

THE US-CHINA BUSINESS COUNCIL

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Labor Issues and Corporate Responsibility in China

Labor conditions in China have been the subject of recent press articles and political discussion. The enclosed articles, taken from past issues of the USCBC's flagship publication, the *China Business Review*, help to place these issues in context. The articles address aspects of labor conditions in China and US business efforts to ensure appropriate labor and related conditions in Chinese production facilities. USCBC welcomes comments on these subjects and others of current interest in US-China relations.

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The China Business Review

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Labor Relations in Focus

The PRC government's efforts to better protect workers' rights spring from worries about China's social stability

Victorien Wu

Since ascending to their leadership positions during the 2002–03 transition, PRC President Hu Jintao and Premier Wen Jiabao have expressed considerable concern about China's social stability and have emphasized the importance of balancing the country's development. This shift in policy priorities is not altogether surprising. PRC government statistics suggest that social unrest has grown significantly over the past few years. Beyond rural protests against illegal government seizures of agricultural land, worker demonstrations against wage arrears and other

bread-and-butter issues have also made the headlines. Moreover, the number of labor disputes channeled through government-sanctioned dispute resolution processes has risen sharply in recent years.

In this context, the PRC government has undertaken several initiatives to demonstrate its resolve to better protect workers' rights. These have included the draft Labor Contract Law, issued for public comment last spring, and the renewed campaign by the All-China Federation of Trade Unions (ACFTU) to unionize workers in foreign-invested

enterprises (FIEs). These, along with the government's other labor-related campaigns, may mark the beginning of a more vigorous effort by the PRC government to mend labor relations in China.

The broader political agenda

Hu and Wen have, in comparison to their predecessors, placed a greater emphasis on helping those who have been left behind in China's reform efforts. Most notably, in December 2002, soon after he became secretary general of the Chinese Communist Party (CCP), Hu signaled a shift away from the policy direction set out by his predecessor Jiang Zemin, by taking the CCP leadership to visit Xibaipo village in Hebei. There, Hu recalled the Xibaipo Spirit of modesty, plain living, and hard work that Mao Zedong had called for in 1949. He also urged his colleagues to help build a "moderately well-off society" (*xiaokang shehui*), clearly suggesting that the CCP should tackle China's growing socioeconomic inequalities.

Hu's efforts to shift the CCP's policy agenda gained crucial momentum at the third plenum of the 16th CCP Central Committee in late 2003, when the Central Committee approved a key document that contrasted visibly with Jiang's report to the 16th CCP Congress in 2002. The document, named the Decision on Several Issues in Perfecting the Socialist Market Economy, paid more attention to the wide range of problems that have arisen as a result of China's reform efforts. It also emphasized "social development" as an integral component of the CCP's agenda.

Subsequently, in a speech to top cadres in February 2005, Hu said that building a "harmonious society" (*hexie shehui*) should be a priority for the CCP and the PRC government. He observed that "social conflicts are emerging in great numbers" and encouraged his colleagues to "balance different interests" and maintain "social equity and justice." Wen later echoed Hu's message in the PRC Government Work Report delivered at the March 2005 session of the National People's Congress when he declared that the government must "properly balance the interests of all quarters and ensure that everyone shares the fruits of reform and development."

These policy priorities are set to dominate and shape the PRC government's agenda for at least the next few years. Indeed, the CCP leadership has decisively rallied around Hu's "harmonious society" doctrine. In mid-October, the sixth plenum of the 16th CCP Central Committee—the CCP's first plenum to focus more on social development rather than political or economic issues—formally endorsed Hu's "harmonious society" doctrine, signaling broad support among China's top policymakers for Hu's agenda.

Equally important, China's 11th Five-Year Plan (2006–10) indicates that the government will strengthen its efforts to construct a "harmonious society" and focus on social justice and the issues that most affect people's livelihoods. The specific goals of the plan include ensuring the use of labor contracts, improving labor dispute resolution mecha-

nisms, protecting the legal rights of workers, and more closely supervising the labor market and the implementation of labor laws and regulations.

Rising labor disputes

The stress on building a "harmonious society" and better protecting workers' interests arises from signs that China's social stability is being tested. In early 2006, the PRC Ministry of Public Security announced that more than 87,000 "mass social disturbances" had occurred in 2005, up 6 percent from 2004 and 50 percent from 2003. More than 3.7 million people were involved in such incidents in 2004, but the ministry did not provide a comparable figure for 2005. The rise in the reported number of such disturbances, as well as widespread media reports of some of these incidents, have almost certainly raised concerns among China's policy elites about social unrest in general. The Chinese Academy of Social Sciences revealed in its 2004 *Blue Book of Chinese Society* that more than half of the Chinese experts it interviewed believed that it is "possible" or "very likely" that China would face a "comprehensive social crisis."

Although the PRC government has not provided a rural-urban breakdown of its statistics on social unrest, other official statistics indicate the scope of worker discontent. In particular, the number of reported labor dispute cases has risen considerably in recent years. According to the PRC Ministry of Labor and Social Security (MLSS), roughly 314,000 labor disputes were submitted to government-sanctioned mediation and arbitration committees in 2005 alone (see Table 1). This figure is more than double the number of cases submitted in 2000 and nearly 10 times that of 1995. The number of workers involved in disputes also grew from 467,000 in 2001 to 740,000 in 2005. According to MLSS, employees filed roughly 94 percent of cases in 2005, with the remainder filed by employers. Disputes over wages, benefits, and social insurance accounted for 65 percent of all cases, while 18 percent arose from conflicts over the termination of labor contracts. The remainder stemmed from workplace injury, training, and layoffs. Interestingly, MLSS statistics show that the more economically developed coastal regions of China account for the majority of labor dispute cases. In 2005, 62.4 percent of dispute cases were submitted in Beijing, Guangdong, Jiangsu, Shandong, Shanghai, and Zhejiang. While this may reflect the concentration of businesses along coastal areas, it also shows important pockets of disaffection in the regions that have benefited most from China's economic reforms.

Although the PRC government could take comfort in the fact that more than 90 percent of these cases are ultimately settled through the government-sanctioned dispute resolution process, it has chosen to take a starker view of these statistics. In its 2005 statistical report on labor disputes, MLSS

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Table 1: Labor Dispute Cases in China, 2001–05

Year	Number of cases	Number of workers involved
2001	155,000	467,000
2002	184,000	610,000
2003	226,000	801,000
2004	260,000	765,000
2005	314,000	740,000
% change	102.6	58.5

Source: PRC Ministry of Labor and Social Security (MLSS)

Table 2: Outcomes of Labor Dispute Cases, 2001–05 (% of cases)

Year	Employer wins	Employee wins	Both partly win
2001	21.0	47.7	31.3
2002	15.1	47.2	37.6
2003	15.3	49.0	35.6
2004	13.8	47.7	36.4
2005	12.9	47.5	39.6

Source: MLSS

interprets the fact that more cases were settled through arbitration rather than mediation as evidence that labor disputes tend to be highly contentious. MLSS has also chosen to interpret the higher success rate of workers in dispute cases as a sign that “infringement of workers’ rights continues to be a prominent problem” (see Table 2).

The PRC government’s wariness may be justified. According to the Congressional-Executive Commission on China (CECC), workers may face important obstacles in submitting cases through the government-sanctioned dispute resolution process. First, workers do not have union representation during mediation, the initial step in dispute resolution. Second, the cost of submitting a dispute to the next stage of the process—arbitration—can be as high as ¥420 (\$52.40), about half the average monthly wage of a Chinese worker. Though this may not be a problem for collective dispute cases, it presents a significant barrier to workers who seek to file individual cases. Finally, if both mediation and arbitration fail to solve the dispute, workers can file a lawsuit in court, but the costs of litigation can be prohibitive. These obstacles may discourage workers from using the dispute resolution process, and the reported number of dispute cases may not indicate the true magnitude of labor frictions.

Beyond statistical evidence that suggests the number of labor dispute cases is rising, there have been press reports of some worker demonstrations turning violent.

■ In June 2004, 5,000 Shenzhen workers clashed with police over wage arrears.

■ In January 2005, more than 1,000 workers in Shenzhen marched against the loss of severance pay, resulting in blocked roads, traffic jams, and violence.

■ In July 2005, 3,000 migrant workers at a garment factory in Guangzhou rioted over inadequate pay.

■ In September 2005, more than 100 workers at a shoe factory in Guangzhou battled police and smashed vehicles over unpaid wages.

It is unclear whether these violent incidents are representative of labor demonstrations in China. Indeed, the PRC government has not released statistics on the number and scope of labor-related protests. Nevertheless, these incidents highlight the potential explosiveness of labor discontent and likely heighten the PRC leadership’s worries about labor relations in China.

Policy responses

Over the past several years, the PRC government has tried to improve the protection of workers’ rights. In particular, the State Council and MLSS have issued directives to clear wage arrears for migrant workers whose previously ambiguous legal status and inadequate access to legal channels made them susceptible to abuse. The problem of unpaid wages for migrant workers may be particularly important because of their large numbers—officially estimated to be 120 million—and because the problem appears to be widespread. According to a State Council survey report released in April 2006, 51 percent of rural migrant workers reported “sometimes” or “frequently” having difficulty getting paid on time, and 76 percent said that they had not received overtime pay owed to them.

Over the past two years, the PRC government has also focused on promoting the use of labor contracts. The existing Labor Law requires labor contracts between employees and employers. But according to a National People’s Congress survey in 2005, less than 20 percent of small and medium-sized enterprises use labor contracts, and the State Council survey report indicates that 46 percent of migrant workers lack labor contracts. In May 2005, MLSS issued a circular that directs employers of migrant workers to adopt labor contracts. Earlier this year, it launched a campaign to promote the use of labor contracts in all enterprises, with the goal of ensuring that at least 90 percent of all employees in China have contracts by the end of 2007.

Two responses have caught the attention of foreign investors: the draft Labor Contract Law and the renewed ACFTU campaign to unionize workers in FIEs. Observers have widely noted that many provisions in the draft Labor Contract Law appear to favor workers. For example, the draft law would require employers to seek the permission of the trade union before terminating any labor contract and to negotiate the terms of mass layoffs that involve more than 50 employees. The draft law also indicates that if an employer and an employee disagree over the interpretation of a labor contract, the ambiguity should be resolved in favor of the employee.

Meanwhile, ACFTU has reenergized its efforts to establish trade unions in FIEs, claiming that its campaign is in

response to the need to better protect the rights of FIE workers. Some labor experts have noted, however, that as more Chinese are finding employment in private and foreign-invested companies, ACFTU may have undertaken this campaign to boost its membership and revenue. (Enterprises that have trade unions must appropriate a sum equal to 2 percent

the PRC government has taken to strengthen labor rights have caught the attention of foreign investors in China. In general, foreign companies and business associations have affirmed the PRC government's goal of protecting workers' rights. The growth of social unrest in China could harm the business climate, and uniform enforcement of labor laws and

Foreign companies and business associations have affirmed the PRC government's goal of protecting workers' rights.

of their total monthly payroll to the trade union each month.) In 2004, ACFTU announced a campaign to recruit 6.6 million workers every year until 2008. This is presumably translating into a greater effort to establish unions in private firms and FIEs as the state-owned sector shrinks.

Whether these various measures will succeed in better protecting workers' rights is unclear. In general, implementation of national laws and regulations, as well as campaigns initiated from the top, are easily thwarted by local authorities intent on boosting their GDP and thus reluctant to strictly enforce central government directives that may hinder local economic growth (see the *CBR* September–October 2006, p.52). Indeed, as in the area of intellectual property rights and environmental protection, observers have noted that the primary reason for the weak protection of workers' rights is not an inadequate legal framework, but rather the poor enforcement of China's existing labor laws and regulations. CECC notes in its 2006 annual report that "the Chinese government's failure to implement existing labor regulations ... renders most of the protective aspects of Chinese labor law ineffective." For example, even though MLSS regulations require provincial authorities to review their minimum wage levels every two years, MLSS reported that at least four provinces were noncompliant in 2006.

In late 2004, MLSS began to establish a system of labor inspection to ensure local compliance with China's labor laws and regulations. Whether such a system will achieve its intended goal is unclear because it delegates inspection authority to the local labor and social security bureaus—whose mandate, in the first place, is to enforce the laws and regulations.

Foreign investors' concerns

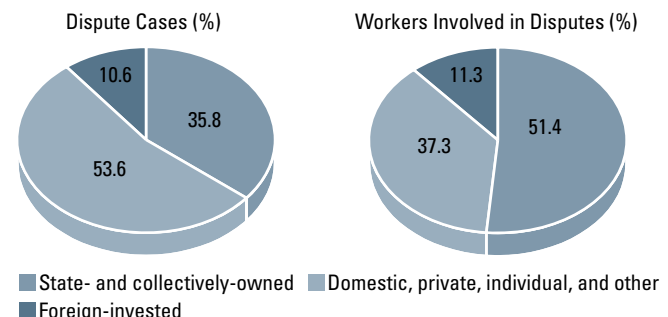
Available statistics suggest that FIEs account for a disproportionately small share of labor dispute cases, given that they provide one-third of China's industrial value-added output and more than half of its exports (see Figure). This may be because US and other foreign investors tend to bring their international human resources practices and environmental health and safety standards, which often exceed local requirements, to their China facilities. Nevertheless, the steps that

protection of workers' rights could help level the playing field for all firms operating in China. At the same time, however, foreign companies have also expressed concerns about some aspects of recent government moves.

For example, they have noted that certain provisions of the draft Labor Contract Law might conflict with international practices in human resources management and deprive employers and employees of the flexibility necessary to handle employment relationships effectively. The draft law, for instance, requires employers that use a labor service company to sign only one fixed-term contract with the employee. At the end of the contract, the employer must hire the employee directly. If it does not, the employer cannot use a labor service company to hire a different person for the same position. This may prevent employers from finding the best person and may result in fewer job opportunities for Chinese workers. Thus, the law could have the unintended consequence of negatively affecting Chinese workers, and for companies that uphold China's laws and regulations, including US and other foreign firms, the Labor Contract Law, if implemented in its current form, could make operating in China more cumbersome.

As the PRC government finalizes the Labor Contract Law and undertakes other initiatives to address widespread grievances among China's workers, foreign businesses hope that their concerns will be taken into account. In the meantime, better enforcement of existing laws and regulations would go a long way toward removing the difficulties that Chinese employees face in their workplaces. 完

Labor Disputes by Enterprise Type, 2003



Source: MLSS

BEYOND CODES OF CONDUCT

Addressing Labor Rights Problems in China

ROBERT J. ROSOFF

The attraction of doing business in China is undeniable. The country's low labor costs, in particular, enable companies to manufacture apparel, footwear, toys, and many other products very cheaply. China is also emerging as a large consumer market for many goods. At the same time, terrible labor rights and human rights conditions persist even as China's economy develops. Foreign companies must address these conditions if they wish to operate in a socially responsible manner.

Some Western companies are already addressing the problem of labor rights violations in their Chinese factories. Their innovative strategies and programs to address labor law violations are best understood in the context of the requirements of Chinese labor law, typical violations, the types of factories operating in China, and the many codes of conduct that companies have crafted to establish minimum standards for suppliers.

PRC labor law

The 1995 PRC Labor Law is comprehensive, covering labor contracts, working hours, wages, worker safety, child labor, and labor disputes, among other subjects (*see the CBR*, January-February 2004, p.20). Government regulations provide additional detail and rights. For example, the law currently mandates a maximum workweek of 40 hours. Minimum wages are established locally, and wages cannot be deducted or delayed without reason. If employees must work more than 40 hours, overtime pay at fixed rates is mandatory. Workers are

guaranteed at least one day off every week. Working conditions are required to be safe and sanitary.

In practice, however, the rights of Chinese workers are routinely violated. Workers are often required to work far more than 40 hours a week, have few days off, are paid below the minimum wage, and are not paid required overtime. Improper deductions from wages are common. Some Chinese workers must pay a large sum of money as a "deposit" to their employer, and they may have to pay a "recruitment fee" in order to be hired. These payments can prevent workers from leaving jobs where their rights are violated. Physical abuse of workers, and dangerous working conditions, are also common.

Chinese factories

The types of labor rights violations found in a Chinese factory may depend, to a degree, on the nature of factory ownership and the size of the factory. Four broad types of enterprises exist in China today: private, state-

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A number of foreign companies are taking innovative steps to ensure good labor conditions in their PRC factories

owned, foreign-funded, and township-and-village enterprises. Before the mid-1990s there were clear differences between state-owned “socialist” factories, which offered lifetime employment, housing, and medical care, and private sector factories, which provided little job security, low wages, and no fringe benefits. Today, however, competition and a persistent government effort to privatize state-owned firms has led even these employers to offer less job security, fewer welfare benefits, and strict labor conditions.

Generalizations are difficult, but are possible based on evidence of labor rights abuse in PRC factories:

- Labor rights violations are so widespread in China that violations can be presumed to exist in every factory until proven otherwise.
- Factories fully owned and operated by foreign companies that implement good codes of conduct tend to have few violations.
- Large factories with direct investment from, and management by, Western companies also tend to have fewer violations, because Western companies often stress the importance of labor law compliance. Larger factories also tend to have enough orders to keep production lines going, enabling the factories to pay workers on time.
- A Western company with a good code of conduct will have greater success implementing the code in factories over which it controls a significant amount of the factory’s output, because it will have more negotiating leverage over factory owners.
- If a Western company does not control a significant amount of a factory’s output, it can act together with other companies that use the factory to demand acceptable treatment of workers.
- Factories owned by Hong Kong Chinese, Taiwan, and South Korean companies tend to have worse conditions, as do small, privately owned PRC factories.
- Large non-Western (usually Asian) foreign-funded factories tend to have better compliance than smaller factories.

Codes of conduct and inspections

To meet corporate social responsibility (CSR) obligations in countries like China that have

serious labor rights and environmental problems, companies are increasingly adopting codes of conduct that set forth labor rights, human rights, and social, ethical, and environmental requirements for suppliers. According to a recent estimate by the World Bank, there are about 1,000 different codes in existence today. They are issued by companies, multi-stakeholder groups such as the China Working Group, non-governmental organizations, and unions.

Although the language of the codes may differ, the substance is usually similar in codes adopted by apparel, footwear, and other light manufacturing companies, including: prohibitions on the use of forced labor and child labor; detailed provisions concerning wages, benefits, and terms of employment; limitations concerning hours of work; nondiscrimination guarantees; prohibitions of harassment, abuse, and

Labor Rights Resources

The Labor Law of the People’s Republic of China

www.usmra.com/china/Labour%20Law.htm

Company Codes of Conduct and International Standards: An Analytical Comparison, Part I of II: Apparel, Footwear and Light Manufacturing; Agribusiness; Tourism

www.worldbank.org/privatesector/csr/doc/Company%20Codes%20of%20Conduct.pdf

Business Principles for Human Rights of Workers in China

www.amnestyusa.org/business/chinaprinciples.html

For information on Reebok and other companies’ experiments with labor rights improvements in China, see

CECC Roundtable: Codes of Conduct: U.S. Corporate Compliance Programs and Working Conditions in Chinese Factories

www.cecc.gov/pages/roundtables/042803/index.php

www.cecc.gov/pages/roundtables/042803/cahn.php

www.cecc.gov/pages/roundtables/042803/niepold.php

www.cecc.gov/pages/roundtables/042803/vanHeerden.php

www.cecc.gov/pages/roundtables/042803/rosenbaum.php

Adidas-Solomon AG

www.adidas-solomon.com/en/sustainability/welcome.asp

Reebok Ltd.

www.reebok.com/x/us/humanRights/pdf/ReebokHR_SewingaSeam.pdf

Nike Corp.

www.nike.com/nikebiz/nikebiz.jhtml?page=25

types of disciplinary action; health and safety policies; and environmental standards.

Companies prefer to adopt one code to govern all their international operations, and some codes declare that workers must have the right to freedom of association and collective bargain-

Reebok believes that giving workers an independent voice in the operation of factories will reduce labor rights violations and lead to better working conditions, which, in turn, will strengthen the loyalty of workers and be good for business.

ing, although in practice these rights are denied to Chinese workers. In 1999, three companies and 21 organizations endorsed "Business Principles for Human Rights of Workers in China," a code drafted by the China Working Group specifically to address the human rights and labor rights violations common in China (*see p.45*).

Companies that manufacture in China using subcontractors have found that merely communicating the contents of their codes to subcontractors is insufficient. Inspections, either by the company's own inspectors or by professional monitoring companies, are necessary to determine the extent of compliance. Inspectors visit factories, determine compliance with the company code, and inform the company of results. After receiving a report of factory noncompliance, companies then approach factory owners to discuss changes in factory operation with the goal of achieving full compliance.

Codes of conduct and inspections are unquestionably useful. Codes establish higher standards than many subcontractors employ, while inspections ensure greater compliance than would otherwise exist. But in China this code-inspection regime has been only partially successful, for several reasons:

- Although China has an adequate labor law, it is poorly enforced.
- Codes imposed on factory owners raise costs, so owners have a financial incentive to ignore code requirements. Factory owners are becom-

ing increasingly adept at circumventing inspections, through practices such as double book-keeping and coaching of workers. As a result, inspectors are often deceived and "clean" audit reports often do not reflect reality.

- China has a virtually inexhaustible supply of migrant workers, most of whom are ignorant of their rights under Chinese law and are willing to work under any conditions without protest.
- The Chinese government prohibits the existence of independent trade unions, leaving workers without representatives who can discuss violations with management. Workers who have tried to form independent unions or lead labor protests have been imprisoned.
- Western companies' sourcing practices can contribute to the problem when, for example, large orders are made with short deadlines, the lowest possible prices are demanded, and orders are changed at the last minute. Factory owners are afraid to lose business if they refuse orders, even if they have to violate the law to complete an order.

In addition, companies manufacturing in China that seriously attempt to implement good codes of conduct have found the effort to be expensive and only partly successful. Therefore, some companies are seeking more creative strategies to ensure the protection of their subcontractors' employees in China.

New strategies

Faced with recurrent labor rights abuse in subcontractor factories despite code-inspection regimes, a few companies have been experimenting with more innovative strategies to address abuses. Such strategies include empowering Chinese workers through democratic factory elections of representatives; educating workers about their rights under Chinese labor law; seeking to protect the rights of labor activists; and working with the Chinese business community.

● Democratic elections

In 2001 and 2002, Reebok, Ltd. facilitated the democratic election of union representatives using secret ballots in one Hong Kong-invested factory and one Taiwan-invested factory to which it subcontracts. It was the first open election of its type in China, and it took place with the knowledge of provincial officials of the state-controlled All-China Federation of Trade Unions. Setting up the elections and educating the elected representatives about how to carry out the duties of trade union members has been challenging, but Reebok believes that giving workers an independent voice in the operation of factories will reduce labor rights violations and lead to better working conditions, which, in turn, will strengthen the loyalty of workers and be good for business.

● **Educating workers about the PRC Labor Law**

A number of companies, including Nike Corp., Adidas-Solomon AG, Reebok, and Sears, Roebuck & Co. have produced posters in Chinese that summarize the main provisions of China's Labor Law and include telephone numbers of PRC officials responsible for law enforcement. The posters also include the phone number of a call center established to provide information and advice to workers who believe their rights are being violated. In 2003, the posters were hung in factories used by these companies, and the call center has been receiving complaints and requests for advice. It is too early to determine whether this attempt at worker education has reduced labor rights violations in the targeted factories, but the more Chinese workers learn they have rights under Chinese law, the more they can be expected to seek to end violations of these rights.

● **Protecting Chinese labor activists**

Labor protests are increasing in China as a result of labor rights abuse, rising unemployment, lack of a social safety net, fraud by some factory owners, and lack of responsiveness by government officials. Often, when workers protest in large numbers, the Chinese government will arrest and imprison the protest leaders and pay off the workers. For many years, John Kamm has proved that Western businesspeople can effectively approach the PRC government and help to free these wrongfully imprisoned labor rights activists. Although most of his interventions have occurred during confidential meetings with PRC officials, Kamm began this work publicly in 1990 as vice president of Occidental Chemical and president of the American Chamber of Commerce in Hong Kong. At a public dinner he called on Beijing's senior representative in Hong Kong to release Yao Yongzhan, a student who had been detained and tortured shortly after the Tiananmen massacre. About three weeks later, Yao was released. Large companies have taken similar action. Reebok wrote a letter to the Indonesian president urging the release of imprisoned Indonesian labor rights activist, Dita Sari, who was also released. Chinese workers must be permitted to assert their rights under Chinese law. These examples indicate that Western companies can take beneficial actions on behalf of wrongfully imprisoned citizens without harming company business.

● **Engaging the Chinese business community**

Adidas, Nike, and Gap Inc. have agreed to participate in a project to engage Chinese small and medium-sized enterprises (SMEs) not currently manufacturing directly for Western companies. The primary goal will be to convince SMEs to comply with China's Labor Law and company codes of conduct, so Western companies can order from them directly. These SME

trainings are part of a larger project undertaken by the China Working Group to engage the Chinese business community concerning labor rights and CSR. With China's entry into the World Trade Organization, there is a growing awareness and interest within the Chinese busi-

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ness community concerning CSR. Efforts to build awareness of CSR within Chinese society should help improve labor conditions.

Ways to get started

Foreign companies can take a number of actions to address labor rights problems in China. First, they can own and operate Chinese factories directly. If this is not possible, they can significantly influence a factory's conditions by sharing the costs of upgrading labor standards, especially if they control a large percentage of the factory's output either alone or together with other companies. Second, they can, and should, adopt a detailed code of conduct and hire competent and experienced monitors to assess compliance, while ensuring their sourcing practices do not contribute to these problems. Third, since codes and monitoring are only partly effective in China, companies can, and should, seek to empower Chinese workers to act on their own behalf by educating them about their rights, by helping workers elect their own factory representatives, and by seeking to protect the right of workers to protest abuses. Fourth, companies can seek to engage the Chinese business community concerning the importance of CSR. Finally, companies can, and should, educate themselves about their options, through organizations such as the China Working Group and others. It is difficult to meet basic CSR requirements when manufacturing in China, but innovative techniques can help make this possible. 完

CHINA'S Changing Relations

LABOR

Bama Athreya

Many people in the international labor movement believed that the granting of permanent Normal Trade Relations (PNTR) to China by the US government in 2000 would eradicate any effective pressure the labor movement could bring to bear to promote labor rights in China. The same activists believed that China's entry into the World Trade Organization (WTO) in 2001 was the final nail in the coffin for labor rights in China.

A scant three years later, however, the

picture for workers on the ground has changed dramatically, at least in certain regions of China. Though abuses persist, a startling new space has emerged for grassroots organizations and private and public sector lawyers to advocate for better protections for workers. Even the stodgy, government-dominated All-China Federation of Trade Unions (ACFTU) has recognized a need, given the changing economic context, to take a more activist approach to

**Labor activism
is taking root**

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workers' rights. These changes—and the rising tide of labor disputes in China (*see* Tables)—signal a need for employers to better understand and honor their obligations under China's labor laws.

China's new labor scene

In recent years, an astounding range of day-to-day household goods originating in China has flooded the US market; the typical department store today carries everything from T-shirts to lawn furniture manufactured in China. Many of these light-industrial goods originate in southern China, primarily in Guangdong, and it is this region that journalists and international consumer advocates seeking to publicize China's labor abuses have focused on.

To be sure, labor rights abuses in China at factories supplying US retail corporations are widespread. Reports by nongovernmental organizations (NGOs) in different regions of China indicate near-nonexistent enforcement of legal protections for workers at foreign-invested enterprises (FIEs). In 1997, *Change*, the newsletter of the Hong Kong Christian Industrial Committee, reported that 70 percent of all industrial deaths occur at such enterprises and commented that

It is often the case that only after a disaster has occurred that the authorities begin to instigate meetings to make decisions, announce their intentions to investigate the cases, punish the responsible and then undertake safety reviews. Unfortunately, responsibility is not pinpointed and the buck is often passed on. Therefore, disasters are often repeated.

Numerous other researchers have found similar evidence of labor rights violations in light-manufacturing enterprises in South China. In 1998, sociologist Anita Chan noted, "Working two or three hours overtime on a normal workday, with only one or two days off every month, is not uncommon." She also documents practices of corporal punishment, hazardous health and safety conditions, and schemes to cheat workers out of payment of even the minimum wage through enforced overtime and a system of financial penalties, deductions, and fines for infringements as meaningless as talking and laughing at work, littering, or forgetting to turn off lights.

Similar reports can be found almost daily in local Chinese newspapers as well as in international publications. Both the *New York Times* and the *Washington Post* have, for the past several months, featured articles about workplace abuses in China. Though many of these problems are not unique to China, corporate leaders would do well to remember that when they appear in China, such problems are news at home.



Corporations in the United States and Europe have responded to consumer pressure by adopting corporate "codes of conduct," or public statements regarding their commitment to workers' rights.

Corporate codes of conduct and Chinese law

Corporations in the United States and Europe have responded to consumer pressure by adopting corporate "codes of conduct," or public statements regarding their commitment to workers' rights. Typically, such codes stress the company's commitment to prohibiting forced labor and child labor; fair and safe working conditions for employees; and nondiscrimination for reasons of gender, race, or other factors not relevant to the performance of work. The best codes include the right to form trade unions and bargain collectively. All of these issues are recognized by the International Labor Organization (ILO) as constituting "core" labor rights, and thus all ILO member governments are obliged to uphold these rights.

Corporations with codes have been experimenting with methods of monitoring the implementation of these codes by their suppliers. A number of auditing firms, as well as a few nonprofit organizations, have begun to offer services in labor rights auditing. Firms providing labor audits include Ernst and Young Global Ltd., InterTek Services Corp., and Global Compliance LLC, a spinoff of PricewaterhouseCoopers. Perhaps the most interesting new auditor in this area is Verité Inc., technically a nonprofit organization established by a former buyer for a major multinational corporation who, after witnessing firsthand the conditions in factories in China, started an independent organization to perform labor audits.

A handful of voluntary monitoring initiatives have also emerged to help corporations oversee their labor audits and to act as neutral bodies to certify or otherwise assure the consumer public that the standards in the codes have been reliably implemented.

Creating private, voluntary alternatives to effective labor law enforcement is hardly an acceptable or effective long-term solution to the problem.

In the United States, new oversight bodies include the Fair Labor Association and Social Accountability International, and in Europe, the Fair Wear Foundation and the Ethical Trading Initiative. But none of these organizations interacts with local PRC law enforcement efforts. Presumably the stakeholders in such initiatives, including consumers in developed countries, believe that the legal frameworks in countries such as China are so weak or nonexistent that they cannot be relied upon to protect workers. Yet creating private, voluntary alternatives to effective labor law enforcement is hardly an acceptable or effective long-term solution to the problem. Both activists and enlightened members of the corporate community should be asking themselves what such initiatives might do to enhance, rather than replace, legal protections for workers.

Chinese labor law is, by and large, not at odds with either the ILO core labor standards or the basic content of most corporate codes of conduct. Indeed, China has ratified more of the ILO conventions related to these standards than has the United States, including conventions prohibiting child labor, establishing criteria for the setting of minimum wages, and upholding the principle of equal pay for equal work. These concepts are also enshrined in China's basic labor code. The issue is not whether violations of these principles are legal, but whether sufficient sanctions exist to deter employers.

The law is perhaps most clear on the subject of child labor. Article 94 of China's National Labor Law forbids "illegal" recruitment of workers under age 16, an offense punishable by a fine or revocation of busi-

ness license. State Council Regulations on the Prohibition of Child Labor enumerate and elaborate upon the child labor restrictions. For instance, Articles 10 and 11 require businesses to pay the costs of sending child laborers back to their places of residence and to pay any medical fees or disability costs associated with sickness or injury of children at work. And under Article 13, employers and parents may be fined, and employers' licenses revoked, for allowing children to work.

When it comes to other core rights, however, sanctions against offenders are less clearly defined. Although China's constitution provides that "women enjoy equal rights with men in all spheres of life," PRC law provides only piecemeal coverage for women. Similarly, China's labor laws technically reflect the government's obligation to ILO Convention No. 26, which sets out minimum wage guidelines and provides for a number of important substantive definitions of minimum wages. But national regulations do not define minimum wages or sanctions for violators. Instead, these important definitions are left to local authorities, creating tremendous gaps in coverage and possibly even pitting one region against another not only in the setting of wages, but in passively encouraging employers not to comply.

Overtime has been another issue on which the laws are insufficiently clear. Articles 36–43 of the Labor Law provide for an eight-hour day and, with a number of exceptions, limit the normal work week to 44 hours. Quota-based work must also be rationalized according to the same working hour system (Article 37) and workers must receive at least one day off in a week (Article 38). But the law's hours provisions contain exceptions that include unspecified "other rules" established by labor administration departments (Article 39) and "other circumstances as stipulated by laws, administrative rules, and regulations" (Article 42). In practice, provinces and municipalities throughout China have established their own administrative guidelines for maximum hours of work and overtime, and these often far exceed the national guidelines.

On two other issues, forced labor and the right to associate, the principles in the international standards and voluntary codes of conduct clash with provisions in PRC national laws. Companies have a relatively easy way out of the forced labor dilemma, as they cannot be compelled to source goods from prison camps. Upholding the right to associate presents a much trickier dilemma, as the ILO has determined that Chinese labor law does not sufficiently guarantee freedom of association. But recent changes to China's trade union law that apparently create the possibility for workers to organize a union at the workplace level, and recent experiments by companies and by the ACFTU itself in promoting workplace-level union elections, may make it somewhat easier for individual employers to comply with the spirit of the ILO conventions on this subject.

Interestingly, Chinese law comes closer to the intent of international conventions on the subject of

Table 1:
Labor Disputes are on the Rise in China

	Number	Year	Increase
Labor disputes accepted by arbitration committees	34,273 135,2006	1986-1991 2000	298% for the decade, more than 100% annually
Laborers involved in disputes	221,115 422,617	1997 1999	91%
Collective disputes accepted by labor arbitration organs	9,043 or 7% of the total	1999	
Laborers involved in collective disputes	319,241 or 67% of the number of workers in disputes	1999	

Source: "Labour Conflict in Contemporary China: Analysis and Discussion on Several Labour Disputes." By Kai Chang and Qi Li, December 2002.

collective bargaining than on the right to associate. FIEs have a fairly low unionization rate, and a progressive employer might encourage the real exercise of the right to associate by encouraging the development of a collective bargaining agreement. Article 33 of the national Labor Law provides that “[i]n an enterprise where the trade union has not yet been set up, [a collective contract] shall be also concluded by the representative elected by the staff and workers with the enterprise.” Thus, if workers in an enterprise without a union form an ad hoc group to negotiate with management, management must bargain collectively with this group. Recent changes to China’s Trade Union Law make it possible for such a group to elect its own leaders, although ultimately the organization must affiliate with the ACFTU. In practice, a handful of FIEs have allowed or even facilitated the democratic election of workplace-level union leaders, and, at its most recent annual congress in September 2003, the ACFTU leadership endorsed this practice. This represents a remarkably rapid change, since as recently as 1998, ACFTU Secretary General Xiao Zhenbang urged affiliate unions to prevent “unexpected incidents” by working with the Chinese Communist Party and the state to consolidate control from above.

Worker advocates emerge

The ACFTU leadership presumably recognizes that it must make itself useful to the millions of workers in FIEs and private Chinese enterprises or perish as state-owned enterprises are reformed. In an apparent reflection of this new attitude, at the 2003 annual ACFTU congress, the federation made a direct appeal to a multinational retail corporation, Wal-Mart Stores, Inc. Union spokespeople urged Wal-Mart to establish trade unions and stated, “For companies depriving the rights of employees to establish trade unions, we reserve the right of resorting to lawsuits.” The union federation leadership is surely aware that the actual employers they must deal with are not only Wal-Mart staff in retail outlets, but also a wide range of contractors and subcontractors; at the same time, the union recognizes that the power to change conditions among the subcontractors is in the hands of the multinational retail giant.

Still, the vast majority of workers in China’s manufacturing zones are waiting for representation of any kind. Private lawyers and new grassroots organizations are starting to take up some cases, although they remain few in number. This country of more than 1 billion people has only slightly more than 110,000 trained lawyers. Of these, only a few are sufficiently trained to handle labor disputes, and they often cannot make a living solely through their client base. A small handful of labor lawyers in South China, in particular Zhou Litai and, to a lesser extent, paralegal Zeng Feiyang, have become well known for such work thanks to media publicity, but such advocates can only handle a tiny number

of cases. Interestingly, national networks such as the All-China Lawyers’ Association and the All-China Women’s Federation are slowly developing institutional capacity to deal with labor cases (see the *CBR*, May-June 2002, p.30).

In the absence of trained experts who can represent workers in labor disputes, workers have turned to informal advocates or have acted as their own advocates before the courts. Not surprisingly, in most cases workers have been unsuccessful in winning settlements in their favor. A small handful of genuine indigenous NGOs, such as the Chinese Working Women’s Network, have tried to address the knowledge gap by providing legal resource materials to workers. Law schools have also tried to fill the gap by setting up clinics in which law students advise workers. Again, these efforts address only a fraction of potential cases. Nevertheless, these fledgling efforts signal that the wave of labor law activism is beginning to gain force.

A path for employers

In a climate where full enforcement of labor laws is still the exception rather than the norm, it is not difficult for an employer to stand out simply by implementing sound industrial relations policies within the workplace. These policies must involve genuine worker representation if they are to succeed in heading off legal problems. This may mean working with local level ACFTU branches or, given the union federation’s limitations, helping workers to form their own grievance or bargaining committees. Since most of China’s workers lack exposure to these concepts, good policies involve inviting outside experts, such as the ILO, to provide training for these committees.

Finally, corporations must find ways to insist that their vendors and suppliers in China abide by basic labor laws and international labor standards. Codes of conduct and privately hired monitors will be ineffective as long as there is no real threat of sanctions for noncompliance. At least one US-based retail corporation has taken the innovative step of including a labor rights clause in its letter of credit arrangements with direct suppliers not only in China but worldwide, creating the real threat of non-payment if the supplier violates the standards. Better still, companies might include such language in their contracts with both suppliers and vendors, with a clause similar to that requiring arbitration in the case of commercial disputes. The push from below for better legal implementation is only beginning to gain momentum. Companies can gain rather than lose from these changes, if they are willing to push from above.

**Table 2:
Labor Dispute Issues, 2000**

Issue	Number	Percent of total
Wages	41,671	30.8
Labor contract	35,974	26.3
Social & insurance benefits	31,350	23.1
Remedy for injury suffered on the job	13,008	9.6
Training	12,549	9.2
Other	834	0.6

Source: “Labour Conflict in Contemporary China: Analysis and Discussion on Several Labour Disputes”

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HOPE FOR CHINA'S M I G R A N T WOMEN WORKERS

ZHANG YE

Civil society groups
are emerging
to aid migrant
women in
southern China

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More than 10 million migrant laborers work in Guangdong Province, according to China's 2000 national census, and the Guangdong Statistical Bureau estimates that more than 60 percent of these are women. Migrant workers tend to staff wholly foreign-owned enterprises, joint ventures, township and village enterprises, and private enterprises that produce toys, clothing, footwear, electronics, and other consumer goods. Female workers usually come to Guangdong from poorer provinces along the Yangzi River such as Hubei, Hunan, Jiangsu, Jiangxi, and Sichuan. They find jobs in Guangdong factories through labor bureaus, from relatives and friends, or by word of mouth.

Guangdong's economy has grown more than 14 percent per year on average during the past decade, and the province has accounted for about half of the country's total GDP growth. Guangdong alone generates more than 40 percent of China's foreign trade in terms of value. While both the central and local governments have recognized the indispensable contribution of migrant labor, so far government policy has provided migrant labor few protections.

Labor on the move

China's limited supply of arable land is unable to absorb the large supply of surplus labor in the countryside (see *The CBR*, March-April 2002, p.18). At the same time, the cost of agricultural products has increased by 10 percent each year over the last decade, according to *China Development Review*, and most of China's agricultural products have already lost their comparative advantage in the international market. Farmers also often find it difficult to sell their products in domestic markets, in part because consumption patterns in China's prosperous cities are shifting away from grains and other basic foodstuffs and because the government has cut back the resources it devotes to agricultural development in recent years. Large numbers of farmers have thus left the land to find jobs in big cities such as Beijing and Shanghai, and the cities of the Pearl River delta in Guangdong.

The current residential permit (*hukou*) system prevents migrant laborers from staying in the big cities permanently, however. Without an urban *hukou*, farmers are technically not allowed to

live and work in the cities and cannot benefit from the social safety net the Chinese government provides to urban citizens (see p.32). From 1949 to the early 1980s, the *hukou* and work unit systems prevented labor mobility and the development of true labor markets. As a result, most of the rural population was tied to the land.

But with economic reforms came plentiful urban jobs—largely in construction, food services, and factories—that urban populations alone could not fill. Despite the *hukou* and work unit restrictions on mobility, large numbers of migrant laborers have flooded the big cities in the past 10 years. This wave of migration has broken the original rigid system in many ways. Local farmers are no longer tied tightly to their farmland. They can move to big cities whenever there are jobs and can usually manage to make some kind of living.

Though the central government has recognized urban economies' need for rural labor, it is still concerned about urban overpopulation, and thus far social policies and government practices have lagged behind social change. Each city still handles migrant labor at its own discretion. Policies vary according to local political, economic, and social circumstances. Often the rules and policies discriminate against migrant laborers. Official reports on migrant labor tend to emphasize the negative side, such as rising crime rates, environmental degradation, and difficulties implementing family planning and other policies. And urban residents and local city governments exclude migrant workers from urban political, cultural, educational, and social arenas so that they are essentially confined to isolated factory communities or industrial complexes.

Even in places like the Pearl River delta, where a larger labor force is needed and migrant laborers drive economic development, the system still fails to guarantee a migrant worker's quality of life and job security. In Shenzhen, where economic growth has been the most rapid and most sustained in China over the past 20 years, migrant laborers were responsible for as much as 70 percent of the growth of industrial output in the mid-1990s, according to Dr. Liu Kaiming, a research fellow at the Institute of Contemporary Observation in Shenzhen. Nonetheless, most local governments do not recognize the contribution of migrant labor to big city development and expansion.

Migrants suffer rights violations

Chinese laws and regulations recognize citizens' "equal rights in employment and selection of jobs," yet the rights and interests of migrant workers are often violated. More often than not migrant workers face significant problems in the workplace.

- Most of the laborers do not have contracts with their employers, and those that do have

minimal power when negotiating working conditions and benefits and thus end up simply agreeing to the terms and conditions offered by the employers.

- Migrant laborers typically work long hours, averaging 11 to 12 hours per day. Many factories do not observe weekends, and workers work seven days a week, even though China's Labor Law guarantees workers 8-hour workdays, 40-hour workweeks, and at least one day off per week.

- Migrant wages are often well below the local legal minimum wage, and some factories force workers to pay fees the government intended factories to pay—such as job introduction fees and fees for permits that allow workers to stay temporarily in Guangdong—so that workers receive even less than their set wage.

- The large majority of migrant laborers do not enjoy benefits such as medical insurance and social welfare services to which citizens with a local *hukou* are entitled.

- Supervisors often infringe upon migrant laborers' personal rights and dignity, and physical assault and personal humiliation are not uncommon.

- Workplace injuries are common, often because factories do not meet safety standards. Workers are often exposed to industrial hazards and pollution.

- Few of the nonstate-owned factories have organized labor unions, and thus workers lack an appropriate channel through which to voice their concerns. Even the factories that have a branch of the government-sanctioned national labor union (All-China Federation of Trade Unions [ACFTU]) do not always improve their working environments because, in many cases, these labor unions don't really represent the workers' interests.

Women overlooked

Chinese government development programs tend to overlook women's roles and rights, and existing policies do not favor women's employment and career development. Even compared with 10 years ago, Chinese women's social status has declined in many ways, found a 2001 survey by the All-China Women's Federation, a Chinese organization that has a close relationship with the government. For instance, the percentage of women in politics has fallen, and women's employment opportunities remain limited. Chinese rural women, who make up the bulk of women migrants, have been pushed to the bottom of the social hierarchy, suffering more than urban women in the process of modernization.

In addition, these women migrants face poorer working conditions than their male counterparts. Though statistics show that the migrant labor male-to-female ratio nationwide is 2:1, in the Pearl River delta the ratio is reversed. Job segregation in the delta pushes

Though statistics show that the migrant labor male-to-female ratio nationwide is 2:1, in the Pearl River delta the ratio is reversed.

women into the unskilled, labor-intensive, and lower-paid apparel, footwear, and toy industries. The average monthly salary for a woman migrant worker in Guangdong is ¥300-¥500 (\$37-\$62), according to a 2000 report by the Institute of Sociology of the Chinese Academy of Social Sciences. In contrast, male migrant workers generally earn ¥500 or more a month. Salary levels have stagnated since the early 1990s. Given inflation and increases in the cost of living, salaries have fallen in real terms.

China's Labor Law guarantees women workers maternity leave and protection for their reproductive health. Yet the country's vast pool of cheap labor makes it easy for employers to refuse

to pay maternity leave or simply to fire women workers when they become pregnant. In many factories, the working conditions and environment are harmful to women's health, particularly in the footwear and garment factories. The chemical fumes, unbearable heat, and long hours of standing not only affect women's general physical health but are also detrimental to their reproductive health.

Migrant women workers tend to be naïve and unassertive, leaving them more vulnerable to sexual harassment and personal abuse than local women. A few cases in which migrant women workers became mistresses of Hong Kong or Taiwan businessmen caused concern among local

Hukou Reform Targets Urban-Rural Divide

Recent reforms to China's household registration (*hukou*) system have begun to redress the historical bifurcation of Chinese society into urban and rural classes. Identification booklets, also called *hukou*, are issued to all Chinese and identify the carrier as a rural or non-rural resident. Each urban administrative entity (town, city, etc.) issues its own *hukou* and provides full access to social services such as education only to its own *hukou* holders.

The document and the symbol

More than just an identification document, the *hukou* symbolizes China's two-tiered society. China adapted its *hukou* system from other communist countries during the famines of the 1950s to distinguish farmers, who could grow food, from urbanites, who needed grain rations. During the 1960s and 1970s, the system hardened to the point that peasants could be arrested just for entering cities. In the 1980s and 1990s, most urban areas relaxed these barriers to travel, which, along with economic reforms, prompted an influx of rural migrants. Until recently, migrants have had to obtain temporary residence permits to remain in urban centers and have had to pay excessive fees for social services. Police can still summarily expel from cities any migrants without residence documents.

The reforms enable rural migrants with stable jobs and fixed residences to register for the first time as urban residents. In one sense, the reforms simply acknowledge the flow of rural migrants to cities in recent decades. In a deeper sense, liberalization of the *hukou* system will help to improve labor mobility and to accord some measure of equal treatment to rural inhabitants in the cities, who have traditionally been treated as second-class citizens.

The basic reforms

Hukou reforms differ from locality to locality but set roughly the same qualifications for entitlement to urban registration. Basically, a person and each of his or her immediate family members can obtain an urban *hukou* if he or she has a fixed residence and stable work in an urban area, usually defined as more than one year on the job. These two qualifications were laid out in Chinese Communist Party Central Committee Document No. 11 of November 2000, which outlined China's urbanization strategy for the Tenth Five-Year Plan (2001-05). Areas involved in *hukou* reform also offer urban registration to those who purchase a local commercial housing unit. Given the relatively high price of commercial housing in China, this provision aims to attract urban investment from outside entrepreneurs. Urban centers also often offer *hukou* to holders of graduate degrees to lure professionals from other areas.

Since mid-2001, China has expanded the geographic scope of its *hukou* system reforms, as prescribed by Central Committee Document No. 11. During 2001, about 600,000 rural residents acquired urban *hukou*, according to China's State Commission on Restructuring the Economy (SCORE). State Council Circular No. 6 of March 2001 mandated that all small cities (those with populations of less than 100,000) should grant *hukou* to residents with fixed jobs and homes beginning October 1, 2001. The reforms now encompass all towns and small cities in Anhui, Guangdong, Hebei, Jiangsu, Shandong, Sichuan, and Zhejiang provinces.

Reforms also extend to several large cities, including Beijing, Chongqing, and Shanghai; Hefei, Anhui; Jinan, Shandong; Ningbo, Zhejiang; and Shijiazhuang, Hebei. Guangdong has reportedly eliminated the urban-rural distinction altogether and no

longer stamps *hukou* as "urban" or "rural." Nevertheless, rural residents still try to obtain a Guangzhou *hukou* to access the city's social services.

A SCORE official recently told the *China Economic Times* that problems relating to unemployment, the social safety net, and pollution precluded most large cities from trying *hukou* reforms. The several large cities that had initiated reforms, he said, had done so because of their ability to absorb significant numbers of outsiders.

These cities have placed significant limits on eligibility for urban registration, however. Outsiders who qualify for Beijing's *hukou*, for example, include only educated professionals, commercial home buyers, and entrepreneurs with firms employing more than 100 people. Other large cities limit urban registration to qualified residents in designated counties and towns lying within their administrative boundaries. (In China, a large city—defined as having more than a million people—can have administrative authority over outlying counties and small cities, though they might be separately chartered urban entities.) A rural migrant, in other words, still cannot acquire a *hukou* to live in a big city proper—only a *hukou* to live in urban areas situated along the city's periphery. The exception is Shijiazhuang, which has offered an urban *hukou* to any resident with a fixed home and job since August 2001. Some economists note, though, that most rural migrants would be unable to afford the cost of living in big cities even if allowed to settle there.

Accepting reality

The geographic expansion of *hukou* reform is a bow to necessity, given the flow of rural inhabitants to urban areas in recent decades. *China Information Daily* reported last November that, from 1982 to 2000, more

authorities, who sometimes identify migrant women as a threat to the stability of marriages and family. Government-sponsored “strike hard” campaigns launched in Guangdong often target these mistresses, many of whom are already marginalized migrant women.

Migrant women workers in the Pearl River delta also typically shoulder large family responsibilities. The money they remit home is often the main source of income and essential support for family expenses such as housing, parent hospitalization, and sibling education or marriage.

Many of these migrant women, most of whom are aged 18-25, become trapped by cir-

cumstance. Because they are not official urban residents, they cannot stay in the big cities forever. But home may no longer have a place for them either—after living in the cities, many young women have trouble readjusting to rural conditions. The new and unstable position they find themselves in presents psychological issues and other dilemmas.

The government response

The central government has recognized the constraints of the original rural-urban dichotomy guaranteed by the *hukou* system, and various government agencies have suggested

than 200 million rural Chinese moved to urban areas—more than half in the 1995-2000 period alone—attracted by jobs in the manufacturing and service sectors. Of the total flow during the last 20 years, roughly 100 million lacked legal status in the form of temporary residence permits or urban *hukou*. *China Information Daily* predicted that 180 million rural Chinese would move to urban areas by 2010, as *hukou* reform makes internal migration easier.

It's all about education

Why would rural migrants with stable work and a fixed dwelling in an urban area feel the need to change *hukou*? The main reason is their children's education, according to a Chinese labor economist who has studied *hukou* reform in Fenghua, a small city within the jurisdiction of Ningbo. According to the economist, Fenghua's rural *hukou* holders must pay ¥3,500 (\$437) for their children's yearly primary school tuition, inclusive of various book fees. For urban *hukou* holders, primary school costs only ¥1,200 (\$150) per child per year. This disparity is typical of most urban centers. Moreover, discriminatory education policies make it more difficult for rural *hukou* holders than urban *hukou* holders to enter universities. An urban *hukou* could thus mean the difference between a lifetime of manual labor and a high-paying, white-collar career for one's children.

Reforms in Jinan

Jinan, Shandong's provincial seat, is one of the few large Chinese cities that have undertaken *hukou* reforms. Greater Jinan encompasses four outlying counties and one small city, home to 3.3 million rural *hukou* holders, or 58 percent of greater Jinan's 5.6 million residents. Since 1997, residents with a

college degree or above, as well as investors and buyers of commercial housing, have been able to obtain urban *hukou*. In August 2001, the Jinan city government also began to allow rural *hukou* holders in the outlying small city and counties to acquire an urban *hukou* at no charge. To register as urbanites, applicants need a fixed residence and stable work, corroborated by an employer's contract. City officials say that roughly 40,000 rural residents in the designated areas have switched to an urban *hukou* since August.

The recent reforms have had a minimal impact on Jinan society, according to the Public Security Bureau (PSB), which, as in most Chinese cities, oversees household registration. The reason, the PSB said, was that those who have changed *hukou* had lived in the city long before the reforms were announced. Jinan has not experienced an influx of migrants since August. The requirement that migrants have steady work before changing *hukou* also precluded the possibility of new urban *hukou* holders competing with Jinan's unemployed for jobs. By the same token, PSB officials said, Jinan would wait three to five years before allowing rural *hukou* holders in the city proper to obtain an urban *hukou*, to guard against potential problems with vagrancy and environmental damage.

Is *hukou* reform too slow?

The principal obstacle to more extensive *hukou* reforms is the fear among city leaders that urban social welfare systems cannot support large inflows of rural migrants, according to one economist. He argued that this fear was unfounded, citing the numerous public assets that cities could use to generate the proceeds necessary to ensure social welfare coverage for expanded city populations. The economist explained, for example,

that city governments owned all land within their jurisdiction and could easily sell this asset piecemeal and tax real estate transactions to raise funds. Another untapped source of social welfare funds is the farmland that peasants leave behind when they move to urban areas. To protect themselves against unemployment or other urban hardships, migrants should be allowed to obtain “back-up” funds by selling or mortgaging their land.

The significance of *hukou* reform

A lack of labor mobility has long been an odd feature of the Chinese economy. Close to 25 million urban workers have been laid off since 1997, and economists estimate that China's excess rural labor force is 150 to 200 million. One obvious solution to these problems would be to encourage laid-off and surplus workers to move to eastern provinces that offer manufacturing and service sector jobs. While the *hukou* system has not stopped the flow of rural workers to urban centers, it has impeded their integration into those areas and their access to the most prized jobs. *Hukou* reforms, therefore, should allocate labor more rationally by making it easier for workers to settle in areas where their labor is needed most. Moreover, because the *hukou* system perpetuates China's longstanding urban-rural divide, these reforms are an unprecedented step toward dismantling a social structure that, according to some economists and policymakers, denies “national treatment” to rural inhabitants.

—Joe Young

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strategies for abolishing the system. Indeed, in some places, *hukou* reform has already begun.

But for now, in most places, local protectionism continues to resist fundamental changes in the system. Local governments prefer to use migrant workers as a reliable source of cheap labor, and rarely consider them when formulating urban plans or urban social welfare

policies. And because the migrant population pays large fees every year to the local authorities to obtain the various permissions necessary for them to work and live temporarily in Guangdong, migrant workers are cash cows for local bureaucracies. In Shenzhen, for example, taxes levied on migrant laborers account for 70 percent of local government tax revenue, according

Social Justice for Working Women in Guangdong

Multinational companies that manufacture or have their goods manufactured in China have come under scrutiny in recent years for the working conditions at their facilities. A few companies, such as leading apparel marketer Levi Strauss & Co. (LS&CO), have launched a range of measures that attempt to improve the conditions in their suppliers' factories and help local communities. LS&CO, with 2001 sales of \$4.3 billion in more than 100 countries, has roughly 16,700 employees worldwide. The company has a strong business presence in the Asia-Pacific region, including a manufacturing presence in Hong Kong and China (primarily Guangdong) through contractors. The company estimates that 28,000 employees work in its contracting facilities in China; about 80 percent are women. (This figure does not include licensee and affiliate production.)

LS&CO routinely audits all of its contractors for compliance with *Global Sourcing and Operating Guidelines*, a code of conduct that directs business practices such as fair employment, worker health and safety, and environmental standards. This code, based in part on international standards developed by the International Labor Organization, has led the way in improving working conditions in apparel factories throughout the world. If LS&CO determines that a business partner is not complying with these guidelines, the company requires the partner to correct the problem within a specified time period. If a contractor fails to comply, LS&CO will terminate the business relationship.

The company also seeks input and recommendations from nongovernmental organizations (NGOs) to improve its internal monitoring process. LS&CO actively participates in the Fair Labor Association (a collaborative effort among the business, NGO, and university communities aimed at protecting workers' rights and improving independent monitoring systems) and the Ethical Trading Initiative.

Supporting NGO initiatives

LS&CO goes beyond the factories to help support local communities through the Levi

Strauss Foundation. In Asia, LS&CO and the Levi Strauss Foundation give more than \$2 million annually to local communities, of which around \$400,000 annually has been committed to China (including Hong Kong) for the past three years. Since 1999, the company has extended its grantmaking activities to benefit the communities in China from which it sources, with significant grants to NGOs for projects in the Pearl River delta region.

The foundation's main initiative in China so far is a \$300,000 Asia Foundation project to help migrant women factory workers in Guangdong through legal rights, health, and education programs. Known as the *Social Justice for Working Women Program*, this project offers much-needed services to women workers of southern Guangdong through Women Workers' Legal Aid Centers, Women Workers' Mobile Health Services, and Women Workers' Education and Counseling Centers.

According to the Asia Foundation, the popularity of the program has encouraged local government service providers to offer these support services on a regular basis, whereas they had just offered emergency assistance in the past. The foundation notes that local governments "have since endorsed" minimum labor rights standards for migrant workers.

The need for services

The Asia Foundation identified the above services, in consultation with the Guangdong Women's Federation, the Guangdong Labor Union, and the Qinghua University Research Center on Contemporary China (which collaborates with the Guangdong Women's Cadre Training School), as the most effective ways to address the current needs of women workers in Guangdong. Because the average education level of women migrant workers is junior middle school—some have only completed primary school, and fewer have finished senior middle school—very few of these women have much knowledge of the legal and health issues that concern them.

Moreover, the Guangdong Labor Union's health checkups have shown that health

problems are common among women workers, who, along with gender-specific complaints, also suffer from respiratory diseases and high blood pressure. In some factories, working conditions harm workers' health. For instance, in footwear factories, workers may be exposed to poisons in the glue used for shoe making; in welding and metallurgical factories, workers may be exposed to dust and poisons in the paint. Workers in garment and toy factories can suffer exposure to dust and excessive heat and noise, and workers in wooden handicraft factories are sometimes exposed to dust, heat, and toxic paint.

● Women Workers' Legal Aid Centers

One of the most important services of the Women Workers' Legal Aid Centers is the legal counseling the Guangdong Women's Federation provides to migrant women workers. Migrant workers have little, if any, knowledge of their rights as workers, as women, and as members of Chinese society. With the aid of lawyers from the women's federation, migrant women and other workers are able to obtain better access to justice in cases ranging from physical abuse, factory injuries, and divorce to labor and property disputes.

In 2001 alone, the Guangdong Women's Federation handled more than 50 legal cases on behalf of migrant women in roughly 10 cities across the province. According to the Asia Foundation, the cases involved compensation for workplace injuries, nonpayment of wages, bigamy, and divorce. Most of the federation's clients won their cases.

Last year, the federation distributed more than 21,000 copies of *Learn to Protect Yourself*, a handbook covering basic legal rights, to migrant workers and drafted a report on the eligibility of citizens for legal aid support services. To raise awareness of the importance of legal aid, as well as garner public support, the women's federation published 15 articles on the program's activities and legal cases in local newspapers in 2000. The news column "Self-Protection of Migrant Women Workers"—started by the project and published in the *Yang Cheng Evening News*—has become very popular among migrant women, many of whom send their own articles for publication in the column.

to Liu Kaiming. Local governments therefore have significant incentives to maintain the status quo.

Local officials also tend to be ambivalent about the poor labor standards of foreign-invested companies. Because overseas investments provide the bulk of revenue for many local economies, local officials generally would rather

protect the interests of the companies than the rights and interests of the migrant workers.

Local officials and urban residents have formulated strong interest groups that oppose changes to the system. In Beijing, until 2000, more than 100 kinds of jobs were not open to migrant labor. Now, some low-paid jobs that many Beijing residents are unwilling to take,

The women's federation also operates four telephone hotlines, which handled more than 7,000 inquiries in 2001. Most of the questions dealt with legal issues such as labor disputes, labor contracts, and divorce. More hotlines may be set up in the future, depending on funding and human resources.

● **Women Workers' Mobile Health Services**

Under the Women Workers' Mobile Health Services program, a team of health professionals travels throughout southern Guangdong offering free medical advice, health education, and physical checkups to women factory and other workers. Before the program was set up, the Women's Department of the Guangdong Labor Union analyzed factory conditions and their relation to women workers' health and hygiene. The findings suggested a need for "onsite health and hygiene education, counseling, and checkup services for at-risk female factory workers." The absence of preventive health education and the limited access to basic healthcare for women workers is a significant problem in the province.

These mobile health services, which benefited more than 5,000 migrant and other workers in 2001, travel to 12 factories every month. In addition, women's health fairs took place last year in township and municipal facilities in eight localities. HIV/AIDS awareness has been introduced into some of the educational materials and services, along with breast cancer protection and infectious illness prevention information. Women who are found to have health problems are introduced to hospitals for treatment.

Follow-up efforts by the labor union's women's department have shown that, after receiving these materials and services, women workers are more aware of how to protect their health and are more willing to join the labor union-initiated health insurance program, which covers much of the cost of their medical care. According to the Asia Foundation, the project has included several presentations for more than 100,000 women workers, safety courses for women union members (not exclusively for migrant women), and consultations on regulations specific to women workers.

● **Women Workers' Education and Counseling Centers**

The Guangdong Provincial Women Officials' Training Center oversees four Women Workers' Education and Counseling Centers, which provide education and counseling programs for women workers. These programs cover self-esteem, legal rights and protection, healthcare, gender relations, HIV/AIDS awareness, personal hygiene, and interpersonal skills in the workplace. The center developed new materials to educate women workers in these areas and distributed them to more than 5,000 women workers. In 2001, the centers provided psychological counseling to about 250 women. The most common complaints are adjustment to new working and living environments, interpersonal relationships, labor disputes, and reproductive health. The centers were first established in Zhongshan and Dongguan in 2000 and will be expanded to Panyu District of Guangzhou and Nanhai District of Foshan in 2002.

The project also held the first-ever Conference on Guangdong Provincial Social Policies and Services for Migrant Workers, which was cosponsored by the provincial government and attended by representatives from local governments, domestic and foreign-invested firms, and NGOs. After the conference, some local government agencies improved their policies and practices concerning migrant workers. For instance, the local authorities now handle migrant workers' complaints about delays in salary payments more effectively.

Difficulties and encouragement

The project has run into difficulties, largely from the women migrants' employers, even though most training and counseling sessions are held on Sunday, a day off for most workers. These companies complain that some of the lectures are too sensitive or provocative and are reluctant to let the project team come into the factories. The project staff must often spend months explaining the project and its purpose to the employers to persuade them that the project will benefit their workers without having a negative effect on

their business. Even so, only a limited number of factories—usually those with better conditions—have agreed to let the project team into the factories for lectures.

Getting local government officials' cooperation has also been difficult. It often takes months to get local officials to agree to let the project go ahead, because they are concerned that some of the lectures and counseling may upset the investors that generate most of the local economy's revenue. Local officials are willing to cooperate only once they are convinced that the program will benefit both sides.

Despite such difficulties, testimony from the women migrants themselves seems to indicate that the project is having the desired effect. Interviews conducted with women who have attended project training courses since 2000 clearly indicate that the women find them useful.

One 24-year-old migrant woman from Sichuan was excited to learn more about reproductive health, according to Asia Foundation follow-up interviews. She and her friends had heard stories about women who had become pregnant or contracted sexually transmitted diseases but had never been told exactly how to prevent pregnancy or such diseases. After participating in the program, she said, she feels she knows how to protect herself and whom to ask for help if she were to find herself in such a situation.

A 28-year-old woman from Hunan echoed those sentiments and added that she now has more self-confidence and knows what to do if she experiences health problems or if her rights are infringed. Indeed, the interviews indicate that women particularly value information on sexual and reproductive health. Perhaps even more important is the sense of self-empowerment they seem to have gained. Many of the interviewees note that, after participating in some of the project's training sessions, they have the confidence to stand up for their rights for the first time in their lives.

—Virginia A. Hulme

Virginia A. Hulme is associate editor of *The CBR*.

The Chinese media play an increasingly important role in raising awareness about the situation of migrant labor. Guangdong newspapers work closely with the women's federation, the labor union, and the local judiciary, and the media have exposed many major labor accidents and serious legal cases involving migrant labor.

such as street sweeping or garbage collecting, are open to migrants. In Shenzhen, the most open city in China, only white-collar workers with higher education can obtain a local *hukou*. While changes in the *hukou* system are inevitable in the long run, the local governments that are the actual beneficiaries of the current system will resist fundamental change. Until such change occurs, migrant laborers' disadvantaged position will continue.

A few bright spots: Civil society

China is trying to move in the direction of the rule of law. As part of the central government's efforts to join the international system in the past 20 years, China has joined and ratified over 20 international treaties and agreements to guarantee and protect women's—and indeed all citizens'—basic rights. China has among the best legal protections of women's rights on the books, but weak enforcement has stymied improvements in the position of migrant women workers.

In the past 10 years, China's nongovernmental organizations (NGOs) have been playing an increasingly important role in the delivery of social services. Horizontal linkages among NGOs, as well as between NGOs and other sectors, in China and abroad have enhanced NGOs' advocacy capacity. In Guangdong, linkages among Chinese and foreign NGOs, multinational corporations, and scholars are quietly forming. Joint activities in this region include the provision of services and assistance to migrant labor.

Several groups have begun to focus attention on and provide services to migrant women workers. The following are just a few examples.

- Over the past five years, teams of scholars from the Chinese Academy of Social Sciences, Qinghua Center for Contemporary China Studies, and Guangdong Women's Cadre Training School, among others, have conducted a series of studies about the disadvantaged position of migrant laborers. They have published their findings in a series of books and articles to push for policy change. They have also provided education and training in law, reproductive health, self-protection, and social skills for migrant women workers.

- Some traditional mass organizations, such as the ACFTU and the All-China Women's Federation, have shifted from a Communist Party-line-focused approach to a service-focused approach. With the support of foreign foundations and companies, they have turned their attention to the well-being of migrant women workers, addressing issues such as legal rights and health conditions.

- The Chinese media play an increasingly important role in raising awareness about the situation of migrant labor. Guangdong newspapers

work closely with the women's federation, the labor union, and the local judiciary, and the media have exposed many major labor accidents and serious legal cases involving migrant labor. As a result, government agencies have forced some factories to improve their safety measures and have levied fines. And thanks to media-fueled social pressure, the victimized workers won their lawsuits and received compensation more easily than in cases where such attention was lacking. As labor issues become an important social topic, more factories are paying attention to labor standards and migrant women's working and living conditions.

- Some migrant workers in Guangdong have organized themselves into support groups, often based on their home provinces. Members of these groups provide each other with information and arrange lodging for new arrivals.

- Foreign NGOs and foundations are working with local NGOs to provide services and training for migrant workers, particularly female workers. For example, the Asia Foundation has been active in Guangdong since 1999 working with the local labor union, women's federation, and university-based research centers to provide counseling and services to tens of thousands of migrant women workers. Oxfam Hong Kong has provided women workers with a van not only for transportation but also for medical care and other social service activities. The Global Alliance for Workers and Communities has launched activities in factories where the majority of workers are women.

- Numerous multinational corporations that benefit from their own business and investment in the region have also begun to recognize the importance of addressing some of these issues. Some multinational corporations support intermediaries and NGOs in their work concerning labor standards, rights, and justice for women workers (see p.34).

These various players are not only helping migrant workers solve legal issues, but are also creating pressure on society to improve the working and living conditions of migrant workers.

The development of civil society has created a new opportunity to enhance women's roles and rights. Both the state and the market have failed in the past to provide women with equal opportunities or necessary protections. Citizen participation can help supply these public goods and protect worker rights. As NGOs play an increasingly important role in China, they are becoming tangible providers of services for needy people. Gradually, they are coming to act as advocates for social change. This kind of bottom-up approach will encourage further opening and will gradually change Chinese society and, one hopes, improve the lot of *all* of China's migrant workers, both male and female. 完

Three “C”s: Civil Society, Corporate Social Responsibility, and China

Nick Young

As reform in China deepens, independent organizations are springing up in the gaps left by a retreating government

The world, we are told, is divided into three spheres of action: government (also known as “the state”); business (“the market”), and some altogether vaguer amalgam of citizen action and participation known collectively as “civil society” or, less engagingly, the “third sector.” This division overlooks the cross-cutting nature of important social institutions, such as the law, the media, and the family, which don’t fit easily into one box or another.

The idea of civil society nonetheless has remarkably broad appeal. For some, it represents a renewal of participatory-democratic possibilities—and a means by which to keep capital in check. For others, it represents a further means to ensure the retreat and containment of the state. For those somewhere in the middle, civil society is a useful compromise: a way to balance market imperfections so that the environment and other good causes get a fair hearing. The three-sector framework also helps focus attention on the fact that all three sectors are changing in size, shape, and role at the same time, and perhaps nowhere so fast as in China.

The government retreats...

The Chinese government has been gradually downsizing and withdrawing from direct economic management. Though this process is by no means complete, it remains to be seen how much further, and how smoothly, it will go. The “socialist market” is still strongly interventionist. State-owned enterprises continue to dominate the poor, western provinces, despite government efforts to lure private investment there. The banking system remains politically directed, making it hard for private entrepreneurs to access credit, despite the uncontested dynamism of the private sector. Entrepreneurs are also constrained by the lack of an adequate legal frame-

work and, even more, by the absence of an effective judiciary. And the Chinese Communist Party elite continues to enjoy broad, discretionary powers, inviting rampant corruption despite denunciations from the top leadership and the execution of high profile culprits.

The retreat of government is perhaps most pronounced in the provision of social services. One aspect of this is the de-linking of cradle-to-grave welfare provision from state work units. At the same time, health and education services have largely shifted to a “user pays” principle, resulting in a marked growth in inequality of access. Investment is heavily concentrated in urban areas, where populations can afford to purchase services, whereas heavily indebted local governments in rural areas often cannot even afford to pay their schoolteachers. In poor rural areas, people can seldom afford to use local health facilities that are caught in a vicious cycle of rising prices and falling quality. The government is attempting to address some of the most pressing problems through a range of social insurance schemes, but these are generally undercapitalized and have limited reach (see *The CBR*, May-June 2001, p.18). Funding troubles are only exacerbated by the fact that China’s taxation system does not meet the requirements of its new economy: It takes in far less revenue than it should and has difficulty transferring funds to the areas that need them most.

Nonetheless, the government appears to be recasting itself as a facilitator, rather than as a direct provider, of social services. There are few signs that it intends to scale up provision to meet the massive demand for new kinds of services generated by demographic, economic, and social change. Rising aspirations will only increase demand for these services. A growing, more affluent, and more empowered managerial and professional class will seek quality education, care, counseling, and rehabilitation for disabled, chron-

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The most persuasive case for autonomous civil society will be demonstrable success in creating new and effective forms of social provision—just as the most persuasive argument for the market economy turned out to be that it worked for the peasants who, back in the late 1970s, went ahead and de-collectivized without asking government permission.

ically, or mentally ill relatives or those with drug or alcohol problems. They will also be more inclined to seek legal redress for infringements of their rights. Even if private and nonprofit service providers only cater initially to urban elites, their activities may nonetheless expand general social perceptions of the quality of life possible for people with special needs or problems.

At the same time, the relative freedom and mobility of the market also bring in their wake new sources of social stress and problems that are unlikely to be resolved by government fiat: prostitution; crime; drug use; trafficking in women and children; the structural problems of a large rural-urban migrant population without full urban residency rights or access to basic services; a growth in numbers of street children, vagrants, and beggars; an increase in single parent families; and, arguably, an increase in people suffering from depression or other kinds of mental illness as a result of societal stress—from lengthy commutes to increased competition in job markets. Finally, as Chinese cities become larger, more anonymous, and more dominated by concrete and cars, and as rural environments become more degraded, there is very likely to be a surge in demand for improved environmental amenities and quality of life.

In sum, the Party and government face a daunting combination of existing service gaps, expanding demand for services, and severe fiscal constraints, but show little appetite for the task.

...and social forces advance

Instead, the government is passing the baton to “social forces”—an unspecified blend of private and nonprofit service providers. Policy statements and even laws enacted by the National People’s Congress are spattered with appeals to these social forces. A more or less clear green light has been given to private hospitals and schools, including universities. Major public universities, such as Beijing and Qinghua, have established private foundations to capture philanthropic funding (the Beijing University Foundation has a subsidiary registered in California), and major hospitals in eastern provinces are following suit. The 1999 Public Welfare Donation Law was clearly designed to facilitate the flow of private funds to such institutions, with a particular eye to wealthy, overseas Chinese donors such as Hong Kong billionaire Li Ka-Shing, who has endowed a university and hospital in his native Guangdong Province.

In several parts of the country, civil affairs bureaus have contracted out the management of orphanages to international charitable organizations. Education and health authorities in some areas are reportedly exploring similar arrangements with private service providers. In many cities, nonprofit and private service providers—though there is seldom a clear distinction between the two—have established retirement

homes with varying degrees of local government investment and support.

China has yet to develop clear standards and an adequate inspection system for institutions and services of this kind. It is, however, evidently pursuing an American model of private and nonprofit provision, backed by private and public insurance schemes, rather than a European model of mainly state-delivered social services.

The rise of governmental nongovernmental organizations

On the nonprofit side, the government has, over the last 20 years, established a number of official charitable organizations, some of which have proved able to mobilize substantial private funding. Best known is the China Youth Development Foundation’s flagship Project Hope, which since 1989 has raised more than \$200 million to build rural schools and provide scholarships for students from poor areas. Much of the funding has come from corporations and overseas Chinese but, according to the foundation, fully 64 percent of ordinary urban Chinese citizens have also contributed. Other big-league players are the China Children and Teenagers’ Fund, established in 1981 by the Women’s Federation, and the Poverty Alleviation Foundation, established in 1989. A relative newcomer is the China Charity Federation, which since its founding in 1994 has developed a national network of local chapters mobilizing funds for disaster relief and a wide range of health, social-welfare, and poverty-reduction projects, from cancer research to micro-irrigation.

Skeptics have argued that these official nonprofit organizations are mere proxies and fundraising mechanisms for government. This is too dismissive. It is true that the official nonprofit groups articulate their roles in terms of supporting government and Party policy: indeed, anything else would be illegal, even unconstitutional, in communist China. And where, in a society so dominated by government, was the initial impetus for a nonprofit sector to come from, if not from government itself? Many of the official foundations have, over the years, developed a tangible ethos of being separate from, but acting in harmony with, government; and government itself is progressively withdrawing the financial support, usually in the form of salaries and office space, that was a hallmark of the early days.

Several of the official foundations have achieved standards of financial transparency and accountability that are quite novel in China. From its founding, the China Charity Federation has published accounts audited *pro bono* by KPMG China, and many of the other official charities have since followed suit. Transparency is essential to winning donor trust and has helped the China Charity Foundation attract

substantial endowment funds from international corporations, including a HK\$25 million (\$3.2 million) donation from HSBC.

Such success fuels the argument for loosening the ties between these agencies and their government sponsors, and the agencies themselves appear keen to stand on their own feet. A landmark conference, hosted in Beijing in October 2001 by the Poverty Alleviation Foundation, drew together delegates from dozens of Chinese and international nonprofit agencies and called on the Chinese government to liberalize the legal framework and registration processes for non-governmental organizations.

But while this top-down experiment in the creation of a nonprofit sector appears to be leading quite smoothly towards more mature and independent organizations, the government remains wary of grassroots community groups. Existing regulations firmly tie any citizen group to an official government or Party sponsor and limit diversity by insisting that only one group of any one kind can register at any administrative level. Rules also prevent organizations from conducting activities outside of their place of registration, constraining their natural growth. What's more, the continuing Falun Gong affair has illustrated the worst fears of Chinese conservatives, who appear to reason that the movement is the result of allowing ignorant people too much freedom. Given numerous recent episodes of rural unrest, and the disaffection of those who have lost out under reform, such as the laid-off workers who formed the rank and file of Falun Gong, the State Council will likely be in no hurry to extend freedoms for associations that might allow more space for dissidents (and "splittists") to organize.

Grassroots organizations sprout

Nevertheless, over the last few years a surprising number and variety of independent organizations have grown up between the cracks in the legislative pavement. These include well- (and legally) established, but authentically nongovernmental, groups such as the Amity Foundation, the Chinese Christian service organization, which now receives more than \$5 million a year in funding from international church groups for social welfare and community development projects that it implements in every province in China. The Catholic Church has several smaller, but vibrant, counterparts, such as Beifang Jinde, which grew out of a Catholic newspaper in Hebei Province. In several cities the YMCA and YWCA have reemerged from their hibernation during the Mao years to run neighborhood development programs, offering recreational facilities for young people, organizing networks of volunteers to befriend older citizens, and running training programs for laid-off workers.

The academic community has also spawned many nongovernmental groups that have grown

in the shelter of academic institutions. These engage, variously, in policy research and advocacy; networking around specific rights-based themes such as domestic violence and child abuse; legal advice services for disadvantaged constituencies; and rural development programs that pioneer bottom-up, participatory approaches.

Next comes a small but brave array of people who have espoused specific causes. In descending order of popularity, these causes are the natural environment, the rights of women, and the rights of migrant workers. These small groups of people have found different means of advocating and providing services, in a more or less legal way.

The greens are the most numerous and vocal issue group, receiving generous coverage from a

Environmental Educators Initiative: BP's Flagship Social Investment Program

Some corporations operating in China not only support capacity building directly related to their immediate needs but also focus on the long-term environmental outlook of the country.

BP has been working for over four years with the World Wide Fund for Nature to support environmental education in schools using a multidisciplinary approach. In July 1997, BP signed a unique agreement to work with the World Wildlife Fund and the Chinese government to develop and test environmental education materials and methodologies with the aim of transforming the existing primary and secondary school curriculum.

To maximize its impact, the program focuses on "teaching the teachers." Rather than delivering training directly to schools, the program sets out to help China integrate appropriate environmental education into national teacher-training programs in all subject areas. After a three-year trial run at three universities, the program is now expanding to 10 universities and is developing certificate and masters degree courses in environmental education.

Visits to the "pilot schools," where teaching materials and methodological approaches are tried and tested, provide interesting insights into the program. Children are encouraged not only to understand environmental issues but also to take action themselves. This results in a diverse range of extracurricular activities: rubbish collecting, recycling drives, water pollution testing, visits to restaurants to discourage the use of disposable chopsticks, and handicraft classes to make items such as cloth shopping bags

as a way to encourage parents to use fewer plastic bags.

Equally important, the program provides a test bed for the Chinese Ministry of Education as it turns its attention to improving the quality of Chinese education through the concept of "learner-centered education." The program's challenging goal is to change teaching methods and people's behavior. As China has a long tradition of learning by rote and by imitating the teacher, the program is working against deep-seated approaches to education by introducing problem-based, student-centered approaches.

"The company's philosophy has been evolving towards building capabilities and supporting our business strategy by creating broader value for a range of stakeholders," says Dr. Gary Dirks, executive president, BP China. Dirks was attracted by the program's focus on future generations and long-term impact, as well as the potential for company involvement. "We also made it clear from the start that we didn't want to be passive. We wanted to be involved in the design of the program and how it is implemented."

The program began by establishing Environmental Education Training Centers in three key teacher-training institutions: Beijing Normal University, East China Normal University in Shanghai, and Southwest China Normal University in Chengdu, Sichuan. The project aims to have an impact on more than 200 million schoolchildren in China.

—Pia MacRae

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The most visionary proponents of the concept of corporate social responsibility see it not as a mere charitable retrofit—somewhere between community relations and brand promotion—but as a redefinition of the role of the company in society.

carefully cultivated support base in the Chinese media. “Environmental awareness raising” of course falls comfortably within the policy parameters of the central government, which understands the need to push through some unpopular measures—realistic energy and water pricing in particular—and can use help in preparing the public ground. Green nongovernmental organizations also make more convincing propagandists than government slogan writers. But the green groups nonetheless occasionally come into sharp conflict with local governments that are prepared to sacrifice environmental quality for short-term gain. The greens thus play an important role in advancing the boundaries of advocacy in China.

Finally, there are those determined individuals who, in their private or professional lives, have come across problems that the state is doing nothing to address. Typical of this group are the many parents of disabled children who, after a long and fruitless search for cures or treatments, set up some facility of their own: an autistic school, a daycare center for children with cerebral palsy, or an educational toy exchange.

Official hostility on the wane

For individuals who are forming groups on their own initiative, the times may be changing. Several years ago, independent initiatives of this kind met with active hostility from the government departments responsible for these neglected constituencies. Civil affairs or Disabled Persons Federation officials simply could not accept that ordinary people were entitled or qualified to start inventing their own kind of community care and frequently intervened to close their efforts down. Schools founded to cater to the children of migrants, who are ineligible to enter urban state schools, have experienced similar harassment from education authorities, and in some areas the official Women’s Federation has proved equally hostile to private citizens’ initiatives to provide services to women.

Bureaucratic hostility now appears to have abated somewhat. Starting from the bottom, as a grassroots group, remains far from easy, but the early pioneers have staked out some of the most difficult terrain and, in the current atmosphere of cautious endorsement for nonprofit activity, outright suppression of private initiative appears more sporadic. However, for many groups, formal legal recognition remains extremely difficult, if not impossible. Government fears over Falun Gong have paralyzed registration procedures even for patently anodyne and explicitly charitable organizations. It seems the state prefers to tolerate unofficial initiatives that it can crack down upon if the political winds change, rather than allow them to exist formally in the first place.

This is an important time, therefore, for the small, independent organizations to prove their

worth. To most Westerners, it is a matter of common sense that releasing the sheer creativity of ordinary people in the realm of community and social development will bring benefits comparable to those achieved by releasing private initiative in the economy. But this is not obvious to a Chinese Communist Party beset by problems on many fronts. Much less is it likely to be swayed by abstract arguments about the right to freedom of association. The most persuasive case for autonomous civil society will be demonstrable success in creating new and effective forms of social provision—just as the most persuasive argument for the market economy turned out to be that it worked for the peasants who, back in the late 1970s, went ahead and de-collectivized without asking government permission.

Domestic corporate responsibility

How are Chinese businesses faring in the new division of social responsibilities? Their role is certainly changing—but often in the opposite direction to that prescribed by advocates of increased corporate social responsibility. Chinese enterprises are increasingly liberated from welfare functions and allowed to get down to the simple business of showing a profit. Some of the most economically dynamic sectors of the economy, such as the nominally “collective” rural industries, have thrived in an almost completely unregulated environment. Environmental standards and a 1995 Labor Law exist on paper, but China has no remotely comprehensive or effective enforcement mechanisms. Many of these frontier industries have been highly polluting and have offered rock-bottom wages and minimal health and safety standards to non-unionized rural migrants, of whom there is nonetheless a steady supply. Such industries have been highly profitable.

The government’s characteristically pragmatic approach seems to have been “let it happen, develop rules later.” Nevertheless, the National People’s Congress recently amended the Trade Union Law to grant unions more leverage in representing workers in disputes and new powers for legal recourse. Several media reports interpret the amended law as tacitly recognizing workers’ right to strike. According to a 1998 All-China Federation of Trade Unions survey, only 4 percent of private sector companies have union branches; but under the new law, all enterprises with 25 or more “unionists” must set up a trade union committee.

The international corporate role

So where does all this leave international corporations with China operations? Life is uncomplicated for those who see corporate social responsibility in terms of philanthropic donations:

China has a growing range of worthy, officially sanctioned, and reasonably transparent causes that will be delighted to receive a check. Project Hope alone has received millions of dollars from US corporations, including roughly \$2 million apiece from Motorola Inc. and The Coca-Cola Co. Both companies continue to channel funds through the Youth Development Foundation, with Coca-Cola gradually switching the emphasis to university scholarship programs. Several other companies are doing likewise, as higher education becomes fee-based and harder for less privileged students to access. IBM Corp. has put tens of millions of dollars into IBM technology centers in Chinese universities, supplemented by teacher training and scholarship programs. Hewlett-Packard Co. has also supported the training of information technology teachers.

While education remains a favored cause, disaster relief also attracts large donations, and the China Charity Federation has received international corporate support for many of its social welfare projects.

Corporations wishing to assist some of the smaller, community organizations will find no shortage of suitable candidates, but should be aware that these are, as yet, small and fragile operations that could be diverted, corrupted, or simply suffocated by large injections of funds.

Some companies take a more hands-on approach to strengthening local charitable initiatives by allowing employees time off to undertake voluntary work in the community. HSBC, in collaboration with the China Charity Federation, does this in an imaginatively integrated program. Volunteers from the bank's branches help out in retirement homes that were established with the bank's support, and where the bank also funds professional training for full-time care staff.

But even this is to construe corporate social responsibility in a rather narrow sense. The most visionary proponents of the concept see it not as a mere charitable retrofit—somewhere between community relations and brand promotion—but as a redefinition of the role of the company in society. Responsible businesses, the argument goes, should be driven by a triple bottom line: not just profits for the shareholders, but also long-term environmental sustainability and demonstrable benefit to the wider community.

Some of the visionaries reside in corporations, such as BP and The Body Shop International Plc, that strive to present themselves as exemplars of this new business ethic (see p.36). But the vision is also driven by demand. Western consumers prefer to believe that they can have their cake and eat it without either destroying the environment or hurting other people. Religious organizations, labor unions, and some pension fund investors are becoming increas-

ingly keen to find ethical investment portfolios that search for a morally palatable return on capital. These concerns are keenly spearheaded by an array of pressure groups—another face of civil society—gunning for big corporations that fail to demonstrate fair dealing throughout their supply chains. This may not amount to the global rejection of multinational corporations that Naomi Klein predicts in her best-selling book, *No Logo*, but it is a significant new consumer—and shareholder—pressure that may profoundly affect the way that private business is done.

International corporations invariably argue that their first contribution to corporate social responsibility is the introduction of Western business practices. But this is hard to argue for export-processing industries, since so much of the work is repeatedly subcontracted, making it hard for even determined companies to keep an eye over the whole supply chain. Indeed, it appears that, at least in one case, much manufacturing piecemeal was done by rural women in their homes.

Western civil-society organizations, from the free-Tibet campaigners who have realized that international capital is more responsive to Western public opinion than the Chinese government, to groups like Sweatshop Watch, determined to hit the pockets of offending toy and garment industries, are becoming increasingly sophisticated in their tactics. For example, many of these organizations have bought shares in target companies to force shareholder debates that draw wider, public attention. International development nongovernmental organizations are also starting to “advocate” to the corporate sector. They have spent decades criticizing governments and multilateral institutions such as the World Bank, but increasingly identify multinational corporations as the players that most count in shaping the lives of people in developing countries. A case in point is the recent campaign by Médecins Sans Frontières and others to secure the release of patents on anti-AIDS drugs for third-world victims. Among these groups there will be no shortage of those who see efforts by international corporations to support community development or civil society in China as an evasion of their responsibilities for working conditions.

But for companies that take corporate social responsibility seriously, unprecedented opportunities abound. With its entry into the WTO, China probably stands closer to the international community of nations than at any point in its history. Western investors are likely to have a profound impact on evolving business models; and this may well involve new relationships between corporations and civil society on both sides of the Pacific. 完

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Ensuring Health and Safety in China Operations

Catherine Gelb and Virginia A. Hulme

Case studies illustrate how US companies meet the environmental health and safety standards China imposes on their China operations—and the standards they impose on themselves

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Along with China's rapid economic growth over the past 20 years has come widespread pollution on a scale that has given rise to global concern. In recent years, however, there has also been a growing awareness at all levels of Chinese society of the urgency of halting, and reversing, environmental degradation. Even as unprecedented grassroots efforts spring up around the country to keep communities green, the central government is rapidly developing an international-standard body of laws on environmental issues.

Enforcement of environmental laws, as with almost every area of Chinese law, is a challenge. Enforcement is less of an issue, however, with some of the largest foreign direct investors. Not only are these foreign investments in China among the highest-profile commercial operations in the country, but their internal policies generally require that they establish the same environmental standards in China that they do at home. In some cases, these standards exceed those China imposes; in other cases, China's standards are stricter. Such attention to the environment at the operational level is crucial to making China's environmental law regime effective.

The following case studies illustrate how two large US companies—General Electric Co. and Corning Inc.—approach compliance with environmental standards in China. A third profile, of Liberty Mutual's occupational safety and health research center in China, is an example of how foreign companies are bringing their special expertise to China.

1 General Electric: EHS in China

The China operations of General Electric Co. use the same environmental health and safety (EHS) compliance systems as GE's operations around the world, explains Ellen Proctor, GE's EHS counsel and manager for Asia. Proctor supports GE China's EHS compliance program, working with line managers in all of its China businesses—including plastics, lighting, medical systems, and industrial systems manufacturing facilities. GE has more than 30 investments in China, including joint ventures and wholly foreign-owned businesses. EHS is part of every aspect of these operations, from sales and technological development to distribution and services.

GE's Six Sigma quality management system helps guide the EHS system for the company. In statistical terms, Six Sigma quality refers to the level of quality equivalent to achieving fewer than 3.4 defects per million "opportunities." The company also has placed a priority on "digitizing" its EHS efforts through a customized soft-

ware system it calls GE PowerSuite™, which is part of the company's intranet.

GE's EHS policy, which is part of the company's set of integrity policies governing the conduct of all business units and employees, requires compliance with applicable EHS laws and regulations; measures to prevent workplace injuries and illnesses; assessment of EHS impacts in the design and production of GE's products and services and before starting a new activity or project; elimination of unreasonable risks from GE's facilities, products, services, and activities; and "to the extent reasonably practicable," reduction of the use and release of toxic materials.

The policy also requires the company to continually improve the firm's EHS systems and performance as an integral part of GE's operations. The company focuses on training and involving everyone from the top management down in EHS compliance—a total of 8,200 employees in China. GE builds its EHS program through training plant managers and other business leaders on EHS and the periodic review of injury

rates (determined according to US Occupational Safety and Health Administration [OSHA] standards), percentage completion of EHS training, and other compliance metrics.

Of course, any global EHS program must be tailored somewhat to local conditions. The company implements a global health and safety management system called the GE Health and Safety Framework, which has 21 individual elements (see Box). A scorecard is used to track the progress of all GE units in China and the rest of the world. GE also has a “tool kit” based on Chinese laws for air, water, waste, and other environmental characteristics. As Proctor notes, “our approach is twofold: we want to implement a global EHS program that provides the same, high level of EHS performance around the world . . . and we also want to make sure that we comply with the letter and spirit of China’s EHS laws and regulations.”

Monitoring the monitoring

GE has a three-tiered auditing system to monitor its EHS compliance. An EHS self-assessment takes place each year in both the manufacturing and service areas of the business, covering air, water, waste, chemical management, industrial hygiene, health and safety, emergency preparedness, and materials transportation. In China, the self-assessment checklists have been customized to identify applicable Chinese requirements. GE businesses also conduct audits every 24 months on a rotating basis and track all audit findings and how long it takes to resolve any findings.

The GE PowerSuite™ web applications enable the company to manage EHS information, such as monitoring and recordkeeping requirements, industrial hygiene monitoring results, audit findings, and time-sensitive compliance requirements. For example, the applications include a calendar into which managers can enter inspection dates. Reminders to conduct these inspections are then e-mailed to the responsible employees. The system can accept Chinese characters, so managers in China can input and manage data in Chinese.

The best part of the PowerSuite™ web applications, Proctor explains, is that they allow a wide audience to view and manage EHS information in real time. Users find that the system helps them fit EHS into their daily activities. A plant manager can see what EHS issues staff need to address; a regional EHS manager can analyze audit findings or injury and illness trends at a site, or across a country, or an entire region; and GE corporate offices can download EHS metrics on a periodic basis without requiring people to prepare additional reports. Digital “cockpits” summarize key EHS metrics for EHS and business leaders and provide a snapshot overview at all times of EHS performance and program implementation.

Use of tools like the Health and Safety Framework and PowerSuite has helped GE focus on “leading-indicator” measurements. Using injuries as a principal measure, Proctor notes, is

not good enough—it means you are too late to prevent an adverse event. So, for instance, GE’s plastics manufacturing facility in Nansha, Guangdong, logs how many “safety contacts” a manager has per month. These are conversations with workers about safety and include praise for safety equipment use and explanations of why a particular EHS policy exists.

The importance of training

Training is critical to the success of EHS, according to Proctor. The PowerSuite training tracker helps an EHS manager track all of the EHS training that must be delivered at a particular manufacturing or service unit. This includes training that is required by Chinese law, as well as additional training that GE requires to meet its global EHS program expectations.

China imposes overall responsibility on the employer to provide sufficient health and safety training to enable workers to do their jobs safely and also requires specific EHS training on certain subjects. In some cases, workers must take specific training courses organized by the PRC government and obtain training certificates (for instance, for forklift operators, electricians, and welders). In other cases, the rules may simply leave it to the discretion of the company to develop and deliver the training (for instance, for staff who handle flammable chemicals or provide first aid). Additional GE training requirements include audit skills, how to perform a job safety analysis, and hazard awareness. This training is done through a combination of live demonstrations, classroom training, and pictures.

In addition to the thousands of units of basic EHS training, GE business leaders take part in EHS compliance leadership training. High-level managers in Asia attend a special one-day, in-person training class that includes a section on EHS—in 2001 GE ran four classes in China. Finally, all GE plant managers must attend a two-day, in-person training class on the company’s EHS management system and their EHS responsibilities as plant managers. The firm typically holds this training course in China every other year.

Reporting and best practices

GE sites submit monthly and quarterly EHS performance and program implementation measurements to their business EHS headquarters. The GE Corporate Environmental Programs Group summarizes these performance measurements in a report to the company chair on a quarterly basis. The Corporate Environmental Programs Group also reviews programs during Session E—an annual meeting at which line managers (not EHS managers) must stand up in front of their business leaders and the Corporate Environmental Programs Group and report on their EHS progress by outlining last year’s performance and the coming year’s com-

Twenty-One Elements of GE’s Health and Safety (H&S) Framework

1. Site H&S Plan
2. H&S Expectations and Performance Appraisal
3. Hazard Analysis and Regulatory Compliance
4. Employee Involvement
5. H&S Specialist
6. Accident Reporting, Investigation, and Follow-Up
7. H&S Training
8. Health, Safety, and Housekeeping Inspections
9. Personal Protective Equipment
10. Contractor H&S
11. Emergency Preparedness and Fire Protection
12. Job Safety Analysis
13. High Risk Operations
14. H&S Reviews of New and Modified Facilities and Equipment
15. Industrial Hygiene
16. Chemical Management
17. Ergonomics
18. Motor Vehicle Safety
19. Medical Services
20. Program Evaluation
21. Energy Control and Power Lockout for Maintenance Activities

How much responsibility should the company take for EHS outside the plant—for instance, among its suppliers, contractors, and purchasers?

mitments. For example, in the spring of 2001 GE Medical Systems held its Session E in Tokyo at which managers from India, China, and elsewhere in Asia gathered for a site-by-site, country-by-country review.

GE sites in China interact regularly with local environmental protection bureaus (EPBs) and labor bureaus. For example, government regulators perform routine inspections, and GE sites must submit annual reports on hazardous waste generation. The regulators are deeply involved in issuing approvals for new and expanded manufacturing sites as part of China's "three simultaneous system," which requires that pollution control systems be designed, constructed, and operated in parallel with any industrial development. The company also shares information and best practices with the EPBs.

Incremental approach

GE has had to work hard to make its EHS compliance systems work in China in part because of the growth of the company's operations in the country, which has been in the double digits for the last few years. The company acknowledges that evolving global standards of care raise a tough question: how much responsibility should the company take for EHS outside the plant—for instance, among its suppliers, contractors, and purchasers?

As a partial answer to this question, GE notes that its global contractor safety program applies in China. The program includes prescreening and selection of contractors based on their health and safety programs and past safety performance; preproject review to ensure contractor employees have received appropriate health and safety training; formal orientation to discuss the project health and safety plan and GE's EHS procedures; regular inspection of contractor activities to ensure that the company's EHS proce-

dures are being followed; and enforcement of the company's EHS expectations, which can include dismissal of contract employees, work stoppage, and even dismissal of contract firms. Some GE facilities have implemented additional controls, such as badge systems, work-permit systems, and employment of safety monitors to oversee contractor activities. Day-to-day enforcement of GE's standards is critical to the effectiveness of the program.

GE's integrity policy requires that it do business only with suppliers that comply with applicable laws and any additional GE standards that may apply. Unacceptable practices include employing workers younger than the local legal minimum age; using forced, prison, or indentured labor, or workers subject to any form of compulsion or coercion; lack of commitment to observing applicable environmental laws and regulations; and failure to provide workers with a workplace that meets applicable health and safety standards. In many cases, the supplier qualification will include an onsite EHS review before GE will issue a purchase order.

GE and EHS

GE aims to create a culture "passionate" about EHS, according to Proctor. To help the company achieve "EHS excellence" in all its operations, Proctor says, GE is building a culture of EHS compliance in its China operations. That means, she explains, training on *what* company expectations are and *why* they are important, as well as the use of systems that reward good performance and impose sanctions for failure to follow EHS procedures. It helps that many of GE's EHS programs are grounded in China's legal requirements. In general, Proctor says, the company has found that when trying to protect people's safety and their community, "EHS is a universally accepted language."

2 Corning: Cleaning China's Air

Corning Inc. is a leading global producer of an essential component of the catalytic converters that clean carbon monoxide, hydrocarbons and other volatile organic compounds (VOCs), and nitrogen oxides from automobile exhaust. The company makes ceramic substrates in the United States and Germany, and at a wholly foreign-owned facility in China, Corning (Shanghai) Co., Ltd., in Pudong.

The substrate—the base of the catalytic converter—is a roughly 2-to-7-inch-long cylinder (it can also be oval or asymmetric in shape) that contains thousands of parallel channels in a honeycomb-like arrangement along the length of the cylinder. The substrate is coated with a variety of different precious metals that act as cata-

lysts that react with the harmful gases and transform them into water, carbon dioxide, and nitrogen gas. Corning has produced honeycomb shaped substrates in the United States since 1974, after the 1970 US Clean Air Act mandated automobile emissions reductions, and has worked to improve the design ever since.

Joseph Allen, director of operations and general manager of Corning (Shanghai), estimates that Corning has a little more than half of the market for catalytic converter substrates worldwide. Japanese firms NGK Insulators, Ltd., and Denso Corp. are also significant suppliers of these products. A variety of smaller companies also produce similar products. Allen believes Corning has been successful in keeping ahead of the competition in this market because of the capital-intensive nature of the product and the constant need for technological refinements.

In addition to its catalytic converter substrate plant in Shanghai, Corning, which receives a large percentage of its revenues from telecommunications equipment (particularly fiber optics), recently bought two wholly foreign-owned enterprises and now operates in Chengdu, Sichuan; Shenzhen; Tianjin; and Wuxi, Jiangsu. The company is in the process of restructuring to form a holding company.

A big bet

The greenfield substrate plant, located in Pudong's Jinqiao Export Processing Zone, got its business license in 1999. The \$77 million investment qualified for tax incentives the PRC government grants to high-technology, environmental, and export-oriented facilities.

The plant—now Corning's Asian manufacturing hub for the substrates—exports more than 90 percent of its output, mainly to auto companies in Asia. Corning's Asian customers include South Korea's Kia/Hyundai Automobile Group, Daewoo International Corp., Ssangyong Corp., and Renault Samsung Motors operations; India's Maruti/Suzuki and Hyundai Motor India Ltd.; and China's Chang'an Automobile (Group) Co., Ltd., Chongqing Chang'an-Suzuki Automobile Co., Ltd., Shanghai Volkswagen Automobile Co., Ltd., Shanghai GM Automobile Co., Ltd., China FAW Group Corp., FAW-Volkswagen Automotive Co., Ltd., and other local minivan and light-duty vehicle suppliers. This is Corning's smallest substrate plant—the others are in Erwin, New York; Blacksburg, Virginia; and Kaiserslautern, Germany—but the plant has the capacity to increase its output if the market demands it.

Though most of Corning's product is exported, in January 2000 rules went into effect requiring all of China's cars and light-duty vehicles to be equipped with catalytic converters. Enforcement is spotty at best, however, in part because of local protectionism. This is why Corning's domestic Chinese customers are largely the major foreign-invested auto plants. Shanghai Volkswagen has catalytic converters in most of its autos. General Motors Corp.'s Shanghai plant has catalytic converters in all of its cars. Local protectionism also reduces the potential domestic market, but the substrates are expensive to make, so Corning is well positioned to lead the market in China as demand grows.

Building a clean facility

At the outset, Corning did a full environmental impact assessment as called for in the PRC business license application. The Jinqiao zone was unable to provide any history about the land, but zone officials agreed to clear away the trash left on the site. The company's environmental due diligence for the impact assess-

ment, which included drilling for soil samples, uncovered evidence that the land had been part of a swamp and that it contained no solvents like turpentine, oil, or other hazardous material.

The substrate production process generates waste. Corning had to apply for environmental permits for various properties of the wastewater, noise levels, and air emissions from the central-level Environmental Protection Administration, and the local bureaus of labor and inspection and quarantine. Corning has a policy of making sure its facilities in China meet or exceed New York State, US, or PRC regulations, whichever are tightest. The exhausts for the kilns, which fire the ceramic substrates, meet the even stricter European standards. An afterburner incinerates VOCs, and a scrubber removes hydrofluorides, from the kiln exhaust. Settling ponds are part of the water-treatment process.

Corning showed its building plans to the government and explained the reasoning behind the company's decisions. In some cases, the company had to explain why it was exceeding local Chinese standards.

Complex issues arose during the construction of the plant over which aspects of water, exhaust, and noise pollution the government considered to be within the facility's boundaries and thus Corning's responsibility. Shanghai noise pollution regulations, for example, call for a maximum noise level of 50 decibels (db) outside the plant, at the fence line—but the background noise in the plant's vicinity initially was 49db. Corning had to work to minimize this level. The PRC government also required that water leaving the plant be cleaner than water coming into it. The company's dust collectors and top-of-the-line equipment ensure that the plant releases silica dust at one-tenth of the maximum level permitted in Chinese regulations.

Corning's Shanghai plant has received its ISO 14000 certificate, and the Jinqiao zone as a whole is moving toward this environmental management standard as well. Jinqiao already had recycling in place when Corning arrived but the company's representatives asked Jinqiao officials to show them the solid waste-treatment facilities. Allen describes these facilities as "amazing" and notes, "all solid waste streams are picked over in greater detail than those in the West." The local environmental protection bureau conducts periodic technical sampling and measurement. The local labor bureau inspects the plant for dust, noise, and chemicals—every three to six months if it finds a violation, otherwise every year.

Up and running, safely

The Shanghai plant has a full-time EHS engineer, whose role is that of a facilitator rather than a policeman; Allen says he has made clear to the entire plant staff that they are all responsible for EHS.

Corning has a policy of making sure its facilities in China meet or exceed New York State, US, or PRC regulations, whichever are tightest. The exhausts for the kilns, which fire the ceramic substrates, meet the even stricter European standards.

If an incident affects a part of the production process, the computer that runs the given machine logs the failure so that there is no way for the incident to escape notice.

Corning starts its daily production and shift meetings with a daily report of incidents and “watch-outs.” The EHS engineer reports weekly to Allen’s business staff. The engineer submits a monthly report to Allen and the company’s corporate safety and environmental groups, which audit the plant annually. Under the ISO 14000 procedures, the plant conducts its own internal auditing and oversight.

The company has procedures in place for EHS violations. For example, inside the plant, the PRC legal maximum noise level is 85db on the production floor, above which hearing protection is required. Corning sets its own maximum internal noise level at 82db. If the plant exceeds this 82db internal limit, the company issues a temporary rule requiring that all workers on the floor wear hearing protection, while it launches an investigation to identify the cause of the noise problem and correct it.

Plant operators are under written instructions to report EHS incidents immediately. If an incident affects a part of the production process, the computer that runs the given machine logs the failure so that there is no way for the incident to escape notice. The operator then informs the production manager and the EHS engineer immediately so that they can begin investigations into the incident. If there is an actual discharge of hazardous material, Allen would also be informed and would inspect the plant personally. After the investigation gathers the facts of the case, the staff undertakes any necessary damage control actions, writes up a detailed incident report according to a standard format, and notifies the proper authorities.

“Corning has a strict policy of being open with government authorities,” Allen explains. “Covering up EHS incidents in any way is one of our few grounds for immediate dismissal.” Allen says that the plant uses this procedure for all EHS incidents extensively and that the number of EHS “actions” is closely monitored.

EHS training and education

One of the EHS challenges Corning faced when setting up in China was educating its workforce and suppliers. “When unsafe or questionable environmental practices are the norm, it takes some effort to change attitudes,” Allen explains. “The good news is that training has been very successful.” Corning offers technical skills training in first aid and fire prevention. The company also designed case-based training sessions to raise awareness of EHS and to demonstrate the management’s commitment to EHS. Allen says that the company found the employees of the plant overwhelmingly willing to learn. The corporate headquarters has designed its own training courses, but the Shanghai facility tends not to use them because of language and distance barriers. Corning headquarters monitors the Shanghai plant’s own efforts.

Fresh air

Allen asserts that China in general and Shanghai in particular are working hard to raise standards to Western levels in all areas, especially in the environmental realm. Yet, he observes, laws continue to be ambiguous. He stresses that learning which agencies to deal with and developing relationships with those agencies are both still extremely important. Corning has taken an open approach that has worked well to date when coupled with “a philosophy to exceed regulations if at all possible.”

Corning’s own environmental goals are twofold. First, the company plans to focus on “keeping up with changing regulations.” Second, the plant will work to improve EHS systems continuously, by measuring kilograms-to-the-landfill and other waste standards, incident numbers, and other critical EHS elements. These reviews will lead to the development of further EHS goals and improvement projects.

3 Liberty Mutual and OHS in China

Liberty Mutual Insurance Group’s interest in occupational health and safety (OHS) started in 1912, when the company was founded by an act of the Massachusetts legislature to provide workers in the state with compensation insurance. Liberty formalized this interest in 1954, with the founding of the Liberty Mutual Research Center for Safety and Health in Hopkinton, Massachusetts. Liberty’s business has since expanded into other types of insurance, but its operations in China still focus on workplace safety.

Liberty opened a representative office in Shanghai in 1996 devoted solely to coordinating Liberty’s safety research in China and translating many of its products into Chinese. The company

opened two Safe Work Centers in Shanghai and Chongqing in 2000 to conduct research on workplace health and safety issues. Since 1999, Liberty has also co-organized the annual China Safe Work Forum with the Bureau of Work Safety of the State Economic and Trade Commission (SETC), now the State Administration of Work Safety, since February 2001. In addition to its safety office, Liberty has insurance representative offices in Chongqing and Beijing that research the China insurance market and cooperate with local and central government agencies and ministries.

● **China Safe Work Forum** The China Safe Work Forum is an annual conference that brings together Chinese and international experts in occupational safety and health for three days of discussion and exchange of information about

the latest developments in the field, the situation in China, and insurance for workplace injuries. These conferences have taken place over the last three years in Chongqing (1999), Beijing (2000), and Shanghai (2001).

● **Shanghai Safe Work Center** The Medical Center of Fudan University in Shanghai signed a cooperative agreement with the Liberty Mutual Research Center for Safety and Health in 1997. To date, the collaboration has studied injury and illness recordkeeping and surveillance systems in Shanghai and Pudong, as well as lower-back pain among workers in Shanghai. It has also surveyed Chinese-language research publications on lower-back pain among workers in China. In 2000, Liberty and the Medical Center of Fudan University cemented their relationship by establishing the Liberty Mutual Safe Work Center to conduct further research on health and safety issues.

● **Chongqing Safe Work Center** In late 2000, Liberty's Research Center and Chongqing University agreed to set up a Safe Work Center. According to a newsletter published by Liberty's US-based Research Center, the Chongqing center "will collaborate with the Research Center to conduct scientific research into the work-related risks and hazards in Western China. The Chongqing center's goal is to promote workplace health and safety, improve productivity and effi-

ciency, and reduce the financial and social burdens associated with occupational injuries and diseases." Initially, the center will collaborate with a "broad group of universities, government agencies, and industry associations, ...in the Pan-China Joint Study of Workplace Injury." This group, organized by SETC's Administration of Work Safety and Liberty's Research Center, will study occupational injuries in China's coal mining, petrochemical, and machinery manufacturing industries. The Chongqing center will also work with Liberty's Research Center to develop a graduate course on occupational safety and health for Chongqing University.

Apart from these three initiatives, Liberty shares its research findings with Chinese counterparts, has brought Chinese safety experts to the United States for exchanges and training, helped sponsor the translation of the International Labor Organization Encyclopedia into Chinese, and cosponsored a book called *China Workers' Injury Insurance* with the Ministry of Labor and Social Security's Research Institute of Social Security. It has also signed agreements with SETC's Bureau of Work Safety to conduct a comprehensive study of workplace accidents and solutions in China, and with the Disabled Persons' Federation to study worker injury insurance in China. 完

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