

## **Preamble**

SACOM strongly opposes termination of business relations adopted by computer brand companies as a penalty with business partners for labour rights violations. Cutting and running is not a constructive solution to the labour problems mentioned in this report but an evasion of social responsibility. Computer brand companies appropriate the highest value from production. They have the responsibility to monitor and assist their business partners to implement the Chinese Labour Law and company code of conduct. In order to improve the labour situation in the supplying factories in China, we demand computer brand companies implement concrete and constructive plan of action with their business partners; and state clear in company code of conduct accessibility to civil society organizations for conduction of labour rights and safety and health training at the manufacturing sites in China.

## Research Methods

In November 2006, Students and Scholars Against Corporate Misbehaviour (SACOM) published the report, 'We Want Clean Computers! --- No-Sweatshop Campus Campaign', focusing on the working conditions of the computer manufacturing industry in China. It was followed with the second stage research conducted from November 2006 to August 2007. We identified three computer supplying factories of the computer company DELL in Dongguan city, Guangdong province. Information was collected from internet resources, corporate profile research, interviews with workers and informants related to the three factories. We researched the working conditions mainly through in-depth surveys with 60 workers who have worked for considerably long term from different department of the three factories. To understand the production and supply chain management of DELL, we interviewed middle management of the computer industry, and reviewed academic papers, newspaper articles, internet information and journals.

All the references to law made in this report are based on the Labour Law of the People's Republic of China and labour regulations promulgated by the Ministry of Labour and Social Security of Guangdong province. Unless otherwise stated, the currency unit used in this report is Chinese Renminbi.

## Objectives of the Report

This report is aimed at raising public awareness on the working conditions and outsourcing production of the computer manufacturing industry in China. We hope to,

1. Arouse public concern in Hong Kong and the international on the working conditions in China;
2. Provoke more constructive discussion on corporate social responsibility;
3. Promote labour-rights-focused consumer campaigns in Hong Kong and the international;
4. Promote sweat-free campaigns from university campuses to other institutions in Hong Kong<sup>1</sup>;
5. Pressure trans-national computer brand companies for real implementation of global corporate social responsibility, changing the outsourcing policies; and stop exploiting Chinese workers;
6. Pressure trans-national computer brand companies for disclosure of names and addresses of their supplier factories for public monitoring from government, civil society organisations and society;
7. Pressure trans-national computer brand companies for clear stipulations in the Electronics Industry Code of Conduct (EICC) on accessibility to supplier factories in China to civil society organisations for provision of labour rights and safety and health training to workers at the workplace;

---

<sup>1</sup> The student unions from seven university and colleges in Hong Kong have formed the Joint University Anti-Sweat Campus Campaign Group to demand for the inclusion of corporate social responsibility in the procurement policy of computer products in university campuses.

# Chapter One: The Supply Chain Management of DELL

## Introduction

In 2006, Students and Scholars Against Corporate Misbehaviour (SACOM) published the 'We Want Clean Computers! --- No-Sweatshop Campus Campaign' report on the working conditions of the computer manufacturing workers in China. The report reported about identified exploitation practices found in the computer manufacturing industry in Guangdong province such as illegal wage and working hours, employment without labour contract, inhuman management practices<sup>2</sup>, and use of child labour in peak production period<sup>3</sup>. The poor labour condition is an irony in reality against the self-proclaimed clean and progressive image of the information industry. Inside the spacious and modern-looking factory buildings are production sites and systems no different from typical sweatshops.

One of the major reasons to the exploitation of workers is the outsourcing system and associated evasion of social responsibility of the trans-national companies. The top global computer brand company DELL for instance, was found in SACOM's last report to be outsourcing to Yong Hong Electronics Factory in Shenzhen which employed child labour. DELL failed to commit itself and the supplier factory for ratification and improvement. Instead the trans-national buyer chose to terminate business relation, wash its hands and evade long-term responsibility with its supplier. The reaction of DELL is corporate irresponsibility, not responsibility.

## Hierarchical Outsourcing and Hierarchical Exploitation

Dongguan city of Guangdong province is the global manufacturing hub of the computer industry. It is said that if there is a traffic jam in Dongguan, the shelves of the computer shops in the west will be empty. There are more than 3300 electronics factories of scale in Dongguan. Most of the computer OBM (Original Brand Manufacturing) companies are outsourcing or buying parts and components from the OEM (Original Engineered Manufacturing) companies operating in Dongguan.

However these business opportunities do not have equivalent meaning for the Chinese migrant workers leaving rural homes to seek jobs in the electronics factories in Dongguan. The working conditions in the supplier factories of the trans-national companies have been adversely affected precisely due to increased competition and the hierarchical outsourcing practices of the buyers. These are directly impacted in terms of extended working hours and overtime work, below-minimum

---

<sup>2</sup> The most typical example is the imposition of penalty of RMB100 for dating in factory campus we identified in one of the researched factories.

<sup>3</sup> The use of child labour is found in Yong Hong Electronics Factory located in Tang Wei Village, Fu Yong town, Bao An district of Shenzhen, hereby called Yong Hong factory. It is a component factory supplying to DELL.

wages and overtime compensation, occupational safety and health risks, as well as flexibilised employment without legal contract. The situation is apprehensive.

The report that follows focuses on the outsourcing practices and conditions of DELL in China. We find the first-tier suppliers of DELL are relatively more compliant with regard to the Chinese labour law. At the same time however, the labour intensity and psychological pressure suffered by workers in these 'relatively compliant' factories are extremely high.

Workers in the second-tier suppliers of DELL are put under more shameful working conditions. The practice and profit making of DELL achieved through outsourcing labour intensive manufacturing processes to first-tier suppliers, and through them, achieving further profit squeeze and transfer of production cost to workers will be analysed. Sitting at the top of the global manufacturing chain, DELL is appropriating the highest profit margin.

Computers have become necessities to the everyday life of most of the people. The computers we are using however are made from the exchange of intensive labour, youth, sweat, as well as the safety and health of rural-originated migrant workers of China. They contribute to the development of the IT world we are living in. They contribute to enormous profit and returns to the trans-national companies such as DELL. The trans-national companies should be held responsible for improving the labour problems in the manufacturing of their products. As consumers, we should also bear the responsibility to pressure and monitor the labour practices of these trans-national companies.

### **Production Chain of the Computer Industry --- A Spider Web**

An ordinary desk top computer is composed of 1800 to 2000 components manufactured by an extended production network. Some computer brand companies are manufacturers controlling the highest technological end and thus profit margin. Other computer brand companies outsource manufacturing completely to suppliers in developing countries forming hierarchical and complicated contracting network. Labour exploitation associated with outsourcing is structured in the web of contracted production.

It is the assembly factories of the final or dummy computers that occupy the first tier of the outsourcing network followed by numerous parts and components manufacturing factories below. Business relation between the brand companies and the first tier factories are direct. The price and profit margins are also higher because of strict demand and control on product safety of the final product. The first tier companies are mostly dominated by Korean, Japanese, Taiwanese investment. They invest production lines increasingly in low-wage areas in mainland China.

Lite-on, one of the researched companies in this report is an example of the first tier companies. Lite-on owns eleven listed companies. The corporation manufactures imaging products, power supply, enclosures, LED products etc. Lite-on has a production complex in Chang An town of

Dongguan city established in 1994 and 1997. DELL is one of the major buyers of Lite-on.

Manufacturers from the second tier down produce parts, components and peripheral products of lower unit price and profit margins such as the enclosures of keyboards and mouse. Faced with increased competition and pressure from the brand companies, the first tier companies are relying on stable supply and cost control in procuring parts and components from the second tier suppliers. Further price squeeze and cost control provides the drive to further contracting from the first tier downwards the result of which is building up more hierarchies in the production network based on thinning of profit margin and appropriation of labour value. High economic yields of trans-national brand companies are maintained by the globalised outsourcing and contract manufacturing system. *Wired Magazine* even pointed out that some brand companies were able to save 75% of the production cost by outsourcing production<sup>4</sup>.

She Jie Yuji Electronic Factory (旭基電子廠) for instance is a subsidiary of Lite-on and the biggest keyboard OEM company in the world. Yuji has a sub-contracting network formed of 16 other parts and component companies. We have in-depth investigation in one of its sub-contracting factories in Dongguan city, the TERA Plastic Electronics Factory and find horrendous working conditions there.

## **EICC and Sub-Contracting Production**

There have been continuous exposition and exertion of pressure worldwide by civil society and consumer organisations on the poor working conditions of the electronics manufacturing industry. To amend the corporate and industry image, a number of computer brand companies and contract manufacturers such as Celestica, DELL, Flextronics, HP, IBM, Jabil, Sanmina SCI and Solectron adopted the Electronic Industry Code of Conduct (EICC) in 2004. The content of EICC takes reference from the labour and social code of a number of international corporate responsibility initiatives such as the United Nations Human Rights Declaration, Social Accountability International, Ethical Trading Initiative etc. The EICC contains standards on labour rights protection and is supposed to represent the commitment of the signatory companies. The reality we find is, in fact the driving of the increased production cost implied from meeting the EICC, from the first tier down to the contractors below. Brand companies' reporting about compliance of EICC with suppliers turns out to be driving the problems and exploitation underground to the sub-contractors down the production chain

We interviewed a senior management representative of a first-tier manufacturing company from Taiwan. According to him, *'Competition is intensive in the electronics industry. The buyers (brand companies) never raise the unit price; on the other hand, improved technology*

---

<sup>4</sup> The Making of the Xbox, *Wired Magazine*, November 2001, [www.wired.com](http://www.wired.com)

*and productivity results in drop in price. There are only two ways for manufacturers to implement code of conduct. The first way is mass mechanisation to promote labour efficiency and production capacity of the factory. Second, for those production processes that are labour intensive and cannot be mechanised, they will be sub-contracted to smaller suppliers. In this way competitiveness is preserved, otherwise there is only one way to go – closing down.’* The manager continues, *‘Labour cost is not a significant factor at all in the retail price of the final product. Labour costs less than 3% of the retail price of computers. There is no further margin to compress labour cost anymore.’*

When asked about how to increase labour efficiency, the manager gave straight answer, *‘Manage them strictly. They will then work faster and work more, wont they?’* We will illustrate how this philosophy works out in the example of Lite-on and Yuji.

The other major problem associated with outsourcing and sub-contracting is inefficient external monitoring. Computer brand companies mostly rely on in-house monitoring or third-party monitoring companies to inspect the social and labour conditions of the supplier factories. To satisfy the contradictory demands of low-cost, timely supply and labour compliance, the supplier factories are driven to falsification practices during the inspection. The report will have in-depth illustration on this problem.

## **Impact of DELL’s Production Model on Workers**

DELL was founded in 1984 with registered capital of USD1000. Within 23 years’ time, the company has quickly expanded to become the most dominant computer company capturing the biggest global market share. The sales value of DELL was swelled to USD55,908,000,000 in the financial year 2006. What is the key to the company’s fast rate of business growth?

Researches done on DELL suggest the success key of DELL is not technology but the Direct Sales Model. DELL has been relying on two operation principles in production cost control that effectively transfer production cost to the suppliers and eventually workers<sup>5</sup>.

### **1. Build To Order (BTO)**

BTO (build to order) or the so-called Direct Sales Model is the most important business strategy of DELL. The company does not place order with the manufacturers unless a computer is ordered by a customer. Most of the selling is done by the internet. The product ordered by the customer would be assembled within 36 hours and delivered to the customer within 5 days. This model eliminates inventory and product depreciation. Since products are assembled according to

---

<sup>5</sup> Zhang Xiao Yam, Supply Chain Management of the DELL Company, Fudan University, Shanghai 2006.

the specific configuration of the customers, it is absolutely important that DELL has control and excellent coordination with the assembly and parts suppliers. In this way, the risk of market fluctuation and inventory is shifted to the suppliers.

## **2. Zero Inventory Control**

DELL is exercising strict control over inventory. The inventory stock of parts and components is reduced to less than 4 days on average which provides enormous cutting edge compared to its competitors who are keeping 10 days or more stock inventory. Keeping stock inventory implies economic loss since there is about 1% value depreciation of the stock per week. Low inventory allows DELL to have 8% reduction in production cost compared with the competitors. The low inventory strategy is closely related to the procurement policy of DELL.

DELL invests its own regional assembly plants in different strategic market locations. Parts and components are transported from different places to be assembled in these sites. DELL however does not build inventory inside these assembly factories. Instead the assembly factories of DELL are supported by a Supplier Logistic Centres, SLCs, run by a third-party logistics company. Suppliers manage their own inventory and transport finished parts and components to SLCs on demand. Upon receiving orders from customers, DELL needs only to buy parts and components from the stock kept by suppliers at the SLCs based on the configuration demand of the customers for assembly of the final computer.

However, the low inventory strategy is one of the reasons leading to long overtime hours at the workplace. Pressure is put on the suppliers to manufacture products in the most flexible way to respond to market fluctuation and unstable business orders on a day-to-day basis. It becomes more difficult to control the number of working hours and production schedule at the workplace. In this way, the direct sales model and zero inventory management earn for DELL the shortest delivery time ie 4 days to customers in the computer manufacturing industry.

The buying office of DELL would provide a 13-week forecast to suppliers and place order for parts and components every week with them. The suppliers have to plan the production cycle and lead-time on two-week basis and supply to the SLCs. The SLCs are convenient stores providing stable supply of stock for 2 weeks for DELL to buy the parts and components for assembly. All the risks involved in the production cycle and inventory keeping is transferred to the suppliers.

Only suppliers that 'are able to supply without disruption and manufacture products without flaw<sup>6</sup>' are eligible DELL suppliers. They have to organise production to cope with the market change and the fluctuating order placement of DELL in the most flexible manner. Since parts and components manufacturing are largely labour intensive, the suppliers in turn are demanding workers to extend their working hours or to increase labour intensity in order to meet the production target and exercise

---

<sup>6</sup> Chang Xiao Yiam, Supply Chain Management of DELL, Fudan University, 2006, pg29

tight control over production costs. In one sense, the competitive 8% reduction in production cost of DELL is earned indirectly from the disguised exploitation of labour of workers.

## Chapter Two: Working Conditions of Workers in DELL Suppliers

*'The fancy and ideas of DELL changed the PC industry<sup>7</sup>.' 'No company has balanced the tripod of low cost, high quality and good service as efficiently as DELL did<sup>8</sup>.'*

*'Indeed this is the time we are in – the time when the excellent players of discount stores led by Walmart followed by DELL, are pressing down the price of products without regard and without stop<sup>9</sup>.'*

*'The sales value of DELL printers reached USD1 billion in the last financial year which forces HP to chunk prices once again. DELL has become the most 'hated' competitor. By fighting the battle, DELL concluded two principles to follow, low price and seeking the right business partners to do business<sup>10</sup>.'*

What are the conditions of production line workers under the larger environment of global capital competition<sup>11</sup> and the micro-environment of zero inventory production system of DELL? The report will focus on three supplier factories of DELL in Guangdong province of mainland China. The three factories are,

1. Dongguan Chang An Lite-on Electronics Co Ltd (First tier supplier of DELL, hereby known as Liet-on)
2. Dongguan Shi Jie Yuji Electronic (First tier supplier of DELL, hereby known as Yuji)
3. Donggun Shi Jie TERA Plastics and Electronics Factory (Second tier supplier of DELL, one of the 16 sub-contractors of Yuji, hereby known as TERA)

---

<sup>7</sup> 菲爾德斯, Assistant Professor, University of California, San Diego.

<sup>8</sup> 杰克 . 韋爾奇 gave high remarks to DELL's supply chain management in *Global Entrepreneurs*, No.115, September 2005.

<sup>9</sup> *Global Entrepreneurs*, No. 115, September 2005.

<sup>10</sup> *Global Entrepreneurs*, No. 115, September 2005.

<sup>11</sup> Yuan Jian Yu, financial commentator from China, says supplier factories survive only by bidding to the bottom as the manufacturing price slumps on worldwide scale.

The three suppliers have business relations in the hierarchical supply chain of DELL. Lite-on and Yuji are subsidiary factories of Lite-On Corporation. The former manufactures power supply, the latter computer keyboards.

Brand company	<b>DELL</b>																
First tier supplier	<b>Lite-On</b>	<b>Yuji</b>															
Second tier suppliers		<b>TERA</b>	Lian Chen	Lu He	Shuang	Li Tong	Ming	Jia Yi	Xin Guo	Jian Xin	Mei Tai	Long Yau	Yu Tian	Bin	Yu Cun	Bei	Jin Xin

### **Electronics Workers ---- Illusion and Reality**

The electronics industry was developed in the recent decades in China. They are working in modern and brand new factory complexes. In one sense it seems true that the electronics workers earn more than workers in garment, toys and light industries. Certain production processes such as circuit board printing must be undertaken in no-dust and air-conditioned rooms therefore adding to the creation of a clean and tidy image of the electronics industry amongst workers. Yet production workers labouring inside the air-conditioned electronics factory buildings do not necessarily enjoy protection under the Chinese labour law. The first tier suppliers are comparatively more compliant with the legal labour standards although major and new forms of violations namely high labour intensity are still present. Production targets are set at too high a level for workers to meet without extension of working hours. Workers have to stand and work for more than 10 hours a day to finish the daily production target. They suffer from high work stress and related occupational health problems. In some cases, the factory is hiring psychological consultants to relieve workers' stress; in other cases, workers under extreme stress experience psychological breakdown due to work. The working conditions in the second tier factories are in more serious and blunt violations of the labour law. Workers work at least 10 hours a day and 30 days a week without legal overtime compensation, safety and health protection and social security provision. Labouring hard in this way though, they earn extremely low wages of RMB700-900 a month or RMB2 per hour only. They are also exploited with back wage and payment arrears. The reality found in the electronics factories are in shocking contrast to the image claimed by the industry.

The following table lists the working conditions of the three researched factories for comparison

against the Chinese Labour Law. Working conditions in violations of the labour law are put in italics.

	Liet-on	Yuji	Ray Tai	Chinese Labour Law and Regulations
Wages	<p>Basic wage RMB690/month.</p> <ul style="list-style-type: none"> <li>● Hourly wage: RMB3.9</li> <li>● Weekday and Saturday OT compensation: RMB5.1/hr</li> <li>● Public holiday OT compensation: RMB10/hr</li> <li>● 15-day payment arrears</li> </ul>	<ul style="list-style-type: none"> <li>● Basic wage: RMB650/month</li> <li>● Hourly rate: RMB3.7/hr</li> <li>● Weekday and Saturday OT compensation: RMB6.18/hr</li> <li>● Public holiday OT compensation : RMB12/hr</li> </ul>	<ul style="list-style-type: none"> <li>● Wage paid by day.</li> <li>● One-month payment arrears.</li> <li>● Daily wage under probation: RMB15/day (RMB1.87/hour). Daily wage after probation: RMB16/day (RMB2/hr).</li> <li>● OT compensation: RMB2.5/hr.</li> <li>● In June 2007, workers took strike about OT compensation. 60 workers fired. OT compensation was raised to RMB3.5/hr, daily wage raised to RMB17/day.</li> <li>● Other incentives: Full attendance Allowance RMB60/month; Production Awards RMB60/month; Food and Lodging Subsidy RMB186/month.</li> <li>● Average take-home income of a worker working 12 hrs a day and 26 days a month in August 2007: RMB700 – 900/ month.</li> </ul>	<p><u>Notice About Adjusting the Minimum Wage in Enterprises in Our Province, Guangdong MOLSS</u>: Legal minimum wage of Dongguan city: RMB690/ month, RMB4.12/ hr</p> <p><u>Article 44 of Chinese Labour Law</u>: Overtime compensation should be 150% of the normal hourly rate during the week, 200% on weekend and 300% on statutory holidays. The legal OT compensation in Dongguan city should be RMB6.18/hr, RMB8.24/hr and RMB12.36/hr.</p> <p><u>Article 50 of Chinese Labour Law</u>: Wages should be paid in money currency every month to the labourers. Enterprise should not deduct wages or pay in arrears without justified reason.</p>
Working Hours	<p>Regular working time: 22 working days per month; 8 working hours per day. Any other work is overtime work.</p>	<p>Regular working time: 22 working days per month; 8 working hours per day. Any other work is overtime work.</p>	<ul style="list-style-type: none"> <li>● Regular working time: 26 days per month; 8 hours per day.</li> <li>● Any other work is overtime work.</li> <li>● One shift change every</li> </ul>	<p><u>Article 36 of Chinese labour Law</u>: Labourers should work no more than 8 hours a day and no more than 40 hours per week.</p>

			<p><i>month from day to night shift. Workers have to work 16 hours continuously on the change-shift day.</i></p> <ul style="list-style-type: none"> <li>● <i>Lunch break: 30 minutes, reduced to 15 minutes in real terms during peak season.</i></li> </ul>	
Overtime Work	<ul style="list-style-type: none"> <li>● <i>Number of overtime working hours in low season: 90/month.</i></li> <li>● <i>Overtime working hours in peak season: 120/month.</i></li> <li>● <i>Total number of working hours in peak season: 266 – 296/month.</i></li> </ul>	<ul style="list-style-type: none"> <li>● <i>Number of overtime working hours in low season: 70/ month; or 3-4 hours/day. Day off in weekend.</i></li> <li>● <i>Overtime working hours in peak season: 100/ month. No day off on Saturday and Sunday.</i></li> <li>● <i>Total number of working hours in peak season: 246 – 276/month.</i></li> </ul>	<p><i>Peak season situation:</i></p> <ul style="list-style-type: none"> <li>● <i>Overtime work for 4-5 hours every day; at most 130 hours/ month.</i></li> <li>● <i>No day off at all for 4-5 months.</i></li> <li>● <i>Total number of working hours in peak season: 338 hours/ month.</i></li> </ul>	<p><u>Article 38 Chinese Labour Law:</u> Enterprise should provide labourers at least one rest day every week.</p> <p><u>Article 41 Chinese Labour Law:</u> Due to business reasons, enterprise can extend working hours after consultation with labourers. The extended working hours should not be more than 1 hour per day. Under special need to extend working hours on condition of protection of the health of labourers, the number of extended working hours should not be more than 3 hours a day and not more than 36 per month.</p>
Change Shift	<p><i>Management uses slack hours in the low season to compensate for the peak season. Slack hours in the low season are calculated and added on top of the regular working hours in the peak season but paid at normal rate without compensation.</i></p>			
Unpaid Overtime	<p><i>Management sets high daily production targets. Workers say more than</i></p>	NA.	<p>NA. <i>But factory has back wage problems. Workers say it is</i></p>	<p><u>Article 21 of Guangdong Province Regulation on Payment of Wages:</u> Enterprise pay by piece rate should use</p>

Work	<i>60% of the workers cannot finish the high production targets and have to work extra 30 minutes to hours without compensation until they finish the daily quota.</i>		<i>difficult for them to claim the back wages.</i>	scientific methods to set and disclose labour and production target and unit price. Labour target should be set on the level that could be met by 70% of the workforce within regular working hours.
Rest Day	<i>No weekly or monthly rest day in the peak season. 2 days off per week in the low season.</i>	One rest day per week in normal terms.	<i>No rest day as wage is paid on daily basis. And rest day is not paid even if it is provided. Some departments are more pressured. The assembly department gave two rest days to workers from 1 May to August 2007.</i>	<u>Article 38 Chinese Labour Law:</u> Enterprise should provide labourers with at least one rest day every week.  <u>Article 41 Chinese Labour Law:</u> Due to business reasons, enterprise can extend working hours after consultation with labourers. The extended working hours should not be more than 1 hour per day. Under special need to extend working hours on condition of protection of the health of labourers, the number of extended working hours should not be more than 3 hours a day and not more than 36 per month.
Labour Contract	Workers sign 3 copies of the employment contract but are <i>not provided with any copy at hand.</i>	Workers sign 2 copies of the employment contract but are <i>not provided with any copy at hand.</i>	Workers sign 2 copies of the employment contract but are <i>not provided with any copy at hand.</i>	<u>Article 16 Chinese Labour Law:</u> Employment contract is to establish labour relation, state in clear terms the rights and duties between the employees and the enterprise.
Dormitory	12 people stay in one dormitory room. Each room has shower, toilets, exhaust fan and fans. RMB50 is deducted from monthly wage for dormitory fee. Dormitory	12 people stay in one dormitory room. Each room has shower, toilets, and fans. RMB60 is deducted from monthly wage for dormitory fee.	10 people stay in one dormitory room. Each room has shower, toilets and fans. Dormitory rooms are stuffy. RMB10 is deducted from monthly wage for water and electricity fee.	

	curfew exercised after 12am.			
Food	Factory has a 3-floor canteen that provides food of northern and southern flavour to workers. Extra food is provided on specific days on each month. RMB195 is deducted from monthly wage for food. Workers do not have strong opinions on food provision.	There are two factory canteens, one provides rice, the other provides noodles to workers. RMB210 is deducted from monthly wage for food. Workers do not have strong opinion on food provision.	Many workers complain about canteen food for too many vegetables and not enough meat. RMB180 is deducted from monthly wage for food.	
Training	<i>New workers receive one-week training and exam on factory rules and machine operation before formal employment. 15-day probation.</i>	<i>New workers receive 2-day training on factory rules before employment.</i>	<i>No training of any sort is provided.</i>	<u>Article 68 Chinese Labour Law:</u> Enterprise should set up occupational training system. Budget should be provided to systematically provide occupational training based on the production needs. For work in which skills are needed, labourers must receive training before job placement.
Taking Leave	Management does not approve for leave. Workers can take leave if they have good personal relations with the supervisors. Time taken for leave time is compensated by working overtime.	Complicated procedures for applying leave going through several departments before approval. Workers complain about not getting leave even with proper application.	Difficult for workers to get approval for taking leave. Workers would lose the full attendance allowance and production award if they take leave.	
Maternity Leave	3-month paid maternity leave.	3-month paid maternity leave.	<i>No provision.</i>	<u>Article 62 Chinese Labour Law:</u> Female workers enjoy not less than 90-day maternity leave.
Social Insurance	<i>Social insurance is not provided to all production</i>	<i>Workers are covered with work injury, pension and</i>	<i>Workers are covered with only medical insurance to be</i>	<u>Article 72 of Chinese Labour Law:</u> The amount of social security is contributed according to types. Enterprise and

	<i>workers except for the senior ones (so called 2-star or above workers).</i>	<i>medical insurance after passing probation.</i>	<i>deducted at RMB65 from monthly wage.</i>	labourers must participate in social security schemes and contribute to social security.
Holiday	<i>No day off for workers in some departments in the peak season. Day off is provided according to law only in the low season.</i>	At least one day off per week.	<i>No rest day as wage is paid on daily basis. And rest day is not paid even if it is provided. Some departments are more pressured. The assembly department gave two rest days to workers from 1 May to August 2007.</i>	<p><u>Article 38 Chinese Labour Law:</u> Enterprise should provide labourers with at least one rest day every week.</p> <p><u>Article 41 Chinese Labour Law:</u> Due to business reasons, enterprise can extend working hours after consultation with labourers. The extended working hours should not be more than 1 hour per day. Under special need to extend working hours on condition of protection of the health of labourers, the number of extended working hours should not be more than 3 hours a day and not more than 36 per month.</p>
External Monitoring	<i>Management instructs workers to work at slower pace and perform better when buyers are inspecting the workplace.</i>	<i>Buyers visit and inspect the workplace but do not ask workers about working conditions.</i>	<i>Representatives from Yuji visit the workplace but do not inspect or intervene in the working conditions.</i>	
Occupational Safety and Health	<ul style="list-style-type: none"> <li>● <i>In a number of departments workers have to work standing. Sometimes for 12 hours a day. Workers complain about swollen feet and sore back.</i></li> <li>● <i>Great work stress. Factory provides psychologists to give consultation to workers.</i></li> </ul>	<i>In a number of departments workers have to work standing. Sometimes for 12 hours a day. Workers complain about swollen feet and sore back.</i>	<ul style="list-style-type: none"> <li>● <i>Workplace temperature is high especially in summer because of machine combustion. Workers have skin problems due to heat stress.</i></li> <li>● <i>Workplace has strong plastic and chemical smell.</i></li> <li>● <i>Trimming workers have cuts and hand injury. No protective gloves are provided.</i></li> <li>● <i>No body checkup is provided to workers. New workers pay for doing body checkup</i></li> </ul>	<p><u>Article 54 Chinese Labour Law:</u> Enterprise must provide safe working environment and protective equipment that are up to national safety standard to labourers. Labourers engaged in work associated with occupational hazards must be provided with regular health check.</p>

<p>Work Stress</p>	<ul style="list-style-type: none"> <li>● <i>Most of the production workers have to work standing. In most circumstances they are not able to meet the high daily production target within the regular working day. They have to work overtime during the week and on weekend.</i></li> <li>● <i>Most workers complain about great work stress, strict management practices and verbal abuses if production targets are not met.</i></li> <li>● <i>One of the interviewed female workers said she witnessed another female worker jumping from factory building to commit suicide in 2006.</i></li> <li>● <i>Another interviewed female worker said another female colleague was always rebuked by supervisors and suffered mental breakdown afterwards.</i></li> </ul>	<ul style="list-style-type: none"> <li>● <i>Most of the production workers have to stand and work for 12 hours a day in the peak season.</i></li> <li>● <i>Toilet break is restricted to only 5 minutes.</i></li> <li>● <i>Workers are severely rebuked by supervisors for failing to meet the production target.</i></li> </ul>	<p><i>before employment.</i></p> <ul style="list-style-type: none"> <li>● <i>Production targets are set high. Workers have to work without stop in order to meet the production target.</i></li> <li>● <i>Poor workplace environment.</i></li> <li>● <i>Language abuse and rebuke by supervisors.</i></li> </ul>	<p><u>Article 54 Chinese Labour Law:</u> Enterprise must provide safe working environment and protective equipment that are up to national safety standard to labourers. Labourers engaged in work associated with occupational hazards must be provided with regular health check.</p>
--------------------	--	--	--	---

All the three factories have violated the Chinese Labour Law in different degree. First tier suppliers namely Lite-on and Yuji have higher level of compliance with the labour law than the second tier factory TERA. Yet the first tier suppliers create much more stressful work environment to workers than the second tier factory. This agrees with the industry analysis of the DELL supply chain in the earlier part of the report. The differences between them reveal a structural problem manifested under different individual context related to the position the supplier factories take in the global supply chain. It is the structural problem that needs to be addressed.

The following report takes closer look into the conditions of workers in different departments of the three factories to reveal a better picture of the workers.

## **Pay and Work Conditions of Workers by Department in Three Factories**

### **I. Dongguan Chang An Lite-on Electronics Co. Ltd**



(pic: Electronic Workers from the inland province)

Lite-on is located in Shang Jiao Industrial District of Chang An town in Dongguan city. Lite-on is a large enterprise and an important contributor to the local foreign investment. The company manufactures power supply and one of the major buyers is DELL. The factory is employing

7000-8000 workers with approximately equal male-female ratio. The majority of the workers are vocational school graduates aged between 16 and 30 originated from the inland province of Shaanxi and Henan.

Workers are all required to work extra overtime flexibly although the hours of work between departments vary.

- There are about 100 tooling and skilled mechanics workers, mostly male. They work in day and night shift. Overtime work is less restrictive and they receive higher wage level around RMB1500/month. Tooling workers have to work under heat stress as workplace temperature arises due to combustion and not enough ventilation. They sweat a lot and have measles on the skin.
- Production line workers are paid less well. A production line worker receive take home wage of RMB1300 after deduction of RMB195 for food and RMB50 for lodging, and only after 120 hours of overtime work without off day on Saturday and Sunday. On average, production line workers work about 100 extra hours for overtime. They are required to stand working the whole day which is very hard for a lot of worker especially in the beginning. Many workers complain of pain and swollen legs and feet that make them sleepless at night. On top of this, production line workers are subjected to great work stress. Workers in the Manufacturing II section for instance are making power supply for DELL. They stand and work the whole day but very often are not able to meet the high production target. They are chided by supervisors in insulting manner and put under great pressure.
- Warehouse workers are put to work for long hour irregularly. In normal times, they work 90 extra hours per month for overtime work and are paid RMB1200 per month. But that rises to 150 extra hours in busy times and they receive RMB1500 during the peak season.
- PCB workers on the other hand are subject to specific work related occupational health problems. They insert tiny components onto the circuit boards. Long working hours cause pain and eye discomfort.
- The interviewed female workers recalled incidents of workers suffering from mental disorder and jumping off from the factory buildings to commit suicide due to enormous work pressure. That is the reason for the management to employ in-house psychology practitioners to provide psychological consultation to workers.

### **Shi Jie Yuji Electronic Factory**

Yuji is located in Heng Jiao Administrative District of Shi Jie town of Dongguan city. Yuji is a subsidiary company of the peripheral, parts and components branch of Lite-on Corporation. The factory manufactures computer keyboards. The official personnel advertisements of the Shi Jie factory confirms that DELL is one of the major customers. The factory employs about 1700 workers who are aged between 18 and 36. Majority of them are women. Yet the factory has annual production

capacity of more than 30 million keyboards worthy of product value of USD300 million and sharing 22% of global production of computer keyboards<sup>12</sup>.



(pic: employment advertisement of Yiji)

The annual production figures of Yuji are amazing indeed given the small size of the factory in Dongguan city. The reason for that is consistent sub-contracting of production orders to a network of small-sized contracting factories. Yuji is a single supplier to DELL at first glimpse. Under Yuji is a network of at least 16 sub-contracting factories which operate with orders placed by Yuji at much cheaper unit price. Yuji divides and diverts orders placed by buyers to these sub-contracting factories and earn profit from the price difference. This allows Yuji the capacity for higher level of labour law compliance within its own gate. Indeed the working conditions of Yuji are the best compared with the other two companies under our research. Yet there are still non-compliant aspects and most of all, workers of Yuji suffers from enormous work stress similar to workers in Lite-on factory.

The wage level of workers in Yuji is less varied. They have 4 days off every month. They work in 2 shifts and 3-4 extra hours for overtime work everyday. There is 10-minute break after every 2 hours of work. In low season, work are made to work 70 extra hours. They are able to have 2 rest day per week and receive RMB1000 a month. In peak season, they work 100 extra hours and earn monthly income of RMB1200-1300.

There is concern over workers' occupational health at Yuji. Production line workers, MFC section workers (who are inserting keys to the plastic board) have to stand whole day for 12 hours to work. The toilet break is restricted to less than 5 minutes. Again, high production targets put wokere, for instance the component insertion workers, under high stress. Most workers usually are not able to meet the production target at the end of the work day. They are always subject to reprove and criticism from the supervisors.

<sup>12</sup> Factory advertisement found at <http://www.dgcn.com/Person/Companycontent.jsp?ComId=225216>

## Dongguan Shi Jie TERA Plastics and Electronics Factory



(pic: TERA Factory)

TERA has 4 factory plants on Xin Feng Road of New Town District of Dongguan city. The area has a cluster of small-scale plastic electronics factories. TERA is a sub-contracting factory of Yuji supplying to the latter computer keyboards carrying the DELL label. TERA employs a total of 500 to 700 workers of whom 60% is male. The factory has high turnover rate especially amongst young workers since the working conditions are bad. Majority of the workforce that stays are aged above 30 and have served the factories for relatively longer term. The factory employs also underaged workers less than 16 years old who are originated from Henan, Sichuan and Shaanxi province holding false identification papers.

- TERA has the worst labour record amongst the three researched factories. The number of regular working hours of TERA which includes work on Saturday and Sunday, is already in violation of labour law requirement. The factory has long overtime ranging between at least 100 to 130 hours per month. That makes the total number of working hours as high as 338 per week in the peak season. The wage level is also seriously below the legal minimum. Many workers receive only RMB900 a month even in the peak season after attending all the overtime work without taking leave.
- There are two shifts in TERA. The day shift begins from 08:00 to 20:00. Night shift begins from 20:00 to 08:00. Each shift consists of 8 regular and 4 overtime hours. On the change-shift day, ie the day when day shift workers change and take night shift, they are not given rest time but made to immediately take up the next shift and work continuously for 16 hours.
- The factory gives only 30-minute lunch break which in fact is reduced to 15 minutes after lock off and queue up time at the canteen. Everybody is swallowing food in hurry and that causes many workers stomachache and stomach upset.
- Wage is calculated by day for RMB17 per day. Overtime compensation is paid at a standard rate

of RMB3.5 per hour. Both salary and overtime compensation is much lower than labour law requirement. There is also one month payment arrears.

- Assembly workers are working under the highest labour intensity. There are 90 workers in 2 shifts most of them male. In order to meet the high production target, they have to work literally non-stop everyday and without off day for as long as 4 months in the peak season. There are more than 30 machines packed in the workplace that does not have good ventilation to alleviate the heat given out by machine combustion. Workers are made to work sweating a lot under heat stress. Many of them cannot sleep at night since they have measles on the face and shoulders that cause itchiness and inflammation.
- Low wage is a problem of contention between workers and management. Earlier this year, workers received only RMB16 per day and overtime compensation of RMB2.5 to 3 per hour. Workers took on strike in protest against the low wage. Both day and night shift workers took part in the strike which pressured the management to raise the daily wage slightly to RMB17 and overtime compensation to RMB3.5 an hour. The management took retaliation on the strike workers. More than 60 of them that led the strike were all fired afterwards.
- The working conditions in TERA are bad and recruitment of new workers is not easy. The management can only control high turnover by restricting workers from quitting. Application for resignation is usually not approved. Those that want to quit have to sacrifice 30% of their wage as quasai penalty for un-approved resignation.

## **Conclusion**

By researching the working conditions of 3 suppliers and the supply chain management of DELL, this report attempts to reveal how trans-national computer brand companies out-source production, transfer competitive pressure to supplier factories and that eventually impacts on workers. The electronics industry has developed an industrial code of conduct, the EICC. Yet EICC targets mainly computer brand companies such as DELL and the first-tier suppliers of the brand companies only. This is largely out of touch with the reality of the supply chain operation of the industry and works only to push exploitation downwards and un-reported to small-scale sub-contracting suppliers along the supply chain. Trans-national companies that have direct business interests in China must not be shun from responsibility over the poor working conditions of Chinese workers in their own or supplier factories. Last but not least, trans-national companies proclaim in high profile commitment to social responsibility and yet the real work undertaken is closed to public monitoring and worker participation. The lack of improvement in the everyday reality of workers strongly baffles their high-sounding commitments.

For the protection and implementation of workers' rights and human rights, SACOM demands that,

### **Trans-National Computer Brand Companies:**

1. Implement in real terms Global Corporate Social Responsibility; Change the procurement practices; Stop exploiting Chinese workers;
2. Disclose in full the names and addresses of all their suppliers in mainland China; Accept public monitoring from government, civil society organisations and the society;
3. State in clear terms in their company code of conduct stipulations that give access to non-profit, non-government labour organisations to supplier factories to conduct labour rights and occupational safety and health training for workers;
4. Desist from terminating business relations with suppliers exposed for labour rights violations. SACOM severely oppose to any brand companies for evading social responsibility through cut and run practices.

### **Organisation and Individual Consumers of Computer Products in Hong Kong:**

1. Tertiary education institutions in Hong Kong should demonstrate social consciousness and take the lead in adding labour protection stipulations in computer procurement contracts with companies. They should state clear to companies their right and readiness to question and action against cases of labour rights violations associated with the companies.
2. Public institutions and church organisations should add labour protection stipulations in computer procurement contracts with companies.

## **Looking Forward**

This report analyses the working conditions of workers in the computer manufacturing industry in China in relation with the supply chain strategy of computer brand companies. We find labour exploitation in export-oriented electronics factories in China directly related to the out-sourcing strategies of trans-national computer companies. We hope that this report would arouse public concern for the problems of Chinese workers under the global production system.

SACOM appeals to universities, colleges, public and church organisations, as consumers of computer products, to say NO to sweatshop computers and to defend the rights and dignity of Chinese workers.

This report can be downloaded from SACOM's official website, [www.sacom.hk](http://www.sacom.hk) . We welcome any comments, discussion, recommendation and further information related to the report. Feedback can be sent to us through email: [sacom@sacom.hk](mailto:sacom@sacom.hk). Updates and further discussion can be found in our website.

**End**