

Chapter 7

Foxconn economics: how much room for better pay and working conditions?

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1. Introduction

Foxconn has been and still is the target of trade unions, labour solidarity groups and NGOs all over the world because of its horrific working conditions, especially at its huge plants in mainland China. While this critical perspective is more than justified there remains the simple question of whether there is a real chance of enforcing better pay and working conditions? Would this require more trade union clout at Foxconn and more CSR initiatives to scrutinize the company and its clients (for example, Apple)? Or are there economic fundamentals in the electronics manufacturing sector that would hinder the demands of Foxconn's workers and prevent the bigger pay rises needed for a decent living?

It is argued that although it is by far the biggest contract manufacturer Foxconn is stuck in a business that is hyper-competitive and genuinely low-margin, with intense pressure on costs, especially labour costs. Moreover, Foxconn is part of a highly integrated and flexible supply chain commanded by the electronics OEMs, mainly Apple. These Foxconn customers – the lead companies in electronics – make huge profits by ruthlessly enforcing cost-cutting from their suppliers.

But because other mainly Taiwanese and Chinese contract manufacturers for Apple and other companies face the same margin pressures and constraints as Foxconn it is highly improbable that they will unite to negotiate better terms with their customers unless faced by labour and international pressure.

We shall argue that the initiatives and organizing drives to improve pay and working conditions at Foxconn must therefore focus not only on Foxconn, but also on the other contract manufacturers and, indeed, on the whole supply chain.

As China is the global manufacturing hub in electronics and as the official Chinese unions are increasingly outspoken about working conditions at Foxconn there might be an opportunity for sector-wide initiatives to improve working conditions at the contract manufacturers. An initiative for a cross-border union workshop on pay and working conditions at the contract manufacturers might be a useful step in strengthening international coordination.

2. The rise of Foxconn

Contract manufacturing or assembly is the main business of Foxconn and of other Hon Hai affiliates. Foxconn is the main affiliate of the Taiwanese Hon Hai Precision Group which as a public company is listed on the Taipei stock exchange. In this chapter the name Foxconn is used for the Hon Hai group as a whole.

Foxconn has undergone spectacular growth. It has risen from being one of many invisible Taiwanese firms in the electronics supply chain to being world champion of flexible contract manufacturing. Foxconn has acquired an ever-increasing share of a growing market to manufacture desktops, laptops, games consoles and computer servers for the big IT brand names. Only four times between 1995 and 2010 did Foxconn's sales growth fall below 30 per cent per annum; indeed, on eight occasions the growth rate surpassed 50 per cent. Manufacturing the extremely successful iPhones and iPads for Apple gave an additional push to the successful Foxconn growth story. According to some estimates, worldwide about one third of all products in the areas of communications, computers and consumer electronics are now manufactured and delivered by Foxconn.

This spectacular growth experienced its first blow in 2010, when Foxconn CEO Gou told the media that he would be cutting the growth target to 15 per cent because the company was getting too big. The news sent Hon Hai's stock down, before rebounding again ahead of the next iPhone release.

According to estimates by Morgan Stanley, in 2012 Foxconn accounted for 65 per cent of Apple's product costs (COGS cost of goods sold in Apple's annual report). On the other hand, Apple orders have contributed up to 50 per cent of Foxconn's revenue in recent years. In 2013 Foxconn got about about 65 billion US dollars or 51 per cent of its total revenue,

from its biggest customer Apple, up from 48 percent the previous year (The Economist, 6 July 2013). In 2007, Apple had contributed only 17 per cent to Foxconn's sales. That means that Apple depends on Foxconn and Foxconn on Apple. But that relationship is very unbalanced, as we shall see.

The Foxconn business model has focused on driving sales. Profits were second in line, but followed with ever-increasing sales. As the figures show this approach has been successful over the last 15–20 years and has made Foxconn the undisputed king of contract manufacturing.

But the Foxconn success story might be coming to an end. The product markets the company focuses on are maturing. That means less growth, more competition and smaller profits. Foxconn's main customer Apple is diversifying its manufacturing supply chain away from its sole dependency on Foxconn. Ever cheaper new entrants in the markets for mobile handsets are eating into the premium margins for Apple, Samsung and so on and will add to the margin pressure on their suppliers. Finally, it is becoming increasingly difficult for the huge Foxconn operations in China to find and retain good workers.

Foxconn now faces a slowing smartphone market, alternative Apple assemblers and an already weak outlook for non-Apple devices, such as PCs and servers. Orders to manufacture low-priced phones for the Chinese brands Xiaomi and Huawei will not stop Hon Hai missing the 15 per cent growth target declared in 2010 for a third straight year because those devices are cheaper and bring in less revenue per unit. Therefore there is not much hope that the declining Apple share, and continued weakness in the rest of the tech sector will be compensated for by another Hon Hai affiliate, FIH Mobile, landing orders for fast-growing Chinese brands Xiaomi and Huawei. (FIH is listed separately on the Hong Kong stock exchange, although it is more than 70 per cent owned by Hon Hai and its revenue goes into the Taipei-listed parent's consolidated financials.) Xiaomi and Huawei are gaining market share by being very price competitive, which is not much of an upside to its suppliers. And FIH still needs to make up for the loss of revenue from its former big customers Nokia, Motorola, Sony and BlackBerry.

Growth in smartphone sales will halve in 2015, from 26 per cent in 2014, according to IDC research. PC sales will contract by 3 per cent. The average smartphone will sell for 19 per cent less in 2018 than the average

297 US dollar price tag in 2014. Even if technology is improving, the price will still come down (Financial Times, 18-5-2015).

Foxconn believes it can double in size yet again. Executives talk of Foxconn becoming one of the world's top 20 businesses with about 240 billion US dollars in sales in 2020, with revenues growing by 15–20 per cent a year in the coming three years. But revenue growth at Foxconn tumbled to 1.3 per cent in 2013 and only partially recovered to 6.5 per cent in 2014. Analyst estimates compiled by Bloomberg point to a 4.7 per cent sales increase in 2015 and 9 per cent next year (Bloomberg, 17-11-14). Without new growth drivers after the iPhone, single-digit sales growth rates are likely over the next two to three years.

Foxconn's fortunes mirror those of the tech industry overall, especially smartphones. The smartphone market is growing, but the pace is declining and the prices of phones that have the greatest market potential – mid to low-end – are ever-falling.

At the same time, Apple is diversifying its supplier base. Foxconn's virtual monopoly on Apple orders is over. Other contract manufacturers, such as Compal and Wistron, now receive orders from Apple, too. Pegatron, with more than 100,000 employees, and Quanta are also getting a larger share of Apple's orders. Pegatron has picked up more iPhone and iPad contracts. Quanta manufactures the Apple Watch in addition to manufacturing iMac computers. A handful of other Taiwanese and Chinese names are likely to join Apple's list of assemblers.

3. Foxconn's profit margins: more pressure building up?

The profits Foxconn's huge operations generate are miniscule compared with those of its main customer, Apple. JP Morgan estimated that Foxconn assembled the iPad from early 2010 to mid 2012 for zero profit in an effort to persuade Apple to remain exclusive, but ultimately without success (Financial Times, 24-6-2014). Foxconn's net profit margin has fallen from above 6 per cent a decade ago to around 2–3 per cent now. Foxconn's profits are still growing but profit growth on a year-by-year basis fell from 37 per cent in 2009 to 13 per cent in 2013. Foxconn so far has focussed mainly on growth on the assumption that scale is the best protection against the cut-throat competition of the EMS business, with

a view to escaping the profit margin pressure. But this assumption has not worked out. While Foxconn more than doubled its sales between 2007 and 2013 its net income grew by just 40 per cent.

One might be tempted to compare Foxconn with another heavyweight of the internet economy, Amazon. Amazon is barely profitable but dominates online retail markets (except China) worldwide. Amazon and Foxconn have shared the growth imperative as the way to success. Double-digit growth can deliver nice profit sums while margins are still anaemic compared with other businesses. Amazon has built up a quasi-monopoly via the tentacles of an eco-system that goes from inventory and logistics via payments systems to web services and cloud computing.

But Foxconn is stuck in the hyper-competitive middle of the electronics supply chain where scale is only a temporary fix. Upstream, the designers of components with high IP content make enormous margins, as do the firms downstream that market the finished products. But midstream assemblers do not. Electronic manufacturing as a commodity means that there are always smaller competitors grabbing for a piece of the Apple pie, sometimes at the expense of net profit. The Taiwanese manufacturer Pegatron, which has landed iPad and iPhone orders for its Chinese factories with about 150,000 workers, reported a meagre 0.8 per cent operating margin in 2013, while Foxconn reported 2.8 per cent for the same year.

However, as Anthony Harris showed in his 2014 study 'Dragging out the best deal. How billion dollar margins are played out on the backs of electronics workers' (http://goodelectronics.org/publications-en/Publication_4109/at_download/fullfile), the reported small operating margins of Hon Hai and the other EMS providers do not give the full picture. In running the EMS business other factors come into play that offer some room for improving margins.

One factor is the cost adjustment to the bill of material (BOM), which covers the cost of all materials needed for the final product. While Apple and the other OEMs select the chip suppliers and so on and negotiate the material prices, the EMS provider buys the materials and then sells them back to the OEMs at the factory price. But because material prices are constantly changing, the EMS providers can charge a slightly higher price percentage for the materials at the factory price than they bought them for. With materials representing about 95 per cent of the factory selling

price for the finished product, a windfall of 0.2 per cent on material prices can improve the real EMS margin a lot.

Another factor is the financing of the materials. Hon Hai and other EMS providers clearly have so much leverage over their suppliers that they can force them to finance the materials delivered. With materials being 95 per cent of their expenditure this represents a huge balance sheet advantage for the EMS providers and creates a big opportunity for increasing EMS margins. If 95 per cent of the costs are financed by the suppliers and paid by the customer, the EMS providers can generate a double-digit margin on real costs, namely factories, maintenance and labour. Even producing at zero or sub-zero nominal cost, Foxconn can generate a real margin.

Foxconn has developed several answers to escape declining growth and the continuous pressure on its already small profit margins: in line with the 'Go west' strategy of the Chinese government Foxconn has moved large parts of its operations towards cheaper inland provinces (Chongqing, Chengdu-Sichuan, Zhengzhou-Henan) to get more willing provincial and local governments and cheaper workers and to boost margins. But that advantage will not last long. Because of tax holidays granted to its new plants, the firm's effective tax rate dropped from 25 per cent in 2011 to 18 per cent in 2013 (The Economist, 6-7-2013). But the gains will soon be eroded by higher inventory and logistics costs (because of the more remote locations), rising pay and fading subsidies. Within a few years the shift will bring no net benefit to gross margins. And there are already reports about the Chinese central government targeting the 'sweetheart' tax deals with multinationals and Taiwanese companies.

Foxconn now develops and produces its own components. Making more parts in-house brings higher returns. Foxconn is increasingly making components such as batteries, lenses, speakers and touch panels. Foxconn has now built a plant which churns out new touch screens. Foxconn already has a LCD joint venture with Sharp. There were media reports in 2013 about a Foxconn plan to buy a stake in the troubled Japanese technology firm and to help finance Sharp's glass-panel research, which would fit into the Foxconn strategy to diversify into the higher-margin components business. Almost everything Foxconn makes has glass display screens. According to other reports Foxconn is working with Apple and Sharp on a range of high-definition televisions. Foxconn wants to learn how to make screens better and cheaper. By using its

manufacturing savvy to scale up any breakthroughs, it plans to boost Sharp's sales and pocket a share of the gains. But according to the latest reports (Financial Times, 22-9-2015) Foxconn has still not yet decided whether it will put money into Sharp or, more specifically, into Sharp's display technology business, which is its largest revenue generator, but also its largest loss maker due to cheaper competition from China and is set for a spin-off.

But developing and manufacturing electronic components is risky insofar as the process of commodification of single-function components is fast, and there is always the threat of losing out to the competition. Foxconn has learned this the hard way: another subsidiary of Hon Hai group produced all iPhone casings as recently as 2011; now other suppliers have taken this business for the iPhone 6 (Financial Times, 18-05-2015).

The way out of this squeeze on the component makers is to develop sophisticated products with new singular features, with more IP content. Foxconn has announced the hiring of 10,000 engineers and developers to make components that stand out and that command higher margins for a longer time.

4. Can Foxconn robots (Fox-Bots) drive profits and wages?

Another strategy aimed at getting the company to stand out in the EMS pack and to obtain higher margins is to improve the efficiency of its production lines, especially on new campuses that are purpose-built for automation. There has been a lot of media reporting about the Foxconn project to replace workers with legions of robots. But Foxconn's previously stated goal of 1 million robots was 'a generic concept' rather than a specific target, according to Foxconn representatives. Automation will be key to keeping labour costs under control in the long term and diffusing the bad reputation Foxconn has earned because of its treatment of its workers. No wonder that company chairman Terry Gou once complained when visiting a zoo: 'Insofar as human beings are also animals, I get headaches managing one million animals' (Frankfurter Allgemeine Zeitung FEZ, 10-07-2014). According to Foxconn spokesmen the company aims to get robotic arms to perform mundane tasks currently done by workers. According to analysts the highly segmented and structured assembly processes (325 steps to assemble an iPad) are

best suited for automatization. One so-called ‘Fox-Bot’ with a price tag of about 25,000 US dollars could replace up to four workers.

The business logic behind Foxconn’s robotics project is to increase the productivity, efficiency and reliability of EMS by a big leap. As the prices of robots go down and the wages of Foxconn’s Chinese workers go up there is a break-even point for Foxconn where replacing workers with robots makes sense. When Foxconn can take the lead in this process it will command higher profits for quite a while and distance itself from the other EMS providers. When the Foxconn robots are developed and manufactured in-house there are other advantages: Foxconn can make robotics a highly profitable business segment of its own and make inroads into the future.

Moving up the value chain means fewer Foxconn workers, but with more complex tasks and probably higher wages. This double-edged process is reflected in discussions in the social media in China: some commentators complain that Foxconn is dumping its workers after ruthlessly exploiting them, while others cheer the automatization as an inevitable process for China’s development.

Another Foxconn strategy is diversification. Foxconn has – unsuccessfully so far – used its huge cash reserve of 17 billion US dollars (2014) to expand into electronics retail. Its Chinese joint venture with the German Saturn-MediaMarkt group has been shut down. It has also acquired 4G spectrum licenses in Southeast Asia. But it takes time to make money in the telecoms business and to recoup the investment in the 4G licenses. Foxconn has also established itself in the ‘Big Data’ business, focusing on its manufacturing expertise with a huge data centre in Guiyang in the interior province of Guizhou, probably supported by big public subsidies (China Daily, 28-5-2015).

But Foxconn’s contract manufacturing business is still generating 80 per cent of its revenue and in this segment the continuous double-digit growth story seems to be over. As Hon Hai Precision Group’s share price lags behind, some of Foxconn’s biggest shareholders (Hon Hai founder and boss Terry Gou is the single biggest investor, followed by US investment fund Black Rock) are calling for higher payouts. During the past few years Hon Hai has distributed only 18–19 per cent of its annual profits to its shareholders. That is not much compared with smaller EMS companies such as Pegatron or Compal, which distributed 54–60

per cent of annual profits to their shareholders. Foxconn has instead used most of its cash for further expansion. That has worked fine for 10–15 years, but with the growth story reaching its limits impatient investors may start asking for their money.

5. The strengths and constraints of being the biggest contract manufacturer

Foxconn is basically a contract manufacturer or so-called EMS (Electronic Manufacturing Services) provider. EMS means that the company not only does the assembly of electronic products but delivers complete product designs and handles the logistics and after-sales services. Despite being the market leader in the EMS business Foxconn is caught in a trap: between companies such as Qualcomm (mobile chips) and Samsung (memory chips and more) that develop and control the core electronic components with high value added and therefore high margins and, on the other side, the OEMs, such as Apple and HP, which control the brand and the marketing of the finished products. Assembling electronic products from pre-fabricated components or developing and producing commodity components adds little value. As the break-downs of the costs of iPads or iPhones have repeatedly shown, the costs of assembling the final product, putting the components together, are next to nothing. According to estimates by IHS the total product cost of an AppleWatch is just 84 US dollars, while Apple charges customers 350 US dollars; that translates into a gross margin on the AppleWatch of around 75 per cent (Financial Times, 23-05-2015).

This unbalanced electronics supply chain relationship with the power tilted towards the OEMs (such as Apple) is the reason why Foxconn's profit margins are very low and are constantly under pressure. Contract manufacturing in electronics is by default a highly competitive business. The competition is fought mainly over price and scale, logistics and delivery time. The stakes of entering the EMS business are low in terms of capital intensity and sophistication of manufacturing processes. Foxconn and the other EMS providers need scale, good IT systems, rigid discipline on the shop floor and control of a constant supply of cheap labour.

The power of the OEMs is magnified when suppliers are more or less totally dependent on orders from a single customer. That is illustrated by

the insolvency of Wintek, a Taiwanese manufacturer of touch screens for iPhone 4, and the closure of two Wintek plants with more than 7,000 jobs in Dongguan in the Pearl River Delta last winter. In 2012 customer Apple switched to a different touch screen technology for its iPhone 5. In 2013 Apple opted for film-touch panels in its iPads rather than the glass-touch panels (OGS panels) made by Wintek. The background of the Wintek insolvency is ever-growing competition between makers of some smartphone components (screens, lenses, speakers) and therefore still lower margins. Previously, two or three companies shared a single Apple order. Now there are up to 10 competitors for one commoditized component (Financial Times, 12-12-14). The same fate applies to the companies that offer electronic assembly as a commodity.

Table 1 Estimated Hon Hai revenue share per customer 2013

Apple	39%
HP	20%
Sony	6%
Dell	4%
Acer	3%
Other	28%

Source: Barclays, quoted from: Financial Times, 11-12-2013

Electronics manufacturing is (at least up to now) not comparable with manufacturing processes in, for example, machine-tool companies, where skilled workers assemble high-precision machinery, but also compared with sophisticated production lines in the automotive sector where complicated gears are manufactured and where their proper functioning depends on precision in terms of nanometres. The know-how in those production processes is often incorporated in tool sets and machinery developed in-house; the proper functioning of these production environments is controlled by skilled workers. Therefore companies in those businesses sometimes command double-digit margins (more than the German premium car brands).

But the manufacturing of IT and electronic products basically involves assembling components for the final product. The different assembly tasks can be learned within a few minutes or hours and require only a certain level of subtlety. Industry standards in hardware and software have been the technical basis for the commodification of computers in the 1990s and the ubiquity of electronics in everyday life today. Electronic

products could be developed and scaled from off-the-shelf components, such as chips, disks and screens. The assembly of these commoditized components can take place anywhere, in garages or in huge Foxconn campuses.

The business of the contract manufacturers in electronics is asset-light compared with chip manufacturing or the manufacturing processes in the automotive industry, where an investment of about 1 billion US dollars is needed to build a new plant. The fixed capital needed for a new Foxconn campus is mainly for buildings and infrastructure. So the investment needed to start an EMS business is low compared with other industries. While the EMS business has been dominated more or less by Taiwanese companies in the past ten years there are hints that newcomers from mainland China are entering this business.

Foxconn still stands out of the EMS pack because it was quick to establish itself as the contract manufacturer with the biggest facilities and the biggest workforce. The scale, the sheer size of Foxconn's operations was the guarantee for its OEM customers that new market trends in consumer electronics could be exploited immediately. As happened with PCs fifteen years ago and with laptops or mobile phones ten years ago and now with the smartphones, the factor time-to-market is decisive for the OEMs in winning the gold rush. It takes only a few months until a 'cool' new product is already obsolete. Foxconn rode on the waves of Apple's success because it was able to deliver huge volumes of new iPhones and iPads within weeks. As the world's largest outsourced manufacturer grows even bigger, it is becoming ever more indispensable to Apple as well, even if much smaller contract manufacturers now also get Apple orders.

Getting half one's revenue from one client is a risky proposition, but it is a great boon when that customer is the one industry player posting sustained growth in the anaemic PC and consumer electronics market. Still, that is not helping Foxconn to achieve its growth and profit targets. The firm could also try demanding higher prices. There are signs that it is ready to move away from a low-price strategy, instead stressing reliability and high-volume capabilities. But it is a big question whether Foxconn can persuade Apple, the world's most powerful electronics firm, to cough up more money.

6. Foxconn's labour relations: any hope of bigger improvements?

Under its flagship unit Hon Hai Precision Industry Co Ltd, the group currently employs about 1.3 million people in total and more than 1 million people in China during peak production times, making it one of the largest private employers in the world. As has been shown, due to the segmentation of the supply chain in the electronics industries and the winner-takes-all logic that favours IP content and marketing savvy over mundane and fungible tasks such as electronics assembly the EMS business is low-margin and low-wage with constant pressure on workers. As with other low-margin and asset-light industries with high labour input – for example, retail, WalMart – keeping wages in check is the order of the day.

While labour costs represent only 2 per cent of the EMS selling price, they represent upwards of 40 per cent of the real EMS manufacturing cost. Herein lies the main tension between the EMS provider and their workers, because mere fractions of a per cent in labour costs have a cumulative effect on millions of products and on margins.

In China, Foxconn has experienced a dramatic rise in labour costs within the past few years. According to a Hon Hai spokesman Foxconn's labor costs have more than doubled since 2010, when the company faced intense media scrutiny following a spate of worker suicides. The spokesman confirmed that Foxconn has kept its workforce basically stable in recent years and that the company plans to reduce its overall headcount. The rise in labour costs is due mainly to government policies in China which in recent years have increased regional minimum wages by double-digit figures. As the wages at Foxconn are only slightly above the regional minimum wage floor in China and as this exerts strong pressure on its employees to put in overtime to make a living there are numerous complaints from employees about the OEMs scrutinizing Foxconn to stick to the legal limit of 60 hours per week. The other factor in Foxconn's rising labour costs in China are growing labour shortages as the labour force has started to shrink and migrant workers opt for more rewarding jobs.

It is difficult to judge how far the international pressure on Foxconn after the suicides and the demands from Apple, which has sent the Fair Labor Association (an US outfit criticized for corporate white-washing)

regularly to check labour conditions at Foxconn, have also contributed to the increase in labour costs.

Can the rise in Foxconn's labour costs go on? Probably not. A simple calculation demonstrates the dilemma: a labour cost increase of 100 US dollars per month for 1 million Foxconn workers in China (in wages or in social security contributions) would cost the company about 1.2 billion US dollars per year. With a profit margin of 2–3 per cent, dim prospects of margin increases and with Hon Hai overall revenues of about 130 billion US dollars in 2013, such an increase, while not enough for a decent living for workers, would erase about half of Hon Hai's operating income.

As Anthony Harris has demonstrated, direct labour costs for the workers who assemble the products represent only about 2 per cent of the factory selling price Foxconn is charging. About 95 per cent of the selling price is determined by material content. But in relation to the retail price, manufacturing labour costs amount to only about 0.5 per cent or 2 euros for a phone or tablet with a retail price of 500 euros. The secret behind this creation of money out of thin air is the non-added-value percentage mark-up pricing model applied everywhere in the electronics sector. Along the supply chain, from components suppliers through the assembly factory to the retail outlet, prices are factored up by a percentage of the goods' value. The EMS selling price gets a percentage margin added every time it moves down the supply chain. For example, 30 per cent for export logistics, management and margin; another 30 per cent for the distributor in Europe for logistics, risk and labour; the store adds its percentage and so on. This standard business model mark-up on the EMS selling leads to the paradox that while the price the actual labour cost in production becomes almost insignificant, any increase in labour costs is translated into a much higher increase in the mark-up and hence the final price.

The mark-up model leads to the perverse consequence that with a 100 per cent pay rise the factory price will rise from 100 to 102 euros, while the retail price rises from 500 to 545 euros. From the increase of 45 euros only 2 euros go to the workers, while 43 euros go to the OEMs, the distributors, retailers, VAT and so on. Another perversity of this business model is the impact of VAT on the retail product, around 20 per cent in Europe. VAT is about five times the total manufacturing cost of the phone or tablet.

Therefore any hope that Foxconn and the other, smaller EMS providers for Apple will stick together and enforce higher prices from their customers without pressure from governments and from labour is probably vain. As Apple has shown with the production ramp-up of the iPhone 6 the richest company on the globe in terms of market valuation is master not only of brand marketing and the 'cool factor' but also the global supply chain (Financial Times, 18-05-2015). Apple has huge clout and ample experience in managing the supply chain in order to get millions of gadgets in the stores with each product launch and at the same time to squeeze its suppliers. There are a lot of smaller Foxconn contenders which have successfully scrambled for a piece of the lucrative Apple pie. Pegatron will assemble more than a quarter of all iPhones in 2015 (Financial Times, 23-6-2015). While their shares were going up, Hon Hai shares have fallen since the product launch last September on the news that Apple has diversified its manufacturing base. This is not a mood in which Foxconn managers are likely to be lenient towards workers' demands.

7. Strategies to improve pay and working conditions at Foxconn

Therefore the unions and the solidarity movements that fight for better working conditions in the electronics industries have an uphill task to impose change on contract manufacturers such as Foxconn, which constantly operate with very low margins, while the spoils go to Apple and others. Without targeting the whole supply chain in consumer electronics with the aim of changing the distribution of profits within the supply chain there is not much room for substantial improvements for the workers in electronics assembly.

This is not to say that the fundamentals of the EMS business prevent any changes in pay and labour conditions. But it needs coordinated efforts that integrate local union initiatives with international solidarity organizations and NGOs to enforce bigger changes in the EMS sector. As experience has shown the initiative – or the absence – of local unions plays the decisive role in targeting the low-wage sector in general. According to studies of the textile and garment industries in Southeast Asia local unions have the biggest impact on pay and working time in this low-wage sector, while labour NGOs and international solidarity groups can mainly influence occupational health and safety issues (Chikako Oka: The role of unions in Cambodia, quoted in: Boecklerimpuls 7-2015).

In this context it is encouraging that the All-China Federation of Trade Unions (ACFTU) is finally targeting labour conditions at Foxconn. This might be an important step forward as China is by far the biggest manufacturing base for Foxconn and for the other contract manufacturers. It is difficult to imagine any major changes in labour conditions in the global EMS sector without changes in China.

Hitherto, Chinese government officials and ACFTU officials have kept more or less silent about the labour conditions at Foxconn because of the importance of the company for local and regional labour markets and for the Chinese economy. Also after the suicides at Foxconn and after the sporadic, sometimes violent clashes between workers and supervisors not only at many Foxconn campuses all over China, but also at Pegatron near Shanghai, the Chinese unions kept a low profile. Foxconn workers reported repeatedly that they had never heard of any union activities within the company. The double-digit pay increases for Foxconn's employees in China were basically driven by Chinese government policies and through the setting of regional minimum wage levels (in which the Chinese unions are involved). But the pay increases have not been the result of union activities within Foxconn or targeted at Foxconn in their own role as defenders of workers' interests and as counterparts of Foxconn management.

That silence seems to be over. At an ACFTU press conference in January 2015 ACFTU vice-president Guo Jun criticized Foxconn for setting a negative example for other industries by forcing too much overtime on its employees (China Daily, 28-1-2015). This could encourage other companies to maximize their profits through too much workload and could lead to depression and other mental illnesses and to higher suicide rates. ACFTU official Guo Jun stated there would be no changes unless such bad HR policies are punished.

It remains to be seen whether this really marks the beginning of a coordinated union effort in China. Without such an effort in China it is difficult to imagine that local labour initiatives can take on Foxconn. In any case, conditions for organizing workers in the EMS sector in China are difficult because of the very high fluctuation, the high use of agency workers and internships, the absence of a stable core workforce and the low degree of the EMS workers' production power compared with the automotive sector, for example. On EMS assembly lines each worker can be replaced within a few hours. Against these weaknesses it needs a strong signal from the unions to make an impact.

An initiative by the global union federations with a focus on manufacturing for a cross-border union workshop on pay and working conditions at the contract manufacturers or EMS services could contribute to better international coordination. It could set up a union framework for the whole sector, not only for Foxconn. It could help to establish common standards for pay and working conditions in this sector. While EMS is the dominant model of production organization in electronics assembly there are also other production models, in which electronics assembly is vertically integrated within one group (Samsung). Labour unions with their international contacts can make a strong push for sector-wide standards and counterbalance the fragmentation in the supply chain where the big OEMs such as Apple or HP dominate their suppliers and dictate the terms and conditions for the products the EMS companies deliver and therefore implicitly for their workers.

To date, these common labour standards for the EMS sector have been missing. But despite the lamentable state of union coordination at the international level there might be a chance to develop an accepted basic set of working conditions in the EMS sector. The public all over the world is quite aware of the plight of the workers at Foxconn. And at the same time obviously no union at the national level has real traction at Foxconn or other EMS providers and therefore nothing to lose but perhaps much to gain. As pay levels differ from country to country and also within countries an initiative on sector-wide standards should therefore focus on other issues. Experience from China shows that working hours and overtime payments and regulations are basic problems; any major progress on that issue could force the EMS employers to raise basic pay substantially. At the same time, it is a 'must' for the unions to regularly monitor the situation on the shop floors of the EMS providers. Up to now this task has been more or less left to occasional visits from NGOs or undercover internships by students and interested academics, not to mention corporate 'white-washing' initiatives.

In this context international solidarity initiatives and NGOs can help to improve the situation of the employees at Foxconn or at other contract manufacturers mainly by denouncing the poor working conditions in the media. But they cannot make up for shortcomings of union organization and their local structures; they cannot do the necessary organizing work. And there is a real danger that those initiatives and NGOs sometimes help Apple and other OEMs to white-wash their image and return to business-as-usual only a few weeks after scandals receive major media coverage.

There is no indication at all that the suicides and scandals at Foxconn have hurt Apple's revenues and the super-growth story. Apple and the other OEMs, the customers of the contract manufacturers, have now adapted to public scrutiny of problems in their supply chain and are skilled at managing their CSR image. Soon after the first wave of suicides of Foxconn workers Apple asked the Fair Labor Association (FLA) in the United States to regularly monitor labour issues at Foxconn, mainly with regard to overtime, health issues, child labour and other legal requirements in China. But of course Apple did not ask the FLA to investigate pay issues at Foxconn, for example if wages without overtime are sufficient to make a decent living. That would have meant changing the distribution of profits between Apple and Foxconn. It is the same story with customer Microsoft, which demands that its suppliers give paid leave to US workers without any indication that Microsoft would pay for it. (<http://www.ft.com/intl/cms/s/o/ceb8cab6-d3ce-11e4-99bd-00144feab7de.html#axzz3Vqz3tuiz>).

The segmentation of the supply chains in many industries, where mainly internal relations within one company are replaced with myriads of external, market relations between companies, with legal responsibilities limited to the different companies, are a fact of modern production and business structures. There is probably no way back. But an organizational model in which the main players in the whole supply chain, mainly the OEMs, shed all their responsibilities for the supply chain and for public and labour issues within the chain while taking most of the profits is not necessary. Companies have to take on legal liability for decent working conditions in their supply chains. Workers and also unions at Foxconn or other EMS providers must have the chance to sue Apple or other OEMs if their working conditions do not meet the basic legal provisions about overtime and so on or the self-imposed CSR requirements. After several human catastrophes in the garment sector in Bangladesh the European Centre for Constitutional and Human Rights (ECCHR) has called for such legislation at the European level. These proposals apply also to the companies in the EMS sector and to their customers, such as Apple. Garment workers from Bangladesh have now sued some major German retailers about their responsibility for the Rana Plaza garment factory disaster in Bangladesh. It remains to be seen whether the German courts take up the case of the workers without clear legislation about supply chain responsibilities.

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