SOMO

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CHINA LABOUR BULLETIN

Chain of consequences

How Chinese workers pay for supply chain de-risking | June 2024

The hyper-globalised economy and consumer culture were built on the backs of Chinese workers

Contents

Summary

Multinational corporations have long relied on China as a low-cost, efficient source of manufacturing inputs and final production. China's seemingly endless supply of cheap labour, combined with other advantages such as low taxes and minimal regulation, attracted large amounts of foreign and domestic investment that built up vertically integrated supply chains and transformed industries, including apparel and electronics.

It is therefore no exaggeration to say that the hyper-globalised economy and consumer culture of the late 20th and early 21st centuries were built around China – and, by extension, on the backs of Chinese workers who make our smartphones, running shoes, T-shirts, or laptops.

More recently, manufacturers and retailers have begun to shift production from China to other parts of the world. Some of this is due to global capital's relentless drive to find new sources of cheap labour to keep costs down, but there are other factors contributing to the shift in sourcing. Deteriorating relations and increased economic competition between China and many Western countries have created a new set of economic and political risks for companies. The sudden, massive disruption of global trade caused by the Covid-19 pandemic highlighted the risks associated with the "just-in-time" supply chain model and forced supply chain managers to place greater emphasis on diversifying their sourcing.

The new focus on economic "de-risking" by both corporate executives and government leaders in many parts of the world is changing the role Chinese manufacturing plays in global supply chains. Research by the Centre for Research on Multinational Corporations (SOMO) and China Labour Bulletin (CLB) shows that the Chinese workers who have kept supply chains running in the apparel and electronics sectors for decades are now struggling to get paid or losing their jobs as orders are cut or factories close or relocate. These workers' experiences are largely invisible to those who make the sourcing decisions that affect them, because these companies – mostly multinational brands and retailers – are failing to conduct adequate due diligence to assess and address the impact of these decisions on workers.

Building on CLB's innovative mapping of Chinese workers' collective action, the collaboration between SOMO and CLB aims to ensure that the emerging corporate human rights due diligence framework is being effectively applied to apparel and electronics supply chains involving Chinese factories. Brands and retailers must recognise and address the impact that decisions to change their sourcing will have on workers in their supply chains before those decisions are made. Otherwise, Chinese workers risk becoming the latest victims of an economic system that privileges the free movement of global capital and disenfranchises workers, especially low-wage workers whose role in the economic calculus is often reduced to that of an input cost.

This is not to say that jobs or supply chains should never move. There is nothing inherently wrong with companies taking a closer look at their supply chain risks and taking appropriate mitigation measures, for example, by diversifying their sourcing practices. But corporate de-risking cannot simply shift risk or harms onto the backs of workers. Brands and retailers need to be aware of their responsibilities and consider the risks to workers' rights associated with the dynamics of shifting supply chains, including in China, and take additional steps to ensure that these decisions do not contribute to collective labour rights abuses.

According to CLB's Strike Map, strikes and protest actions by Chinese manufacturing workers increased tenfold in 2023 from the previous year. Labour actions in the electronics and apparel sectors accounted for 55 per cent of the 438 incidents recorded by CLB during the year. The phenomenon has been seen most frequently in the established heartlands of export-driven manufacturing along China's southeast coastline: the Pearl River Delta of Guangdong, the lower Yangtze Delta area around Shanghai, and the coastal province of Fujian.[1]

Reduced orders for apparel and electronics led to widespread wage arrears, as well as closure or relocation of struggling factories. When a factory relocates, many workers find that they are offered less compensation than they are entitled to by law. In many cases, Chinese workers are not being given advance notice or sufficient information about decisions to close or relocate a factory or about the compensation they will be offered. Even though Chinese law requires notice and consultation before making substantial changes to labour contracts, poor enforcement means that factory owners can generally get away with springing decisions on workers at the last minute. For their part, this means that workers have less time to organise in defence of their rights and often wind up forced to accept whatever they get offered.

Introduction

Getting an accurate picture of what goes on inside China's factories has never been easy, and it has only gotten more difficult as the operating space for civil society organisations, lawyers, and journalists has begun to vanish and become riskier.

Independent labour organising is essentially impossible in China, where trade unions must be affiliated with the All-China Federation of Trade Unions (ACFTU), which tends to cater to the interests of government and company management more often than it represents worker interests.[2]

Innovative approaches are needed to ensure that labour issues in China are not rendered invisible. Since late 2022, the Centre for Research on Multinational Corporations (SOMO) and China Labour Bulletin (CLB) have been working together to investigate links between worker protest actions and strikes in Chinese factories and international supply chains in the apparel and electronics sectors – both of which have long been reliant on China for sourcing of inputs and finished products.

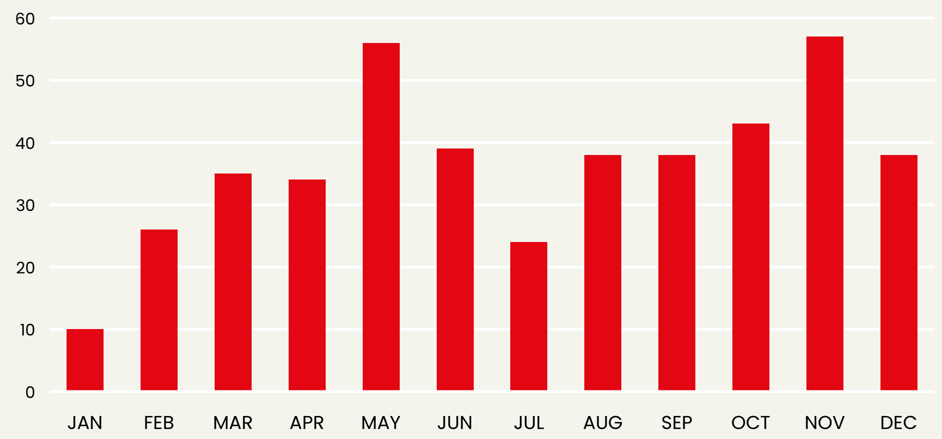
The project is based on CLB's China Strike Map online platform, which since 2011 has collected information on worker strikes and protests from Chinese social media and other online sources.[3] Starting with incident data from CLB's mapping, SOMO uses company registries, brand-reported supplier lists, customs data, and a variety of other publicly available sources to add layers of corporate and supply-chain information and show how many of these factories are linked to global trading networks.[4] Despite significant gaps in available information – the unavailability of detailed records for goods shipments to many European nations, for example – the project has been able to identify actual and potential links between the Chinese apparel and electronics factories recorded in the Strike Map in 2023 and many top international brands and retailers in those sectors.

Because most of the original source material for the China Strike Map comes from Chinese workers themselves, this approach has the potential to enable response to urgent issues workers raise in more-or-less real time. The additional research makes it possible to identify downstream buyers who might have leverage to help address the matter and facilitate timely intervention and accountability. It also enables CLB and SOMO to shed light on trends and patterns, such as those highlighted in this publication, and thereby provide important insights for companies and regulators regarding labour rights in global supply chains. Through this collaboration, CLB and SOMO aim to increase supply chain transparency, highlight labour rights risks and violations, and encourage better protection of workers through stronger due diligence and accountability mechanisms.

Trends in data on worker protests

2023 Strike Map data

Figure 1 Number of CLB Strike Map incidents in manufacturing sector monthly (2023)



CLB reported a tenfold increase in strikes and protests by Chinese workers in 2023 compared to 2022. Protests in the electronics and apparel sectors accounted for 55 per cent of the 438 incidents recorded in 2023.[5] Although the methodology used to collect data for the strike map does not always enable identification of a precise cause behind workers' protest activity, it is still possible to identify several general trends. Of the apparel and electronics cases recorded in the Strike Map, 68 per cent concerned unpaid wages, and 41 per cent stemmed from factory closure or relocation.[6]

In a significant number of cases, workers' concerns were linked to factory closures or relocations. Although the specifics of each case and the amount of background information available vary, many of the closures or relocations appear to have been linked to decisions by brands or intermediate buyers to change their sourcing practices and reduce their overall reliance on China as a manufacturing base. Again, the specific reasons for such decisions vary and are not always clear from outside, but there is without question a broader trend of sourcing diversification taking place that is motivated by a number of factors discussed below.

Workers in each of the factories highlighted in this report were part of established supply chains that produced many of the smartphones, running shoes, T-shirts, or laptops that have come to define the hyper-globalised consumer culture of recent decades. But these same workers are vulnerable to changes in sourcing practices – especially those with the most seniority who have the most to lose if their employers fail or refuse to honour the terms of their contracts.

Companies have, of course, a right to change how they source goods or inputs. However, the foreseeable risks of and links to negative labour rights impacts need to be considered and mitigated as these decisions are made. Even if no particular decision by a single buyer was the determining factor in the survival of a given factory discussed in this report, the patterns emerging from this research should make clear that corporate decisions to reduce or shift sourcing can pose significant risks to workers' rights that need to be assessed and mitigated as part of a human rights due diligence process.

The prevalence of **wage arrears** and non-payment of other benefits as a cause of worker protest in the CLB Strike Map is one of the most predictable of these risks. The non-payment of wages is by far the most important single cause of labour disputes in China today, and workers in China are routinely owed several months or even half a year's wages when they are laid off.[7] Globally, it is not uncommon for workers at the bottom of a supply chain to experience delays in receiving wages. Non-payment of wages may be presented to workers as a temporary measure necessary to ensure the overall health of their employer and often begins when a factory learns that it is about to lose a major customer. When a company shifts its sourcing, it is likely to be even harder for the affected factory to clear its wage arrears. The situation can be exacerbated by the cumulative effect of many buyers in a sector making sourcing changes at the same time.

Non-payment of wages not only increases the hardship imposed on low-paid workers, it also violates Chinese labour law and should serve as a warning sign to any buyer that these suppliers may not respect the rights of workers when faced with a damaging sourcing decision. While none of the cases captured in the research by CLB and SOMO reach the threshold of forced labour, wage arrears can trap workers in poor working conditions because they fear losing the money they are owed. The International Labour Organization's Guiding Principles to Combat Forced Labour therefore make clear: "Wage payments shall not be delayed or deferred such that wage arrears accumulate."[8] The risk of wage arrears should thus already be a core element of corporate human rights due diligence for apparel and electronics brands, given widespread reporting on the problem by the ILO and others.

Two other violations of Chinese workers' rights emerge from the research. The first is **non-payment or reduced payment of compensation**. Under China's 2008 Labour Contract Law, employees are generally entitled to economic compensation when major business decisions affect their employment, pay, or place of work. Employees are entitled to severance pay based on seniority in the event of mass layoffs or business closures.[9] If a company moves to a location beyond where existing employees can reasonably be expected to travel, this is considered a change to the terms of the employment contract and must be compensated.[10] These provisions are part of a safety net that is particularly important for low-paid workers, but employers often seek ways to avoid paying compensation and enforcement of the law is uneven.

Second, workers often receive **little or no notice** of impending business changes that affect their employment. The Labour Contract Law requires employers to give workers 30 days' notice before mass layoffs or closure, and consultations must be held with all workers or the trade union.[11] This is a minimum protection that allows workers to plan for reduced income, seek alternative employment, or organise to ensure their rights are protected. But factories have an incentive to keep workers in the dark. If production slows because of lost orders, the loss of overtime or incentive pay can lead workers to resign voluntarily, reducing the total amount of severance pay the factory has to make.[12] This means that even when brands and other buyers claim to give factories ample notice of their intention to change their sourcing, this information may not always be reaching workers.

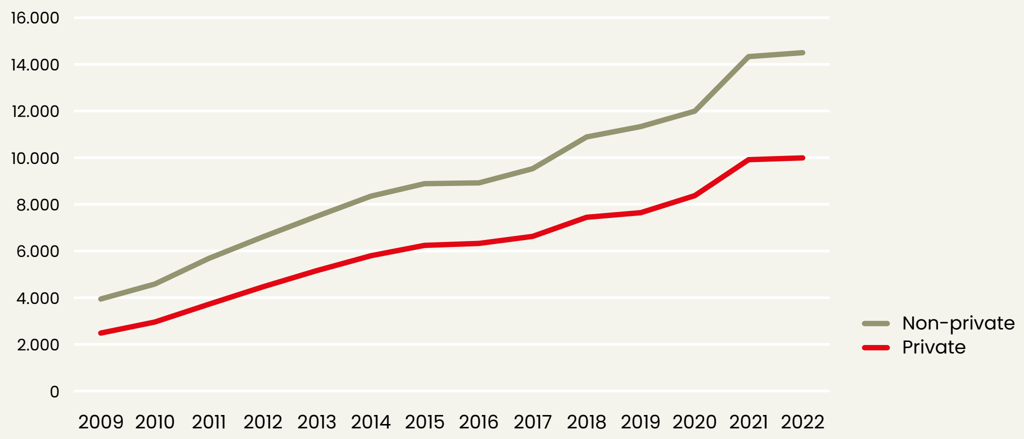
Global supply chain trends and local impacts

The factory closures and relocations documented on the CLB Strike Map come during a period when companies, particularly Western multinationals, are making significant changes in the way they source products (both inputs and finished goods).[13] China established its central position in global manufacturing supply chains over the course of more than three decades. The country's relative advantages, such as cheap labour, low taxes, and minimal regulation, attracted large amounts of foreign and domestic investment.[14] This investment built up vertically integrated supply chains and transformed industries, including apparel and electronics. China’s role as “factory to the world” was largely based on its ability to serve a global market that valued low cost and efficiency in making sourcing decisions.

This approach started coming into question in the wake of the 2008 financial crisis and subsequent global economic slowdown. Over the past 10–15 years, manufacturers and retailers have been shifting some of their production from China to other parts of the world. This has accelerated in recent years. A 2023 survey of European companies by the European Union Chamber of Commerce in China found that 75 per cent of respondents had reviewed their supply chain strategies within the previous two years, 24 per cent had plans to shift at least some sourcing from China, and 12 per cent had already begun the process.[15] American companies surveyed by the American Chamber of Commerce in Shanghai reported increased efforts to "strengthen their resiliency by diversifying supply chains".[16] Taiwanese investment in China, much of it in manufacturing, has slowed dramatically.[17] This trend is the result of a number of factors and is still ongoing. It reflects a shift in corporate priorities, with companies now placing a greater emphasis on supply chain resilience and risk mitigation.

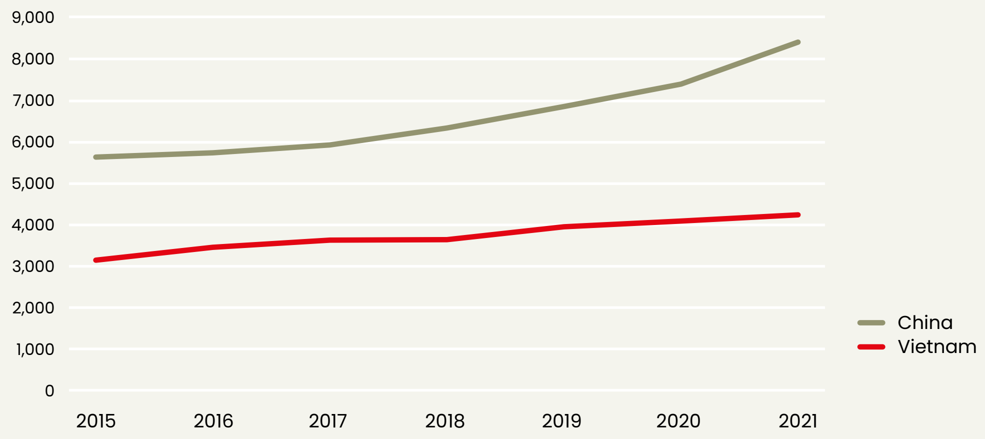
Companies seeking lower labour costs

Figure 2 Average annual Chinese manufacturing wages 2009-2022



The first factor that led companies to consider alternatives to China was the rising cost of labour. For decades, China's large pool of workers gave it a comparative advantage that made it a compelling choice for manufacturers in labour-intensive industries seeking to keep costs low. The associated investment in factories and infrastructure, along with regulatory support from the Chinese government, helped make China the low-cost factory of the world. But the economic growth that resulted from China's export-led economic strategy, combined with demographic trends and other social factors, have contributed to tighter labour markets and rapid increases in manufacturing wages. Over the course of the 2010s, Western multinationals responded by seeking less expensive alternative sourcing locations, particularly for "low-end" manufacturing processes, such as cutting and sewing in the apparel sector or final product assembly in the electronics sector.[18] The new investment began to build the manufacturing capacity in other low-wage countries in South- and Southeast Asia, such as Vietnam, India, Bangladesh, Cambodia, Indonesia, Malaysia, Thailand, and the Philippines.

Figure 3 **Average annual manufacturing wages, China & Vietnam**
2015-2021, in EUR



Sources: China Statistical Yearbook 2023; General Statistics Office of Vietnam

Tensions between the West and China

The second factor behind the push for sourcing diversification has been escalating trade tensions with China. Many companies based in the United States, or with significant reliance on trade with the United States, accelerated their search for sourcing locations outside China after the Trump administration imposed several rounds of discriminatory US tariffs on many Chinese goods between 2017 and 2019. These tariffs under Section 301 of the Trade Act of 1974 placed a 25 per cent surcharge on many Chinese consumer goods imported into the United States, including apparel, footwear, and many types of electronics.[19] Motivated by a trade policy whose stated goal was to "bring back jobs to America", implementation of these tariffs entailed no consideration of their impact on Chinese workers.

The impact has been significant. China's share of US imports has dropped dramatically from its peak of 21 per cent in 2017 to 14 per cent at the end of 2023.[20] Meanwhile, there have been marked increases in both Chinese exports to Southeast Asian countries and imports to the United States from those countries.[21] This suggests that supply chains may be lengthening, with inputs produced in China being sent to other countries for final assembly, then exported to the United States and other countries.[22]

As the tariffs have continued to the present under the Biden administration – and Trump has pledged to impose tariffs of 60 per cent or higher on Chinese goods if re-elected in 2024 – the economic benefits of avoiding these tariffs are expected to incentivise US companies to bear the costs of reconfiguring supply chains and Chinese manufacturers to shift some of their production to other countries.[23]

Box 1. Failing to honour legal requirements as production shifts

In November 2023, more than 1,000 workers went on strike for a week to protest the planned closure of a shoe factory in Yangzhou, Jiangsu Province. Management at the Yangzhou Baoyi Shoe Manufacturing Company Limited, which trade records show mainly produced Converse-branded shoes for export, notified workers on 29 November that the factory would close on 31 December and that all employment contracts would also terminate on that date.[24]

Established in July 2006, the Yangzhou factory was one of several dozen mainland China-based production sites for the Pou Chen Corporation (PCC), a Taiwanese company that makes footwear for several international brands, including Nike, Inc., which owns the Converse brand.[25] According to PCC, the Yangzhou factory was a joint venture with Lai Yih Footwear Company Limited, another Taiwanese footwear manufacturer with production facilities throughout Asia

PCC claims to have the largest shoe production capacity in the world, with factories in Indonesia, Vietnam, mainland China, Cambodia, Bangladesh, and Myanmar.[26] According to PCC's annual financial reports China's share of its production steadily decreased from 25 per cent in 2015 to 12 per cent in 2023, while Indonesia's share increased proportionately.[27]

Workers at the Yangzhou factory appear to have understood that the closure was part of PCC's migration of Converse shoe production to Indonesia.[28] Their complaint against factory management was that the full basis for economic compensation under the Labor Contract Law was not to be announced until 10 days before the closure date.[29] Like many other factory workers in China, the Yangzhou shoe workers received relatively low base wages and relied on overtime and performance bonuses to increase their take-home pay.[30] They claimed that slower production in the months leading up to the closure meant that the earnings used to calculate their compensation packages would be relatively low. They also raised the company's failure to pay social insurance and housing benefits, which local government officials admitted in an interview with CLB had been a "historical problem" at the company.[31] Factory employees resumed work on 7 December when, following a series of negotiations, management announced a compensation standard based on average wages from December 2022 to November 2023, plus an additional month's average salary.[32]

SOMO contacted Nike and PCC, asking them to explain their due diligence procedures and how they were applied in the case of the Yangzhou factory, both in relation to the alleged persistent failure to pay social security and the closure of the factory. Nike did not respond. PCC responded stating that "[t]he business operation and brand client communication" of Yangzhou Baoyi were carried out by its joint venture partner, Lai Yin Footwear. PCC also noted that when it was "informed about the factory closure, PCC had reminded Yangzhou Baoyi to comply with all applicable legal requirements."[33] PCC believes the final payments to workers were compliant with all relevant laws and requirements.

PCC did not comment on whether and how the decision to move the production of Converse footwear to Indonesia affected the closure of the factory. PCC claims that it discharged its due diligence responsibilities. However, the actions it describes are inadequate, reducing human rights due diligence to a reminder to a business partner, and failing to respond to evidence of problems, including worker protests and reports of persistent failures to pay social benefits.

In an emailed response to questions from SOMO and CLB, Lai Yih Footwear asserted that the closure of Yangzhou Baoyi was not connected to its investment in Indonesia. It acknowledged a dispute with workers at the time of the announcement to close Yangzhou Baoyi but said that the company reached agreements with each worker "that were in accordance with local law or higher". Lai Yih confirmed that all employees received severance payments commensurate with their seniority, plus an additional month's salary, and that "historical social insurance [and] housing benefits were compensated in accordance with local law and following authorities' guidelines". Lai Yih did not comment on the reasons workers may have been owed past benefits at the time of the closure announcement.[34]

The impact of Covid-19

A third factor in this shift is the impact of the Covid-19 pandemic. As the first country to implement lockdown measures in response to the virus originating in the central Chinese city of Wuhan, China experienced a sharp decline in industrial production and exports in early 2020, well before many other parts of the world had even begun to respond to the disease.[35] This disruption in production and inability to access inventories created immediate ripple effects for supply chains dependent on Chinese inputs – such as many apparel and footwear factories in Vietnam. Companies that had not already invested in building relationships with alternative suppliers were often unable to replace what their Chinese suppliers could no longer deliver.[36] Bottlenecks at ports, skyrocketing shipping costs, and parts shortages were pandemic-era features that increased costs for many companies. The continuation of China's "zero Covid" policies in response to a second serious wave of the illness in early 2022 resulted in lockdowns in manufacturing hubs that hit electronics supply chains particularly hard and highlighted the sometimes unpredictable and inflexible nature of Chinese governance.[37]

Worker protests in 2022 over pay and Covid-19 restrictions at Foxconn's massive "iPhone City" facility in Zhengzhou caused production delays that analysts estimate to have cost Apple $ 1bn in sales per week.[38] The economic consequences of the pandemic's shock to global economic activity gave corporate executives more reasons to pay attention to the risks associated with concentration in one location – even one as large as China.

Geopolitical tensions and trade conflicts

Uncertainty around geopolitical tensions is a fourth factor contributing to re-evaluation of sourcing from China. Disruptions to energy supplies and transportation links due to military conflict in Ukraine and the Middle East are only the beginning of the discussion. Beijing's support for the Russian invasion of Ukraine has placed the potential repercussions of a Chinese invasion of Taiwan higher up on the risk registers of many multinational companies.[39] In an increasingly polarised geopolitical environment, Western multinational companies find themselves under greater political pressure about doing business with countries seen to hold antithetical, and potentially hostile, values. This has been particularly salient in Europe, where European Commission President Ursula von der Leyen has championed diplomatic and economic "de-risking" as a response to China's efforts at systemic change of the international order.[40] Were an invasion of Taiwan to take place, it would not only have an impact on Asian-Pacific trade logistics but could also lead to widespread Western sanctions on China that would make it effectively impossible for many multinational companies to do business there.[41]

Box 2. Repeated breach of factory workers' rights

On 10 January 2023, the 1,700 mostly female workers at Dongguan Gogo Garment Manufacturing were notified that the factory was closing and that they had one week to vacate the factory premises.[42] Just days before the announcement, workers had begun marching outside the factory to protest the company's failure to pay wages and social insurance benefits.[43]

Dongguan Gogo, a wholly owned subsidiary of Hong Kong-based holding company Unison Global Limited (known until 2021 as "Clover Group International Limited"), was a producer of high-end undergarments for major brands, including Victoria's Secret and Under Armour.[44] Dongguan Gogo found itself in financial difficulties in the wake of the Covid-19 pandemic. In its announcement to workers, the company blamed its need to close on a "sudden contraction" in customer orders, as well as "internal and external environmental factors".[45]

Following the closure announcement, workers again protested to demand the layoff compensation to which they are legally entitled.[46] Negotiations between workers and management proceeded with difficulty, with the company claiming it had no funds left. By 20 January, on the eve of the Lunar New Year holiday, workers were reportedly given a small amount of compensation but much less than they were owed under the law.[47]

This was not the first time that the company management behind Dongguan Gogo had left its workers in the lurch after abruptly closing a factory. In September 2006, Clover Group International suddenly shut down a Thai subsidiary, Ginaform Bra Company, and laid off its roughly 1,600 workers, citing mounting losses due to increasingly uncompetitive costs and shifting production to China and Cambodia.[48] In March 2021, another Thai undergarment factory, Brilliant Alliance Thai Global Limited, was shut down suddenly by its CEO, who was also the CEO of Dongguan Gogo.[49] In both cases, workers protested failure to provide adequate compensation following the closures.

Not all business ventures can survive in difficult economic times, and the global Covid-19 pandemic of 2020–22 resulted in the closure of many factories. But there is evidence to suggest that what happened at Dongguan Gogo should have been foreseeable, both to factory management and to its buyers. Instead of following the law, which would require a 30-day notice period and consultation with employees before closure, the owners of Dongguan Gogo rushed their employees out the door in the days before the Lunar New Year. And instead of taking measures to ensure that declining orders to their supplier could be managed in a way that did not leave workers out in the cold, Dongguan Gogo's buyers appear to have left matters up to factory management – despite their history with factories in Thailand.

SOMO and CLB contacted Victoria's Secret and Under Armour, as well as Unison Global Limited, for comment on their due diligence processes. Only Victoria's Secret responded. The company had exited the Dongguan Gogo factory in 2022 and stated that "Dongguan Gogo factory management gave assurances that it had business to replace that of Victoria's Secret, as well as assurances on the long-term viability of the facility."[50] Victoria's Secret also confirmed it was aware that "while workers have received some payments, they have not received the full severance" and said the company would continue to seek ways to support resolution of the matter.[51] Victoria's Secret did not comment on how its due diligence processes took into account the track record of Clover Group (now Unison Global Limited) regarding the treatment of workers during factory closures, although, as noted above, this information was in the public domain.

Under Armour shop in Shibuya, Japan – jun560 / Flickr, CC BY-NC-ND 2.0

Box 3.
Need for responsible sourcing decisions not limited to China

Multinational companies with overseas manufacturing operations are often faced with challenging scenarios that require them to make decisions about whether to continue sourcing from a particular country – notably countries experiencing human rights or humanitarian crises.

In Myanmar, labour rights groups and the media repeatedly exposed how factory closures due to Covid-19 had left thousands of garment workers, mainly women, facing the prospect of losing their jobs at short notice without being paid the wages they were owed.[52]

Then, the instability, international sanctions, and economic slowdown that followed the military coup in February 2021 led many multinational companies to pull out of the country. Clothing companies, such as H&M and Inditex, decided to stop sourcing from Myanmar due to an increasingly difficult operating environment, including arrests of trade union leaders and reports of increased labour rights abuses. But divestment from Myanmar has not been universally welcomed. The National Unity Government, which formed in exile after the coup, has not called for an end to apparel sourcing from Myanmar, where the industry has been an important source of employment.[53]

In Sri Lanka, where the export-led garment industry is the mainstay of the economy, the 2022 economic and political crisis added massive inflation and disruption of basic services to the woes of a sector already devastated by the impact of Covid-19. As Sri Lanka lost its competitive edge, companies seeking to maintain production relocated operations, resulting in the loss of jobs for workers who were already struggling to make ends meet.

The industry in Sri Lanka is extremely concentrated compared to China, with around 25 per cent of Sri Lankan factories owned by just three companies (Brandix, MAS Holdings, and Hirdaramani), which have developed strong supplier relationships with major European and American apparel brands. (Some of these brands – PVH, Nike, and Victoria's Secret – sourced from the Chinese factories referenced in this report.) Yet, despite the strong leverage and resources available to these multinational buyers, most were unwilling to respond to calls to support workers in their Sri Lankan supplier factories through the severe economic crisis.[54]

There are other factors fuelling the shift away from China. In recent years companies have been compelled to address growing concern about allegations of forced labour and other human rights abuses associated with the Xinjiang Uyghur Autonomous Region. This has been particularly relevant for the apparel sector, given the region's role as a major producer of cotton for the global market, but supply chains in electronics and other sectors have been questioned as well.[55] The Uyghur Forced Labor Prevention Act in the United States has placed heightened scrutiny on companies' supply chains in China by introducing closer inspection of imports and requiring US importers to prove that goods imported from Xinjiang were not made with forced labour.[56] Companies have no doubt taken note of the experience of German automaker Volkswagen, which had "hundreds and possibly thousands" of its vehicles detained at US ports in early 2024 due to a component manufactured in Xinjiang.[57] Meanwhile, many companies see "near-shoring" – that is, shortening supply chains to bring manufacturing operations closer to end customers – as a way to respond to demands for more sustainable and climate-friendly business practices coming from their shareholders and customers.[58]

Cumulative impacts

The trends described above have intersected over the past five years to increase the turbulence in both global supply chains themselves and the responses of multinational businesses. While companies are responsible for their own policies and practices, context is an important element of due diligence. As the UN Guiding Principles on Business and Human Rights note, "some human rights may be at greater risk than others in particular industries or contexts, and therefore will be the focus of heightened attention".[59]

In China, the cumulative effect of multinational sourcing decisions has a concentrated impact on particular sectors and locations in a relatively short period of time. This context needs to be taken into account as companies review their sourcing practices and consider diversifying from China. In fact, even companies with no current plans to change their sourcing practices must now be aware of the risks to workers associated with the changing landscape for manufacturing in China.

It is therefore imperative that brands and retailers in the apparel and electronics sectors take a much closer look at the impact of this structural shift on Chinese workers and ensure that companies at all levels of their supply chains are taking steps to mitigate risk and remediate harms to workers' rights. This means remaining mindful of how purchasing practices affect suppliers and incorporating responsible measures such as fair payment terms, forecasting, and ringfencing of labour costs. In addition to due diligence at the individual company level, there may be a need to work together across a given sector to enhance collective responsibility to uphold standards of responsible business conduct and establish better safeguards around disengagement in contracts and other policies. To this end, companies can refer to the model contract clauses and other elements that operationalize and implement the core principles of the Responsible Contracting Project.[60]

Box 4. China's ongoing role in global supply chains

The economic and geopolitical context in which supply chain shifts have occurred is unlikely to be reversed in the near term, so it is expected that buyers will continue to look for alternative sourcing and manufacturing locations. But – barring a catastrophic event such as the outbreak of war over Taiwan – this does not mean that China will cease to be a key link in global supply chains any time soon.

China's advanced, vertically integrated manufacturing capabilities tend to give it significant advantages over potential rivals. Apparel factories in locations like Vietnam, Cambodia, or Indonesia mainly assemble items for export using imported inputs, often from China.[61] Similarly, in electronics, China's component manufacturing is not yet matched by the countries that are seeing growth in product assembly, such as Vietnam.[62] In both apparel and electronics, these countries remain heavily dependent on imported inputs for finished products, many of which can currently only be sourced from China.

However, even if Chinese manufacturing remains an important source for global supply chains, that macro-level picture of stability must not obscure the local impacts resulting from changes in the sourcing policies of Western multinationals. The ultimate issue here is that any decision to end or reduce a relationship with a supplier, for whatever reason, has the potential to cause or contribute to harm for workers. Corporate decisions to reduce or shift sourcing can pose risks to workers that need to be assessed and mitigated. Even if Chinese factories continue to play a role in global manufacturing as a whole, the immediate, local impacts on Chinese workers as low-end, labour-intensive work moves elsewhere cannot simply be passed off as a necessary consequence of structural evolution.

Box 5. Shareholders informed, workers left in the dark

Workers at Zhongshan Wing Ming Electric Co., Ltd, started to grow concerned when their work hours began to be restricted in May 2023. They grew even more suspicious when they noticed equipment being moved out of the factory that produced magnetic components and electronic connectors for Bel Fuse, a US company.

Demand for the components had fallen during the pandemic, according to Bel Fuse's annual report for 2022, but the workers at the Zhongshan factory seem to have believed that the company was financially sound and that their jobs should not have been at risk. Those workers seem to have been unaware of what Bel Fuse's shareholders had already been told: namely, that the company was consolidating nine of its Chinese production sites at a "single, centralized site" nearly 600 km to the west of Zhongshan in Binyang County, Guangxi Province.[63]

Workers at the Zhongshan factory were reportedly not offered the chance to relocate to the new facility. Instead, they claim, factory management used workers' lack of certainty about the factory's future to get them to resign voluntarily in exchange for severance payments far less than what they would have been legally entitled for unilateral termination or relocation.[64]

Box 6. Workers protest factory's attempt to avoid paying full compensation

In late April 2023, more than 100 workers went on strike at Welfare Electronic Technology (Shenzhen) Co., Ltd, to protest the compensation they were being offered as part of plans to relocate production. Workers were upset that factory management had only proposed 70 per cent of the relocation compensation they believed they were entitled to by law, and some workers even tried to attract attention to the dispute by threatening to jump off the factory roof. Welfare Electronic Technology (Shenzhen), which had been in operation since 1991, produced printed circuit boards for Hong Kong-based Welfare Printed Circuits Board Company Limited, a Hong Kong based supplier to contract electronics manufacturers and manufacturers of automotive technology, such as Marquardt Services and Huf Group.[65]

In July 2022, production at the Shenzhen factory began gradually to be transferred to a newer factory in Kaiping, a smaller city more than 200 km away in a less developed part of Guangdong Province. A decline in orders to the Shenzhen factory meant that workers who remained there were unable to earn a living wage, and many had already chosen to resign as a result.[66] The remaining workers reportedly worried that the Shenzhen factory would close permanently, and they saw the removal of equipment from the factory as evidence of imminent closure. Although workers were apparently offered the chance to relocate to Kaiping, many instead sought the compensation to which they were legally entitled. But by calling the move an "industrial restructuring", rather than a relocation, factory management contended that it was not obligated to provide the full amount that would be due workers for a factory relocation.[67]

Firefighters respond to a protest at Welfare Electronic Technology (Shenzhen) Co., Ltd, in which workers threatened to jump off the factory roof. Source: Chinese social media post on Douyin, 23 April 2023, archived on CLB Strike Map at https://maps.clb.org.hk/su/dSk41JyH

International standards on responsible business

The UN Guiding Principles on Business and Human Rights, OECD Guidelines for Multinational Enterprises, and associated OECD guidance for specific sectors all set the fundamental expectation for companies to carry out risk-based due diligence to identify, prevent or mitigate actual and potential impacts caused by their business activities or linked to them through their business relationships. Like any other business decision, decisions related to sourcing practices must be carried out responsibly so that they do not create adverse human rights impacts. To the extent that companies are planning changes to their sourcing practices, they should already have the time needed to conduct necessary due diligence and make plans to mitigate the impact of their decisions on suppliers and, especially, their suppliers' employees.

Insofar as buyers are thinking about the impact of future geopolitical shocks on their supply chains, they should be developing contingency plans well in advance so that all stakeholders in the supply chain have sufficient time to make informed, responsible decisions.[68]

Buyers responsible for making sourcing decisions for brands or retailers have a responsibility to identify and assess potential adverse impacts and formulate and implement responsible exit strategies before making decisions to sever or significantly reduce a supplier relationship. This is especially critical in cases where the buyer is the sole or a main source of income for those suppliers.

When changes to sourcing practices are identified to be a potential risk factor for job losses at a supplier, brands and retailers should ensure, where possible, that there is meaningful and timely engagement between the supplier and its employees, as well as other relevant stakeholders, and that plans to prevent or mitigate adverse impacts to workers are in place before those sourcing decisions take effect.

Among the specific measures to prevent and mitigate adverse impacts that should be in place before initiating changes to supplier relationships that are likely to lead to collective lay-offs or dismissals, brands and retailers should:

- Ensure that suppliers, workers, and relevant government entities are all given reasonable notice of the pending changes
- Ensure that supplying companies are able to pay workers all wages owed before a sourcing relationship is ended
- Ensure that supplying companies have fully contributed to social insurance schemes before workers are discharged
- Collaborate with state entities where needed to address challenges resulting from the disengagement, such as ensuring safe housing for workers previously housed in company facilities

Companies must also take measures to remediate adverse human rights impacts caused or contributed to by the decision to disengage, to include:

- Remediate impacts resulting from the disengagement itself; and
- Remediate any unremediated adverse impacts to employees that had been caused or contributed to by the company prior to the disengagement.

As with all human rights due diligence actions, the steps taken by companies to prevent and mitigate risks or remediate harms must be publicly disclosed in a timely manner to ensure transparency and accountability.

Box 7. The inadequacy of social audits and certification schemes

The past two decades have seen a significant rise in the use of social auditing and certification schemes by multinational companies, particularly in the apparel sector. Human rights groups have repeatedly warned that such schemes are not a substitute for corporate human rights due diligence, which is expected to be an ongoing process.[69]

The social audits and certification schemes that many multinational companies use to monitor suppliers are, at the best of times, snapshots in time with a limited ability to capture rapidly changing circumstances or, at worst, highly choreographed exercises with inadequate or artificial engagement with workers.

Conclusions

Multinational companies with global supply chains spend a lot of time analysing and addressing potential business risks. The recent experience of navigating the increasing use of trade restrictions, the Covid-19 pandemic, and rising geopolitical tensions has prompted a widespread reassessment of sourcing practices that seeks to mitigate these risks through diversification. Given the degree to which so many global supply chains have been built up around Chinese manufacturing over decades, it is inevitable that supply chain diversification will mean looking for alternatives to Chinese suppliers.

Business risks are not the only risks that matter, however. Companies have a responsibility to respect human rights throughout their business operations and to prevent, mitigate, and, if necessary, remediate adverse human rights impacts with which they are involved. As with all aspects of a company's business, decisions related to sourcing must be subjected to a robust and meaningful process of due diligence to identify and address potentially harmful human rights consequences.

It is inevitable that changing supplier relationships will lead to some job losses. What is important is how these job losses are handled – and especially the steps that companies making sourcing decisions take to ensure that low-paid workers are treated fairly and their labour rights are respected. Workers should not have to fight for unpaid wages or compensation they are owed at the very moment when they are losing their jobs. Unfortunately, this is exactly what many Chinese workers in the apparel and electronics sectors have been facing as this process of sourcing diversification takes place. This is where companies need to recognise that changing contexts may make certain human rights risks more or less salient and adapt appropriately.

Companies can, and must, do more to ensure responsible exits from supply chain relationships, particularly where changes are known to be occurring across a sector and the impacts are likely to be cumulative, as is the case with changes in sourcing of apparel and electronics from China. Corporate human rights due diligence should also reflect recognition of long-standing problems, such as wage arrears, in certain contexts. CLB's Strike Map provides a wealth of data from workers and, as noted earlier in this report, certain problems recur and can be identified as common risks. However, the companies that responded to SOMO and CLB did not indicate that they were aware of the well-known problems of wage arrears and non-payment of social security or other entitlements. Victoria's Secret and PCC both stated that they had sought, and apparently accepted, assurances from the suppliers without indicating any further due diligence checks. And while some companies responded to requests from SOMO and CLB for more information about their due diligence, many companies sourcing from China and elsewhere in Asia are far from transparent about how they address known labour rights risks.

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Colophon

Chain of consequences
How Chinese workers pay for supply chain de-risking
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Author Joshua Rosenzweig
Layout Frans Schupp
Cover photo Female quality inspection worker in an underwear factory not described in this report. iStock / Wengen Ling

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KNSM-laan 17
1019 LA Amsterdam
The Netherlands
+ 31 (20) 6391291
info@somo.nl - www.somo.nl

China Labour Bulletin (CLB)
China Labour Bulletin is a non-profit organisation based in Hong Kong that supports and actively engages with the workers' movement in China. Our primary objective within China is to hold the official trade union accountable to its members, encourage workers to participate, and thereby transform China's union into a genuinely representative institution. We also aim to foster lasting international solidarity.

Unit C, 26/F, Ford Glory Plaza,
37-39 Wing Hong Street Cheung Sha Wan, Kowloon
(852) 2780 2187
https://clb.org.hk/en