

# Apple pledge likely to boost China factory wages

JOE McDONALD - AP Business Writers - Associated Press

This week's pledge to trim work hours and effectively raise wages for the hardscrabble Chinese employees who assemble Apple's iPads and iPhones isn't likely to drive up the prices that consumers pay.

Labor expenses remain such a small portion of the total bill for most gadgets made in China, and wages have already been steadily growing. The cumulative wage increases, however, could crimp the profits of major technology companies unless they can save money on the parts that power the devices.

"The cost of assembly is going to go up for most electronics," IHS iSuppli analyst Thomas Dinges predicted.

The pledge involves Foxconn Technology, which assembles an estimated 40 percent of the world's electronics, including the hot-selling iPhone and iPad.

Foxconn, owned by Taiwan's Hon Hai Precision Industry Co., promised to limit hours while keeping total pay the same. That commitment will translate into higher hourly wages.

The pledge came after Apple Inc., the world's most valuable company, hired a labor auditor to review the practices and conditions in Chinese factories run by Foxconn. The audit resulted in a report released Thursday that evoked images of a sweatshop. Among other things, the report said Foxconn routinely violated overtime laws by assigning its assembly-line workers to toil for more than 60 hours per week.

Foxconn's concession is expected to have ripple effects not only because it involves Apple, one of the world's most scrutinized companies, but also a major Chinese employer that cuts a broad swath.

Foxconn has about 1.2 million workers and either currently or has assembled products for a long list of technology companies including Microsoft Corp., Hewlett-Packard Co. and Dell Inc. Those companies' smartphones, computers, video game consoles and other devices have become household staples around the world.

"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

Japan's Toshiba Group, which employs 32,000 workers in China to make goods such as refrigerators and TVs, said it already is planning to adopt similar changes that will reduce overtime work and improve working conditions at its factories.

China has long been a low-cost manufacturing center for goods stamped with some

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of the world's best-known brands.

But wages have been steadily rising for years as companies compete for workers and China's communist leaders try to push the country up the technology ladder to make more profitable products.

Dinges believes the leadership also realizes the country's economic evolution requires raising the standards of living so more factory workers assembling the devices will eventually be able to buy them.

After the 2008 global financial crisis triggered a freeze in the minimum wage to help exporters compete, Chinese workers have received big pay increase over the past two years, though salaries remain paltry by Western standards.

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

Communist leaders have already 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."

The higher wages in China haven't resulted in higher prices for electronics so far, nor have they seriously dented the profit margins of technology companies, Dinges said.

That's largely because the labor bill typically represents less than 10 percent of the total cost for most gadgets. It's even less significant for Apple, which has used its clout and high demand for its products to negotiate extremely favorable deals with its suppliers and contractors.

ISuppli estimates that Apple pays \$8 for the assembly of a 16-gigabyte iPhone 4S and \$188 for its components. Those figures suggest that if Apple were to absorb a Foxconn wage increase to keep pay the same and cut the work week from 60 hours to 49, it would pay about \$2 more to have an iPhone made. Dinges expects to Apple to offset any higher labor expense by wringing out savings elsewhere.

Other technology companies might have a tougher time shrugging off a higher labor bill for assembling their products because their profit margins are thinner.

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Even so, higher prices for parts remain a bigger worry than higher labor costs. This is especially true for personal computer makers such as HP and Dell that had to deal with high prices for disk drives after massive flooding close key supply channels in Thailand last fall. Now, prices for an important chip called DRAM could rise because of the recent bankruptcy filing of a major Japanese supplier, Elpida Memory Inc.

Pay and working and environmental conditions are a sensitive issue for many U.S. and European companies after years of scathing criticism from human rights groups. Nike Inc., Gap Inc. and The Walt Disney Co. are among the companies that have spelled out labor standards with the foreign factories that make shoes, clothing, toys and other goods sold under their brands.

Now it appears to be the technology industry's turn to crack down on labor abuses in overseas factories, even if it means higher assembly costs.

"This has become political. It's not really economic," Dinges said. "The suppliers are now in a better position to set their prices and their major customers are in no position to turn them down."

Veteran technology analyst Rob Enderle isn't convinced the tide has turned. He still believes U.S. technology firms will pressure Foxconn and other Chinese factory owners to hold down their costs by threatening to move the assembly work somewhere else, such as Mexico or Taiwan.

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.

"It's too early to tell how this is going to work out," Enderle said. "My expectation is that a lot of these Foxconn workers who are getting higher salaries are going to be unemployed a year from now because they were quietly let go or the work moved elsewhere."

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Liedtke reported from San Francisco. AP Business Writers Kelvin Chan in Hong Kong and Elaine Kurtenbach in Tokyo and Associated Press writers Annie Huang in Taipei, Taiwan and Foster Klug in Seoul, South Korea contributed.

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