

China: A deep dive observation from an FNET member

September 2023

Please note: Most of the information in this summary are observations from FNET members and are not necessarily applicable in all contexts across China. Hopefully these insights provide a snapshot into some supply chains in China.

Overview

China is the world's largest manufacturing economy and exporter of goods. It is also the world's fastest-growing consumer market and second-largest importer of goods. China is also the world's largest consumer of numerous commodities, and accounts for about half of global consumption of metalsⁱ.

China accounts for about one-third of the total fish production of the world. Aquaculture, accounts for more than half of its output. The principal aquaculture-producing regions are close to urban markets in the middle and lower Yangtze valley and the Zhu Jiang deltaⁱⁱ.

As of 2011, China was both the world's largest producer and consumer of agricultural products.ⁱⁱⁱ

China is very far from the UK and covers a large geographical area so it is often difficult to arrange supply visits especially if the companies are a few tiers down the supply chain. There are also lots of disputed territories around China including Bhutan, India, Japan, Taiwan, Vietnam and in South China Sea.

From the **Observatory of Economic Complexity**

“In 2021, China exported \$668M in Poultry Meat, making it the 11th largest exporter of Poultry Meat in the world. At the same year, Poultry Meat was the 489th most exported product in China. The main destination of Poultry Meat exports from China are: Hong Kong (\$500M), Macau (\$51.1M), Malaysia (\$40.3M), Mongolia (\$24.7M), and Cambodia (\$13.2M).

The fastest growing export markets for Poultry Meat of China between 2020 and 2021 were Hong Kong (\$81M), Malaysia (\$9.04M), and Cambodia (\$5.24M)”.^{iv}

Language

The official language of China is Mandarin, however there are regional dialects and English is spoken at most middle and senior management levels.

Politics

China is currently run by the Chinese Communist Party (and has been since 1949). Recent 5 year plan is focussing on

- Prioritising planning over markets
- National self-sufficiency over global trade – so maybe a slight shift
- Recent rapid modernisation.

Healthcare

95% citizens in 2012 had access to a modest level of healthcare coverage and during Covid there were long lockdowns but the country is now opening up.

Women

- 1954 – equal rights for men and women were added to the constitution and since the 1950s there have been more than 100 laws to provide fundamental guarantees to safeguard and promote women's development.
- Since 1949 only 6 female members on the 25 person Politburo, no women have sat on Committee or held the presidency.
- 1980-2016 One-child policy led to gender based sex selections (GBSS) and a large gender population gap (87 girls to every 100 boys born). During this period there was female infanticide and discrimination/violence against women and violation of women and girls rights.
- In 2023 women make up 40% of employed population (or 69% of working age women)
- 17% senior managers, officials, legislators (compared to 29% Germany / 13% Japan)
- Pension age for women is 5 years earlier than men
- 55% of all start-ups in 2017 were set up by women
- If you want to understand the gender breakdown of workers in your supply chains in China, you can analyse SAQ information and look at number of people trained and in leadership roles.

Education and gender

- Primary school enrolment – almost 100% (boys and girls)
- Secondary education – 95.9% of women (less in rural areas)
- Female graduates – 49.6% of all graduate
- Maternal mortality ratio – 23 /100,000 births in 2020 (down from 89 in 1990)
- Life expectancy exceeds global average but lower than neighbours (77.8 v S.Korea 85.2)

Trade Unions and worker representation

The All China Federation of Trade Unions (ACFTU) is the only trade union that is allowed in China and it is not recognised by the ITUC or the ILO. Chinese workers do not have the rights to organise freely or to strike. The ITF does have a relationship with them to address serious labour issues and FNET members can contact the ITF to discuss further as needed. On a member's supply chain SAQ many suppliers state that workers have access to collective bargaining and worker committees but no trade unions.

There were 700,000 labour disputes recorded in 2022.

2008 Labour Contract Law, the Mediation and Arbitration of Labour Disputes Law, and the Employment Promotion Law were agreed which outlines the following legal conditions for workers:

- Working Hours – 8 hours p/day – 40 hrs p/week maximum
- Overtime is restricted to 36hrs p/month
- Extension is possible due to business needs after consultation with employee union or employees.

Work Culture^v

The work culture is generally quite hierarchical, with employees generally not questioning authority and job titles/seniority which affects how they interact. If workers are spoken to or provided with instructions or guidance then this is generally followed, there isn't an expectation that 'workers' would suggest new ideas of ways of working unless they are senior in the organisation. Globally this is a widespread issue and in the UK there are some ventures into new ways of communicating with employees e.g. safety or environmental committees, employee voice on social issues, worker driven social responsibility^{vi}.

Some human rights risks in relation to China

Internal migration and worker nationality

When suppliers are asked for a breakdown of who is employed some report that the majority are 100% Chinese so perhaps China doesn't have the same issues around external migrant labour workforce as some other countries do. However internal migration for work is very common and issues that relate to migrant workforce such as accommodation and transport may still be relevant to consider.

Business relationships and humility are important in China, as they are elsewhere. It is important to show you are willing to be part of the team and ensure favours are paid back and group success seen as more important than individual.

Foreign migrant workers

- There are foreign migrant workers in China, and inevitably the risk of illegal worker. The risk is coupled with limited transparency in publishing numbers of illegal workers in China.
- Some hotspots include Pearl Delta region, a major industrial centre in Southern China, and Yunnan province which shares border with Myanmar, Laos and Vietnam.

According to the [ILO](#), approximately 58,600 Vietnamese workers migrated to China in 2022, being the second largest receiving country to Vietnamese workers. Risk of illegal workers is significant in the Pearl River Delta, a major industrial centre in China. [Reuters](#) and [BBC](#) have reported news related to illegal Vietnamese labour in manufacturing sector in 2015. No comments have been made by the Chinese government related to the reported cases.

- According to the International Organization on Migration (IOM), 5% of the 5 million Myanmar (around 250,000) migrant workers go to China. Many of them do farmwork in Yunnan, such as sugarcane fields. An interview with an unnamed Chinese official said the figure was potentially higher, up to 500,000 in 2019. Page 7 to 8 of the attached report (downloaded from this [link](#)) has shown how Myanmar workers are prone to indebted labour in China. Non-standard employment is also common. Workers were found to be rewarded around GBP2 for every worker they bring to the farm, leading to risk of child labour.
- Export of labour has brought economic growth for the both countries. With One Belt One Road business strategy, it is expected we will continue to see the trend of Myanmar and Vietnamese workers in China.

Prison labour

- There is a system called 'reform through labour' for prisoners. In addition to Xinjiang, processing of [garlic bulbs](#) was identified in a detention centre located in northeastern China. At least 55 prison labour companies were traced by

Financial Times in China. There are photos inside the link that show the 'workers' were performing labour in jail.

- *'Most of the companies set up under prison provincial administration bureaus in China look, from the outside, like ordinary companies. Foreign corporations are in a pretty tough position to do the kind of due diligence that would be needed to identify whether their supply chains are connected to prison labour.'*^{vii} Amnesty International Hong Kong shared the challenges in conducting due diligence.

Social insurance

- The issue of social insurance is a recurring non-conformance (see below), but social insurance is NOT voluntary according to [Social Insurance Law of PRC China](#). Companies must declare and contribute to social insurance accurately.
- The importance of social insurance for workers to integrate into the cities should be acknowledged. In China, there is a terminology called 'hukou', with which workers can access to social services in the provinces they are working in. Without contribution to social insurance, rural workers are not entitled to 'hukou' of the provinces. The implication is that workers cannot buy a property, their children cannot go to school in the cities and so on. This brings about a series of problems, for example, workers and their families trapped in poverty. Discrimination against rural migrant workers and their children is not uncommon.^{viii}
- There have been personal accounts from workers that the site refused their requests to join the social insurance scheme. Certainly there are workers who do not want to join the scheme. There could be many reasons, such as aiming for greater take-home pay, no intention for children to study in cities. However, workers should have the right to access to social insurance as they wish.
- There are 2 categories of government insurance in China – social insurance (covering 5 social services) and hometown medical insurance. Regarding hometown medical insurance, it is true a majority of workers have participated in the insurance scheme as local government mandates, but the costs are borne by workers. When sites do not cover social medical insurance for workers (which sites should by law), it is the worker that takes responsibilities of all their medical insurance.
- In China, certain cities commit to achieve certain percentage of social insurance enrolment. For example, 60% in Shaoxing city. ([link only available in Chinese](#))

Wage and job security

- Energy consumption control has been in place since 2021 to cope with extreme weather conditions^{ix}. Sites are required by law to pay downtime wage to workers when site is not running, but it may not always be put into practice.
- Post-Chinese New Year is a peak time for permanent closure of sites with poor financial stability. This is especially common for sites with no obvious peak season. Chinese New Year is an important festival which usually falls in January or February. All sites will be closed for 2 to 4 weeks. Some site owners who experience financial difficulty will not return without giving advanced notice and reimbursement to workers.

Overtime

- There is a direct link between pay and overtime, but audit or records may not always reveal the reality. There are also 'audit ready' or 'model' sites which receive the order officially but subcontract the order to other unapproved sites.
- It is important to acknowledge some workers do not want to work long hours. An NGO called China Labor Watch had undercover in factories to understand the picture behind audit^x. Although the project did not cover food sites, it is important to understand the first-hand perspectives of production workers, some of them shared they would avoid night shifts even stipends were provided.
- Overtime is very normalised in China. Generally, staff expect to be offered overtime and accept it as it's a sign of hard work and dedication and suppliers have reported off the record that if they don't offer overtime, staff will simply work for another company who will. It can be a balancing act between trying to meet the ETI base code expectations and sometimes the expectations of staff who want the overtime, potentially because they are not paid enough per hour but until that can be increased, overtime is likely to continue to be a problem.
- Ensuring that overtime is requested and not expected is important to understand.
- Apparently sleeping at break times is quite normal and a sign of having worked hard.

Occupational health check

Sites are required by law to conduct pre-job, in-the-job, and post-job occupational health checks to all workers. Not all sites will be able to comply with the requirement considering worker turnover and workload during peak season.

High-risk commodities

A most up-to-date list of the highest risk commodities can be found on [Sedex](#). Knowing the certain level of risk of a product can be a first step members can take when conducting mapping and can help to prioritise the level of due diligence required.

Worker Interviews

In order to obtain a more in-depth understanding of a company's operation, and the working conditions faced by the workers, interviews can be conducted. These may be challenging to organise unless physically present in the country, and will need resource allocation and potentially translation and interpreters present, however are more likely to provide a more realistic understanding of workers' experience.

Xinjiang and the Uyghur

“China has been accused of committing crimes against humanity and possibly genocide against the Uyghur population and other mostly-Muslim ethnic groups in the north-western region of Xinjiang. Human rights groups believe China has detained more than one million Uyghurs against their will over the past few years in a large network of what the state calls "re-education camps", and sentenced hundreds of thousands to prison terms”^{xi}.

In June 2022 the USA banned all goods produced in China's western Xinjiang region to be imported into the country. Currently the EU has a proposal to ban products made by forced labour, and the UK government is being taken to court by a Uyghur organization and a human rights group challenging Britain's failure to block the import of cotton products associated with forced labour and other abuses in the Xinjiang region..

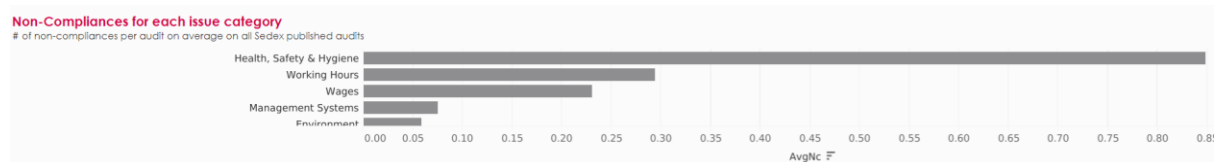
Member case study

In order to ensure that companies in the supply chain were not operating or Xinjiang region or with Uyghur populations, the member company did the following actions:

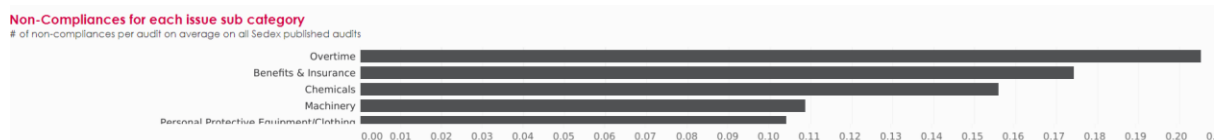
- Conducted a risk assessment which included a review location of plants for likelihood of Uyghurs being used as migrant staff.
- Communicated with suppliers with requests to confirm the use of migrant labour and where they came from, and to confirm that there is no forced labour in their operations.
- All suppliers confirmed that there were no Uyghurs in the workforce and operations were far from Xinjiang province.
- The member then put up a company statement on the website to explain the process.

Overview of non-conformities on SMETA in 2022 in China

A desktop review of SMETA non-conformities was conducted to illustrate some of the common issues found in the country. There are 26714 registered sites, 50468 Audits and the average number of NCs is 5.42 and to put into context the UK average is 5.39 and for some countries the average is 13.



The main non-conformities for Chinese organisations in SEDEX are health, safety and hygiene. The breakdown shows the key issues were chemical and machinery. The subsequent non-conformities are working hours, then wages.



The main sub category on working hours was Overtime. And the sub category for wages focuses on Benefits and Insurance. And the specific NCs for each issue title.



Overtime is not used responsibly, some or no social insurance, inadequate safety measures for chemicals

Member case study

- A member reported that the Sedex data reflected their supply chain to some degree. In general, plants usually have 3-12 NCs and are generally a mix of minor health and safety concerns, missing evidence on safety issues e.g. building warrants/machinery paperwork. There are often regular and repeated issues around Working Hours / Overtime and social insurance
- The evidence seen within the member's specific supply chains was far from forced, or tired labour, and conditions seemed good and all management teams receptive to improvements where possible.

However, there are some important reflections to discuss further:

- Regarding social insurance - Is there scope for SMETA/Sedex to review and reconsider their approach in some instances where there are repeated non-conformities on this criteria where working conditions are good and workers are happy to forgo this? It would need to be supported by ensuring the member company has robust due diligence processes in place and evidence the workers prefer not to have social insurance.
- Regarding "overtime not being used responsibly" - there is sometimes a very clear tension for workers in doing overtime hours in order to earn more money. If workers are not given sufficient overtime then they will work for another company that does offer overtime hours. Options need to be explored within the supply chain to address this key issue.

How to reduce non-conformities

- Reach out to contact supplier to close-out the non-conformity within a timeframe. Agree action plans with the supplier and you can usually see progress from audit to audit.
- Social insurance is a problem and a repeated non-conformity issue. There is a need for 100% to have social insurance for staff in China, however in-country it is voluntary, and can get people to sign out of it, but non-conformity repeatedly returns on annual audits. The individual may be covered by a different type of insurance.

- It is important to understand the situation regarding social insurance within the setting from workers as it could be that workers have legitimately opted out of social insurance offer, or it could be that in reality it is not being offered by the company.

How to improve visibility and human rights standards in supply chains in China

- Increase the number of visits, however China very far away and sometimes 2-3 tiers lower on the supply chain.
- Conduct worker interviews.
- Sometimes it is very challenging to get past certain issues e.g. social insurance, however there may be traction on H&S and overtime hours.
- There is a crossover with non-food issues in China and you can't always rely on books or records supplied by the company. They can sometimes be fake. SMETA won't necessarily be that helpful (or audits in general), and if you can't follow up with a visit you don't always build a picture of the reality on the ground.
- Often products are sourced via agents so this complicates the visibility. There are even "audit-ready" factories where products are not being produced so this means that information is unreliable.
- If you are not more than 30% of the company customer base you have no leverage and you need a group of customers to have influence.

Recommendations

- Member companies with leverage can develop audit programmes with audit bodies to verify records from suppliers are not fake.
- Agree with suppliers to keep all production records and purchase orders for traceability purposes.
- Work with in-house compliance (if any) to conduct thorough due diligence (including company background, history of labour dispute or lawsuit) before signing off a supplier.
- Understanding that sites may not fully comply with law in reality, so it is essential to include worker perspectives to balance between compliance and

flexibility. For example, request suppliers to purchase social injury and medical insurance as minimum requirement, conduct occupational health check at least once a year.

- Conduct worker interviews during visits.
- Observe any red flags for 'model' or 'audit-ready' factories – small number of workers with high volume, size of warehouses not proportionate to production output, incomplete work processes found, frequent in/out of trucks during visits, own label finished goods not found in the warehouse
- Conduct risk assessment to identify high risk regions prone to illegal workers eg Yunnan
- Work with commercial functions to look out for signs of financial instability (eg late payment, non-conformances related to wages) in sites

ⁱ FNET presentation on China

ⁱⁱ https://en.wikipedia.org/wiki/Agriculture_in_China#Major_agricultural_products

ⁱⁱⁱ https://en.wikipedia.org/wiki/Agriculture_in_China#Major_agricultural_products

^{iv} <https://oec.world/en/profile/bilateral-product/poultry-meat/reporter/chn>

^v <https://wisenetasia.com/everything-you-need-to-know-about-the-working-culture-in-china/>

^{vi} <https://www.hrone.com/blog/work-culture-china/>

^{vii} <https://www.ft.com/content/1416a056-833b-11e7-94e2-c5b903247afd>

^{viii} <https://clb.org.hk/en/content/migrant-workers-and-their-children>

^{ix} <https://www.power-technology.com/news/china-power-cuts/>

^x <https://chinalabor.wpenginepowered.com/wp-content/uploads/2021/04/1120.pdf>

^{xi} <https://www.bbc.co.uk/news/world-asia-china-22278037>