

International supply chains and labour standards in China

Research >
China

Companies in China that export directly to Western markets or supply foreign-owned firms operating inside the country are under increasing pressure to adapt their working conditions to UN-sponsored international standards. While the impact on businesses practices is still slight, it is potentially a major development within China's labour system.

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China has become a major manufacturing base in the global economy. Many companies in the EU, North America and Australia - where the media, consumers, investors, NGOs and governments are putting increasing pressure on businesses to operate in a 'socially responsible' manner - have supply chains originating in China. Although China has stringent labour laws, many are only weakly enforced. As a result, working conditions often include long working hours, low wages and limited health and safety measures. Various systems of labour standards are currently in use by international companies; many of these are based - implicitly or explicitly - on the conventions of the International Labour Organisation (ILO). One of the labour standard systems that has recently attracted considerable attention in China is Social Accountability 8000 (SA8000).

Social accountability

In the first half of 2004, the Chinese media featured a large number of reports on SA8000. Chinese firms and government agencies worried that Western governments were planning to ban Chinese imports that did not originate from SA8000-certified factories. This would force all Chinese export-oriented producers to adopt the system, impacting on costs and China's competitiveness as a manufacturing and export economy. As it turned out, no Western government closed its country to non-certified goods. Nevertheless, pressure from foreign buyers to verifiably raise labour standards is being felt. This particularly applies to Chinese suppliers of international brand companies in the footwear, clothing and toy sectors.

The main goal of SA8000 certification is to help companies 'maintain just and decent working conditions throughout the supply chain.'¹ Certification enables companies to guarantee commitment to working conditions that meet minimum standards based on ILO conventions. The certification system is universally applicable, regardless of geographic location, industry sector or company size. Developed in the mid-1990s, SA8000 is comprised of a set of labour standards, a management standard for labour standard implementation, a certification procedure including training and audits, the certificate, and an accreditation system for auditors. A U.S.-based organisation, Social Accountability International (SAI), is responsible for accrediting auditors, while certificates are issued to factories or workplace units, not companies. At the start of 2005, there were 572 certified facilities worldwide, of which 79 were in China.

Factories in China often learn of SA8000 through auditing firms. Prior to the



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media attention and the attendance of Social Accountability International representatives at a number of Chinese seminars earlier in 2004, the certification system was little known. The most frequently stated motivation for factories to seek certification is that working conditions already fulfil SA8000 requirements, due to the factory owner's desire to maintain labour standards, or because the facility was forced by its customers to conform to a particular code of conduct. Factories here adopt SA8000 as it is cheap and improves their image vis-à-vis competitors.

Western pressure

Since it is still too early to draw conclusions, we need to look at factors that will most likely impact on the system in the future. Pressure from Western export markets, which originally led to the establishment of supply chain labour standards in Western countries, is a major impetus for improving working conditions in China. At its core is the desire for Western firms to protect their corporate and brand images. Large companies with strong brands usually have their own supplier monitoring programs; for smaller firms that cannot afford their own monitoring systems, buying SA8000-certified goods may be an attractive option.

Introducing higher labour standards often means higher costs. Companies whose brands are relatively unknown are less vulnerable to attacks in the media, and it may not be cost efficient for them to invest in reputation insurance by joining an SA8000 supply chain. For most Western companies trading in Chinese-made goods, there thus appears to be no immediate cause for action. This leaves promoting SA8000 up to specific groups, including firms that promote better working conditions, and those that are themselves under pressure from customers.

Such companies are not necessarily interested in Chinese labour issues. They are interested in public concern in the West, and in responses that can deliver visible signs of short-term

improvement. Child and forced labour, and injuries and fatalities from unsafe working conditions feature prominently. Even though the SA8000 system has a broader scope, the system's success in China depends on these high-profile issues being successfully addressed.

Another factor influencing SA8000's impact in China is the population's perception of it. Competition may drive Chinese firms to adopt the certificate or to purchase only from certified factories, but for medium and small companies the costs involved may outweigh any competitive advantages. Only if demand is strong enough will these enterprises become part of SA8000 supply chains. Unless the majority of their foreign counterparts switch to SA8000, this is likely to happen only where pressure from Western markets influence the entire sector, such as medium size firms in clothing, shoes and similar product chains. However, manufacturers of cheap consumer goods tend to work with minimal profit margins; foreign pressure on Chinese suppliers to bear the cost of introducing SA8000 without raising prices will incur resistance.

SA8000 does seem to be affecting working conditions in China. In facilities that have adopted SA8000, observers have reported not so much formal improvements, but workers becoming aware of their rights. This is not easy to measure, nor does it remove immediate concerns in Western markets; it does, however, create a basis for more fundamental long-term change. This may especially be so if SA8000 emphasizes issues considered most relevant by workers themselves, and is communicated in a way that is understood in the Chinese context. For Chinese companies that are not certified, SA8000 may provide a model for managing the introduction of labour standards. As the relevance of ILO conventions grows among Chinese export-oriented firms, systems such as SA8000 based on them may become more relevant.

There are also signs that local government agencies are studying the potential of SA8000 to increase competitiveness in areas under their authority. The attitude of government authorities is key, given the close relationship between the government and economy. Beijing might more readily adopt an SA8000-like system were it backed by an international organization or group of governments, as in the case of the ISO (International Standardization Organisation) system which is widely supported by Chinese government agencies.

Finally, the role played by auditing firms is relevant. Currently, they are the most important promoters of SA8000 in China. Their activities, aimed primarily at monitoring Chinese firms on behalf of Western clients, would enable the

introduction of SA8000 to more Chinese firms. Depending on the future growth of auditing firms' activities in China and their willingness to promote SA8000, their importance in implementing certification may grow.

The long road ahead

To date, the main impact of SA8000 in China does not seem to be direct improvement in working conditions in individual factories. Though in some cases, it may have raised awareness of labour rights among workers, the main impact may lie in the longer term. SA8000 helps put labour issues on the agenda of government authorities, companies, industry organisations and auditing firms, while providing a model for Chinese companies based on ILO norms.

Although the number of SA8000-certified factories is increasing, there has been no breakthrough, either in China or elsewhere. In theory, the impact of SA8000 and similar certification systems could be great. It remains important to study developments in specific contexts to give realistic assessments of the system's potential impact. <

Note

1. <http://www.sa-intl.org/sa8000/sa8000.htm> (21 February 2005).

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