

DEVELOPING LONG TERM PARTNERSHIP THROUGHOUT THE CRISIS

-

Report of the Fifth Round of Labour Inspection in China for



by **CHEN WEI**¹

July 2009, Oslo

¹ Mr. Chen Wei is currently working for the Norwegian Confederation of Trade Unions (LO-Norway) as senior advisor and economist. He undertook this assignment for Stormberg on a private basis. The opinions and conclusions presented in this report are solely his own, without any reference to the opinions and policies of the Norwegian Confederation of Trade Unions (LO-Norway).

1. SUMMARY ²

The fifth round of unannounced labour inspection was carried out in June this year. There are 15 months between this inspection round and the previous round in 2008.

Table 1-1: The fifth round of labour inspection – participating factories

Factory	Belonging Export Company	Inspected previously ?
Ningbo Zhiyou Garment Factory	CAC Machimpex Ningbo	Yes
Ninghai Lixing Knitwear Factory	CAC Machimpex Ningbo	No
Zhenhai Heng Mei	Ningbo Hisen United Exp.	Yes
Wandelong Garments	Ningbo Hisen United Exp.	Yes

The following conclusions/comments/discussions have been made in this inspection report:

- The factories have managed quite well in spite of the general economic situation. Positive developments in business, working environment, labour conditions are clearly observed.
- Positive contribution from Stormberg in the time of crisis has been acknowledged. The cooperation and interaction between Stormberg and the supplies has gone more smoothly. One of the central objectives, with regard to implementing the Codes of Conduct and following-up labour inspections, is to seek to establish a long-term business partnership between Stormberg and its suppliers on the basis of sharing the same commitment to quality and values. In this sense, the experiences in the time of crisis will prove to be valuable and positive for developing such a long-term partnership.
- The wage level in the textile industry is generally low. Taking the average wage levels at these inspected factories and the living costs in that specific area into consideration, there is still a gap between the actual wage level and the stipulated “living wage standard”. The question is: are we able to do something about it?

² Special thanks to Ms. Zhao Jing and Mr. Hab Chen from CAC, Mr. Li Hai from Hisen, and all the inspected factories for their remarkable cooperation and assistance.

Special thanks to Jan Halvor at Stormberg for the excellent preparation and kind advices for this inspection round.

2. THE IMPACT OF THE GLOBAL FINANCIAL AND ECONOMIC CRISIS ON THE CHINESE TEXTILE INDUSTRY

In short the Chinese textile industry has been heavily hit by the international financial crises and the global economic setback. This industry is one of the main export industries for China, and among those most labour-intensive ones. After many years with high export growth, the current downturn caused by the sharp fall in international demand was quite severe.

Chart 2-1: The financial crisis has hit hard on the textile export of China.



According to the branch union, the present time (the 3rd quarter of 2009) will be the most difficult time for the textile industry. The accumulated orders from 2008 are absorbed, and the 3rd quarter is traditionally the low season for export. The total export fall for the Chinese textile industry is estimated to approximately 12 pct. on the year basis from 2008 to 2009. Nearly 9 of 10 textile enterprises in China are experiencing now deficit, production constraint or temporary shutdown, or even bankruptcy.

The government has undertaken the countermeasures in order to deal with the economic downturn. **An economic stimulus package** of total 4 000 billions Chinese Yuan over 2 years is meant to induce investments in a large scale and raise the domestic demand. The effect has begun to show up.

As a specific measure targeting the textile industry, the government has during the past 12 months raised **the tax deduction rate** for textile export three times from 11 pct. to 15 pct. With an increased tax deduction rate for export by 4 percentage points, the general profit margin is estimated to rise by over 0.5

percentage point (approximately 16 billions Chinese Yuan for the whole industry).

Table 2-1: Tax deduction rate for textile export from 1994

1994	13 pct.
1996	6 pct.
1999	15 – 17 pct. (Highest rate applies for garment export)
2003	13 pct.
2006	11 pct.
2008	11 pct. → 11 – 15 pct. → 14 pct.
2009 (per July)	15 pct.

A key reform plan for the Chinese textile industry has recently been adopted by the State Council of China. Restructuring and innovation of the textile industry is being much encouraged by the government.

3. MORE ABOUT THE IMPACT ON WORKERS

I. Employment

The **unemployment rate** is increasing in China. Most exposed group will be the migrant workers. Approximately 20 millions migrant workers will be out of work in the cities and have to return home at the rural area as a result of this economic downturn.

II. Pay

Generally speaking, the income increase has been significantly reduced since last year for the whole economy. Taking Zhejiang Province for example, the **average wage level** for employees in the urban area increased by 4.3 percent from 1st quarter 2008 to 1st quarter 2009, which was the lowest wage growth since 1999 and 6 percentage lower than the period from 1st quarter 2007 to 1st quarter 2008.

The Chinese government has decided to freeze the **regional mandatory minimum wage levels** all over the country in 2009. For Ningbo as an example, the mandatory minimum wage level in 2009 remains the same as in 2008, namely 960 RMB per month at class 1 and 850 RMB per month at class 2³.

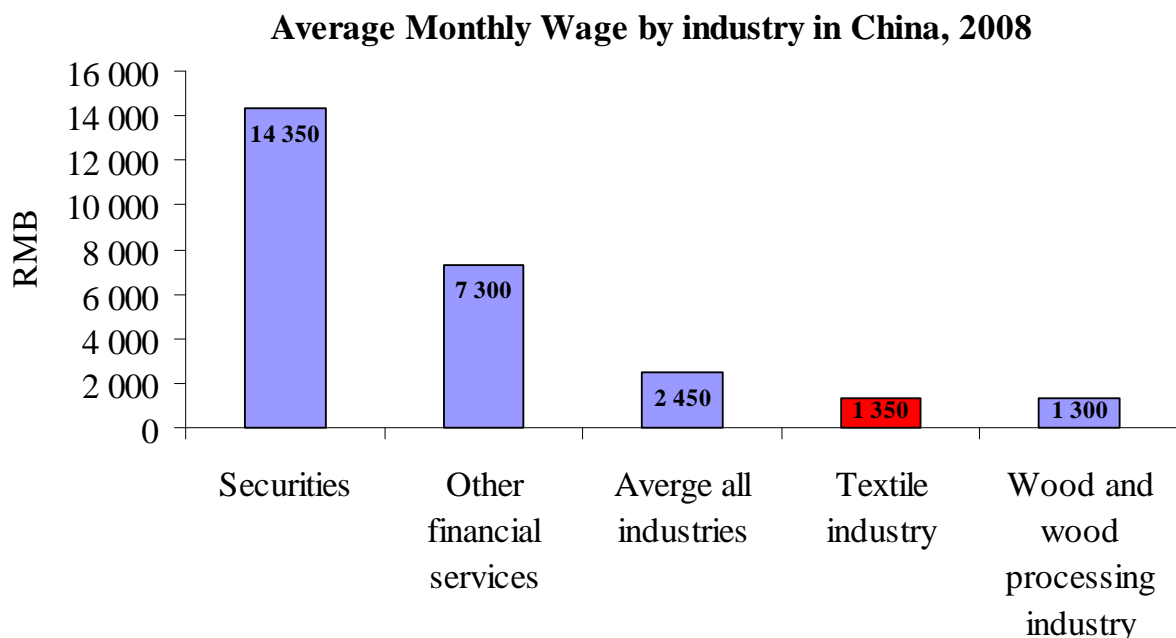
The minimum wage level may not have a direct link to the general wage level, and to some extent is not necessary a correct measurement of minimum living standard. However, the minimum wage does have an important reference to the wage level in the textile industry because:

- The textile industry is among those industries with lowest wage income. The average wage level in the textile industry in China is around 55 pct. of the national average wage level. In general, the average wage level is about 2 – 3 times the minimum wage level. The average wage level for textile industry is often only 1/3 – 1/2 above the minimum wage level. Thus, the minimum wage level works like a bottom line (or guarantee wage) for workers in a textile factory. The development of minimum wage level influences the general wage development in the textile industry.
- The regional minimum wage level often functions as an indicator (not a measurement) for another wage concept – namely **the living wage**. Living wage is a term used to describe the minimum hourly wage necessary for shelter (housing and incidentals such as clothing and other basic needs) and nutrition for a person for an extended period of time

³ Roughly speaking the class 1 refers to the city area of Ningbo, and class 2 refers to the rural district of Ningbo.

(lifetime). The standard generally means that a person working forty hours a week, with no additional income, should be able to afford a specified quality or quantity of housing, food, utilities, transport, health care, and recreation. Although there is no exact calculation of the living wage for China, the living wage can be roughly estimated to around 150 pct. of the minimum wage level, taking the general living costs in China into account⁴. Thus, the living wage in Ningbo area, as an example, is about 1400 RMB per month for a worker working normally 40 hours a week.

Chart 3-1: Huge wage difference between high-income industry and low-income industry in China



III. Working time

The working time in the textile industry has been shortened, and most of the enterprises report less use of overtime due to the order falls.

IV. Implementation of the New Labour Law

A New Labour Law – the Labour Contract Law took into effect from 1.1.2008. The Labour Contract Law has significant compact on the employment and labour conditions in many ways, for instance, the labour contract condition (time-limited

⁴ Self estimated.

contract vs. permanent contract), compensation at termination of contract and lack of contract, and mandatory social expenses.

The Chinese Labour Law from 1995 contains stipulations on the employer's obligation on social security expenses for employees such as health insurance, unemployment insurance, pension insurance, maternity insurance and occupational disease and damage insurance. In reality, these stipulations have never been actually enforced. In the textile industry, it has been a common practice that employers pay social security contribution only for those local employees (thus most of the migrant workers were excluded), for employees in the administration and for employees who have worked there for many years (as loyalty reward).

The Labour Contract Law enforces employers' social security contribution from day 1. Employers have to pay **social security contribution** for all employees. For those enterprises which have never or partially done that before, this enforcement means a strong increase of the total labour costs.

After the international financial and economic crisis began to affect the Chinese export industries, the government has put in many countermeasures, one of which is temporary release on employer's social security obligation. In Ningbo area for example, employer's social security contribution was exempted for two months, - November and December 2008. Another message was sent out to the enterprises that no inspection on employer's social security obligation should be expected in 2009. It means obviously that employers can look away from their social security obligation this year. Even though the objective of this measure is to release some of the labour costs at enterprises, it will have a negative impact on the labour rights development in China. It makes the implementation of Labour Contract Law in the future even more difficult than it has been.

The system weakness has also made implementation difficult. A large group of employees, especially those migrant workers, doesn't care much for their social security benefits. One of the reasons is that they prefer rather short term interests (cash) than long term interests (social security benefits such as pension, health care insurance and unemployment insurance). Another important reason is that the whole social security scheme is not completely built up. Today, an employee can only move his/her acquired social security rights inside a province. The social security scheme doesn't obtain a national coverage. Thus, for many migrant workers, the acquired social security rights seem to be wasted if they are not moveable.

4. FINDINGS AND COMMENTS ON THE INSPECTED FACTORIES

√ Against stream

While many of the textile enterprises in China, especially those small and medium-sized private enterprises, have been struggling to survive the international financial and economic crisis, the inspected factories seem to have managed the crisis quite well. New investments on production facility have been undertaken, though the investment decisions were made before the crisis began to hit. Access to orders is fairly good, though all of them are not in full-scale production. There is vacant production capacity waiting to be filled with.

An important reason for the well-performance of those factories in the time of crisis, apparently against stream, is the positive contribution from Stormberg. (See more elaboration in Chapter 5).

√ Working environment

The working environment has been much improved among most of the inspected factories, as the result of new investments. Taking use of new production site, renovation and expansion of the old production site, has made the working environment conditions in most of the inspected factories favourable and much above the average among the same-sized private textile enterprises.

√ Basic labour rights

Neither child labour nor forced labour was discovered under the inspection. There has been no severe labour conflict reported at these factories. All factories have implemented major requirements from the Labour Contract Law. Standard written labour contracts are signed between the employers and the employees. However, employer's social security obligation according to the Labour Contract Law has been released by the authorities as one of the countermeasure against the economic downturn (more details in Chapter 3).

Table 4-1:

	New investments/Production Facility Expansion or Renovation	Working Environment Conditions (Scale 0 – 10)
Zhiyou	No	5
Lixing	New production facility in use	8
Hengmei	New production facility in use	8
Wandelong	Renovation and expansion of production facility undertaking	7* (*Renovation ongoing)

Table 4-2:

	Observed improvement on working environment since last inspection	Observed any worst forms of violation on labour rights such as child labour and forced labour, etc.
Zhiyou	No	No
Lixing	√ (1 st time inspection)	No
Hengmei	Remarkable	No
Wandelong	Visible and foreseeable	No

√ Labour conditions

The labour conditions in these inspected factories are fairly good, comparing to the general labour conditions at other factories of same kind.

Table 4-3:

	Average monthly pay to workers	Working conditions such as pay, working time, accommodation/dining facility and other welfare arrangements (Scale 0 – 10)
Zhiyou	1400 RMB	4
Lixing	1500 RMB	8 ⁵
Hengmei	1700 RMB	8 ⁶
Wandelong	1800 RMB	7

An average wage level, 1400 - 1800 RMB per month at these factories, is above the average wage level in the entire textile industry (1 350 per month in 2008).

Long working time can not be overlooked here. Normally a worker works 60 hours a week in a textile factory⁷. Taking that into account, a “normal” wage is not far from the minimum wage. There will a big gap between the normal wage and the living wage, especially for unskilled workers. It is why the workers are often “willing” to work long, even working overtime without overtime pay, in order to compensate low pay by long working hour.

A calculation is presented in the following box:

⁵ Free lunch for the employees. No accommodation facility since all of the workers are local.

⁶ Impressive dining and accommodation facilities. Three free meals a day for the migrant workers working in the factories. 3 – 4 migrant workers share a room with air condition and shower/toilet.

⁷ Working 9 – 10 hours a day, 1 – 2 free days a month, is a common practice.

Box 4-1: Average wage level, normal wage level, minimum wage and living wage – An example

Average wage level at the inspected factories:

1400 – 1800 RMB per month

Actual working hours per week:

60 hours

Re-calculated average wage of a normal working week (40 hours):

930 – 1200 RMB per month

Minimum wage standard (Ningbo):

850 / 960 RMB per month

A stipulated living wage standard in Ningbo area: (chapter 2)

1400 RMB per month

√ Labour relations

All the inspected factories are unionized. For the first time over the past several inspection rounds, active union activities are reported in one of the factories.

Developing labour relations, especially at the enterprise level, will continue to be a big challenge in China.

Table 4-4:

	Are workers unionized?	Any active union activities?
Zhiyou	Yes	No
Lixing	Yes	Yes ⁸
Hengmei	Yes	No
Wandelong	Yes	No

⁸ The trade union in this factory takes part in a bigger national campaign called “joint compact” aiming at joint efforts from the enterprises and employees in order to come over the economic crisis in joint force. The unions organise the workers to come up with constructive ideas and suggestions so as to help the enterprises with improved productivity. In return the enterprises promise not to lay off any employees.

5. DEVELOPING LONG TERM PARTNERSHIP THROUGHOUT THE CRISIS

One of the central objectives, with regard to implementing the Codes of Conduct and following-up labour inspections, is to seek to establish a long-term business partnership between Stormberg and its suppliers on the basis of sharing the same commitment to quality and values.

In the time of crisis, the efforts, cooperation and interaction between Stormberg and its suppliers will prove to be even more valuable, positive and constructive to achieve this objective. With this regard, the inspection reveals a very positive development:

- The suppliers enjoy a strong confidence and trust towards Stormberg;
- The suppliers acknowledge Stormberg's contribution and efforts on helping them throughout the crisis. By maintaining and increasing orders, Stormberg enjoys gratitude from the suppliers;
- The suppliers confirm that the cooperation and interaction between them and Stormberg has gone quite smoothly;
- Regardless of Stormberg's share of their production, all the suppliers consider Stormberg as the most reliable and important customer.

Over the past years, Stormberg has more and more concerned about the living wage issue. This inspection reveals that the wage level at Stormberg's suppliers in Ningbo area is still low. There is a big gap between the normal wage level and a stipulated living wage standard. The way to a "decent wage" will be even longer.

A simplified illustration is presented in the following box. The idea is to increase the purchasing price by a certain amount which is specifically dedicated to the workers ("Øremerking").

Stormberg has increased its purchasing price over the past years. Unfortunately, all of the price increment has been absorbed into other cost increases, such as raw material price increase and exchange rate. The workers haven't benefited from it at all.

On question of whether the "øremerking" method is feasible and whether the factories are able to pass on the extra pay to the workers, all the suppliers have answered affirmatively. The idea is welcomed, and the supplies consider it

favourable since it is the customer who helps them to ease the labour cost pressure, make the factories more attractive and competitive on the labour market.

This is only a thought for Stormberg to take into consideration. If it is feasible, one should go further and work out a systematic and transparent way of doing it.

Box 5-1: How about to dedicate 1 RMB extra in price solely to the workers?

Assumption 1: an average skilled worker

Assumption 2: an average garment product

Assumption 3: Normal working week of 40 hours

Assumption 4: all production goes to Stormberg (often not the case)

- This worker can produce around 400 pieces in a month.
- If 1 RMB extra is included in the price, and this 1 RMB extra is solely dedicated to the workers, it means 400 RMB more in monthly pay to this worker.
- In sum, the total monthly pay will close to the stipulated “living wage”.