Apple pledge could lead to China wage hikes

JOE McDONALD - AP Business Writer - Associated Press

A pledge by the manufacturer of Apple's iPhones and iPads to limit work hours at its factories in China could force other global corporations to hike pay for Chinese workers who produce the world's consumer electronics, toys and other goods.

Foxconn Technology's promise comes as Beijing is pushing foreign companies to share more of their revenues with Chinese employees. It follows a report by a labor auditor hired by Apple Inc. that found Foxconn was regularly violating legal limits on overtime, with factory employees working more than 60 hours per week.

"I think whatever Foxconn did will have an impact, certainly, on all Chinese workers in all trades," said Willy Lin, managing director of Hong Kong-based Milo's Knitwear, which makes clothing in three factories in China for European clients.

Foxconn, owned by Taiwan's Hon Hai Precision Industry Co., promised to limit hours while keeping total pay the same, effectively paying more per hour. Foxconn is one of China's biggest employers, with 1.2 million workers who also assemble products for Microsoft Corp. and Hewlett-Packard Co.

China has long been a low-cost manufacturing center for goods sold under foreign brand names. But wages already were rising quickly as companies compete for workers and communist leaders try to push the country up the technology ladder to make more profitable products.

After a lull following the 2008 global crisis when Beijing froze the minimum wage to help exporters compete, Chinese workers have received big pay hikes over the past two years, though salaries still are low by Western standards.

Foxconn responded to a spate of suicides by employees at one of its mainland factory campuses in 2010 by more than doubling its basic monthly salary to 1,800 yuan ($290). The same year, Toyota Motor Corp. and other Japanese automakers granted pay hikes following a wave of strikes that had tacit government support.

Communist leaders have promised to double the country's minimum wage from 2010 levels by 2015.

The minimum wage in Shanghai, one of the world's most expensive cities, is about 1,200 yuan ($200) a month after an increase of more than 10 percent last year. The northern city of Tianjin raised its minimum wage to 1,070 yuan ($175).

Beijing has tightened enforcement of wage and hour rules "because there has been a general lack of compliance — greater than in other countries," said K. Lesli Ligorner, head of the China employment group for law firm Simmons & Simmons.

"China is trying to make sure that at least at the lowest level of unskilled workers there are greater protections in place for them," she said.

Export-driven manufacturers along China's booming east coast also have to pay more to get and keep workers as rising living standards in the countryside mean fewer people migrate to cities for factory jobs.

U.S. and European clients might push Chinese suppliers to pay more so they look better in front of consumers, Ligorner said.

Higher wages at Foxconn "will have a ripple effect," she said.

Pay and working and environmental conditions are a sensitive issue for U.S. and European companies, some of which have been criticized by activist groups. Companies such as Nike Inc. and The Walt Disney Co. set specific standards in contracts with producers of toys, athletic shoes and other goods sold under their brands and send auditors to enforce them.

"We mind our corporate social responsibility and demand that our contract manufacturers strictly follow local as well as international rules on labor and environmental protection," said Henry Wang, public relations director for Taiwan's Acer Inc., the world's fourth-largest personal manufacturer.

Acer's laptop computers are produced by contractors in Kunshan, west of Shanghai, and in Chongqing in the southwest.

Wang said he didn't know whether the report on Foxconn by the Fair Labor Association, an American industry group, would lead to changes at Acer. He said suppliers already are required to "strictly follow" rules on wages and working conditions.

Higher wages will be easier for manufacturers to absorb if labor is a small portion of their total costs.

Research firm IHS iSuppli estimates that Apple pays $8 for the assembly of a 16-gigabyte iPhone 4S and $188 for its components. iSuppli's figures suggest that if Apple were to absorb a Foxconn wage increase to keep pay level and cut the work week from 60 hours to 49, it would pay less than $2 extra to have an iPhone made.

Other companies earn smaller profits and might find higher wages harder to pass on.

Higher costs in China already have prompted some companies in labor-intensive industries such as shoes and textiles to migrate to Vietnam and other lower-wage economies.

Lin, the garment manufacturer, said his company employs about 1,500 people in Guangdong province near Hong Kong. He said entry level pay has more than doubled over the past five years from 600 to 700 yuan ($95-$110) a month to about

1,500 yuan ($240).

"Anything lower than that, you wouldn't find the workers willing to do it," he said.

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AP Business Writer Kelvin Chan in Hong Kong and Associated Press writers Annie Huang in Taipei and Foster Klug in Seoul contributed.

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