

# MOBILE PHONE PRODUCTION IN CHINA

A follow-up report on two suppliers in Guangdong

SwedWatch & SOMO  
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This report is published as part of a European wide project on consumer electronics. makeITfair aims to inform consumers about human rights, social and environmental issues along the supply chain. It also addresses consumer electronics companies that can contribute to change.



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**makeITfair** is a European wide project on consumer electronics, aiming to inform young consumers about human rights, social and environmental issues along the supply chain. The work is co-ordinated by the Dutch organisation SOMO. Project partners are SwedWatch, Fair Trade Center, Church of Sweden from Sweden; FinnWatch and Finnish Association for Nature Conservation from Finland; Germanwatch and Verbraucher Initiative from Germany; KARAT from CEE; ACIDH from the DR Congo and CIVIDEP from India.

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## **ABSTRACT**

One of every two mobile phones is manufactured in China. In 2008 makeITfair published a report about factories supplying the big brand name companies with components for their mobile phones. This follow-up re-examines two of the factories where workers took to the streets in 2007 protesting against unacceptable and illegal working conditions. Since then a new owner, who took over the plants in 2008, has invested and made efforts to set up management systems and to improve conditions at the sites. Improvements in several areas had been experienced by workers interviewed for this report in 2009 (living quarter refurbishment, provision of protective gear, legal overtime payment etc). Management has also set up systems to channel complaints and grievances in a country where true union rights do not exist. However, important issues still remain to be addressed. This research indicates, for example, discrimination during recruitment, as well as illegal and unhealthy working hours. In order to address the latter problem, makeITfair recommends that mobile phone companies sourcing from these factories analyse their purchasing practices. As expressed in the earlier publication, excessive overtime hours are often a result of a combination of low wage levels and orders placed late or changed at the last minute. In order to address discrimination through health tests on job applicants, it is recommended that mobile phone companies work with their suppliers in cooperation with local Chinese organisations involved in this issue.

# TABLE OF CONTENT

- 1. Background ..... 6
- 2. Methodology ..... 7
- 3. Latest developments regarding workers’ rights in Guangdong Province..... 8
  - Recession put workers’ rights on hold*..... 9
- 4. Two factories re-examined ..... 12
  - 4.1. Factory 1 & 2 – producing chargers and transformers for Nokia, Samsung, Motorola and LGE ..... 12
    - Problems reported in 2007/2008* ..... 12
    - Improvements due to investments* ..... 12
    - Working hours and related health problems* ..... 13
    - Workers under the age of 18* ..... 15
    - Indications of discrimination* ..... 16
    - Wages and other payments* ..... 17
    - Workplace representation and involvement* ..... 20
    - TABLE 1: Overview of findings at Factories 1 & 2* ..... 22
- 5. Buyers’ reactions ..... 23
  - Nokia* ..... 23
  - Motorola* ..... 23
  - LG Electronics* ..... 23
- 6. Conclusion ..... 24
- List of references ..... 26

# 1. BACKGROUND

In September 2008, makeITfair published a report entitled *Silenced to Deliver: Mobile phone manufacturing in China and the Philippines*<sup>1</sup>, in which four Chinese factories in Guangdong were examined. Problems discovered included health and safety issues, excessive working hours, low wages and involuntary overtime. Workers were punished with wage deductions if they made mistakes, even when the mistakes were due to the unacceptable working conditions offered by the employer. As a follow-up to this report, workers and management at two of these factories, as well as their customers, were interviewed again during the fall of 2009. The results are presented in chapters 4 and 5.

1 The report is available at <http://makeitfair.org/the-facts/reports>.

## 2. METHODOLOGY

This follow-up is based on interviews with 64 workers at two factories producing chargers and transformers for four of the market leader mobile phone companies of the world: Nokia, Samsung, Motorola and LG Electronics.<sup>2</sup> The interviews were conducted during the latter half of 2009 by people linked to universities in mainland China and Hong Kong. They possess earlier experience in factory surveys and are specialised in social work, migrant workers and labour issues. They were selected due to their earlier experience and their independence from government and particular enterprises. For safety reasons their names cannot be disclosed.

The workers were mostly interviewed individually, inside or close to the production sites in dormitories, restaurants or on the street. Workers were randomly selected by the researchers who have aimed at reflecting the general composition of the work force at the factories with regards to age and gender. Particular attention has been paid to line supervisors and middle management since they may provide general information outside the knowledge of frontline workers. The major weaknesses of the research are the limited number of the sample, which may consequently not reflect possible differences between units inside the factories. Another limitation is the fact that not all workers were asked complete sets of questions due to the practical circumstances prevailing during the field work.

In addition to the worker interviews, information has also been collected from the owners of Factories 1 and 2 in August 2009, when makeITfair's former Hong Kong-based partner (SACOM) made an announced visit to one of the production sites. In November 2009, makeITfair collected complementary information from the owners of the factories and in December the factories' customers were asked to review and comment on the findings.

MakeITfair would like to stress that this research does not present a full evaluation of any company mentioned in this text. Instead this follow-up gives examples of current problems and improvements made at two factories in the supply chains of the biggest mobile phone brands. Problems described should be further investigated by the factories' customers. The customers and the owners of the factories in question have read the report before publication and they have been given the opportunity to comment on the findings.

2 38 workers were interviewed at Factory 1 and 26 workers at Factory 2. Interviews were conducted in July, August and early September 2009. Some additional interviews were carried out after the first response from the owner of the factories in November.

### 3. LATEST DEVELOPMENTS REGARDING WORKERS' RIGHTS IN GUANGDONG PROVINCE

At the time when makeITfair's last examination of the Asian mobile phone sector took place (first half of 2008) the financial markets had not yet begun to shake. Production and consumption were still booming. Increasing orders, in combination with new legislation and labour shortages, had put workers in search of better conditions in a more favourable position. Some workers were 'voting with their feet' and leaving employers with expensive staff turnover rates as a result. Some employers had begun to realise the bargaining power of workers and had made efforts to negotiate with their employees over workplace conditions.

Three new laws had recently entered into force; the new Labour Contract Law (on 1 Jan 2008), which focuses on employer-employee relations within the workplace, the Employment Promotion Law (on 1 Jan 2008), which aims at combating discrimination and the Law on the Mediation and Arbitration of Employment Disputes (on 1 May 2008), which makes it easier for workers to seek legal redress for workplace violations.<sup>3</sup> The regime's decision to adopt these laws should be interpreted in a context of increasing discontent and unrest, and in 2008 workers utilised this new legislation when attempting to exercise their rights.

The new Labour Contract Law includes provisions that require enhanced consultation and information-sharing with trade unions. In theory it also opens up for collective agreements between the employer and "representatives as chosen by the workers" if there is no labour union (ACFTU affiliate) in place.<sup>4</sup> In reality ACFTU's monopoly remains unchanged. Recently, ACFTU has allowed direct elections of enterprise union chairs and committee members, however there are a number of restrictions on candidates eligible for election. ACFTU has made it clear that "any candidate for an enterprise union chair should report to and obtain approval from the Party organization within the enterprise and the higher-level union".<sup>5</sup> In order to "professionalise" enterprise unions, union officials are sometimes recruited from the ranks of civil servants and public bodies to serve (after election by the members) as union chairs at the factories. The system set up helps explain why workers at many factories are not well-informed about the unions or show little interest in their work. Hong Kong based China Labour Bulletin<sup>6</sup> reports that the majority of workers currently regard ACFTU as "irrelevant to their needs" and therefore increasingly take matters into their own hands. The number of open protests in the streets in 2008, released by the Communist Party, was up almost 50 percent from the figure in 2005.<sup>7</sup>

3 Links to full English texts of these laws are available in the list of references.

4 Labour Contract Law, 2007, Article 51.

5 ACFTU's *Procedures for Producing Enterprise Union Chairs*, issued on 25 August 2008, referred to in CLB, *Going it Alone*, p 34.

6 China Labour Bulletin (CLB) publishes in-depth studies on workers' rights in China. The organisation defends workers' rights while cooperating with labour groups and law firms both within and outside China. CLB supports the development of democratic trade unions, respect for and enforcement of the country's labour laws, and the full participation of workers in the creation of civil society. Website: <http://www.china-labour.org.hk/en/>.

7 Senior Party sources quoted in the Hong Kong-based political magazine *Cheng Ming*, referred to in China Labour Bulletin, 2009, *Going it Alone: The workers movement in China*. In 2008 some local governments made concessions though, starting to talk about collective bargaining instead of collective consultation, which was regarded as a sign of adjusting the balance of power between workers and employers. However, according to CLB, this experiment was put

## RECESSION PUT WORKERS' RIGHTS ON HOLD

During the latter half of 2008, when the recession began to take effect, some of the advances under the new Labour Contract Law slowly dissolved. As orders dried up in the heartland of Chinese manufacturing – Guangdong – so did job opportunities and workers' space for bargaining. Some factory managers followed the advice of the authorities, prolonging holidays and shortening work shifts to avoid job cuts. Others simply left the field, leaving workers without work from one day to the next, with unpaid wages and nowhere to live. In 2008, the production centre and city of Dongguan alone recorded 673 cases of owners fleeing their factories, leaving behind 113,000 unemployed workers owed USD 44.1 million. Labour disputes almost doubled, to nearly 80,000.<sup>8</sup>

In November 2008 the Guangdong Ministry of Human Resources and Social Security announced that it was temporarily suspending the regular upward adjustment of minimum wages due to the economic crisis. The following month, the government stated that enterprises who could not pay mandatory social insurance contributions for their employees could apply to delay such payments for a period of up to six months.<sup>9</sup> China Labour Bulletin reports that minimum wage laws and overtime provisions have generally not been enforced by the authorities since the crisis started. As a result, many workers who have been able to keep their jobs have received lower wages while also having to do more overtime than before.<sup>10</sup> In China, and elsewhere in Asia, minimum wages have become standard as basic wages for electronics workers, which make it crucial for them to work a lot of overtime to cover their own and their families' needs. In 2008, makeITfair stressed the need for living wages (see further in Box 2 on p 19) and proper social security (see further in Box 1, p 11), in line with the International Labour Organisation's Decent Work Agenda.<sup>11</sup>

In February 2009, government agencies reported that the recession had sent 20 million migrant workers back to their homes in rural areas, a number equivalent to the total population of Australia. Later on that same year, production curves slowly started heading upwards again, with analysts speculating over whether or not the bottom had been reached.<sup>12</sup> Due to increasing orders and government incentives to spur demand, migrants have started to return to the production hubs of the coastal areas of Guangdong with hopes for a better future and opportunities to send money back home. However, the province experienced a labour shortage during the fall of 2009 when the number of workers available did not match the need for the production rush before Christmas.<sup>13</sup>

In these times of uncertainty, any interpretation of the general situation regarding workers' rights within the Chinese manufacturing industry tends to become shaky. According to different

on hold in the wake of the recession when union officials were instructed to help enterprises get through their economic difficulties.

8 Business Week, *As Factories Fail, So Does Business Law*, 13 April 2009 and Financial Times, *China's Migrant Workers Face Bleak Outlook*, 8 Feb 2009.

9 CSR Asia, *Chinese Workers' Rights in an Economic Crisis?*, vol 5, week 6, 2009.

10 E-mail response from China Labour Bulletin, 14 Oct 2009.

11 Further information in SOMO/SwedWatch/Sacom, *Silenced to Deliver: Mobile phone manufacturing in China and the Philippines*, p 25.

12 AP, *China Sees Boost in Employment of Migrant Workers*, 4 Sept 2009.

13 CSR Asia, *Why is there a labour shortage in China?* Vol 5, week 46, 2009.

sources there is an increasing consciousness of workers' rights on the factory floors because of the new legislation. Workers' demands are also becoming more developed. However, legal standards, the enforcement of the new laws and factories' ability to set up management systems to help them operate in accordance with the laws will also be of vital importance if the conditions of workers are to be improved in the long run.



Guangdong has become the centre of electronics production in China. The two factories researched for this report are located in Shenzhen.

### **LIMITED SOCIAL SECURITY FOR MIGRANT WORKERS**

Migrant workers are often described as the backbone of China's economy, but when working in cities such as Shenzhen they are not entitled to the same social benefits as urban residents. Social security has for a long period of time, due to the so called hukou system, been tied to the employee's place of residence. Despite recent efforts to gradually eliminate discrimination against rural migrants working in Shenzhen, migrants still have limited access to basic social security.

The Labour Law of 1994 states that workers are entitled to assistance and compensation for old age, illness, work-related injury, unemployment and child-bearing.<sup>1</sup> In practice, however, medical insurance only covers basic medicine and support in case of unemployment and child-bearing is virtually non-existent for migrant workers. Moreover, it has not been possible for migrant workers to pay pension premiums in cities such as Shenzhen and draw money in another place, which is highly problematic for them since they often only stay in Shenzhen for a limited period of time before they migrate to other cities or move back to where they came from. Many workers cash out their own contributions before they leave, but they are seldom allowed to take with them the larger part that the employer has paid into the workers' insurance system. According to a new draft law on social insurance this could be changed in the future though as it suggests enabling workers to take premiums with them when they move.<sup>2</sup>

1 Labour Law, 1994, article 70.

2 Information collected from different news items (CLB, *Shenzhen's residence card offers little new for migrant workers*, 4 Nov 2008, People's Daily Online, *New rule helps millions of migrant workers join pension plan*, 7 Feb 2008, People's Daily Online, *China strives to improve social security for 210 million migrant workers*, 8 Dec 2008 and China National Committee On Ageing, *Social security umbrella expanded*, 14 July 2009).

## **4. TWO FACTORIES RE-EXAMINED**

In June to September 2009, workers at two of the factories examined in 2007/08 were interviewed again about their working conditions. Information was also collected from the owner of the sites. An overview of the factory findings are presented in a table at the end of the chapter.

### **4.1. FACTORY 1 & 2 – PRODUCING CHARGERS AND TRANSFORMERS FOR NOKIA, SAMSUNG, MOTOROLA AND LGE**

These two factories were acquired by a company, with its headquarters in Singapore, in early 2008. Since then significant investments have been made to improve working and living conditions at these sites. Management teams have been restructured by the new owner, and management systems and programmes for environmental and health and safety issues have been set up. Managers and supervisors have been trained on company policies and legal requirements regarding, for example, working hours and discrimination. Moreover, the new owner requires that units dealing with CSR and human resources report directly to regional headquarters in Hong Kong.

Factory 1 is currently mainly producing for the Chinese market, while Factory 2 is export-oriented. This research indicates that conditions are somewhat better at Factory 2, where the turnover of workers is also lower. Factory 1, on the other hand, has a high turnover; in August 2009 workers stayed for a year on average before they moved on.<sup>14</sup>

#### **PROBLEMS REPORTED IN 2007/2008**

When these plants were examined in 2007/2008, workers reported severe health and safety problems, illegal working hours, unpaid overtime, punitive fines as well as difficulties and extra costs related to resignation. Moreover, the standard of the dormitories were unacceptable and unsafe. The ventilation was poor and the temperatures extreme in the factories. The overall situation led to open protests in 2007, when thousands of workers at these two factories took to the streets to demand better conditions. The police tried to break up the demonstrators and, as a result, at least four female workers were arrested and hundreds injured.

#### **IMPROVEMENTS DUE TO INVESTMENTS**

Up to November 2009, the new owners of these factories had spent USD 2.5 million on improving conditions at these sites. The company has invested in personal protective equipment and exhaust ventilation systems to protect workers from risks related to the chemicals used in the production. Money has also been spent on refurbishing fire safety systems, dormitories, restrooms, canteen kitchens, chemical storage and warehouses etc.

Workers interviewed confirm that both living and working conditions have improved over the course of the last year. In 2007, workers were put on the production line without adequate safety training. Workers in the soldering department said that they worked without face masks

<sup>14</sup> In November, the company informed makeITfair that the attrition rate at Factory 1 had gone down since the investments started; the monthly average attrition rate in 2009 (up until December) was 9.75% compared to 15.78% in 2008.

or gloves, inhaling hazardous fumes at poorly ventilated work stations. Workers reported about cut and burned hands and fingers, and one female worker had her finger amputated. In 2009, workers at both factories said that they receive a two-hour training input on health and safety issues before they start working. When the researchers visited Factory 1 in August 2009, a factory team inspecting compliance to this was present on the shop floor and medical kits were available on the production lines. Moreover, in-house clinics had been set up by the new owner where workers could get minor treatment free of charge. Workers interviewed off-site stated that the air-conditioning had been significantly improved in the factories but workers still found some areas to be too hot. They said that health protection equipments, such as gloves, special shoes and ear plugs, were adequate. In Factory 2 some workers said that adequate protection was provided but not always used since they found it too hot to wear them.

Management state that regular assessments are conducted at both sites to ensure that employees are using the equipment provided at all times. Both air-conditioning systems and fans have been installed to provide comfortable working conditions in the factories during the hot summer months. Feedback from employees is continuously collected through, for example, suggestion boxes and meetings with employees.

During the past year dormitories have been renovated and are now equipped with better toilets and fans but there is no hot water in the communal showers, which some interviewees complained about. Management states that they are currently looking into the possibility of providing hot water showers. At Factory 2 there were a few complaints about dormitories still being too hot.

In 2007 audits showed that the canteen kitchens did not meet China's food hygiene requirements.<sup>15</sup> In 2009 workers interviewed said that the hygiene was better, but several workers still complained about the quality of the food. Management have replied that they will address this issue.<sup>16</sup>

### **WORKING HOURS AND RELATED HEALTH PROBLEMS**

Workers and company representatives present somewhat different pictures with regards to working hours. According to workers interviewed, overtime is unevenly distributed across production lines. 25 out of 30 workers interviewed at Factory 1 said that they often work 15 to 25 hours of overtime per week. One wage slip confirms 101 overtime hours for one month. The majority of workers interviewed at Factory 2 said that they work a bit less, often 15 to 20 hours' overtime per week. Most workers interviewed said that they do not say no to overtime. However, three workers said that they had been told by supervisors that they risk dismissal or a fine if they decline.

Company representatives state that all overtime work is done on a voluntary basis without risking dismissal if refused. They write that they required less than 36 hours of overtime per

<sup>15</sup> Audit protocol provided by the company on 13 Nov 2009.

<sup>16</sup> The company reports that both canteens are being upgraded at the moment. A canteen management committee that includes workers has been set up which conducts daily assessments of the food served. In November 2009, company representatives informed makeITfair that they will seek further input from workers through focus group meetings on this matter.



Before and after: In 2007, employees worked without sufficient protective gear (above). In 2009, workers confirm investments such as ventilation exhaust systems and gloves (below).



month in early 2009, but that the increase of orders later on that year made overtime hours go up. In October workers at Factory 1 did an average of 17.6 overtime hours per week. The equivalent figure at Factory 2 was 16.6. These numbers by far exceed the legal limit of 36 overtime hours per month.<sup>17</sup> The company writes that a system has been set up in which department heads receive weekly overtime reports in order to manage employee working hours better, and they stress that they will continue to increase awareness among workers and supervisory staff regarding the company's rest policy.

“Our own internal survey indicates that employees prefer to work 90 hours of overtime in a month. We will continue to monitor the overtime hours to help employees strike a balance between getting sufficient rest and the opportunity to earn extra income”, writes the company in its response to makeITfair in November 2009.

In 2007, workers described high production pace and targets. Since then automation programmes have been introduced in different production lines, which simplify tasks and may save up to 40% on previous manpower levels. In what is known as “LEAN manufacturing”<sup>18</sup> workers acquire multi-skills and shift between different positions. Company representatives write that the planning and implementation of this shift involved the frontline operators who agreed to make the changes. After complaints by workers, chairs were provided for those who wished to sit. Still one worker interviewed by makeITfair at Factory 1 complained of swollen legs and others of small sores due to hard seats. Workers at both factories perceived that the work pressure had increased and they felt extremely tired after work. Several workers mentioned that it is much more tiring to work in Factory 1 and 2 than in other factories.

“I would like to take a shower after work before sleep, but I fall asleep before going to the bathroom”, said one worker.

Most workers mentioned health problems due to overtime and high workload. They said that cuts, for example, are especially frequent during high output periods and night shifts. The company writes that risks are assessed regularly to minimise and eliminate accidents. Data provided by the company suggests that accidents are way below the global average rate for the electronics industry. Workers get free medical examinations each year and the company adds that it will continue to monitor workers' health at both factories.

#### **WORKERS UNDER THE AGE OF 18**

In August 2009, management said that there was a labour shortage of more than 1,000 operators at the two factories. This was mainly due to the recent increase of orders and may help to explain the high numbers of working hours and workload, as well as the quite high number of juvenile workers at the sites. When makeITfair interviewed the new owner in 2008 they said that it was company policy only to recruit workers who were over 18 years old. In August 2009, 2.6% of all the operators were under 18 at Factory 1 and the equivalent

<sup>17</sup> Labour Law, 1994, article 41.

<sup>18</sup> LEAN is centred on creating more value with less work.

figure for Factory 2 was 1.2%.<sup>19</sup> Moreover, at Factory 1, but not at Factory 2, some workers interviewed perceived that supervisors were reluctant to approve resignations.

In its response to makeITfair in November 2009, the company writes that the rate of juvenile workers has gone down during the autumn to 1.2% for both factories, and that they plan to maintain or lower it further. The company stresses that they check younger workers' working hours and make sure that they do not perform any hazardous tasks. Moreover, they write that they do not restrict workers from resigning; they have trained all line managers and supervisors to make sure that workers can leave once they have fulfilled the notice period stated in the law.

### **INDICATIONS OF DISCRIMINATION**

During field research, one of the researchers approached the guards at the main entrance of Factory 1 pretending to be looking for a job. He was told that men older than 20 were not recruited. Moreover, research indicates that male workers from the Henan Province<sup>20</sup> are being discriminated against during the recruitment process at Factory 2 and that individual employment agents, who claim that they have good connections with the company, collect "introduction fees" of about EUR 20 (CNY 200) to get candidates a job at the company. The company replies that discrimination is forbidden in the company's Code of Conduct and that they will continue to train employees and supervisory staff on their equal opportunity employment policy. They stress that they do not subscribe to introduction fees and that the company's stand on this matter is posted at facility entrances and recruitment centres.

About 130 million people in China are Hepatitis B carriers and it is common that they face discrimination through testing when applying for jobs. According to China Labour Bulletin, the employers' logic is often two-fold. Firstly, even though Hepatitis B is only transmitted through blood or sexual contact, many still believe that the virus can be passed around in the same way as a cold or 'flu. Secondly, some fear extra costs if an employee become ill and need medical assistance.

A law that entered into force in 2008 stipulates that employers should not exclude a job applicant because he/she is a carrier of an infectious disease.<sup>21</sup> Hepatitis B tests used to be mandatory, but in October 2009 a government representative said that instructions were to be issued to stop the practice since a court had classified the tests as illegal discrimination.<sup>22</sup> In addition to this, the code of the electronics industry association, the EICC, stipulates that "workers or potential workers should not be subjected to medical tests that could be used in a discriminatory way".<sup>23</sup>

Workers interviewed at Factory 1 and 2 believe that job applicants with Hepatitis B are being

19 The Labour Law of 1994 (articles 58 and 64) stipulates that workers under 18 may not conduct physically demanding or dangerous tasks. This research does not indicate that the factories are acting in violation of the law in this regard. Company representatives write that they check their working hours and make sure that young workers do not perform hazardous tasks. They also write that they provide them with learning opportunities during their free time (computer and communication skills, manufacturing etc).

20 Based on prejudiced assumptions, people from the Henan Province are sometimes regarded as dishonest and violent.

21 Employment Promotion Law, article 30, 2007. See also Opinion on safeguarding the employment rights of people suffering hepatitis B by Ministry of Labour and Social Security and Ministry of Public Health, 18 May, 2007.

22 AFP, No more mandatory tests, 11 Oct 2009.

23 The EICC's Code of Conduct, point 6. EICC stands for the Electronic Industry Citizenship Coalition and promotes an industry code of conduct for electronics companies.

discriminated against. Blood tests are done before hiring and they do not know why some workers fail the test. The company replies that Hepatitis B tests are forbidden for job applicants; instead the liver function is tested.<sup>24</sup> Increased level of liver enzymes is a sign of liver damage, which could be due to, for example, excessive alcohol consumption, chemical exposure or serious attacks of viruses such as Hepatitis B. The company writes that it distinguishes between Hepatitis B carriers and Hepatitis B patients. The latter have severe symptoms, while the former can carry out work tasks that require strength and energy. If the liver test shows that the liver function is abnormal and the examination shows that the job applicant is a Hepatitis B patient, or cannot eliminate the risk that he or she is, the company's policy states that the applicant must not be hired.

In its response to makeITfair's questions, the company writes that liver function tests are legally sanctioned and an industry-wide practice intended to identify and encourage Hepatitis B patients to seek immediate medical attention.

"[The liver function] test is carried out for the long-term good of Hepatitis B patients, as it helps them understand their health condition better and the medical reality that their physical bodies may not be suited for work in a manufacturing environment that requires physical strength/energy", writes the company in its reply.

The organisations of makeITfair recognise the need for medical treatment of people suffering from symptoms of Hepatitis B, but question the practice of medical tests on job applicants. In many other countries medical tests of any kind before hiring are classified as discriminatory practices.

#### **WAGES AND OTHER PAYMENTS**

During open street protests in 2007, workers at both Factory 1 and 2 demanded higher salaries of at least EUR 150 (CNY 1,500) for the least-skilled workers. Today the basic wage written into the workers' contracts is the legal minimum wage (EUR 90/CNY 900 per month in 2009). An average of about EUR 20 (CNY 200) is deducted for water, electricity and meals. Workers who choose to live outside the campus get a housing allowance of EUR 8 (CNY 80). Workers can get an additional bonus of EUR 3 (CNY 30) after probation and a EUR 5 to 8 bonus (CNY 50 to 80) if promoted to semi-skilled operator.

"Overtime work is highly unstable. If there is no overtime one month, I only earn less than EUR 70 (CNY 700) after social security and the costs for dormitory and meals have been deducted. It is hardly enough to live on", said one worker at Factory 1.

Company representatives reply that wages provided are market competitive and in compliance with labour laws. They are further developing an existing career advancement programme and have set up a library and workstations with access to the company's e-learning programmes that focus on computers, communication, problem-solving and manufacturing skills. Through planning they are also trying to create a more balanced overtime schedule.

24 The company's guidelines on Hepatitis B, provided for makeITfair on 13 Nov 2009.

Social security contributions are made at both factories. Moreover, overtime rates are paid according to labour law, which was not the case in 2007.

In 2007, workers were punished by wage deductions if they did not show up for work without permission, even though they were exhausted. In August 2009, three workers from different lines at Factory 1 said that punitive fines still occurred, although seldom, if there were many faulty products. There were, however, no indications of punitive fines at Factory 2 during this research.

The company writes that they have a clear policy prohibiting all forms of fines and that there are no internal reports confirming that workers at Factory 1 have been fined.<sup>25</sup> They write that they will ensure that the policy is adhered to by all line leaders and managers, and they will obtain feedback from workers to make sure that the policy is fully implemented.

25 In a response to Nokia, the owner of the factories writes that workers are provided with re-training if they make mistakes. However, if a worker repeats the mistake, he/she will be given a written warning.

## **MINIMUM WAGE OR LIVING WAGE?**

A living wage is a wage that covers the cost of food, housing, clothing, medical care, education as well as providing some savings.<sup>1</sup> In Shenzhen, electronics workers interviewed by makelTfair find it very hard to live on the minimum wage that most employers offer as basic wages for full-time work. In 2007 the Shenzhen minimum wage was set at CNY 750 to 850 per month (EUR 80 to 85), depending on the location of the factory. At the end of that year, basic food (one breakfast, one lunch and one self-prepared dinner per day) cost roughly between CNY 300 to 630 per month (EUR 30 to 70). The simplest type of accommodation (one rented room/apartment outside the factory) cost CNY 500 to 700 a month (EUR 50 to 75).<sup>2</sup> Since it is difficult for employees to cover these costs when they earn the minimum wage, most workers have no other option than to stay in the factory dormitories where they get room and board for free or at lower cost. They also say that they depend a lot on high numbers of overtime hours.

Since 2007, minimum wage levels have increased to EUR 76/CNY 770 (Dongguan) and EUR 90-100/CNY 900-1,000 (Shenzhen) per month. This occurred as a response to surging prices and growing protests. Shenzhen was particularly hard hit by increasing inflation in 2007 and 2008. In 2008 a significant portion of this pay rise was consumed by rising living costs, but at the end of that same year inflation had eased with price increases staying at low levels.<sup>3</sup> A recent study suggests that a living wage for Shenzhen should be set at about EUR 160 (CNY 1,639) per month for 2009.<sup>4</sup> Workers manufacturing electronics products earn this amount only if they work a lot of overtime.

As mentioned earlier, minimum wage levels were put on hold in 2008 due to the recession. The main focus during the past year has been to keep enterprises afloat and create job opportunities for unemployed workers.

1 Some examples of how to calculate a living wage are presented in Fair Trade Center, 2008, *Social Responsibility in the Supply Chain: Problems, Solutions and Ways Forward*, p 17-19. See also Ethical Corporation, *Wages – Working for living*, July/Aug 2009 and Clean Clothes Campaign/Asia Floor Wage Campaign, 2009, *Stitching a Decent Wage Across Borders*.

2 Figures provided by China Labour Bulletin in 2008.

3 China Labour Bulletin, 2009, *Going it Alone: The workers' movement in China (2007-2008)*, p 5-8.

4 This amount has been calculated by the Clean Clothes Campaign, in cooperation with a Hong Kong- based NGO. It covers food costs equivalent to 3,000 calories and the same amount of money for non-food costs. This sum is then multiplied by three (one more adult plus two children who are expected to need half the money equals 3 units). Clean Clothes Campaign/Asia Floor Wage Campaign, 2009, *Stitching a Decent Wage Across Borders*.

## **WORKPLACE REPRESENTATION AND INVOLVEMENT**

Workers at Factory 1 and 2 are trained in the company's Code of Conduct and the EICC's Code of Conduct<sup>26</sup>. These documents are introduced to workers during their introduction course and at annual training inputs. Workers are required to sign and acknowledge the content. During this research most workers showed an overall understanding of these codes. The company writes that internal audits are conducted each year by the owner's regional CSR function and that they include interviews with approximately 20 randomly selected workers. However, workers interviewed for this research were not aware of worker interviews conducted by auditors from factory customers.

Trade unions were established at the factories during the former ownership period, before the acquisition took place. They were re-elected under the supervision of the township trade union in the spring of 2009. The current Chair at Factory 1 is a non-managerial employee at the Human Resource unit. At Factory 2 a person from management holds the chairperson position. Meetings between management and the union take place on a regular basis and the outcome is posted on the employee notice board. Workers who commented on the union during makeITfair's interviews said that they were not interested in joining. At Factory 1 some workers said that the union office was usually not open. At Factory 2 some workers mentioned that they had raised some minor complaints.

Representatives of the company state that a number of improvements have been made with regards to worker communication at both factories since 2008. Existing channels include a suggestion box, a 24-hour hotline managed by the Human Resource unit, focus groups, hall meetings and employee representative meetings. Employee involvement surveys were to start in August 2009. Most workers interviewed at Factory 1 for this report were informed about the suggestion box, but they were not fully aware of the other channels. At Factory 2 workers were aware of communication channels other than the union, such as the suggestion box, but did not think that it was frequently used.

The company informs makeITfair that it will step up its communication efforts to ensure that all employees are aware of the tools available for raising concerns, grievances and providing feedback. The company writes that it collects 50 to 80 suggestions through the suggestion boxes and receives about 100 hotline calls from employees each month. Employee feedback is sent to the management team and action taken is then communicated back to the employees. The company writes that the suggestions mainly concern living conditions, while the anonymous hotline calls mainly deal with supervisors' attitudes towards the workers.

After the new owner's acquisition in 2008, employee welfare committees run by employees have been set up at each factory with small offices where workers can seek help or share their feelings. Leisure activities are organised by its staff or by volunteer workers. Exit interviews with workers who choose to terminate their employment are also handled by the committee's staff. Many workers interviewed at Factory 1 stated that they are more willing

26 The EICC stands for the Electronic Industry Citizenship Coalition and promotes an industry code of conduct for electronics companies. Website: [www.eicc.info](http://www.eicc.info).

to talk to the team's staff than to the supervisors. At Factory 2 workers complained that the committee office was seldom open. The company writes that the office will be more accessible in the future.

Finally, the company writes that one and a half years after the takeover, they see that investments made to improve conditions at the sites are generating a return. Attrition rates have gone down, which has led to more stability of operations and ultimately to higher productivity. They conclude that when management works on the suggestions and grievances raised by workers, both workers' morale and productivity go up.

TABLE 1: Overview of findings at Factories 1 & 2

<b>PRODUCTION &amp; WORKFORCE</b>	<b>CUSTOMERS</b>	<b>PROBLEMS REPORTED IN 2008</b>	<b>IMPROVEMENTS MADE</b>	<b>REMAINING ISSUES TO ADDRESS ACCORDING TO WORKERS INTERVIEWED</b>
<p>Producing chargers &amp; transformers.</p> <p>Based in Shenzhen.</p> <p>7,000 + 4,000 employees.</p> <p>94–96% female.</p> <p>Average age: 23 and 26.</p>	<p>Nokia</p> <p>Samsung</p> <p>Motorola</p> <p>LGE</p> <p>&amp; others</p>	<p>Restriction of workers' freedom of employment.</p> <p>Illegal working hours.</p> <p>Unpaid overtime.</p> <p>Punitive fines.</p> <p>Inadequate health and safety training inputs.</p> <p>Insufficient protective gear and accidents.</p> <p>Poor ventilation and temperature too high.</p> <p>Unsafe dormitories.</p> <p>Police brutality during open protests in 2007.</p>	<p>Improvements regarding health and safety:</p> <ul style="list-style-type: none"> <li>• management systems set up for EHS</li> <li>• training of workers</li> <li>• personal protective equipment</li> <li>• exhaust ventilation system</li> <li>• fire safety</li> <li>• in-house clinic</li> <li>• medical kits</li> <li>• air conditioning</li> <li>• annual health-checks.</li> </ul> <p>Improved living conditions at the sites (refurbished dormitories, canteens, air-conditioning etc).</p> <p>Management trainings on company policies and legal requirements.</p> <p>Setting up of communication channels to improve labour relations (employee welfare committees, meetings, hotlines, suggestion boxes, exit interviews etc).</p> <p>Overtime paid accordingly at both sites.</p> <p>No reports of punitive fines at Factory 2.</p> <p>Code awareness &amp; understanding.</p>	<p>Illegal overtime hours.</p> <p>Health and safety problems due to long working hours and labour intensity.</p> <p>Basic wages are legal but problematically low for workers.</p> <p>Reports of discrimination during recruitment, introduction fees collected by employment agents (Factory 2), difficulties to resign (Factory 1) and fines for quality mistakes (Factory 1) despite company policy prohibiting this.</p> <p>Medical tests before hiring.</p>

## 5. BUYERS' REACTIONS

Nokia, Samsung, Motorola and LG Electronics source from factories 1 and 2. In December 2009 they were given the opportunity to comment on these findings.<sup>27</sup>

### NOKIA

After makeITfair's last report was published, Nokia continued to follow up activities at the two factories. They write to makeITfair that they perceive that the owner of the factories is committed to improvements but Nokia declines to comment on the issues that remain to be addressed according to workers interviewed by makeITfair. Nokia has audited the sites and interviewed workers on-site but has not provided makeITfair with information about when the last audit took place. Audit findings were in line with factory management's descriptions, says Nokia's Senior CSR Manager.

### MOTOROLA

Motorola became aware of problems at Factory 1 in 2007 when they employed an independent audit firm to examine the conditions and interview workers at the factory. Corrective action plans were set up and improvements noted. Motorola writes to makeITfair in 2009 that they regard the actions taken by the new owner as commendable but also see the necessity of further work:

“Motorola understands there is still much work to do and continues to support a collaborative approach that involves members of the electronics industry along with key stakeholders”.

When Motorola becomes aware of problems at a supplier its standard procedure is to conduct an investigation, which includes an in-depth assessment on-site conducted by an independent third-party audit firm. Corrective actions are then monitored until it is possible to confirm closure. All Motorola suppliers included in makeITfair's 2008 report have been investigated and Motorola writes that they have taken action to address the issues identified. Motorola will conduct follow-up audits when they consider it appropriate.

### LG ELECTRONICS

After having read makeITfair's report in 2008, LGE contacted its suppliers. The company was informed that improvements had been made and that corrective action plans had been set up at factories 1 and 2. However, no site audits on labour conditions were conducted by LGE and no information was collected from workers to verify the information received.

In 2009, audits of suppliers' factories were not included in LGE corporate responsibility activities. LGE informs makeITfair that non-financial risk assessments have been conducted during the last year and overseas subsidiaries (not suppliers) have carried out self-assessments. The company will start conducting site audits of their subsidiaries and first tier suppliers in 2010. They will also encourage suppliers to set up management systems to deal with labour issues.

<sup>27</sup> Comments in writing and by phone were received on 7 to 9 Dec 2009 from Nokia, Motorola and LGE.

## 6. CONCLUSION

When the recession hit the Chinese manufacturing centres in Guangdong in late 2008, recent gains regarding workers' rights were put on hold. In some places conditions even deteriorated. At the two factories studied in this report, however, investments in working and living conditions have continued and this follow-up indicates important improvements.

A variety of factors may have spurred the efforts of the company who owns the factories, but most probably demands stated by their mobile phone company customers have contributed to the changes made since 2008. Improvements are most visible in areas such as health and safety training, protective equipment and conditions at the living quarters. Earlier studies show that factory audits and work with Codes of Conduct have the potential to influence these issues, while complementary methods are needed to, for example, reveal and combat discrimination and to guarantee workers' right to unionise or (as in China) participate in other forms of workers' participation.<sup>28</sup>

Although the situation differs to some extent at the factories examined in this report, important issues still remain to be addressed at both of them. These include, for example, indications of discrimination during recruitment processes, high numbers of overtime hours and related health problems. Management informs makeITfair that it will increase awareness of the company's policy regarding rest as well equal opportunity for work, but medical tests before hiring remain. This practice, which has been mandatory in China for a long period of time, risks discriminating against the most vulnerable workers in China – migrant workers with an insufficient safety net who suffer from health problems. MakeITfair recommends that mobile phone companies work with their suppliers in cooperation with local Chinese organisations involved in this issue.

In order to address the problem of unhealthy overtime hours, makeITfair recommends that mobile phone companies analyse their purchasing practices and contribute to the realisation of living wages that cover living costs for workers and their families. As it is now, overtime earnings are sometimes as high, or even higher, than the basic wage in Shenzhen. Buyers demands for lower overtime hours without concurrent demands for higher basic wages for fulltime work risk creating situations where workers, in the end, face greater problems when trying to support themselves and their families. Moreover, customers may help factories avoid excessive overtime work by not placing orders late or changing them at the last minute.

Workers' participation in the CSR process is vital in order to address the problems described. The lack of genuine union rights in China requires alternative tools to enable and involve workers in processes affecting their working and living conditions. Workers at the factories studied in this report took to the streets to protest against poor working conditions in 2007. As a complement to the unions that exist at the factories, management has since then set up other means through which workers can give feedback and channel their grievances. At other factories in Guangdong,

28 Barrientos, S and Smith S, 2006, *The ETI Code of Labour Practice – Do workers really benefit?*

HP (the computer company) have initiated pilot studies where NGOs help train workers in their rights according to Chinese legislation.<sup>29</sup> Such efforts are most welcome in the Chinese context and could also be applied by the mobile phone companies addressed in this report.

<sup>29</sup> HP's labour rights training program is described in two reports. See further in press release by SACOM and Bread for All, *Towards a new worker-based CSR model: A pilot labor rights training program in China*, 23 Sept 2009.

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