almost not applicable to the Capitalist industrial relations within the foreign invested enterprises.

⁴ See Article One of the Regulation on Special Economic Zones in Guangdong Province.

⁵ Chapter IV Labour Management, Regulations on Special Economic Zones in Guangdong Province.

For a total of 15 years, the SEZs were havens for foreign investors to exploit the young and cheap labour “liberated” from the poor rural without any legal or proper state institutional regulation.

What distinguishes China’s EPZ development model from other developing countries is the open and diversified character of the processing zones in China which gives both the foreign investors and the local government enough “flexibility” to accomplish as many economic projects as possible. Giving priority to economic developmentalism, state planning and state regulation over capital as well as labour market control is sacrificed. More systematic regulation over processing zones come in only at a very late stage in after year 2000. The four SEZs are not the only export processing zones in China. In 1984, the government further opened a number of coastal cities in the northern, middle eastern and the southern coastal area of China for export processing industries. In 1995, the central government supplemented the 4 SEZs with open zones in the coastal area to attract the surplus and rent-seeking capital from the larger China region ie Hong Kong and Taiwan. The Pearl River Delta area of Guangdong province in the south (adjacent to Hong Kong) is known as “the factory of the world” where all sorts of labour-intensive processing and component industries are located. The Yangtze River Delta area headed by Shanghai City in Jiangsu and Zhejiang province in the middle coast is an open zone for export processing enterprises. The southern Fujian province headed by Xiamen City, Zhangzhou and Quanzhou cities are important production base absorbing much foreign invested capital from Taiwan across the Strait. The coastal economic zones have much wider geographical scope compared with the 4 SEZs covering at least 40 cities. Competitive concession policies are offered by the local government in attracting foreign investment.

The 4 SEZs, supposedly to be monitored by various regulations passed at the State Council’s level, have already have made substantial concessions to foreign and private investors in regard to capital and labour regulation. Compared to the SEZs, the coastal economic open zones that are completely subject to the administration of the local government are more ready to grant even a greater degree of flexibility to the investors. The development of the coastal economic open zones distinguishes the EPZ model of China from other developing countries especially in regard to the widespread undermining of state regulation of labour standards making it not restricted to geographical location but commonly applicable to the whole foreign invested and private sector.

With the initial success of the Open Door Policy in attracting foreign capital and helping to construct the infrastructure, the Chinese government eventually attempts to integrate the “wild grazing” model of the processing zones with more strategic planning. More diversified forms of processing zones with more specific and prioritized industrial planning targets as well as more coherent control from the central government level are developed. Since 1985, 49 state-level economic and technology development zones have been developed and 53 state-level high-tech development zones have been built. These zones have more specific targets on industries and foreign invested enterprises that are more capital and technology intensive industries. Since 2000, the Chinese government has ratified 25 closed export processing zones and since the 1990s, at least 8 bonded areas were ratified. The building of new zones that are closed zones is aimed at changing the scattered management to concentrated and normative management. The closed export processing zones and the bonded areas are designed to simplify the custom declaration process. The latter in particular is developed to promote entreport trade and the export processing services. The level of capital and technical input of the investment in these closed zones is higher and the legal regulation is supposed to be better. It is expected that the degree of exploitation is expected to be less explicit in these new zones compared to the open processing areas where the majority of the investment is the labor intensive industries. Ironically, Shenzhen city, the first SEZ built in China since 1980 has the highest level of minimum wage in the country. The city is usually the first choice city in terms of experimenting with new regulations for the rest of the country for instance in terms of building the social security conscription system, the signing of collective labour contracts and even more democratic practices of government operation. The SEZs turn out to have more regulations than the non-SEZ areas where the local governments, driven by the thirst for foreign direct investment, could easily fall outside the radar of the central government’s monitoring of law implementation to concede labour standards to foreign and private investors. The EPZ model or experience in China is remarkable for the width of scope as well as the degree of intensity in undermining capital and labour regulation.

Life of a Female Migrant Worker in the EPZs in Guangdong Province

Factory jobs are offered in the EPZs and that is pulls millions of young people to leave their home in the rural villages to the industrial cities in the coastal areas. Jobs that are offered in the EPZs or SEZs in Guangdong province, where a high proportion of export-oriented, labour intensive industries such as the garment, footwear, toys and electronic factories is found, demand high labour intensity, long and flexible working hours subject highly to the boom and bust of the global consumer goods market.

Xiao Qing, a young woman born in Hubei province in central China in 1982, is a typical female migrant worker recruited into the “army of migrant workers” driven by poverty at home. Xiao Qing was born in a poor village in Hubei province. The family has two children and Xiao Qing has an elder brother. The parents grow staple crops for self consumption. Part of the staple crops grown is submitted to the state as tax paid in kind. Commercial crops such as peanuts and melons are grown which earn them a thousand or so yuan (or RMB, the Chinese currency) a year. Peanuts are usually sold at RMB1 per catty and the household can grow at most 500 catty a year meaning the income earned from selling peanuts is only RMB200-500 a year depending on the weather. Xiao Qing’s father shifts to growing melon and sells the melon seeds at a slightly higher price between RMB3-5 a catty. That enables the family to earn at most RMB1000 at the local market a year. Xiao Qing’s family was living on tight household income. The education fee for Xiao Qing’s elder brother to go to the secondary school was RMB800 and for Xiao Qing to go to the primary school was a few hundred per year. Things got worse in 1994 when her mother got breast disease. The family spent a few thousand yuan on medical treatment. Quitting school to look for jobs seems inevitable now for Xiao Qing now. Xiao Qing first learned about a worker’s life from the elder sister of her uncle and that was 1996 when the big sister came back to the village to have the Chinese New Year with the family. What she needed was false identification papers as she was only 14 years old. The big sister arranged for that and Xiao Qing went to Dongguan city in Guangdong province following the big sister.

The first factory Xiao Qing went to was a Hong Kong owned garment factory that exported to the western market. She picked up sewing there and worked for more than 6 months a sewing worker in the factory. Working long hours and over time is the typical life of a sewing worker and it makes no difference for a child worker of 14 like Xiao Qing. Like other child and teenage workers in the same factory, Xiao Qing worked 13-14 hours a day and earned RMB600 a month. When she could not take it any more, she followed her kins to a Hong Kong owned plush toy factory in the second half of 1996. Using the same false identification paper, she got a job in the sewing department of the toy factory. Xiao Qing got up at 6:30am in the morning. The first thing she had to do was to tidy her bed as every worker staying in the dormitory must do because that was stated in the factory discipline. They would be penalized and had to copy the discipline rules twenty times if they were found to have violated the rules. Having started the day under strict discipline, Xiao Qing’s day had nothing special to remind of except working an average of 10 hours a day in front of her sewing machine and sometimes getting skin irritation on the skin caused by the

fabric dust. “Some important people” would sometimes come to the factory and asked workers questions about their working conditions. Xiao Qing knew that they were the buyers but she did not know what exactly they were doing and how things would be different after all the questioning. Yet she liked their visits, not because of the possibility of changes that would have brought to her life as a worker. But because the factory management would let her, as well as other young-looking workers to take leave, so that the “important people” would not be able to spot her out and ask about her age. In October 1998, two years after worked in the toy factory, Xiao Qing went to the hospital after having serious stomach ache and found that she had got kidney problems. The toy factory did not have medical insurance for the workers and Xiao Qing had no idea if and how that was related to her work. In ordinary times the factory management would not approve of any resignation from the production line workers during the peak season. Workers that wanted to quit their jobs had to sacrifice their one-month back wage to leave the factory. It was different this time. Xiao Qing’s resignation was quickly approved and her back wages was settled. She went back home and took rest for a year.

In June 1999, Xiao Qing was 17 years old, she came to Guangdong province again to work in her cousin’s factory. It was a Hong Kong owned hat manufacturing company supplying baseball hats for the universities in the US as well as other European and Japanese brands and retailers and Xiao Qing was working in a subsidiary plant of that company. Having worked for 2 years as a sewing worker, Xiao Qing was a skilled worker now. The plant that she was working in had unstable order placement and her monthly income was unstable as well. The highest income she had earned was about RMB1000 in the peak season after working 13 hours a day and taking no day off. The factory did not subsidize food and lodging, Xiao Qing tried hard to make sure that she did not spend much and send RMB800 home. The order placement became unstable in the second half of year 2000. Xiao Qing was always sitting idle in front of her sewing machine and not earning a penny. The supervisors arranged her to do packing and other odd jobs. Although she was working overnight, the income was low and she got only RMB300-500 a month. Xiao Qing could not stand the low income and the overnight work anymore. In December she quitted and went home again losing the November back wage. Xiao Qing came back to the previous Hong Kong owned toy factory again in March 2001. This time the factory delivered personal protective equipment such as masks and working aprons to the production line workers. Workers that had diagnosis proof from the hospital could also claim medical subsidy from the factory. Xiao Qing still had to work 11-12 hours a day earning RMB800 a month in the peak season. Xiao

Qing knew that this was probably her “market” price and work conditions in the foreign invested factories in Guangdong province as a skilled sewing worker.

Garment and Textile Industry in China

The Open Door Policy has changed the ownership structure of the garment and textile industry in China which used to be dominated by the state-owned enterprises. In 2002, the total number of textile and garment enterprises reaches 23600 marking a 10.22% growth of which the number of state-owned enterprises records a 13.64% fall to 44% of the whole industry. The number of non-state-owned enterprises records 20877 in 2002 making a 14.34% increase. The non-state-owned enterprises include collectives, private and foreign invested enterprises and the non-state-owned sector is estimated to be employing 5.7 million workers in 2002 marking a 6.18% increase with 2001. The value of export processing takes up about 35% of the total industrial output of the sector in 2002 (China Textile and Industry Development Council, CNTIC Report 2002-2003).

Distribution of Clothing Manufacturers by Ownership

SOE	44%
Collective	21%
Private	26%
Foreign invested	9%

Source: CNTIC Report 2002-2003

The majority of the textile and garment sector is located along the coastal area. By region, the Guangdong province, which has the highest density of foreign investment takes up 31% of the sector’s industrial output, followed by Zhejiang province (15%) which has a big private enterprise sector and Jiangsu province (12%) (China Textile and Industry Development Council Report 2002-2003).

Production of clothing by provinces in China 2000

Guangdong	31%
Zhejiang	15%
Jiangsu	12%
Shanghai	5%
Shangdong	9%
Fujian	6%
Liaoning	2%
Hebei	4%
Tianjin	2%
Hubei	4%
Others	10%

Sources: CNTIC Report 2002-2003

In terms of market share, China is the world's largest exporting country in textile and garment products, taking up 14% of total world production, reaching USD61.69 billion in 2002-2003 (China Textile and Industry Development Report 2002-2003, p.173 and p.3). The proportion of imported textile and garment products from China in the market of EU, US and Japan in 2001 is shown in the following table.

● Percentage of Imported Textile and Garment Products from China in EU, US and Japan 2001

Region	Total Import			Import from China			% of China Import
	Total	Textile	Garment	Total	Textile	Garment	
EU (15)*	649.9	170.7	479.2	102.6	18.3	84.3	15.8
US	818.2	154.3	663.9	112.1	19.3	92.8	13.7
Japan	239.0	47.5	191.5	168.9	21.3	147.6	70.7

Unit: 100 million USD

*Import from outside the EU member countries

Source: China Textile Industry Development Report 2002-2003

Japan is the biggest market of export for Chinese textile and garment products as 70.7% of Japan's import comes from China that is worthy US\$131.18billion in 2002. This is followed by HK which imports about US\$128.79billion, the US importing US\$70.7billion and the EU at US\$64.17billion in the same year. See Appendix 1 (China Immigration Statistics, CNTIC Report 2002-2003)

In 2002 the export of textile and garment products made in China is USD61.77 billion (CNTIC Report 2002-2003). The production of garment products constitutes 67% of the export value of the country's textile and garment products, despite the fact that China is also the largest textile fabric exporting country in the world (CNTIC Report 2002-2003). The product structure of the garment industry in China is evenly spread between cotton garment products (35%) and synthetic fabric products (34% of which knitted products is the most important) (CNTIC Report 2002-2003). However the figures also show that the export of textile products is picking up at a faster rate (12.61%) than that of the garment products (CNTIC Report 2002-2003).

Export growth of the textile and garment industry 1998-2002

	1998	1999	2000	2001	2002	Annual growth rate %
Textile and garment	428.54	430.62	520.78	532.80	617.69	9.57

products						
Textile products	127.96	130.04	160.58	167.42	205.79	12.61
Garments	300.57	300.58	360.20	365.38	411.90	8.20
Unit: 100 million USD. Sources: China Immigration statistics						

(Sources: CNTIC report 2002-2003)

This can be explained as: (1) Low quality of local cotton and other fabric production in China. (2) The Chinese government's control over cotton and fabric export with state-owned enterprises and a few authorized agents before 1990s. (3) International trade agreements restricting the use of specific imported cotton and fabrics for quota free access for garment products to specific markets. (4) Predominant influx of foreign capital from Hong Kong in the first stage of the Open Door Policy which favors labour intensive industries such as the garment industry. Therefore despite the rich local supply of raw materials, the export items from China are largely finished garment products (USD41.9 billion from 1998-2002), two times in value to the export value of textile products. However, with the liberalization of the internal fabric market in China by the Ministry of Commerce (MOFCOM) which lifted the tariffs on imported fabrics, as well as the phase out of the Multi-Fibre Agreement in 2005, it is expected that the fabric export of China will increase. Local sourcing of fabrics is believed to become more prominent after 2005.

Overview of the German Investment in China

Up to 2003, German companies have invested an estimated Euro 7.9 billion in China making German companies the 7th largest investor in China and the top investor from European countries⁶. This marked a tenfold increase from the figures in 1995 of Euro800 million. However China is not yet the top country of the outflow of German investment as German investment in China only accounts for 1.2% of the total German foreign direct investment (FDI) lagging behind the EU and the US (ibid). It is estimated roughly that two-third of all the German investors are manufacturing firms mostly from the automobile, electrical engineering, chemicals and mechanical engineering sectors. The pioneers are Siemens, Bayer and Volkswagen although the service and retailing sector such as Metro, Allianz, Deutsche Post's DHL, TUI and most large German banks are present in the Chinese market (ibid). A survey presented by the Permanent Mission of the Federal Republic of Germany to the OECD shows that the German investors aim at the developing the global market

⁶ "Foreign Direct Investment in China: the Good Prospects for German Companies" Deutsche Bank Research, China Special, 24 August, 2004.

http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD000000000178546.pdf.

strategy with a particular edge on the Asian and China market as they invest in China. Whereas one third of the respondents rank low labour and production costs as the main drive for investing in China. The investment incentives offered by the Chinese government are regarded as unimportant when the German companies consider the location factors as only 25% of the German enterprises have invested in the Special Economic Zones in China⁷. German investment clusters in three major regions in China namely the Shanghai area where most of the German expatriates is located; the traditional North Eastern area of China around Shenyang, Dailian, Qingdao where the heavy industries and state-owned enterprises (SOEs) are located; and the Pearl River Delta area in Guangdong province in the south where most of the light and assembly industries are located. Metro for instance built its first wholesale subsidiary in Shanghai area. The Pearl River Delta area however is the most important area for sourcing of consumer products such as electronics, garment and textile, toys etc at cheap price.

Working Conditions in the Supplying Factories of German Retailers

The followings are research findings on the working conditions of 5 garment factories located in Guangdong province of China in the first half of the year 2004. The first 3 suppliers are Hong Kong as well as local Chinese owned garment factories selling to German retailers such as Otto. The second two sell to German sportswear brands namely Adidas and Puma. One of them is Hong Kong owned making hats and the other is Taiwan owned making sports socks. The research is done mainly by interviewing workers off-site while supplementing with secondary literature review on the company profile. No interview with the management or with the buyers have been done. The research methodology, which is at present, heavily relying on the workers' information is aimed at giving a sketch of the workers' perspective of their working conditions. What is emphasized here, aside from the factual working conditions of the migrant workers in these foreign invested supplier factories, is how the migrant workers make sense of their work. Foreign direct investment via North Asian suppliers⁸ is always "considered" as providing job opportunity and income to the internal migrant workers while "liberating" them from rural poverty. The reality however, is rather exploitation and undermining of the national labour law in China as

⁷ "An OECD Member Country Perspective – Experience of German Investment Promotion in China" Peter Kreuzberger, Counsellor, Permanent Mission of the Federal Republic of Germany to OECD. Presentation to the OECD-China Conference on Foreign Direct Investment, Xiamen, 11-12 September 2000.

⁸ Referred to here mainly Hong Kong, Taiwanese and Korean investment which have been supplying to the international buyers in the home countries but due to high production costs at home, have re-located to developing countries mainly China and South East Asia. They play an integral part in the global supply chain while smoothening the sourcing of the international brands and retailers and thus helping the latter in suppressing the costs of production.

the rural labour force becomes recruited as manufacturing labour.

Three garment factories named anonymous here as Factory I, II and III are all Hong Kong owned and located in Guangdong province.

Factory I has a workforce of 3000 workers and is a subsidiary factory of a big and listed Hong Kong garment company producing casual wear, swim wear and underwear and supplying to well-known brands and retailers such as Adidas and Nike⁹, Speedo, Fila, Arena, Reebok and garment brands such as Calvin Klein, Mexx, Union Bay and Next. The company also has operation facilities in Cambodia exporting mainly to the US and the EU. The operations in China and Cambodia aim to target at the quota concession for export to the US market. There is no tariff and no quota imposed for export to EU if materials from the ASEAN countries are used. The company owns 20% of the pants quota in Cambodia. There is also no quota restriction for swimwear export to US. The listed company and the largest customer accounts for less than 10% of the production capacity of the company. Initially the mother company from Hong Kong has registration capital of US\$10.29 million in 2002. The company employs a total of 3800 workers working in the company's branch as well as the sub-suppliers regions. It has registered capital of US\$10.28 Million and the production capacity reaches to 1.5 million dozens pieces of garment per day valued at US\$0.5 billion (Source: Company information on the website).

Factory II is a Hong Kong owned factory manufacturing knit wear exporting mainly to European countries, Germany being one of them. The factory/company is the official licensee of a number of brands and labels such as Polo, Madeleine, Elegance, Peter Hahn, Alex Bargoudian and Spengler¹⁰. It has a workforce between 200-400 aged between 18-30 coming from various inland provinces of China.

Factory III is a mainland Chinese owned factory manufacturing casual wear and men's shirts and pants. The factory manufactures garment for the label Yessica and is now supplying to Otto, Play Boy, and Tommy Hilfiger. About 200-300 workers were employed by the time of the research. They are aged between 18-30 coming from various inland provinces.

A general overview of the working conditions in the three factories reveal similar patterns which are also typically found in garment supplier factories in China namely

⁹ Updated information as of August 2004 shows that Nike and Adidas do not have order placement with this factory any more.

¹⁰ Information from the Hong Kong Trade Development Council as of August 2004.

low piece rate income which is below the local legal minimum wage, long working hours in the peak season reaching at least 13 hours per day, high seasonality and thus fluctuating work and income level in the low season, absence of labour contract or legally binding industrial relations, absence of social security provisions as required by law and lack of safety and health protection. The other problem is the inadequacy if not dysfunctioning of private labour rights monitoring via the tool of the buyers' supplier code of conduct.

Working for long hours is the most common feature found in the garment factories in China. In all the three factories, an average of 10-13 working hours per day is found in the peak season¹¹. This includes 8 regular hours and 2 to 5 overtime (OT) hours per day. It is found for instance that workers in Factory I start OT work from 18:30 up to 25:00 or 26:00 in the peak season. Workers in Factory III for example start working from 08:00 in the morning to 17:30 for 8 hours and start working OT from 18:30 to 23:00 or 25:00 in the peak season. It is noted that workers performing work in the latter stage of production process such as assembly, QA and packaging are put under more work and time pressure. It is common amongst the three factories that zero to one day off is offered per month in the peak season whereas in the low season there is not enough work or even no work to do. Workers may stay in the factory while receiving no income or a meager living subsidy offered by the factory or they may leave the factory and return to their home village to wait for the next production season to come.

The typical form of wage payment for production line garment workers for namely the sewing, knitting workers is piece rate. This is devised to ensure that workers are "encourage" to work with incentive and up to the fullest of their productivity.

Workers in the washing, cutting, QA and other departments are paid by time rate. Irrespective of time or piece rate, the wage payment found in all three factories is in violation of the local minimum wage standard. The time rate workers¹² working in Factory II for example are paid RMB500-600 per month on a 28-day and 8-hour-day basis which means they earn RMB17.8 per day and RMB2.2 per hour. The local minimum wage is RMB450 per month ie RMB20.9 per day and RMB2.6 per hour. This discrepancy is bigger as these time rate workers are paid for only RMB2 per hour for overtime work while the law requires a 150% of the regular wage payment

¹¹ The working hours recorded in the three factories are as such. Factory I: 07:00-17:30 and from 18:30-25:00 or 26:00. Factory II: 07:30-17:30 and from 19:00-21:00 when there is less order and 23:00 to 24:00 when more order is placed. Factory III: 08:00-17:30 and from 18:30 to 23:00 or even 25:00.

¹² They are from the washing and cutting department as well as workers that do the cleaning or send

for OT compensation ie RMB3.9 per hour in this case. Wage violation is also found with piece rate workers though in a different manner. The piece rate income for sewing and knitting workers in all three factories is determined by the unit price which is not necessarily made known to workers and the number of pieces they produce in a month. Theoretically the piece rate income should comply with the legal minimum when converted to time rate. In all three factories OT work is not compensated. Rather an “OT subsidy” of RMB0.5 per hour is given. Although information about the exact unit prices of the three factories is not provided here and thus it is difficult to tell whether the piece rate income complies with the legal minimum or not. A look, however at the average income level against the number of working hours may give us a rough sense of the wage violation. Piece rate worker in Factory I receive an average of RMB500-600 per month for working 10-13 hours a day in the peak season. Compared with RMB340 per month which is the legal minimum wage where Factory I is located, the legal OT rate should be 1.5 times the regular rate of RMB1.98 per hour ie RMB2.97. The OT compensation is in violation of the legal requirement. Piece rate workers in Factory III receive RMB800-900 a month for working 13 or more hours a day but the legal minimum wage where the factory is located is RMB610 per month (effective 1 May 2004). The legal hourly OT rate should be RMB3.65 per hour and the OT rate RMB5.47 per hour. It is obvious that given the number of OT hours worker work in the peak season ie 5 OT hours a day, they are not receiving their legal pay.

Instead of paying proper legal wage and OT compensation to workers, it is common to find that the wage payment is structured in a way that would allow the factories “flexibility” to “survive” the low season when no order is placed. Factory II for instance is paying piece rate workers RMB0.5 per hour as OT subsidy plus another RMB2 per day as living subsidy. The OT payment is already in violation of the local law which requires RMB2.6 as OT compensation for an hour. The living subsidy allows the management to adjust the wage payment when there is order placement is not ideal. It was scrapped previously when no order is placed and workers receive no piece rate income at all in the low season. Although the living subsidy is resumed by the time of the research, it is paid at RMB5-8 per day. Assuming that there is no order placement at all in a month, the factory is only paying workers RMB1505-248 a month which is much lower than the legal minimum wage of RMB450. The seasonality question pose a problem to both the management and the workers as the management cannot afford to send away all the workers but at the same time is not able or not willing to pay the minimum wage to them in the low

goods to different departments.

season. For the workers, they are laid idle in the factory with no work to do and live on a small subsidy which is not enough for their basic living expenditures.

Back wage is a common problem in labour intensive industries in southern China. Workers in Factory II for instance took on strike in June 2004 as the factory had not delivered salary to the workers for 4 months. Workers had to borrow money from fellow workers and when they resorted to strike as the last action. In the end the management relented and delivered the back wages.

Workers in Factory I and Factory II are requested to sign one-year contract with the management. Again this gives the management “flexibility” to employ short term labour to ride over the boom and bust of the international garment market. This reflect the general situation that foreign invested garment OEM factories do not want to have longer term employment relations with the workers as the market is very much a buyers’ market. Order placement from the international buyers is not stable on the one hand, and on the other hand supply of cheap and abundant labour is not a big problem in China. The payment of pension and severance is always sacrificed and the employment situation of these migrant workers resemble that of seasonal workers. Besides, workers are not given the copies of the labour contract. The contract terms are written in compliance with the labour law but not implemented in reality.

Given the short term nature of the employment relation, the provision of social security as required by law is often not met. The PRC Labour Law requires the management to cover their workforce with old age, industrial injury, maternity and medical insurance. In all three factories the production line workers are not covered fully with old age insurance. It is a usual practice for the management to cover only the percentage of the workforce required by law with old age insurance and it is usually the local and non-production-line staff that is covered. In terms of industrial injury insurance, the law requires the factories to pay a certain amount to the local labour department based on the local situation and the track injury record of the factories. The problem is rather that almost all the interviewed workers in the three factories are not aware of their legal rights in case of industrial injury. That makes them vulnerable in case the management does not follow the proper procedure and compensation scale as required by law in case of industrial injury. As for maternity and medical insurance, none of the three factories have such provision. More, none of the factories would pay maternity leave to the female pregnant workers. It is almost an internalized “theory” adopted by the female migrant workers that they have

to quit and leave the factory if they become pregnant rather than claiming their right for 90-day maternity leave as required by law.

It is common to find foreign invested enterprises providing dormitories for the migrant workers. Some would contract out the catering service and provide food at the factory canteen while paying food subsidy to the workers. Workers in all the factories are staying in the dormitories provided by the factories. They are staying in rooms that house from 8 to up to 20 workers. The washing and toilet facilities are shared¹³. Congestion, no privacy, hygiene are problems. Sometimes conflicts arise when workers all knock off late and have to queue up for water to take shower. In all three factories, workers pay from RMB10-25 a month for water and electricity. In terms of food, it is revealed from the three examples here that workers spend a minimum of RMB140 on food. The canteen in Factory I for instance offers food at RMB1.5 per meal. Assuming a worker eat 3 meals a day in the factory, he/she will be spending about RMB140 a month on food. Similarly, workers in Factory II have RMB150 deduction per month on food whereas Factory III does not have canteen service and workers have to spend on average RMB 2-3 per meal on food meaning they are spending around RMB180-270 a month on food. The expenditures on food and lodging become a problem in the low season when the piece rate workers do not have stable income and are not protected with the minimum wage provision. In Factory I, the interviewed workers reveal that they may receive only RMB300 a month in the low season. The food and lodging deduction already costs them RMB165 and they can hardly survive on the remains of the income.

Work place safety and health is always a problem as both the factory owners and the migrant workers do not have enough awareness for it. None of the three factories has work place fire drill or provides workers with fire safety training. Workers in Factory II complain about the air conditions at the workplace. The ventilation is bad and the machines are placed too close together therefore leading to high room temperature at the workplace. Sewing workers are liable to skin allergy and respiration problems when they are sewing with different types of fabrics some of which have a lot of fabric dust. The other major source of health hazards commonly found in the garment industry is ergonomics relating to long working hours, non-adjustable working tables and chairs and repetitive strain injury. However all the factories do not provide body check up for workers when they are recruited or during the terms of employment. No protective equipment and no safety and health

¹³ Workers in Factory III have better living conditions. 7 workers share a room that has washing and toilet facilities inside the room.

training is provided.

Working Conditions in the Supplier Factories of German Sportswear Brands

Compared to the working conditions found in the above three factories supplying to the German retailers, the conditions found in the sportswear suppliers of Adidas and Puma are a bit better though the pattern of labour law and code of conduct violation is similar at large. Two suppliers are covered in this research.

One of them, named anonymously as **Factory IV** below, is a Hong Kong owned hat manufacturing factory supplying to brands such as Kappa (which has the largest order placement), Adidas, Fila and Puma¹⁴. Products are mainly exported to the US and Europe, as well as Japan, Hong Kong and Taiwan. The factory has a workforce of about 500 workers aged between 18-40 years old. They come from various inland provinces and the majority is woman. The second factory named **Factory V** is a Taiwanese factory manufacturing knitted sports socks, wrist and head bands supplying mainly to Adidas, Puma and Nike. Products are exported to the US, Germany, Switzerland, Brazil, Australia and Malaysia. The factory employs about 200 workers, majority of them women aged between 21-25 and coming from various inland provinces. Both factories are located in Guangdong province.

The working hours recorded in both factories reveal violation of the Chinese labour law. Workers in Factory IV work 8 regular hours per day from 07:30 – 18:00 and 4-5 OT hours per day up till 23:00 or 24:00 in the peak season meaning they work as most 12-13 hours a day in the peak season. They have OT work for 6 days a week and zero to one day off per month in the peak season. To cover up the excessive OT hours, the factory management has special staff to punch the clock machines for the workers and prepare the falsified hour records. Similar falsification practice is found in Factory IV as well. Workers in Factory V start working from 08:00 – 17:30 for 8 regular hours per day as well. They need to work 2-5 OT hours per day up till 23:00 in the peak season depending on the size of order. However the factory require workers to punch the machine clock to give only 2 OT hours per day. The Chinese labour law permits at most 3 OT hours per day and not more than 36 OT hours per month. The excessive OT hours is not shown in the time cards and the OT compensation for the exceeding OT hours is paid as production bonus instead of OT compensation on the salary cards. This is done to pass the social audits taken by the buyers. Workers in Factory V have 2-3 days off per month in the peak season.

¹⁴ Updated information shows that the Puma order has reduced by the time of August 2004 though Puma has large order placement with this supplier last year.

The production line workers in Factory IV are paid by piece rate and receive an “OT subsidy” of RMB2 per night. Time rate workers are paid on average RMB500-600 a month. A female worker from the cutting department reveals to the researchers that her salary varies between RMB380-480 a month including all the subsidies and overtime compensation after having worked for 2 years in the factory. Compared that to the local minimum wage level of RMB450 per month where the factory is located, the wage violation is clear. Yet her salary record shows that she receives around RMB700-800 a month and the pay stuff never records a monthly wage lower than the legal requirement. Whereas the average monthly income of piece rate workers vary from RMB400-1000 depending on the skills level. Again, the payment of piece rate depends on the unit price and it is tricky for workers to tell whether it is paid according to the legal minimum wage. The pay system in Factory is a mixed piece and time system. Workers are paid RMB450 a month which is the legal minimum for 8 hours a day and 40 hours a week. However OT compensation in excessive of 2 OT hours is not recorded on the pay stuff. Rather it is paid as production bonus to the workers so as to cover up the exceeding working hours. The interviewed workers reveal that they will get up to RMB1000 a month in the peak season when they have 4-5 OT hours per day. Factory V fares better than Factory IV in that workers in Factory V are paid with the legal minimum wage in the low season whereas the income of the workers in Factory IV is unstable and below the legal minimum in the low season.

Both factories have one-year contract with the workers but the interviewed workers from both factories complain that the contract is a formality only as the terms in the contract are not complied with in reality. The contracts are signed more for the buyers’ social audits. Production line workers in Factory IV are not fully covered with old age insurance and industrial injury insurance. And again Factory V seems to be in greater degree of compliance with the labour law as the factory covers all the production line workers with industrial injury and old age insurance and RMB61 is deducted per month from the workers’ salary. Both factories do not provide medical or maternity insurance as required by law to workers. Workers may go to the factory clinic for medicine in case of small illness or they may go to see doctors on their own in case of more serious illness which means the social cost of medical treatment is taken up solely by the individual workers. The interviewed workers from Factory IV reveal that it is difficult for them to get sick leave during the peak season. Sick leave, difficult to be granted, is not paid. Worse, in case of small industrial injury and workers taking leave, the factory would pay only for the medical treatment fee but not

salary during the time of the injury leave. This is in violation of the labour law which requires the employer to pay the medical fee, the regular salary as well as living and other subsidies as need be.

Both factories provide workers with canteen service and lodging. Workers in Factory IV pay RMB40 per month for canteen food and RMB30 for water and electricity in the dormitory whereas Factory V provides workers with food and lodging without deduction¹⁵. Compared with the complaints of workers in Factory IV about the quality of canteen food and the lodging conditions (shared water and toilet facilities), those in Factory V are better. The interviewed workers from Factory V stay in a room of 7-8 people with good ventilation and toilet and washing facilities.

In both factories, work place safety and health protection is focussed mainly on fire safety which is visible and measurable for checklist auditing. For instance both factories have 2-3 regular fire drills per year and fire extinguishers and fire exits are provided etc. In terms of garment industry related safety and especially health problem such as ergonomics and skin and respiration allergy that has large relation to long working hours, there is little protection. Workers in both factories do not have regular body check up or any safety and health training.

What distinguishes the conditions in the two suppliers to the sportswear brands from the above three garment factories that supply to the retailers is the issue of falsification and monitoring of the company code of conduct of the buyers. Falsification practices are taken up by the management of the two sportswear suppliers in reaction to the code monitoring of the buyers. In the case of Factory IV, the wage record which shows an average of RMB700-800 and always above the legal minimum of RMB450 a month is false. Workers are not required to punch the machine clock and thus the time machine records are false as well. The factory management would bully workers not to tell the truth to the auditors before every audit. Workers that are picked for workers interview during the audit would be rewarded with RMB200 if they give answers according to the standards ones provided by the factory. The interviewed workers in Factory IV in general do not believe that code of conduct and factory inspection would give them any protection. Factory V has a higher level of labour law compliance and thus the falsification practice is found

¹⁵ That does not mean that food and lodging is provided for free to workers in Factory V as these costs should be already calculated in the direct labour cost of production as a whole and thus reflected in the salary level indirectly.

mainly with the number of working hours. Code of conduct monitoring in the three supplier factories to the retailers on the other hand is little. The interviewed workers from Factory I, II and III reveal that the buyers often come to inspect the production quality and not the labour conditions. Despite the inadequacy of monitoring on the part of the buyers, workers from Factory I reveal that the factory would falsify documents and coach workers before the auditors come. The factory provides two pay rolls and the false one shows that workers receive RMB345 as the basic wage (a bit higher than the legal minimum of RMB340). Workers have to sign on the false records and the management also coach workers to lie to the auditors and buyers. They are supposed to tell the auditors that they have one day off per week and have OT within the legal limit of 36 hours per month. Workers that look under-aged as well as the more vocal workers will be sent away so that the auditors are not able to find much out from the workers interviews. In general, workers from all the five factories researched here are not aware of the operation of code of conduct monitoring on the part of the buyers. They are also frustrated by the failure of code of conduct to strengthen labour standard enforcement as well as the side effect of increased management pressure accompanied by the top-down, checklist auditing of the buyers' code of conduct.

The migrant workers in China contribute to the economic boom of the country and the acquisition of the “competitive edge” of the foreign investors in the globalized Capitalist economy. Their lives, their labour, their aspirations and their everyday struggles with their work are submerged in the checklists, labour standard audits and company CSR (Corporate Social Responsibility) reports that claim to be protecting them. Can Code of Conduct and CSR be turned into a different stage and a different game?