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# Tricky Footwork

The Struggle for Labour Rights in the  
Chinese Footwear Industry



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## List of Abbreviations

ACFTU	All-China Federation of Trade Unions
ASEAN	Association of Southeast Asian Nations
CLIA	China Leather Industry Association
CNY	Chinese Yuan
Dongguan CDC	Center for Disease Control
EC	European Commission
FOA	Freedom of Association Protocol
GDP	Gross Domestic Product
GSP	General Scheme of Preferences
ILO	International Labour Organization
MOHRSS	Ministry for Human Resources and Social Security
MSI	Multistakeholder-Initiative
OSHA	Occupational Safety & Health Administration



# 1 Introduction

‘During the strike, the police set their dogs on us and commanded them to bite.’

‘When I came back from the factory, where my foreman had sent me, he told me I was fired for being absent from work without reason.’

‘Sometimes workers were fined between 30 and 50 yuan because the lunch line hadn’t been orderly.’

These statements were made by workers from three different Chinese footwear factories. Collected in interviews conducted in 2015 for this study, testimonies like the above attest to the fact that labour law violations are still a common phenomenon in the Chinese leather and footwear industry. The people who work at the factories that supply European brands such as Adidas, Clarks and ECCO told us of, among other infringements, salaries that are far below a living wage, involuntary overtime, insufficient protection from health and safety risks, state violence to suppress strikes, unpaid social insurance contributions and insufficient severance payments.

All of the above is happening despite the fact that China has very progressive labour laws, especially in comparison with other producing countries. Workers enjoy many protections, at least on paper, although not freedom of assembly or freedom of association. What is more, most large footwear companies today have codes of conduct meant to curb labour law infringements by suppliers. The present study takes a closer look at labour rights in the Chinese leather and footwear industry. Which economic and political changes have been made in recent years in both sectors, and how have these developments affected the situation of industry workers?

China is, by a wide margin, the top global producer and exporter of footwear. The European Union is in turn the largest importer – and China is its most important supplier country. So anyone who wants to know about the social and environmental conditions under which (leather) footwear sold in Europe is produced must look at China.

This study is a product of the international campaign Change Your Shoes. Eighteen European and Asian organisations have come together to raise awareness about problems in the production of leather and footwear. Research for the campaign was conducted in China, India, Indonesia, Eastern Europe, Italy and Turkey, with the aim of improving social and environmental conditions in the global leather and footwear industry.

The following study first gives an overview of recent developments in the European leather and footwear industry (Chapter 2) then goes on to look at the structures, geography and legal framework of the Chinese leather and footwear industry (Chapter 3). Chapter 4 takes a closer look at the Chinese legislation relevant to labour rights. This understanding of the legal framework aids analysis of the interviews with industry workers presented in Chapter 5. We interviewed 47 workers from three footwear factories in Guangdong Province, one of the most heavily industrialised regions of China and the heartland of Chinese footwear production. These interviews, conducted in late 2015, provide a clear picture of current developments in the footwear industry. The study ends with recommendations on how various stakeholders might improve social and environmental conditions in the Chinese leather and footwear industry (Chapter 6).

In the past, the branch has achieved record growth while ignoring international standards such as the core labour standards of the International Labour Organisation (ILO). This has led to an increase in labour disputes in recent years, many of which were ended violently. At the same time, Chinese law has changed dramatically in recent years in favour of workers’ rights, and there are many signs that workers are becoming more organised. The gains made by civil society protests presented in the study at hand are a clear sign that this is so.

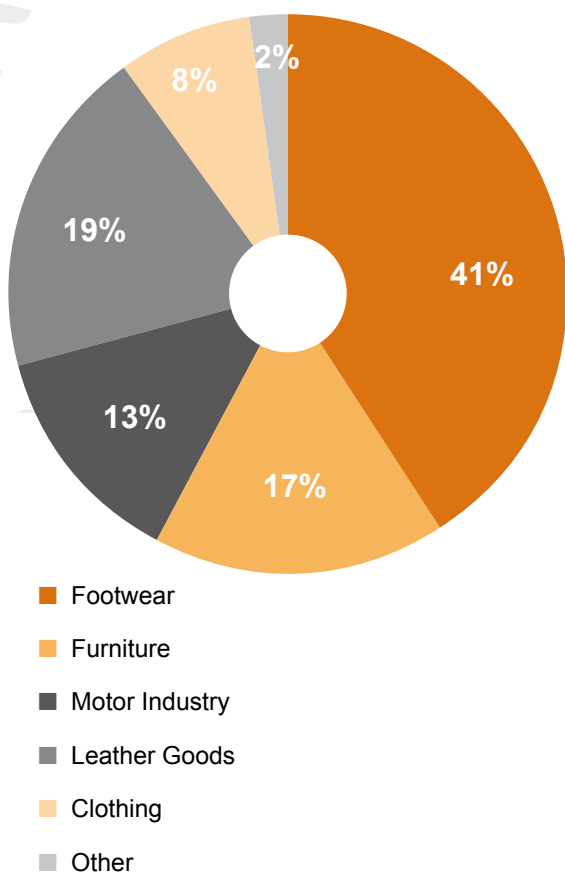
## 2 The European Leather and Footwear industry

The EU is the largest import market for leather and footwear produced in China. For the European market and EU-based industries – which are increasingly defined by globalisation and restructuring – the rise of the Chinese footwear industry has been of pivotal importance.

### 2.1 The European Leather Industry

Relocation of the European leather industry to so-called developing or threshold countries, first and foremost to China, has been underway since the 1970s. The appeal of the move lay in lower production costs and less stringent environmental legislation. Presently, European tanneries produce leather as an intermediate industrial product that is used in downstream sectors of consumer production, in particular in the footwear industry.

**Fig. 1: The most important markets for leather from European tanneries**



Source: EC 2015a

The European Commission notes that in 2015, the European leather industry and related industries comprised roughly 36 000 businesses with overall annual sales of more than EUR 48 billion and around 435 000 employees (EC 2015a: n.p.). The tannery sector, a relatively minor part of the European leather industry, comprised almost 1 800 businesses with 34 500 employees. The following diagram illustrates developments over the last decade, during which there has been a sharp decline in the number both of companies (-25 %) and employees (-36 %) (Cotance and IndustriAll 2012: 10).

In terms of workforce size, the leather industry has clearly shrunk. European tanneries nonetheless continue to play a major role on the global market. Thus, in the global production of semi-finished and finished leather in 2014, for example, China alone had a larger share (29.5 %) than Europe (26.7 %) (Cotance/IndustriAll 2012: 10).

Most European tanneries are family businesses. The leather industry typically evinces high regional concentration and plays an important role in the local economy, since it is frequently a region's principal employer. European tanneries are extremely dependent on access both to primary raw material such as rawhide, and to export markets. The European tanning industry is nonetheless still the world's leading supplier of finished leather. European tanneries' share in the global market is in decline, however, in particular owing to the rise of leather industries in China and other Asian countries (Cotance and IndustriAll 2012: 10). Research on the leather and footwear industry by the IMU Institute (Dispan and Stieler 2015) states that while the continued existence of European leather factories is not under threat, leather producers are steadily losing their competitive edge, in particular to rivals in producer countries such as China. In addition, competition with countries that inadequately enforce social and environmental standards is causing socio-economic damage comparable to dumping.

The EU is still the major sales market for European leather, absorbing two thirds of the total European leather sales. Traditionally, Italy has been the unrivalled leader in European leather production, followed by Spain and Germany. The European leather industry's USPs on the global market are the premium quality and value of its products, mostly niche product lines such as special occupational footwear, children's footwear or snowboarding shoes (Cotance and IndustriAll 2012: 13).



## 2.2 The European Footwear Industry

The European footwear industry consists in the main of small and medium-sized enterprises (SME), each of which averages 10-15 employees and has annual sales of EUR 1 million. Most such enterprises are located in regions with little industrial diversification. Employment levels have declined steadily since the 1970s, when footwear manufacturers began outsourcing production to lower-cost regions, initially within Europe but later first and foremost to Asia. The European footwear sector is still facing a foreign trade deficit yet export rates have steadily improved over the last few years. Thus exports climbed by 48 % between 2010 and 2013, with exports to China showing the fastest growth (EC 2013: n.p.).

Most of the footwear sold in the EU – more than half in 2013 – is produced in China. Vietnam took second place that year, with an import share of 13 % (EC 2013: n.p.). But producing footwear in China is steadily becoming more expensive, owing to rising wage levels and material costs. In addition, the development of trade relations between the EU and China has been influenced in recent years by a shift in the EU's general scheme of preferences (GSP) (EC 2015b: n.p.). This tariff agreement made special regulations to benefit least developed countries, which were guaranteed duty and quota-free access to EU markets for almost all products. In consequence, Chinese footwear has been subject to higher import duties since 2014. Countries such as Bangladesh, Indonesia, Vietnam and India, which still enjoy the lower import duties, were thus able to increase their footwear exports, some of them substantially (CBI 2015: n.p.).

From 2010 to 2014, footwear imports to the EU rose continually, reaching a volume of EUR 40.8 billion by 2014, 29 % more than the figure for 2010. Germany is the major importer, accounting for 19 % of the total EU imports, followed by France, Italy and the UK.

China retained its outstanding position as leading exporter to the EU, even though the export growth rate shrank from 23 % in 2010 to 20 % in 2014 (CBI 2015: n.p.).

Many European footwear companies initially cooperated with Chinese suppliers in order to reduce production costs. This same motive is now driving the shift in production from China to East European countries, such as Bulgaria, Romania and Hungary (RPA 2012: 44 ff.).

### 2.2.1 Restructuring in the European Footwear Industry

In 2010 the European Commission commissioned a comprehensive survey of the current situation and prospects of the European footwear industry (RPA 2012: n.p.). The survey concluded that the European Union, in terms of value, is the largest footwear market in the world and, in terms of volume, the second largest after Asia (Dispan and Stieler 2015: 37). The highly globalised footwear industry is characterised by strong competition, in particular between European and Asian producers. The persistent pressure of competition has led to complex restructuring measures in the European footwear industry, including numerous factory closures and takeovers. The companies' main moves have included:

- Stronger orientation to niche markets and fashion lines.
- Development of new distribution networks and new markets. On the one hand, footwear manufacturers such as Ecco, Ara or Gabor have moved into retail and opened their own stores; on the other, large footwear retailers such as Deichmann have moved into footwear production.
- Probably the most important restructuring measure has been to outsource production to so-called low-wage countries, within Europe and internationally, whereby there seems to be a trend to return operations to Europe (RPA 2012: 44).

### 2.2.2 A Look at Germany

The development of the footwear and leather industry in Germany can serve as an example of the development of the industry in the whole of Western Europe. The structure of the footwear industry in Germany and indeed in large areas of Europe is based on regional concentration and specialisation in specific production technologies (Schamp 2012: 94-103). In this way, Pirmasens evolved as Germany's footwear metropolis in the nineteenth and twentieth centuries. Since footwear manufacturing declined in the region, Pirmasens has become one of the structurally weak regions of Germany.

The footwear industry ranks among the sectors that pioneered and radically amplified the international division of labour. The sector represents the vanguard of economic globalisation, for it began to outsource production as early as the 1960s. For example, the Gabor footwear company moved production to Austria in 1960, also because wages there were 25-30 % lower than in its native Germany. In 1975, it began increasingly relocating production to Yugoslavia (boot

shafts) and then on a grand scale to Portugal (DIW 1997b: n.p.). Thus from the 1970s to 2000, outsourcing production wrought profound structural change in the German footwear industry, including numerous factory closures and the attendant mass redundancies (Dispan and Stieler 2015: 34). The volume of footwear and the number of employees shrank substantially in this period, more than in any other manufacturing sector in Germany (BMW 2015: n.p.). In recent years, both the economic situation of the footwear industry and the size of its workforce have stabilised.

The annual survey of the Germany Federal Ministry of Statistics for 2013 states that circa 17 400 employees in 135 enterprises made total annual sales of around EUR 3.2 billion (Statista 2015a: n.p.).

At almost 32 %, the export quota of the footwear and leather industry is below the average quota (46.3 %) in

other production sectors in Germany (StaLA BW 2015: n.p.), and has steadily declined since 2009 (Statista 2015b: n.p.). In recent decades, Germany has ceased to be a footwear production base and has become instead a typical footwear importer country: the value of its imports is now more than twice that of its exports (Statista 2015d: n.p.).

In 2014, around 20 million pairs of shoes were produced in Germany. This equals around 5 % of the total number of shoes on sale in Germany (circa 400 million pairs; BMW 2015: n.p.).

China is by far the German footwear market's leading supplier, in terms of both volume and value (Statista 2015e: n.p.). In 2013, Germany imported almost 300 million pairs of shoes and boots from China, which means that far more than every second pair imported to Germany was produced in China (Statista 2015a: n.p.).

### 3 The Chinese Leather and Footwear Industry

For many years now, China has been the unrivalled global leader in leather production and leather export (Consulate General of Pakistan 2011: 2f.).<sup>1</sup> Although the Chinese leather sector is now facing major changes, it is unlikely to lose this market edge in the foreseeable future (FMAG 2015: n.p.).

In 2013, China produced over 613 million square metres of leather and in 2014, over 590 million square metres – more than all other leather-producing countries combined (ABMA 2014: n.p.). China is also by far the global leader in footwear production: it turned out over 15.7 billion pairs of shoes in 2014 alone (fig. 2). That same year, China also became the world's biggest consumer of footwear, with 3.65 billion pairs, while the EU consumed 2.8 billion and the USA 2.3 billion pairs (fig. 3).

However, the average consumption of footwear in China stands at 2.9 pairs per capita per year, as opposed to 7.6 pairs in the USA and 5.8 pairs in Europe (APICCAPS 2014: 48). If per capita footwear consumption in China were to double over the next ten years and thus come to equal that of the EU, it would amount to 7 billion pairs per year.

An industry of such magnitude, which employs between 4 and 7 million individuals<sup>2</sup>, has an enormous impact both on the creation of sustainable supply chains and the promotion and protection of labour rights. This chapter therefore aims to give the reader a general overview of the Chinese footwear and leather industry.

<sup>1</sup> The term 'Chinese leather industry' covers various sectors, including the production of leather and furs, chemicals, machine accessories, and leather goods for the footwear and garment industries. In other words, the footwear industry in China is regarded as a sub-sector of the leather industry.

<sup>2</sup> Statistics fluctuate, but one can reckon with circa 4 to 6 million employees in the leather industry, and circa 1.6 million in the footwear industry (see Chapter 3.1 and 3.2).



**Fig. 2: Top 10 Footwear Producers (2014)**

	Country	Pair (Mio.)	Global Market Share (%)
1	China	15 700	64.6
2	India	2 865	8.5
3	Vietnam	910	3.7
4	Brazil	900	3.7
5	Indonesia	724	3.0
6	Pakistan	386	1.6
7	Turkey	320	1.3
8	Bangladesh	315	1.3
9	Mexico	245	1.0
10	Italy	197	0.8

Source: APICCAPS 2015

**Fig. 3: Top 10 Footwear Consumers (2014)**

	Country	Pair (Mio.)	Global Market Share (%)
1	China	3 646	18.8
2	USA	2 295	11.8
3	India	2 048	10.5
4	Brazil	907	4.2
5	Japan	607	3.1
6	Indonesia	548	2.8
7	Great Britain	523	2.7
8	Germany	435	2.2
9	France	434	2.2
10	Russia	411	2.1

Source: APICCAPS 2015

### 3.1 The Chinese Leather Industry

In 2014, major Chinese leather producers with overall annual sales in excess of CNY 20 million (circa EUR 2.8 million) recorded domestic annual sales of over CNY 1.3 trillion (CLW 2015a: n.p.).<sup>3</sup> It is difficult to determine the proportion of the gross national product (GNP) this represents, but in all likelihood it is relatively small; given that in 2010, for example, the Chinese leather industry's gross output was around USD 115

billion and that of the Chinese economy overall circa USD 6 trillion (World Bank 2015: n.p.).

<sup>3</sup> Chinese currency (Chinese yuan) is internationally abbreviated to CNY. The sums detailed in this study are based on the exchange rate cited at [www.oanda.com](http://www.oanda.com) for 31.12.2015: CNY/RMB 1 = EUR 0.13, EUR 1 = CNY/RMB 7.48. Given that exchange rates fluctuates, sums are often cited here in yuan to assure greater accuracy.

In 2014, China's share in global leather exports was around 41 % (CLW 2015a: n.p.), and its value accordingly almost USD 89 billion (FMAG 2015: n.p.). Most Chinese leather is exported to the USA and Europe or sold within the ASEAN Free Trade Area (AFTA). These markets together absorbed 51.7 % of Chinese leather exports in 2014 (CLW 2015b: n.p.).

**Table 1: China's Major Trade Partners**

	Region	Export Share in %
1	USA	23.2
2	EU	21.2
3	ASEAN	7.3

*Source: CLW 2015b*

However, as the Vice General Secretary of the China Leather Industry Association (CLIA) explained at a press conference in April 2015: 'The leather industry's export growth recorded a decline for three consecutive years (2012-2014) and the exports of the industry in 2014 fell 1.8 % in terms of growth rate' (CLW 2015a: n.p.). Despite this decline in export growth, the Chinese leather industry's exports increased overall by 7.2 % to USD 88.9 billion. Imports increased by 10.7 % to USD 9.4 billion (CLW 2015a: n.p.).

In 2014, the country's 644 medium and large tanneries produced about 590 million square meters of leather. The volume thus more or less stagnated, showing only a minimal rise of 0.6 % in 2013. Exports of 'finished' (i.e. fully processed) leather developed favourably: 33 000 tons at a total value of USD 590 million, hence a rise in volume of 12 % and in value of 18.7 %. In parallel, imports of finished leather shrank in volume by 5 % and in value by 3.9 % (Schuhkurier 2015: n.p.).

These figures attest that the Chinese leather sector overall is growing more slowly than in previous years. Yet this drop in production is not to be attributed to the stricter environmental standards in place since 2014 (see Government Policy). In fact, the new standards have led to a higher quality of goods and so are indirectly responsible for export growth, at least in the finished leather sector (CLW 2015c: n.p.).

China acquires most of its leather from the EU, Brazil and the ASEAN states – 60.5 % in 2014. Imports of leather and leather goods from Italy alone, the Chinese leather industry's leading supplier, amounted to 23.4 % in 2014, while Brazil took second place (CLW 2015b: n.p.).

**Table 2: Chinas Major Import Markets**

	Region	Total Import Share in %
1	EU	33.3 thereof Italy 23.4
2	ASEAN	17.2
3	BRAZIL	10.1

*Source: CLW 2015b*

### 3.1.2 Production Hubs

China has various regional production hubs for leather, many of which have specialised in particular products. Thus Baigou, in Hebei province, produces leather exclusively for bags and suitcases, and Haining, in Zhejiang province, for garments and seat covers. Xingji, likewise in Hebei, is renowned for its fur coats (CLW 2015d: n.p.).

In 2014, the five provinces Zhejiang, Henan, Hebei, Jiangxi and Fujia produced more than 75 % of all leather tanned in China. Zhejiang province led the way with around 14 8981 million square metres of tanned leather, which represents 25.53 % of Chinese production overall (CLW 2015e: n.p.).

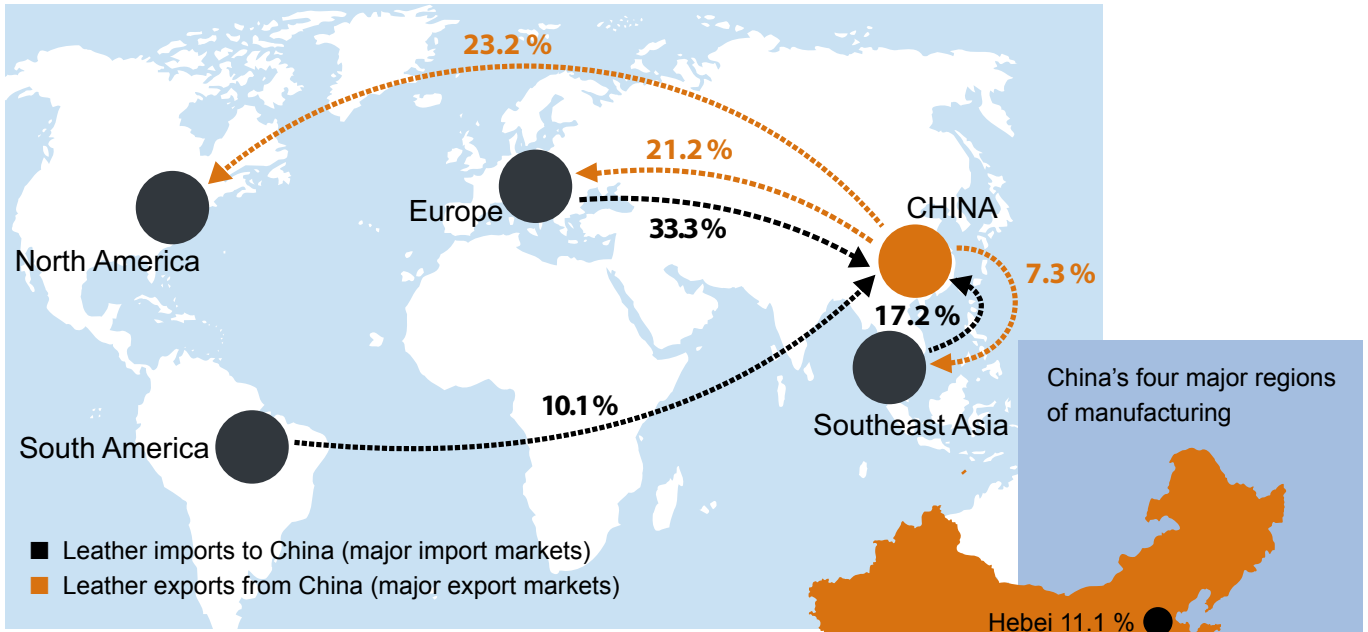
### 3.1.3 Structure of the Industry

Leather production is an extremely resource-intensive and labour-intensive industry. Technological requirements are fairly minimal, however, and so a great number of small leather producers have sprung up all over China. New factories continue to open while others close, making it very difficult to keep count of all the factories in China. However, the number of large companies (with annual sales of over EUR 2.7 million) conveys a pretty clear picture of the leather industry landscape. In December 2014, there were 8 309 such companies (GSN 2015: n.p.). That was a significant increase over the previous year, when only 7 528 companies fell into this category (see table 3). The annual sales of these large companies in 2014 amounted to about EUR 176 billion (CLW 2015a: n.p.). The large leather companies are generally in Chinese hands. A mere 12.5 % of them have foreign owners (CLIA 2013: n.p.; see also table 4).

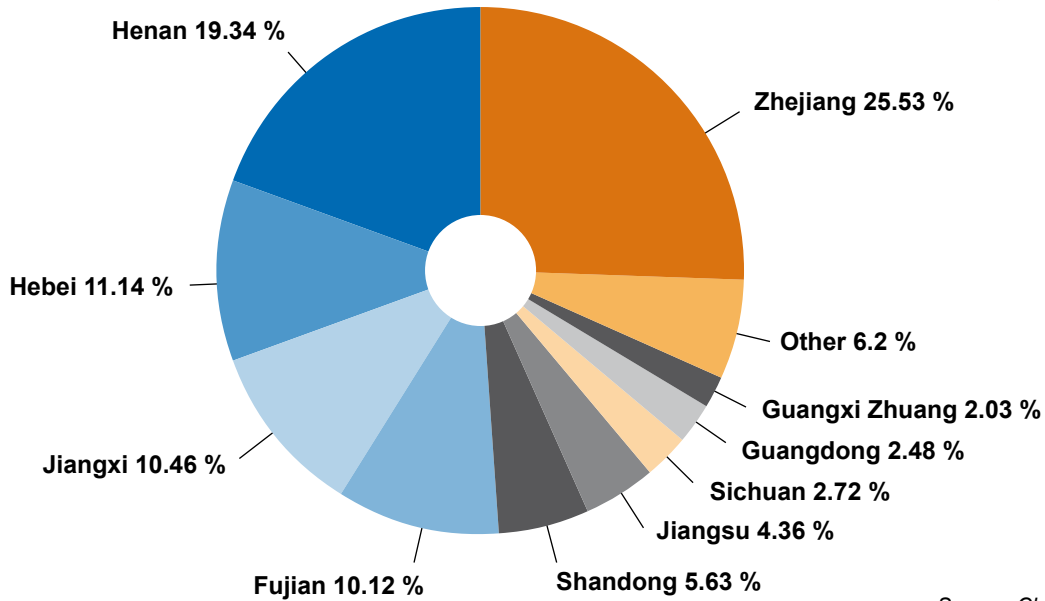




**Fig 4: China's Leather Imports and Leather Exports**



**Fig. 5: Regional Distribution of Leather Production in China**



Source: China leather 2015e

**Table 3: Ownership Structure of Large Footwear Companies in China (2013)**

Land	Amount	%
China	5 279	70.1
Taiwan, Hongkong u. Macao	1 306	17.4
Abroad	943	12.5
Total	7 528	100

Source: CLIA 2014



### 3.1.4 Government Policy

The leather industry ranks among the world's most polluting industries. In China it is a direct cause of dire health hazards and environmental problems (CWR 2014: n.p.). The new Environmental Protection Law, which came into effect 1 January 2015, clearly attests the government's endeavour to tackle its many environmental problems. The leather industry certainly ranks among the sectors now in the Law's sights. Polluters must now reckon with substantially higher fines and more stringent criminal proceedings. In consequence, companies that cannot afford higher environmental standards are being pushed out of the market (CLW 2015f: n.p.).

There were some forerunners to the Environmental Protection Law. E.g., a regulation adopted in 2010 stipulates that tanneries must treat chromium-contaminated water separately from other wastewater. To this end, it prescribes new criteria for modern and clean technologies. In 2014, the Ministry of Industry and Information Technology published Standard Conditions for the Tanning Industry, mandating inter alia how the industry should deal with the tanning process, technology and equipment, environmental protection, and occupational health and safety (Lexis-Nexis 2014: n.p.). This same document, in stipulating that any newly founded, renovated or expanded tannery must treat (i.e. turn into finished leather) at least 300 000 rawhides each year, also explicitly proscribes the establishment of smaller tanneries and menaces the survival of existing ones.

It is evident that the Chinese government wants to abolish all the technologically out-dated and thus extremely polluting tanneries. Such makeshift, often family-run businesses set up in the backyards of private homes will therefore probably soon completely vanish.

### 3.1.5 Workers and Working Conditions

Estimates of the size of China's leather industry workforce range from circa 4 to 6 million. One study claimed the leather industry employed 6 million workers in 2010 (Consulate General of Pakistan 2011: p. 2f.). A report from the Chinese National Bureau of Statistics put the overall number of employees in the leather, fur, feather and footwear industries at around 4.4 million in 2013 (NBS of PRC 2014: n.p.).

The great majority of employees in the leather and footwear industry are migrant workers, a population group of circa 270 million people, according to the NBS. Migrant workers are those who leave the inner provinces of China to seek work in the industrial heartlands of the Special Economic Zones (SEZ), which are strung mainly along the east coast. However, China

has now reached the so-called Lewis Turning Point, namely that point in economic development at which surplus rural labour is no longer profitable (Financial Times 2015: n.p.). The consequence is a labour shortage in major agglomerations, which in turn drives up wage levels, regardless of whether demand for cheap labour stagnates or continues to grow (RFA 2013: n.p.).

Employers can counter this development with one of two strategies: either they improve working conditions (e.g. raise wages) or they outsource their production to lower-wage regions. Many companies that outsource production fail to fulfil their statutory obligations to their workers, such as paying compensations (e.g. severance pay) or social insurance contributions (YGO 2015: n.p.). And while a labour inspections system is, in theory, on hand to support employees in such cases, it is chronically understaffed (see also Chapter 3.2). That is why such violations frequently lead to industrial action. The strike in the Lide Footwear Factory (see Chapter 5) is one such example (International Viewpoint 2015: n.p.). Admittedly, militant action by workers may also be used to justify divestment and factory closures (Wealth Magazine 2015: n.p.).

### 3.1.6 Environmental Issues and Occupational Diseases and Disorders

The excessive use of chemicals in leather production is a particularly grave environmental problem – and it also has a severe impact on workers' health. Equally problematic are the large quantities of solid waste and wastewater. One ton of rawhide is required to produce 200 kg of leather. As a rule the latter contains 3 kg of chromium. The tanning process also generates 250 kg of non-tanned solid waste, 200 kg of tanned solid waste (also containing 3 kg of chrome), and 50 000 kg wastewater containing 5 kg chrome (Hüffer 2004: 423–428). In 2010, for example, the Chinese leather industry produced approximately 100 million tons of wastewater (Leather HC360 2012). A mere 20 % of the raw material ends up as leather. More than 60 % of the chrome lands in solid and liquid waste (Kolomaznika 2008: 514–520).

Significant quantities of the highly toxic chemical hexavalent chromium – Cr (VI) or, more commonly, Chromium VI – can therefore be found in tanneries' wastewater and solid waste. Since a broad range of chemicals is used in tanning, the industry's wastewater often contains other pollutants as well (Mwinyihija 2010: 2). The aforementioned strict Standard Conditions for the Tanning Industry, which came into effect in June 2014, were meant to put an end to this kind of environmental pollution. Some local authorities began even earlier to close down smaller tanneries that were likely to fail to



meet the new standards (ILM 2014: n.p.). The environmental benefits of this development are certainly welcome. But since most of the finished tanned leather and semi-finished leather products processed in China are imported (CLW 2015b: n.p.), the pollution in the supply chain largely occurs elsewhere, at the point of tanning.

Quite regularly, footwear produced in China is not admitted to the European market or has to be recalled by the manufacturer, mainly owing to Chromium VI-contamination of the leather – 60 % of the cases of non-admittance of footwear in 2014 occurred for this reason (CLW 2015g: n.p.). Since 1 May 2015, the universal Chromium VI limit in all goods made of or containing leather, and produced in or imported to the EU is 3 mg/kg (0.0003 % per kilogram) (EU 2014: n.p.).

Previously, the limit was 1000 mg/kg. Unless the Chinese industry radically improves its production technology, in particular in its tanneries, and exacts higher standards from its suppliers, EU markets are likely to turn away even more Chinese leather products in the future.

The excessive use of chemicals impacts not only the environment severely. This highly toxic industry is also a serious health hazard for the workers who come into direct contact with chemicals and inevitably causes various work-related diseases and disorders. The Encyclopaedia of Occupational Illnesses (ILO 2011: n.p.) lists the following risks for the leather industry workforce:

1. **Biological:** Rawhides are breeding grounds for microorganisms that may cause contagious diseases. The most common diseases are brucellosis (a highly contagious bacterial disease), anthrax and typhus.
2. **Chemical:** Tannery workers' exposure to noxious chemicals in the absence of safeguards may have a most drastic effect on their health. For example, Formaldehyde, which is carcinogenic and traditionally mainly used as crosslinking agent in finishing but also as tanning agent. The American Ministry of Labor (OSHA – Occupational Safety & Health Administration) has named several health hazards to workers handling Formaldehyde. These range from respiratory and eye diseases to skin disorders and various forms of cancer (OSHA Fact Sheet 2006: n.p.).
3. **Physical:** These effects ensue from the often dire working conditions and intensive production rates. For example, working in a permanently humid environment, such as the water baths of a tannery, may cause rheumatoid arthritis. Working with dan-

gerous machinery in a dusty and loud environment may likewise cause sickness or injury. Intensive production may lead to backache, sprains and/or to Raynaud's phenomenon, an extreme discoloration of the fingers and toes caused by vasospasms that decrease blood supply to the affected regions (ILO 2000: n.p.).

The leather industry is therefore often a toxic business. All over the world, people and the environment are suffering on account of the hazardous substances used in the leather industry. Workers suffer occupational diseases, the environment is increasingly being polluted and people who live close to tanneries now consume water and foodstuffs full of toxins that enter the food chain via contaminated land and rivers. And even end-consumers, the people who buy a pair of leather shoes, may suffer skin problems triggered by residual toxins.

## 3.2 The Chinese Footwear Industry

### 3.2.1 Chinese Footwear on the Global Market

The footwear industry is by far the Chinese leather industry's most important buyer (CLIA 2013: n.p.). The Chinese footwear industry in 2014 was estimated to be worth circa EUR 94 billion (CLW 2015h: n.p.).

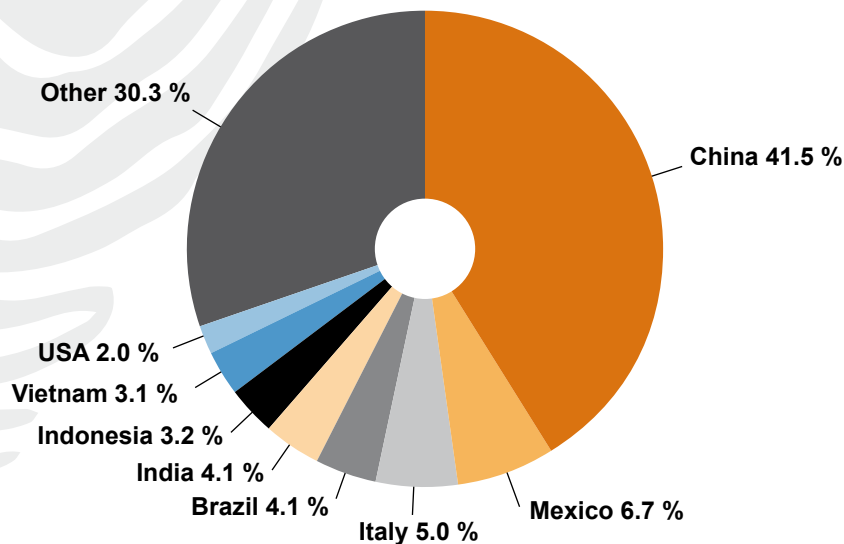
The footwear sector ranks among the most export-oriented businesses in China. In 2013, the country exported around 75 % of its footwear at a value of around USD 48 billion. That means that three out of every four pairs of shoes sold in the world that year were of Chinese origin. In other words, China with its almost 10 billion pairs of exported shoes had acquired more than 73 % of the global export market, as opposed to 62 % in 2010 (APICCAPS 2014: 8).

The major import markets for Chinese footwear are the USA, Russia, Japan and the certain EU member states (APICCAPS 2015: 48). The USA alone accounts for 16 % of Chinese footwear exports, which represents 26 % of the overall export value (APICCAPS 2015: 48). All the other major trade partners, inter alia Great Britain and Germany, each import 4-5 % of Chinese footwear exports (APICCAPS 2015: 48).

Owing to persistent price pressure in the global footwear market, growth in the Chinese footwear sector has slowed continually in recent years. While the growth rate climbed almost 27 % annually a few years ago, it slowed to circa 8 % in 2013 and 2014. Footwear exports in 2013 were circa 8.5 % higher than in the previous year (APICCAPS 2014: 46). In 2014 the increase was about 8 %, making a total value of almost USD 54 billion (APICCAPS 2014: 48).



**Fig. 6: Leading Producer Nations of Leather Shoes**



Source: FAO 2015

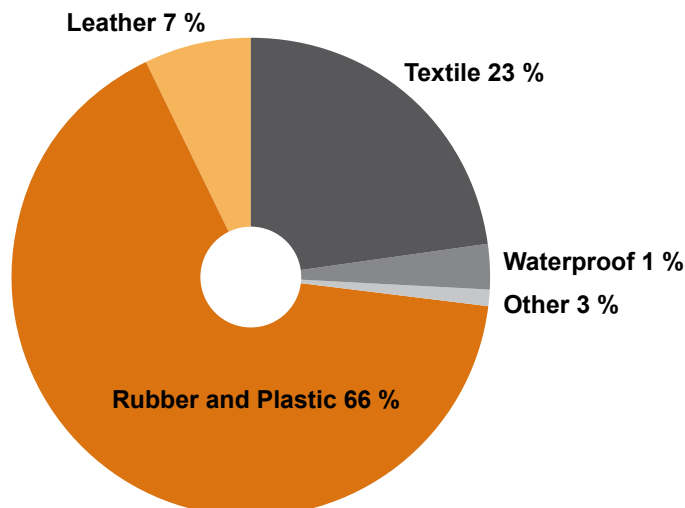
But not only exports are on the rise, for China is importing footwear too. While the total value of its imports was still around USD 1.7 billion in 2013, it rose to over USD 2 billion in 2014. In terms of volume, China imported 56 million pairs of shoes in 2013 and 71 million pairs in 2014 (APICCAPS 2015: 48; APICCAPS 2014: 46). But despite this growth rate, China does not yet rank among the top ten footwear importers.

In terms of price, China is an exporter of low-cost shoes, averaging USD 4.44 a pair in 2014; and an importer of expensive shoes, averaging USD 28.70 a pair that same year (APICCAPS 2015: 48). The relatively high proportion of leather shoes among the imports – well over 40 % – may have contributed to

this high average price. In 2014, China imported 31.6 million pairs of leather shoes with a total value of USD 1.4 billion (Schuhkurier 2015: n.p.).

Leather footwear production represents only a tiny segment of the Chinese footwear industry, namely 7 % – yet sales of 4.5 billion pairs in 2014 spelled 3.1 % growth on figures for 2013. Of this sales volume, 965 million pairs (21 %) were exported (ReportBuyer 2015, n.p.). Leather footwear production is accordingly considerably less export-oriented than the footwear market overall. The rubber, plastic and textile footwear sectors are of much greater importance for export (see fig. 6). In 2014, the average export price for a pair of leather shoes was circa USD 14, and the import price circa USD 43 (ReportBuyer 2015, n.p.).

**Fig. 7: China's Footwear Exports By Material**



Source: APICCAPS 2015

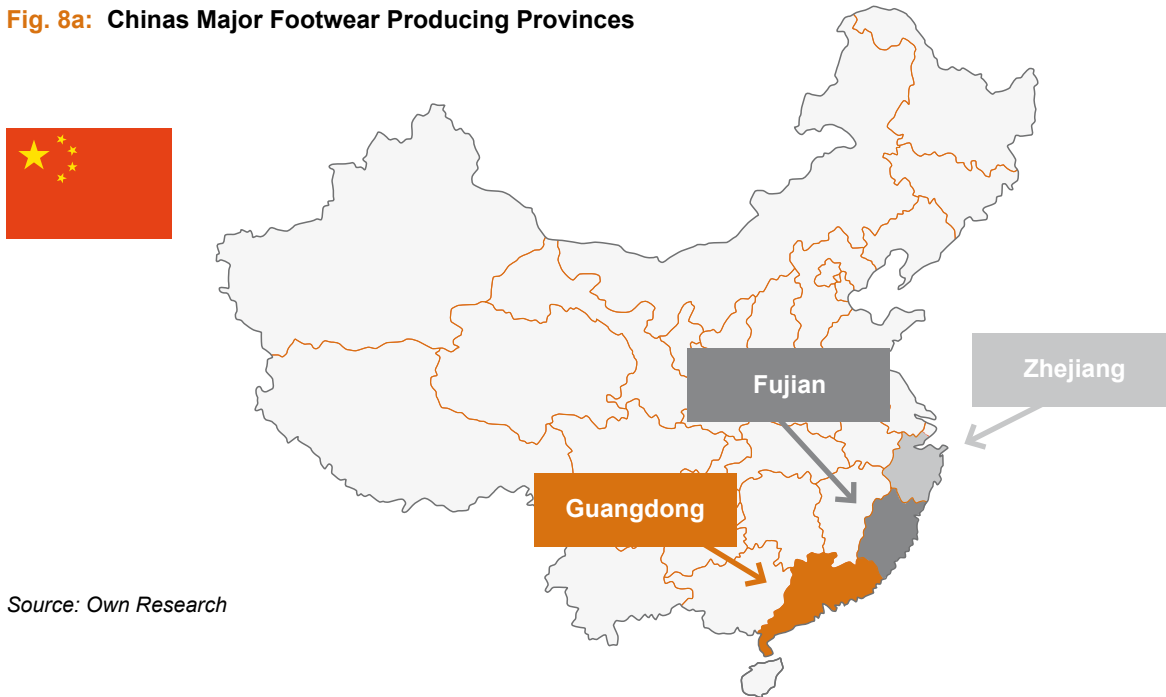


### 3.2.2 Production Hubs

The major footwear production hubs were traditionally to be found in the coastal provinces of Guangdong, Fujian and Zhejiang (Pan 2012: 7 ff.). Yet rising production costs in the coastal region have led many footwear companies to relocate inland, to Sichuan Province for example. Numerous new footwear production hubs have mushroomed there (PRNewswire 2015: n.p.).

Nonetheless, Guangdong is still the primary location of industrial processing in China, also for the footwear sector. Most of the footwear factories in Guangdong are clustered in the Pearl River Delta region. The most important production hubs there are Heshan (CLW 2013a: n.p.), Huidong (CLW 2013b: n.p.) and Dongguan (China Briefing 2013: n.p.). Yue Yuen Industrial Holdings Limited, the world's largest manufacturer of brand sports and leisure footwear, has likewise opened the majority of its factories in the Dongguan region (Yue Yuen 2015b: n.p.).

**Fig. 8a: China's Major Footwear Producing Provinces**



Source: Own Research

**Fig. 8b: The Major Footwear Producing Regions in Guangdong Province**



Source: Own Research

Unfortunately, statistics on the regional distribution of the industry are available only for 2010. At the time, almost 75 % of leather footwear producers, respectively of the 2 660 footwear companies, were located in three provinces: Zhejiang (1 130), Guangdong (772), and Fujian (758) (Pan 2012: p. 408-409).

Guangdong Province may be the heart of the footwear industry but it plays no significant role in leather processing. Its output in 2014 amounted to barely 2.48 % of Chinese leather production overall (CLW 2015e: n.p.). That same year, however, Guangdong Province became China's leading importer of leather products. Raw materials, semi-finished goods and finished leather account for 86 % of these imports (CLW 2015a: n.p.). Thus the footwear producers of Guangdong do not appear to acquire many raw materials from their own province.<sup>4</sup>

### 3.2.3 The Structure of the Industry

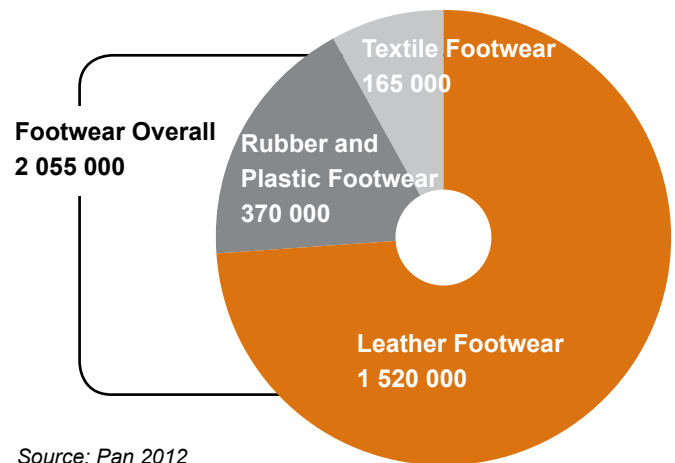
In 2014, the production sector of the footwear industry comprised circa 192 large and 1 356 medium companies, representing almost 4.4 % resp. 32 % of all footwear producers in China (CLW 2015i: n.p.). Most of these companies, above all the larger ones, are headquartered in Taiwan or Hong Kong, and mainly supply international brands. Thus both Yue Yuen Industrial Holdings Limited and Stella Industrial Holdings Limited have HQs in Taiwan and are listed on the Hong Kong stock exchange. Yet Chinese companies headquartered in mainland China are also in evidence, including Belle International, China's largest producer of women's shoes (Fashion Net Asia 2013: n.p.).

### 3.2.4 Government Policy

Like other labour-intensive sectors in recent years, the footwear industry has found itself increasingly unable to attract sufficient numbers of workers willing to carry out extremely demanding tasks in precarious working conditions. Many companies are therefore now seeking technological solutions – and in the main production hubs they enjoy political support for this strategy (China Daily 2015: n.p.). For example, the City of Quanzhou agreed to subsidise companies in Fujian Province to the tune of circa EUR 270 000, on condition that the money be invested in automated production lines (CLW 2015k: n.p.). There are also signs that the central government is using this form of direct subsidy to drive industrial modernisation (Xinhua Finance Agency 2015: n.p.).

## 3.2.5 Workers and Working Conditions

Fig. 9: Footwear Industry Employees By Sector (2010)



Source: Pan 2012

In 2010, there were over 2 million people employed in the Chinese footwear industry, by far the vast majority in the leather footwear sector. In 2014, there were around 1.6 million people in the Chinese footwear industry (Quianzhan 2015: n.p.). The footwear industry used to almost exclusively employ women, since it considered them more patient and docile, as inter alia sociologist Anita Chan (University of Sidney) reported in her study of gender relations in China's manufacturing industries (YGO 2015: n.p.). However, the interviews on which this present study is based revealed that the industry nowadays is increasingly employing men. According to Chan, this shift in gender structure is currently a common phenomenon in Chinese manufacturing (YGO 2015: n.p.). Yet the interviews also revealed that the footwear workforce is still predominantly female, even though the proportion of women workers is now shrinking.

Child labour likewise used to be very common in the footwear industry (IHS 2015: n.p.). A 13-year-old child died of exhaustion in a footwear factory in Dongguan as recently as 2014 (China Labour Watch 2014: n.p.). This was tragic proof that certain factories continue to illegally employ children. Reports published in 2014 on child labour in Daliangshan, a remote region of Sichuan Province, reveal that children from the poorer regions of China still flock to the factories to supplement their family's income (China News 2014: n.p.). China has both ratified international conventions proscribing child labour and passed laws of its own to this same end.

<sup>4</sup> The accuracy of this assumption was confirmed in the course of our interviews. One worker employed as a hide-cutter at Stella International's leather shoe factory reported that up to 70 % of the leather processed at the factory comes from overseas, because the leather tanned in China is deemed inferior.



To determine the extent to which these are respected resp. enforced is a goal of the present study.

### 3.2.6 Labour Inspections

Chinese labour law stipulates that the responsibility for labour inspections lies with the so-called labour inspectorate, the various teams of which report to the Ministry of Human Resources and Social Security (MOHRSS). Labour inspections are of employers alone, who may be ordered to improve working conditions or make (over)due worker's insurance payments. Inspection teams may also impose fines for non-compliance (Xie 2015: 123-125).

Logistically, labour inspections are a straightforward alternative to arbitration tribunals or labour courts and, more importantly, they are much less expensive for workers embroiled in labour disputes. In 2013, inspection teams in China dealt with 419 000 cases of labour law violation, thus helping millions of workers receive their due wages or other forms of statutory compensation (Wie 2015: 125).

Yet inspectors are in acutely short supply. In late 2013, only 3 291 labour inspection teams and circa 25 000 inspectors were available to China's 770 million employees. In consequence, inspection teams are rarely in a position to initiate spot checks of factories and companies. They take action only in response to workers' reports of violations (Xie 2015: 127-128).

### 3.2.7 Environmental Issues and Occupational Diseases and Disorders

Environmental pollution of the most noxious sort ensues from the use of adhesives and cleansing solvents in footwear production, which frequently contain highly toxic chemicals, such as benzene, hexane and dichloroethane. Such substances when volatile become air-borne, and they may also contaminate groundwater supplies if improperly disposed of. But the consequences are worse, by far, for the workers who come into direct contact with them. Some sixteen years ago, the report 'Benzene in Shoe Manufacturing' (Gessenhofen 2000: n.p.) clearly stated that regular contact with benzene may lead to leukaemia.



Health problems of workers in shoe production are often linked to the use of hazardous chemicals and inadequate protective clothing, photo: Fritz Hofmann



Benzene poisoning is in fact the most common occupational health hazard in the Chinese footwear industry. Official statistics attest that contact with benzene is the commonest cause of occupational poisoning in China, and also responsible for over 60 % of all work-related cases of cancer (Ban Benzene Campaign 2015: n.p.).

In Dongguan between 2008 and August 2015, a Chinese NGO interviewed 85 workers who had contracted leukaemia, nine of whom had previously worked in footwear factories. Between 2003 and 2012, the Dongguan Center for Disease Control documented 895 cases of occupational disease, 97 of which (10.8 %) were cases of leukaemia brought about by benzene poisoning (SouthCN 2015: n.p.).

### 3.3 Prospects: Strengths and Weaknesses of the Chinese Leather and Footwear Industry

China's leading position in the global leather and footwear industry is still unrivalled, even though other manufacturing nations, above all, Indonesia, Vietnam and India, have begun to close the gap in recent years.

Yet when it comes to footwear and leather, China still has several distinct advantages:

1. China has at its disposal an impressive number of experienced and financially powerful leather and footwear companies.
2. China has extensive infrastructure at its disposal: road and rail networks, ports, etc.
3. China is endeavouring to close loopholes in its legislation on environmental protection as well as to intensify enforcement thereof.
4. China has a well-educated workforce at its disposal.
5. China has advanced scientific research at its disposal (Global Footwear 2015: n.p.).

In consequence, no other country will be able to challenge China's leading role in the global leather and footwear industry in the foreseeable future. That was the conclusion reached by the American sector expert Peter Mangione when comparing China with nascent footwear producer countries (Fashion Net Asia 2014: n.p.).

It must be pointed out nonetheless that China's leather and footwear industry is presently facing a number of challenges:

1. The rise in production costs, particularly on account of pay increases and more stringent environmental legislation, are leading some companies to relocate to lower-wage countries, such as Vietnam (Tuoitre News 2014: n.p.).
2. China's strong currency inevitably pushes up export prices, also for shoes, and consequently drives down export quotas (The Wallstreet Journal 2015a: n.p.). China has taken certain measures – it introduced devaluation, for example – yet the sinking value of its rivals' currencies wiped out the positive effects (The Wallstreet Journal 2015b: n.p.).
3. A major problem for the Chinese leather and footwear industry, the footwear production capacity of which by far outstrips its leather production capacity, is the dire lack of high-quality rawhide of local origin. To make top quality leather goods, China is obliged to import raw material – its rawhide imports in 2014 amounted to USD 9.4 billion (CLW 2015a: n.p.). Accordingly, the continually rising cost of rawhide worldwide has adversely affected China's leather industry in recent years (Global Footwear 2015: n.p.).

Recent research published by The Netherlands' Foreign Office emphatically concluded that such challenges are making China too expensive for European footwear buyers. Investment in alternative production centres is therefore on the rise (CBI 2015: n.p.). The Chinese Leather Industry Association (CLIA) likewise remains cautious about the industry's future prospects, given the general drop in profitability and growth rates. Profits margins in recent years have shrunk above all in China's eastern coastal region, the traditional heartland of footwear production (Schuhkurier 2015: n.p.).





## 4 Labour Rights in China: National Legislation

In Chapter 3, we touched upon recent government legislation relevant to the leather and footwear industry. Evidently, the primary purpose of such legislation is to limit environmental pollution or increase productivity, and not to strengthen workers' rights. Yet although it mainly serves the interests of the state and industry, it of course also has an impact on workers. For example, the stricter – and welcome – environmental regulation of tanneries leads to the closure of companies that are unable to meet the new standards. This entails job losses on the one hand, but also a drop in the incidence of occupational health hazards, such as chromium poisoning, on the other. Nonetheless, leather and footwear industry employees will find that basic labour rights and regulations are much more effective than environmental legislation when it comes to defending their own rights and interests. The four most important labour laws are detailed below:

### 4.1 The Labour Contract Law

Until 1995, the People's Republic of China had no labour laws at all. First endeavours to draft such legislation were undertaken in 1979, shortly after the Communist Party decided to initiate economic reform, but it took another fifteen years for it to be adopted and implemented. The day the Labour Law came into effect was a watershed in the history of Chinese workers' struggle for rights: the 8-hour day, maternity leave, non-discrimination of female workers, higher pay rates for overtime, the right to public holidays, special protections for underage workers and paid annual leave, etc. were now enshrined in law.

Yet as far-reaching as the legislation was, it failed to elaborate on the enforcement of its various articles. More specific laws and regulations were therefore subsequently passed, including for example:

- Labour Contract Law
- Employment Promotion Law
- Regulations on paid annual leave
- Law on the Mediation and Arbitration of Employment Disputes
- Social Security Law
- Regulations on special protections for women workers

The most comprehensive of all these, and the law with the most impact, is the Labour Contract Law.

The Labour Contract Law came into force in 2008 in response to the proliferation of private sector industrial relations after the turn of the millennium. It initially sowed great panic among employers, who considered it overly advantageous to labour. For example, it stipulates that employees who complete ten consecutive years of service with the same business have the right to a permanent contract. Moreover, it sets out a legal framework for collective bargaining.

The original Labour Law of 1995 is still in effect, yet the more recent Labour Contract Law prevails if individual articles prove contradictory. The Labour Contract Law of 2008 is therefore the primary legal recourse for workers seeking to defend their rights and interests. The major provisions are Article 14, regarding the duration of employment contracts;<sup>5</sup> Article 42, regarding protection against wrongful dismissal, inter alia in cases of maternity leave or occupational accidents and health hazards; Article 85, regarding payment of wages and various types of compensation; and Article 88, regarding criminal prosecution in cases of discrimination, poor working conditions and the like.

### 4.2 Social Security Law

In April 2014, more than 30 000 employees at the footwear factories of Yue Yuen Industrial Holdings Limited downed tools for almost two weeks in a strike regarded as the largest industrial action in China's recent history (The Guardian 2014: n.p.). It was of particular importance to the leather and footwear industry. One reason for the strike was that Yue Yuen had made insufficient contributions to the social security and pension fund – and some employees had found out. And although police violently ended the strike, the Chinese government, including the government-controlled All-China Federation of Trade Unions (ACFTU), had to concede that the company had acted illegally (CPPCC 2015: n.p.).

The workers based their appeal mainly on provisions of the Social Security Law that came into effect in 2011 and represents a first endeavour to instigate a comprehensive social security system. The law sets

<sup>5</sup> Art. 14 also stipulates that if no written contract is signed within the first year of a person's employment, the employment must be regarded as contractually binding and permanent (Münzel 2012a: 2 f.).



out extensive provisions regarding pensions as well as insurance in case of illness, occupational accidents, unemployment or maternity leave.<sup>6</sup>

Of all these, the universal right to a pension is most often at the centre of industrial disputes (see Chapter 5.3.1). From the day they retire, all workers who have paid into the fund for more than 15 years are entitled to the basic pension for the rest of their lives. Companies that fail to make statutory contributions to the social insurance fund save a great deal of money. To cover the five types of social insurance, in line with provincial regulations, Yue Yuen was required to contribute the equivalent of 11 % of each worker's wage. Yet the Chinese daily newspaper Wenweipo reported that for one worker, Yue Yuen contributed only CNY 27.15 (EUR 3.67) per month. Given that his wages were CNY 3 000 (EUR 405), the company should have been contributing CNY 330 (EUR 44.57). If the company was similarly withholding social insurance contributions for all employees, they were saving more than EUR 4 million each month (Wenweipo 2014: n.p.).

Nor is Yue Yuen an isolated case. The interviews on which this study is based revealed that other footwear factories pursue similar illegal practices (see Chapter 5).

### 4.3 Trade Union Law and Freedom of Association

All trade unions in China must belong to the government-controlled All-China Federation of Trade Unions (ACFTU). Independent trade unions are not permitted. This is laid down in Articles 4, 10 and 11 of the Trade Union Law passed in 1992 and amended in 2001. The law does not give the ACFTU the right to initiate any form of industrial action, such as strikes.<sup>7</sup> It is therefore difficult to measure the ACFTU against internationally recognised trade union standards. Particularly in view of economic and socio-political reform, the wage strikes and industrial disputes of recent years call into question the role of the ACFTU. To what extent does the ACFTU help workers exercise their right to freedom of assembly?

If one examines Chinese Trade Union Law with respect to the tasks that fall to the ACFTU, it becomes clear that it drastically limits both its duties and its scope of action.<sup>8</sup> Regarding workers' right to freedom of association, it is striking that although the Trade Union Law forbids workers from founding independent trade unions, Article 9 explicitly states that union re-

presentatives may be democratically elected or voted out of office. That means that widespread demands for democratisation of the ACFTU are actually legitimate. And workers recurrently call for democratically elected unions, as for example during the Yue Yuen strike, proving they are not yet the general rule (see Chapter 5.3.5). However, as long as trade union representatives are not directly elected by and answerable to the workers, who are thus denied independent organisation, genuine collective bargaining is not possible. That is the reason wage policy in China in recent years has been shaped alternately by wage strikes and raises in the statutory minimum wage.

### 4.4 Regulations on Collective Negotiations and Collective Contracts for Enterprises in Guangdong Province

In China, provincial administrations have the right to implement particular labour laws and regulations, as long as these do not conflict with national legislation. As the workers interviewed for the present study are employed in Guangdong Province, the local agreements on collective bargaining adopted in 2015 are of relevance here.

The right to collective bargaining is clearly stipulated in various national laws. For example, the Labour Contract Law of 2008 sets the legal framework for pay talks.<sup>9</sup> However, it fails to state exactly how collective bargaining should be carried out.

As mentioned earlier, Guangdong Province is one of the most heavily industrialised regions of China. Accordingly, industrial disputes occur there often. The provincial government of Guangdong, with the support of certain workers' rights organisations, introduced a comprehensive framework for collective bargaining with a view to preventing wildcat strikes and fostering economic stability. However, industrial lobbyists and associations, first and foremost Hong Kong's major Chambers of Commerce, rejected the provisions that sought to make collective bargaining easier to conduct

6 Cf. § 10, 12, 16, 23, 33, 36, 44, 53, 56 Social Security Law 2011 (Münzel 2012b: 2-9).

7 Although originally enshrined in the Constitution of the PRC, the right to strike was revoked in 1982, a move justified by the claim that under socialism, there are no problems between the proletariat and management. The Trade Union Law of 1995 contains provisions for conflict resolution, including arbitration tribunals and labour court appeals. However, it does not recognise the right to strike (Geffken 2005: 89 ff.).

8 See Art. 22, Trade Union Law 2001.

9 Cf. Art. 51, 54 and 56, Labour Contract Law 2008 (Münzel 2012a: 8 f.)



(China Labour Bulletin 2014). The lobbying was ultimately successful; several controversial articles were revised, watered down or even rejected outright, and new more management-friendly articles were adopted (Lexology 2014). This is why the final version of the law, effective as of 1 January 2015, turned out to be far less progressive than labour rights organisations had hoped.

One particular sore point for workers' rights organisations is that strike action is proscribed for the duration of any collective bargaining. Workers have thus been deprived of their most effective means to gain leverage at the negotiation table.

Since January 2015, experience has quickly shown that many companies are willing to flout the law. For example, Article 19 stipulates that companies must respond to workers' demands for wage negotiations within thirty days and in writing. In practice, workers' demands are often completely ignored.

Local provisions on collective bargaining in Guangdong have accordingly led neither to improvements in workers' circumstances nor to a drop in the incidence of industrial disputes.

## 5 Labour Rights Violations in the Chinese Footwear Industry

What are the day-to-day working conditions in Guangdong's footwear factories? To find out, we interviewed 47 workers from three shoe factories in Guangdong Province in late 2015. All but one of our interview partners worked at one of the following three factories: Yue Yuen Industrial Holdings Limited, Stella International Holdings Limited or Panyu Lide Shoes Industry Co. Ltd.

Unfortunately, we did not have sufficient project funding to also interview tannery workers. Firstly, the centre of leather production is far from Guangdong, making it prohibitively expensive to invest the time necessary to establish contact with industry workers. Secondly, while there are small tanneries in Guangdong, it was not possible to establish contact to their workers through local activists. It takes time for activists to build trust with workers – unless they have worked together in labour disputes. And trust is key, especially for this type of data collection in an environment where labour rights are at risk.

The interviews drew on a questionnaire developed within the 'Change Your Shoes' project and incorporating fundamental International Labour Organisation (ILO) standards. The same questionnaire was the basis for data collection in other producing countries, for example India and Indonesia. Most questions are informed by the ILO conventions. Other questions gather personal information about the interviewee and one section on legally binding employment contracts follows 'Clean Clothes Campaign' guidelines.

As the total number of interviewees is not high, and all of those sampled work in the Pearl River Delta economic zone of Guangdong Province, the results are not representative of the overall situation in the Chinese footwear industry. For example, average annual salaries in Guangdong Province are the second highest in all of China (CCTV America 2015: n.p.). Thus little can be deduced about wage levels in the Chinese footwear sector as a whole from the wages of our interview partners.

When more than 50 % of interviewees gave the same answer to a question the answer was categorised as 'frequent'. Conformity of more than 75 % was considered 'very frequent' and over 90 % 'extremely frequent'. Accordingly, conformity below 50 % was judged to be 'not frequent', below 25 %, 'rare' and below 10 %, 'very rare'.

### >> CASE STUDIES

This chapter begins with a description of the companies that own the factories in which interviewees were employed, followed by a detailed introduction to two of our interview partners.

<sup>10</sup> Vgl. Artikel 24, Lokale Bestimmungen zu Tarifverträgen in Guangdong 2015 (Labornotes 2013: 6)



*The ILO conventions, also called core labor standards or core conventions of the International Labour Organisation, are social standards within the world trade order, which are to ensure decent working conditions and adequate protection. They were laid down in a declaration of the International Labour Organisation (ILO) in 1998. The ILO is a specialized agency of the United Nations. In ILO Conventions numerous conventions to „fundamental principles and rights” (see ILO 1998: n.p.) are established.*

**In addition to national legislation, China has ratified the following ILO core labour standards:**

- C 100 Convention on equal remuneration for men and women workers for work of equal value (adopted by ILO in 1951; ratified by China in 1990)
- C 111 Discrimination (Employment and Occupation) Convention (1958; 2006)
- C 138 Minimum Age Convention (1973; 1999)
- C 182 Worst Forms of Child Labour Convention (1999; 2002)

**China has not ratified the following four core labour standards:**

- C 029 Forced Labour Convention (adopted by ILO in 1930)
- C 087 Freedom of Association and Protection of the Right to Organise Convention (1948)
- C 098 Right to Organise and Collective Bargaining Convention (1949)
- C 105 Abolition of Forced Labour Convention

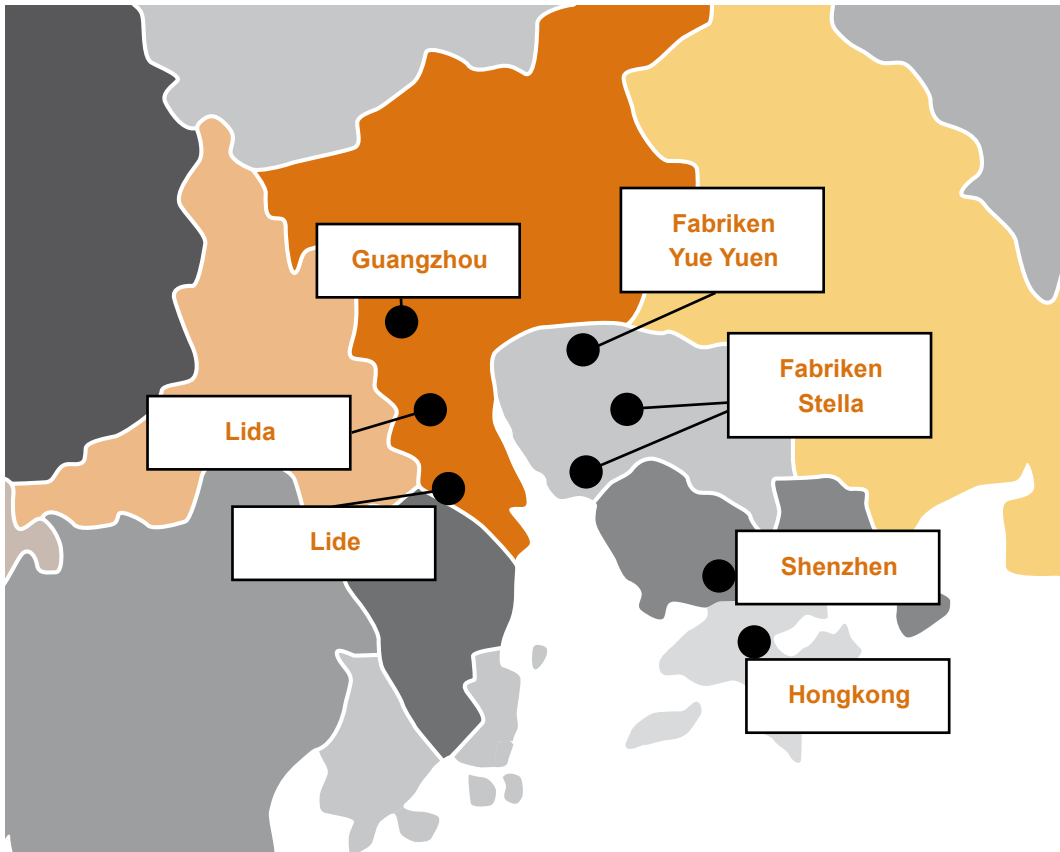
**The following additional ILO-Conventions are relevant for this study:**

- C 001 Hours of Work Convention (1919; not ratified)
- C 026 Minimum Wage-Fixing Machinery Convention (1928; 1930)
- C 131 Minimum Wage Fixing Convention (1970; not ratified)
- C 155 Occupational Safety and Health Convention (1981; not ratified)

The ILO core labour conventions are internationally recognised as social standards, having the nature of universal human rights that are binding for all states.

The right to employment, to just and fair working conditions, freedom of association and the effective recognition of the right to collective bargaining are also enshrined in the UN International Covenant on Economic, Social and Cultural Rights which was adopted in 1966. The right to social security and the right to the protection of the family and an adequate standard of living are also part of these established human rights.

Fig 10: Investigated Sites



Source: Own Research

### >> Yue Yuen Industrial Holdings Limited

Yue Yuen has its company headquarters in Hong Kong. It is a subsidiary of the world's largest footwear manufacturer, the Taiwanese Pou Chen Group. In 2014, Yue Yuen had more long-term assets in China than in any other country, and still owns factories in many Chinese provinces. It also has numerous subsidiaries. Yue Yuen itself also holds larger manufacturing plants in Indonesia and Vietnam, and smaller ones in Hong Kong, Bangladesh, Cambodia and Taiwan (Yue Yuen 2015c: n.p.). With annual sales of over USD 8 billion in 2014, Yue Yuen is the world's largest manufacturer of sports and leisure footwear (Yue Yuen 2015c: n.p.) and has an estimated 20 % share of the global market. Yue Yuen was founded in 1988 and listed on the Hong Kong stock exchange in 1992. The company's factories manufacture shoes for many leading sports brands, including Nike, Adidas, Crocs, Reebok, Asics, New Balance, Puma, Timberland and Rockport. It also has its own brand, YYSPOOTS, and its own retail structures.

Yue Yuen is particularly important to the study at hand because workers went on strike at six of its Dongguan factories in April 2014 (BBC 2014: n.p.). One reason for the strike was the company's non-payment of benefits. Workers are still waiting for back-payment of their pension plans and benefits. Failure to pay statutory social security and employee benefits seems to be restricted neither to Yue Yuen's Chinese factories nor to Yue Yuen itself. One year later, similar strikes broke out in Vietnam (BBC 2015: n.p.).

These blatant labour law violations in the company's factories occur despite the fact that Yue Yuen has a CSR policy (Yue Yuen 2015a: n.p.) and has also participated in several multi-stakeholder initiatives (MSI), including the 2008 'Play Fair' campaign and, in September 2013, an MSI dialogue in Jakarta, Indonesia. Yue Yuen's Indonesian factories are also bound to adhere to the Freedom of Association Protocol (FOA Protocol: n.p.), which many purchasers (for example Adidas) have signed.





Solidarity with Chinese workers on strike,  
photos: SACOM HongKong/Flickr.com



### >> Stella International Holdings Limited

The shoe manufacturer Stella International Holdings Limited is a Taiwanese company headquartered in Hong Kong. Its largest subsidiary is Stella International Limited, which has its seat in Dongguan, Guangdong Province. Stella International Ltd. has more than 30 subsidiaries of its own in various countries (including Indonesia). However, most of its factories are in China (Stella 2015a). Stella also does its own retail business, with branches in, among other places, France, the Philippines, and the United Arab Emirates. Annual sales of more than USD 1.66 billion in 2014 makes Stella one of the world's ten largest shoe manufacturers (Stella 2015a: n.p.; Wenku Baidu 2015: n.p.). The company's main product is leather footwear, which it manufactures for many brands including six of the ten largest casual footwear companies (Clarks, Deckers, ECCO, Rockport, Timberland and Wolverine). Stella has been listed on the Hong Kong stock exchange since 2007.

Although the company has a CSR policy (Stella 2015b: n.p.), there have been multiple violations of labour rights to date in its Dongguan factories. In March 2015 for example, between 5 000 and 8 000 factory workers went on strike to demand that Stella pay its statutory contributions to China's housing fund (Reuters 2015: n.p.). In 2011, China passed a social security law mandating employers pay at least 5 % of the average monthly salary into this fund, which is meant to promote the construction of private housing (China Briefing 2010: n.p.). The strike was brutally ended by the police. Many activists were arrested and some were hospitalised with dog bite wounds or injuries from beatings.

Since 2011, a large number of Dongguan factory workers have contracted benzene poisoning. Many of them died without their illness ever having been recognised as occupational related. To this day, Stella has yet to pay adequate compensation.

In November 2004, seven workers, three of them minors, were arrested in Dongguan factories and sentenced to up to three and a half years for the destruction of machinery. After international civil society stakeholders including the 'Clean Clothes Campaign' put pressure on the big brands for which Stella produced, these companies appealed directly to the Chinese government. In this way the prisoners' release could be secured.

### >> Panyu Lide Shoes Industry Co. Ltd

Panyu Lide Shoes Industry Co. Ltd. is a Taiwanese company headquartered in Taipei. In May 2015, Lide closed its Panyu factory and relocated its entire production to Nansha in Guangzhou City. The new factory in Nansha is named Lida. It is on the outskirts of Guangzhou, about an hour's drive from the old factory. The name Panyu Lide Shoes Industry Co. is a translation from the Chinese. The company does not have an English website. Since the Panyu factory was closed, we can assume that the name has now been changed to Nansha Lida Shoes Industry Co. Ltd. Conflicts between workers and management preceded the closure of the Panyu factory. All of the Lide workers interviewed for this study are former Panyu factory employees who were involved in the labour disputes prior to the company's relocation.



Not nearly as much information is available about Lide as for the much larger companies Yue Yuen and Stella. Neither a fiscal report nor an annual financial statement or the like is publicly available. The company was founded in 1971 and is geared to the export market, producing for companies that include Calvin Klein and Crocodile. As a reaction to relocation plans, workers organised three strikes in 2014 and 2015. They demonstrated against unpaid social security contributions and for compensation for those who would lose their jobs owing to the move. During the last strike, in April 2015, workers picketed around the clock to make sure that machinery was not taken off site (ESSF 2015: n.p.). The strike was ended only through a large and violent police operation. One local activist was arrested. Nevertheless, the strike was considered a success, as workers gained significant compensation payments. This has made it an important symbol for the Chinese labour movement. The conflict is often named as an example of successful collective bargaining, as an agreement was ultimately reached in intense negotiations. But it should be stressed that no agreement would have been reached had the mass strikes not taken place.

### >> Case Study of a Male Worker

Hu is 42 years old. He worked for five years in one of Yue Yuen's Dongguan factories. After the 2014 strike he was dismissed without notice, in violation of Chinese labour laws.

His wife works in the same factory. They have two children, both of whom go to school. Their older child lives in their hometown in Sichuan Province; the youngest lives with them in Dongguan. Hu's work was to spray-paint shoes. As a qualified worker, his monthly salary was around CNY 2 900 (EUR 391). To earn that amount, he had to work 212 hours each month (including 36 hours of overtime). Spray-painting is difficult, dirty and dangerous work, as the paints and varnishes contain poisonous substances. He had to stand on his feet all day in the poisonous fumes. On some days, Hu and his co-worker together painted 2 800 shoes. One of his co-workers has meanwhile contracted leukaemia.

On 14 April 2014, when tens of thousands of Yue Yuen workers in Dongguan lay down tools to demonstrate in front of the factories, Hu was on the sidewalk and observed oncoming police officers beating the striking workers.<sup>11</sup> When he took his cell phone out of his pocket, a police cameraman suspected him of taking photos. That resulted in five or six policemen dragging him away, kicking him and hitting him with their batons. Then he became unconscious.

He first recovered consciousness at the police station, his hands and feet cuffed. Rather than giving Hu first aid, police again beat him brutally. The by that time badly wounded man was then brought to hospital. There, it was first determined that his injuries were not life threatening. Next, police officers chained him to the bed and forbade hospital personnel to attend to his wounds. When Hu demanded to be treated, a policeman hit him in the head so hard that he lost consciousness again.

On the evening of the same day, Hu was brought to the police station for questioning. During this interrogation, he was subject to numerous verbal assaults. Unable to get any information from Hu, the police brought him to a psychiatric clinic.

There, he was first held for hours outside the building. He was not given any water. To still his thirst he had to drink his own urine. In the clinic, he was again brutally mistreated by police and clinic personnel. He was chained to a bed for the entire night and could not drink, eat or go to the toilet. He was not released until late afternoon the next day, after his wife and brother-in-law managed to find him.

When Hu arrived back at the factory, he was accused of being a troublemaker and a strike leader and was fired on 29 May 2014. He never received compensation from either the factory or the police. Given the sensitive nature of his case, Hu has been unable to find a lawyer who dares to take it on.

To this day, Hu suffers from his injuries. The physical limitations caused by his mistreatment prevent him from finding a new job. Almost two years after the fact, he is still often haunted by nightmares.

### >> Case Study of a Female Worker

Ms Wei is 51 years old and works in a Stella factory in Dongguan. She is a migrant worker from another region and lives apart from her husband and child because there are more work opportunities in Dongguan.

Initially, her task at the factory was to remove glue residue from shoes. During her first years, she worked 11 hours per day for an average monthly salary of CNY 3 300 (EUR 445). However, she believes that her overtime was not correctly calculated. According to Chinese Labour Law, she should have received time

<sup>11</sup> So as not to further endanger himself, Hu never told us his exact function during the action. We can only surmise that he was actively involved in the strike.

and a half (150 % of her regular hourly rate) for week-day overtime and double time (200 % of her regular hourly rate) for weekend overtime. However, the factory calculated overtime based on the minimum wage rather than its workers' actual salaries, which also include seniority wages and performance bonuses. Wei therefore objects that her overtime was remunerated at a rate far under the legal standard.

Neither was she given adequate protective clothing. For example, for many days in a row she had only a single respiratory mask that was intended for no more than eight hours' use. What is more, until 2014, the chemicals with which she came in contact were not labelled, so she had no way of informing herself about protection from possible risks.

In 2014, Wei suffered increasingly from headaches, dizzy spells and nausea. Factory management set up a doctor's appointment for her, but she was never given the results. Wei began work in another department where she had no direct contact with chemicals. But when her symptoms abated after several months, she had to go back to her previous task.

Soon, her symptoms reappeared. One of her co-workers told her that they were indicative of benzene poisoning. She therefore went to another hospital to be examined, where the diagnosis was in fact suspected benzene poisoning. The doctor suggested she be hospitalised for three months in order to obtain an exact diagnosis.

According to current Chinese law, chronic benzene poisoning can only be classified as an occupational disease after a three-month review period. During this period, Wei joined a group organised by a local NGO that works on labour rights in China. With her newly gained knowledge, Wei decided to use the law to fight for her rights.

After three months, she was diagnosed with occupational benzene poisoning. Now she is fighting in the courts for compensation from the factory. A verdict has not yet been reached.

## 5.1 Workforce Structure

Of our interviewees, 79 % were women. We interviewed only workers in large factories, some of which employ tens of thousands of people. With those numbers and no access to management figures, it is difficult to assess the exact gender balance at these firms. Interviewees made only rough estimates, putting the percentage of women in the workforce at 60-80 %. We

can thus assume that there are still more women than men in the workforce, even if the number of female employees in Chinese footwear factories is decreasing overall (see Chapter 3.5.2).

The average age of our interviewees was 42; the youngest was 18 and the oldest 53. Some respondents mentioned that older people are increasingly being hired because the factories now have a hard time attracting young workers. We for example spoke with eight Yue Yuen factory workers who had been there only a few months at the time. Seven of them were between 40 and 50 years old. The average age of workers thus seems to be on the rise. That might explain why industrial action has increasingly focused on the issue of social security, in particular pensions.

Most respondents (43; 91 %)<sup>12</sup> were married and had children (39; 83 %).<sup>13</sup> Despite China's one-child policy, in force since the 1980s, 15 interviewees had two children and four others had three children. Those workers needed more time off to raise their children. They also needed more money to support them, which affects the calculation of their individual living wage.

## 5.2 The Results of the Interviews

### 5.2.1 Prohibition of Forced Labour

ILO Convention 29, adopted in 1930, defines forced labour as 'all work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily' (ILO C29: n.p.). Convention 105 forbids any use of forced or compulsory labour 'as a method of mobilising and using labour for purposes of economic development' (ILO C105: n.p.). It follows that involuntary overtime is a violation of these conventions.

While China has not ratified either convention (ILO RfC: n.p.), the Chinese 1995 Labour Law does state that working hours should be restricted to a maximum of eight hours per day and 44 hours per week. In addition, workers may put in voluntary overtime of three hours per day for a maximum of 36 hours monthly.<sup>14</sup>

Chinese workers therefore have the right to refuse overtime. Nevertheless, 25 (52 %) of those questioned stated that they were forced to work overtime.

<sup>12</sup> Two respondents did not answer the question about marriage and two answered that they were single.

<sup>13</sup> On the question about children, 4 of 47 did not answer and four others stated that they had no children.

<sup>14</sup> See Art. 36, 41 Labour Law 1995 (Münzel 2012c: 5).





Punishments for refusing to do so included disciplinary warnings, the deduction of allowances, demotion and verbal abuse. Many stated that they depended on the money from additional hours and considered it a substantial part of their regular salary. For that reason, some interviewees did not feel like they were forced to do overtime, even when they were working more than 30 hours extra per month. Almost all of those we asked said that the tendency is towards less overtime, because their factories are receiving fewer contracts. The reduction of overtime is also used as a means of punishment. Regular salaries are so low, limiting overtime means a significant reduction of wages.

### 5.2.2 Prohibition of Child Labour

China has ratified ILO Convention 138 which forbids child labour and specifies a minimum age of 15 for admission to employment (ILO RfC: n.p.). The Chinese Labour Law (1995) and Regulations Banning Child Labour (2002) go even further. These define the employment of children under the age of 16 as child labour – thus forbidding the same.

However, 34 interviewees (72 %) said that no children under the age of 16 worked in their factories. Ten interviewees (21 %) were not sure, and only three (6 %) were certain that there was child labour in their factories. Thus child labour is not common practice, at least not in the factories sampled.

Chinese law defines ‘young workers’ as 16 to 18 year olds. China has ratified ILO Convention 182, and thus also the accompanying ILO Recommendation 190, which among other things insists upon special protection for workers age 16 to 18 (ILO C190: n.p.). However, neither national Chinese law nor the provincial laws of Guangdong Province include prohibitions or limitations for young workers regarding, for example, overtime or night shifts. Other Chinese provinces (for example Zhejiang and Jiangsu) have instated such limitations for young workers.

Six workers (13 %) stated that young workers in their factories worked night shifts; 16 (34 %) did not know the answer to that question. But this suggests that night shifts for young workers are not common practice. However, 20 interviewees (43 %) stated that adolescents did work overtime, while 27 (57 %) were not sure. Thus it does seem that young workers commonly work excess hours in the Guangdong footwear industry.

### 5.2.3 Non-discrimination in the Workplace

China has ratified both ILO Convention 100 and ILO Convention 111.<sup>15</sup> Convention 100 states: ‘the term equal remuneration for men and women workers for work of equal value refers to rates of remuneration established without discrimination based on sex’ (ILO C100: n.p.). In Convention 111, discrimination is defined as ‘any distinction, exclusion or preference [...] which has the effect of nullifying or impairing equality of opportunity or treatment in employment [...]’ (ILO C111: n.p.).

Our questionnaire asked only about discrimination on the basis of gender. Forty-three interviewees (91 %) stated that with the exception of some hard physical labour, men and women did the same tasks. Only two (4 %) said that men and women were paid differently for the same work. Two interviewees also said that there had been cases of sexual harassment. All respondents concurred that there had been no illegal dismissal of pregnant workers.

However, the answers to other questions were less heartening. Only 25 respondents (53 %) said that women are granted paid maternity leave. And nine of those 25 stated that, during maternity leave, salaries were calculated as a percentage of the minimum wage rather than of the average wage as stipulated by law. Nine interviewees (19 %) said that management did not treat women and men equally and 14 of those questioned (30 %), 12 of them women, said they themselves had been subject to verbal abuse.

Despite the fact that there is little ‘official’ discrimination of women in the footwear industry, there is much room for improvement. Women should not bear the brunt of unfair management methods and they should receive adequate salaries during maternity leave.

### 5.2.4 The Right to Association and the Right to Collective Bargaining

China has ratified neither ILO Convention 87 (1948) on the right to association nor ILO Convention 98 (1949) on collective bargaining (ILO RfC: n.p.). China’s trade union legislation and Guangdong’s regulations on collective bargaining were presented in Chapter 4. The most important difference between Chinese law and the ILO conventions is that the latter stipulate workers’ ‘right to draw up their constitutions and rules, to elect their representatives in full freedom, to organise their administration and activities and to formulate their pro-

<sup>15</sup> Ibid.



grammes' (ILO C087: n.p.). As discussed in Chapter 4, Chinese workers cannot found independent unions, but only join the government-controlled All-China Federation of Trade Unions (ACFTU).

Furthermore, we realised during the interviews that most of the interviewees did not know what a trade union is supposed to achieve. Sixteen interviewees (34 %) stated that there was no union in their factory and a further 15 (31 %) were not sure whether or not there was a trade union.

43 respondents said they did not know how union representatives were chosen. Thirty-seven of them (79 %) have witnessed strikes and police intervention at their factories. However, the trade union did not play a leading role in either the organisation of the strike or in supporting workers who were criminalised as a result of participation in the action.

As described in Chapter 4.4, Guangdong Province does have binding regulations on collective bargaining. However, the union branches in the factories studied have as yet made no attempt to begin collective bargaining proceedings. The results of our survey show, that the ACFTU is either not present in the factories examined or ignores its statutory duties.

After respondents informed themselves about the rights and duties of real trade unions, 34 (72 %) agreed that they needed both a trade union and collective bargaining in their factories to enable them to fight for higher salaries and better working conditions.

### 5.2.5 Living Wages

China has ratified ILO Convention 28 (1928) on minimum wages and included a paragraph on minimum wages in its 1995 Labour Law (ILO RfC: n.p.).<sup>16</sup>

In the Yue Yuen and Stella factories, monthly salaries consist of three parts: the base salary, overtime and various allowances mandated by law. The base salary is usually close to the regional minimum wage. In 2015, the monthly minimum wage in the city of Dongguan in Guangdong Province was CNY 1 510 (EUR 203) and the base salary at Yue Yuen was also CNY 1 510. In the Stella factory, the base salary was CNY 1 600 (EUR 216).

Since there is increasingly less overtime due to diminishing orders, and since allowances can be cut as a disciplinary measure, workers' salaries can vary greatly

from month to month. Furthermore, the calculation of allowances is complicated and does not appear on the pay slip, making it difficult for workers to ascertain whether they have been paid correctly.

The Lide factory used a different salary scheme. Workers were either given a fixed monthly wage or paid by the piece. For this reason workers were not paid time and a half or double time for additional hours, even when their workday was well over eight hours.

The average monthly salary of respondents was CNY 3 033 (EUR 410); the median was CNY 3 000. All interviewees stated that they received their pay slips and their monthly wages on time. Many did however say that overtime wages were calculated based on the legal minimum wage without allowances (see Chapter 5.2.4).

Most respondents did not know that this practice was a violation of Chinese law. A local activist told us that the regional government of Dongguan had passed special regulations allowing companies to calculate overtime in this manner. For workers in Dongguan, this means that it is currently impossible for them to take legal action against this payment practice, even though the regulations are incommensurate with federal law.

As a result of the rise in industrial action in recent years, especially in the region's large factories in 2014 and 2015, most factories now make contributions to workers' social security and pension funds. Forty-five (96 %) of respondents confirmed that contributions had been paid to their social security scheme. If however we look at previously unpaid contributions, the picture is quite different. Many interviewees stated that their factories had not yet made any back-payments. But this is essential to their welfare, in particular in the case of older workers. For example, China's 2010 Social Security Law stipulates that only retirees who have paid into the government pension plan for at least 15 years will receive a government pension.

China has not ratified ILO Convention 131 (1970) on fixing minimum wages (ILO RfC: n.p.). The 1995 Labour Law states only that fixing and adjusting the minimum wage should take into consideration the cost of living, the average salary of the society, productivity, employment situation and regional differences.<sup>17</sup> But neither the current minimum wage nor the average salaries depicted above come close to fulfilling the needs and desires of the workers.

<sup>16</sup> See Art. 48 Labour Law (Münzel 2012c: 6)

<sup>17</sup> See Art. 49 Labour Law 1995 (Münzel 2012c: 6)

The interviews showed that to cover their basic needs, workers would need an average living wage of CNY 4 349 (EUR 590) per month. This is far more than calculated by the Asia Floor Wage Campaign, which set the living wage at CNY 3 132 (EUR 425) (CCC 2013: n.p.). However, that calculation was for China as a whole. The cost of living in Guangdong is higher than the national average and furthermore has risen over the past two years.

### 5.2.6 Working Hours

While China has not ratified any of the ILO conventions on working hours, Chinese law is much stricter than, for example, ILO Convention 1, which stipulates no more than a 48-hour week (ILO C001: n.p.).

In respect to overtime as well, Chinese law is more progressive than ILO Convention 1, which prescribes a minimum of 125 % of the base salary.<sup>18</sup> Chinese law stipulates an overtime rate of 150 % of the regular wage on weekdays, 200 % on weekends or days off and 300 % on public holidays.

In practice, however, factories regularly fail to comply with these regulations. On average, respondents worked 10.6 hours per day; the median was 11. Only nine (19 %) had an eight-hour day and 10 (21 %) worked more than 11 hours per day.

### 5.2.7 Health and Safety

In 1981, China ratified ILO convention 155 on occupational health and safety (ILO RfC: n.p.). The convention aims to 'prevent accidents and injury to health arising out of, linked with or occurring in the course of work, by minimising, so far as is reasonably practicable, the causes of hazards inherent in the working environment'. The 1995 Labour Law also contains far-reaching occupational health and safety regulations.<sup>19</sup> Further, more detailed rules can be found in, for example, the Law on Work Safety and the Prevention and Control of Occupational Diseases.

However, implementation of that law in the footwear industry is usually lax. Thirty-six respondents (77 %) said their working conditions were undesirable because of factors such as smell, insufficient air circulation, heat, noise and dangerous machinery. Twenty-nine interviewees (62 %) had to work either in standing or seated on uncomfortable furniture. This indicates that poor working conditions are common in the factories sampled.

China has also ratified ILO Convention 170 (1990) on the use of chemicals at work (ILO RfC: n.p.). Of those interviewed, 31 (61 %) worked with chemicals. But

only 16 (34 %) were informed about the possible risks involved in handling those chemicals. What is more, workers at the Stella factory stated that the chemicals were not labelled.

Only 8 respondents (17 %) were given regular trainings on occupational health and safety. Furthermore, protective clothing is often insufficient. Respiratory masks, for example, should not be used for longer than eight hours. However, interviewees from the Stella factory said they were given only one or two masks each week (see also Chapter 5.2.5).

26 respondents (55 %) stated that they or their co-workers had already had occupational health problems. The most common occupational diseases were benzene poisoning and skin diseases from regular contact with chemicals. Thirty respondents (64 %) said that they themselves or a co-worker had suffered work-related injuries. The most common injuries were to the hand and caused by shoe-making machinery. Only 13 respondents (27 %) stated that measures had been taken to improve health and safety standards in their factories.

All interviewees lived outside the factories, but ate in the factory canteen on workdays. Thirty-four respondents (72 %) had to pay for their canteen meals themselves and 36 (77 %) said that the food was not good. Eleven respondents (23 %) complained about unsanitary toilets and seven (15 %) said their factory did not provide drinking water.

### 5.2.8 Legally Binding Labour Contracts

China's 2008 Labour Contract Law stipulates that workers have a right to an open-ended labour contract when they have been working for the same employer for at least 10 consecutive years. All respondents had written labour contracts. Workers in the Yue Yuen and Stella factories who had been employed for over 10 years all had open-ended contracts. That was not the case in the Lide factory. After the factory in Puna was closed, none of the former workers were taken on in the new factory in Nansha, about one hour away.

The 2008 Labour Contract Law forbids employers to charge any fees whatsoever at employment. However eight respondents (17 %) reported having to pay fees, mostly for medical examinations.

<sup>18</sup> '[...] the rate of pay for overtime shall not be less than one and one-quarter times the regular rate' (ILO C001: n.p.).

<sup>19</sup> See Art. 52 Labour Law 1995 (Münzel 2012c: 7).



### 5.2.9 Relocation Compensation

The question of relocation is relevant in the main to the Lide factory.<sup>20</sup> Workers first heard about the relocation plans in 2014. They were not officially informed; rather, the information was leaked. In reaction, workers went on strike from December 2014 to April 2015 to demand reasonable compensation, which they were in the main able to obtain. There were many international media reports about this strike, which was widely regarded as successful. For this reason we shall now look more closely at the situation of the Lide workers.

We interviewed 13 Lide workers (10 women and 3 men) with an average age of 42. Retirement age for Chinese women is 50, and 55 for Chinese men. Despite the slow greying of worker demographics in the footwear industry, it is difficult for older workers to find employment. That is why government pensions and compensation are major issues for these workers.

As mentioned above, only people who have paid into the state pension fund for at least 15 years are eligible for state pension schemes. Since Lide did not pay contributions for many of its workers, strikers demanded that the factory fulfil its legal duty, mandated by the Social Security Law, and pay the missing share. Workers were worried that the owners would found a new company after relocation and default on their responsibility.

Chinese regulations on compensation are defined in the 2008 Labour Contract Law, which for example states that workers have a right to compensation. For every year worked, employees must pay one month's salary at the rate of the worker's average salary in the last year before dismissal.<sup>21</sup>

Lide agreed to compensation, but tried to pay as little as possible. At the beginning, the company insisted upon paying compensation for no more than five years of work at the rate of EUR 68 per year. Not until the second strike did Lide agree to pay for up to six years at a rate based on the average monthly income. In accordance with national and regional laws, some workers demanded additional compensation for various unpaid allowances; for example, for working at high temperatures, for the housing fund and for paid annual holidays. The company did not acquiesce to all these demands, but the workers agreed unanimously that they were satisfied with negotiation results. The Lide workers' industrial action is therefore a good example of a successful civil society protest, bolstered by labour law.

The Lide case is also a clear illustration of how companies try to use relocation and factory closures to

abdicate on their responsibilities to their workforce. Workers need to use all means at their disposal to defend their due rights: both legal avenues and strikes.

### 5.3 Conclusion

Of the three factories sampled for this report, working conditions were clearly worst at the Lide factory. However, since that factory has meanwhile been closed and the workers have received reasonable compensation, the case can be considered closed.

Nevertheless, improvements in working conditions are sorely needed in the other factories and in the footwear industry as a whole. As shown in Chapter 5.3, many problem areas remain: involuntary overtime, illegally low pay rates for overtime, insufficient protection for young workers, disrespectful treatment of workers, no right to assembly, incompetent state unions, the use of state force to put down labour disputes, low wages, bad working conditions, insufficient occupational health and safety protection, lack of worker trainings in this area, unpaid social security contributions and unfair compensation payments.

We therefore urgently recommend that China ratify and implement ILO Convention 87 on freedom of association and ILO Convention 98 on the right to collective bargaining. Workers shall receive a legally guaranteed right to found and run independent trade unions. We further recommend that the regional government of Guangdong provide better protection for young workers, for example prohibiting overtime for young people, as implemented in Zhejiang and Jiangsu. The problem of forced labour can in our opinion only be solved if workers in China's footwear industry receive a living wage for an eight-hour workday.

On the positive side it should be said that there are now a number of laws and regulations in China that often make it possible for Chinese workers to obtain legal redress for infringements of their rights. Furthermore we found that men and women in general receive equal pay, that child labour is no longer common practice in the footwear industry and that most workers have proper lawful contracts.

<sup>20</sup> After the finalization of the interviews, Stella factories in Dongguan closed down in February 2016, outsourcing their production to other Southeast Asian countries (Xinhuanet 2016: n.p.). 1900 workers were directly affected by this closure, among them also workers who have been interviewed for this report. At the time of editorial deadline of this report, it was not yet foreseeable to what extent the workers have received adequate compensation payment.

<sup>21</sup> See Art. 47 Labour Contract Law 2008 (Münzel 2012a: 8).

## 6 Recommendations

The research results presented in Chapter five clearly show that labour rights violations are widespread in the Chinese footwear industry. The only way to improve social and environmental standards and ensure they are respected long-term is to tackle the entire supply chain. We therefore strongly make the following recommendations to five different groups: footwear factories, brands, multi-stakeholder initiatives, the Chinese government, and the EU resp. the national governments of EU member states.

### Recommendations for Footwear Factory Management:

1. The base salary for an eight-hour day shall be raised. Workers shall not be dependent upon overtime to make a living wage.
2. All statutory allowances and benefits shall be paid without exception.
3. Salary cuts shall not be used as a disciplinary measure.
4. Verbal and physical abuse shall be pursued and penalised.
5. All forms of sexist behaviour shall be banned at factories.
6. All chemicals used in production shall be labelled to provide essential information about classification and possible risks. All relevant health and safety precautions shall be taken.
7. Workers shall receive adequate occupational health and safety training. Workers shall be provided with sufficient and adequate protective clothing.
8. Workers suffering from occupational diseases and injuries shall be properly treated and adequately compensated.
9. Factory canteen food shall be affordable and healthy. Living quarters shall meet both workers' needs and hygienic standards.

### Recommendations for Brands:

1. Brands shall urge their suppliers to act on the above recommendations.
2. Brands shall act with due diligence in their global supply chains. Following the UN guiding principles on business and human rights, businesses shall identify and address any negative impact from their business practices.
3. Brands shall take the initiative in working together with local trade unions and NGOs to monitor infringements of labour law or environmental law in their suppliers' factories.
4. Brands shall pressure their suppliers to pay a living wage and integrate this policy in their own pricing.
5. Brands shall provide assistance to workers who suffer injustices in their suppliers' factories.
6. Brands shall urge governments not to repress industrial action with police violence, or by prosecuting and criminalising activists.

### Recommendations for Multi-Stakeholder Initiatives (MSI):

1. MSI that monitor infringements of labour and environmental law shall urge governments, factory management and brands to implement the policy recommendations listed above.
2. MSI shall establish regular contact with local trade unions and NGOs to ensure constant monitoring of the practices of governments, factory management and brands.
3. MSI shall provide assistance to workers who suffer injustices in supplier factories.
4. MSI shall launch international and regional campaigns to expose the illegal practices of governments, factories and brands.
5. MSI shall provide trainings that empower workers to stand up for their rights and interests.

### Recommendations for the Chinese Government:

1. Existing law shall be fully implemented. To this end, the following measures shall be taken to enable workers to claim their due rights:
  - All workers shall have access to free legal services, provided by either government institutions or NGOs.
  - Regional laws and regulations that conflict with federal law and burden workers shall be repealed immediately.
  - Improvements shall be made in the enforcement of court rulings, particularly regarding worker compensation.
2. The departments of labour and environment inspection shall be provided with more resources, both financial and personnel. Inspection teams shall receive greater power of enforcement.
3. Regulations banning overtime for young workers shall be embedded in labour law as well as in further relevant laws and regulations.
4. Workers shall be explicitly allowed by law to found and run trade unions independently of the ACFTU and other state or state-controlled institutions.
5. Workers shall have the right to strike. Police violence against strikes shall be condemned.
6. Minimum wages shall be raised to enable a higher standard of living and ensure a living wage for workers.
7. Local labour and social security offices shall demand that factories pay all outstanding social security contributions.
8. Special regulations shall stipulate clear rules for outsourcing and relocation to better protect the rights and interests of workers.

### Recommendations for EU Member States:

1. EU Member States shall implement the UN guiding principles on business and human rights.
2. EU Member States shall create national action plans obligating government and businesses to protect human rights.
3. EU Member States shall reform their OECD national contact points for multinational enterprises to meet human rights standards.
4. EU Member States must create or improve grievances and complaints procedures for the victims of labour and human rights violations.
5. EU Member States shall create a legal framework to take action against illegal business practices as well as infringements of corporate criminal law by multinational corporations.
6. EU Member States shall take the initiative in creating MSI focused on leather and footwear production. The Partnership for Sustainable Textiles in Germany can serve as a model for such an initiative.



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### **Publication Details**

Place and Date of

Publication: Bonn, April 2016

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Low wages, involuntary overtime, insufficient protection from health and safety risks – these shortcomings are common in the global footwear supply chain.

The present study analyses labour conditions in Chinese supplier factories which produce shoes for several European brands.

The analysis of interviews with workers in three footwear factories in Guangdong Province, which have been carried out by SÜDWIND-partner Globalization Monitor at the end of 2015, give an alarming picture of footwear production in China, where state violence to suppress strikes for better labour conditions is not unusual.

The present study is a product of the international campaign Change Your Shoes. Eighteen European and Asian organisations have come together to raise awareness about problems in the production of leather and footwear. Research for the campaign was conducted in China, India, Indonesia, Eastern Europe, Italy and Turkey, with the aim of improving social and environmental conditions in the global leather and footwear industry.



Change Your Shoes is a partnership of 15 European and 3 Asian organizations. We believe that workers in the shoe supply chain have a right to a living wage and to safe working conditions, and that consumers have a right to safe products and transparency in the production of their shoes.

This study has been produced with the financial assistance of the European Union and the Federal Ministry for Economic Cooperation and Development. The contents of this study is the sole responsibility of SÜDWIND and can under no circumstances be regarded as reflecting the position of the European Union.



Bundesministerium für  
wirtschaftliche Zusammenarbeit  
und Entwicklung