Asian Transnational Corporation Outlook 2004: Asian TNCs, workers, and the movement of capital
ASIAN TRANSNATIONAL CORPORATION
OUTLOOK 2004

ASIAN TNCS, WORKERS, AND THE
MOVEMENT OF CAPITAL

Asia Monitor Resource Centre
ASIA MONITOR RESOURCE CENTRE

The Asia Monitor Resource Centre (AMRC) is an independent non-governmental organisation which focuses on labour concerns in the Asia Pacific region. The centre provides information, research, publishing, training, labour networking, and related services to trade unions, labour groups, and other development NGOs in the region. The centre’s main goal is to support democratic and independent labour movements in the Asia Pacific region. In order to achieve this goal, AMRC upholds the principles of workers’ empowerment and gender consciousness and follows a participatory framework.

ASIAN TRANSNATIONAL CORPORATION OUTLOOK 2004:
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PREFACE

Dae-oup Chang

Since 2002, the Asian Transnational Corporations Monitoring Network has been working to build up a regional network through which labour organisations in different Asian countries can pursue concrete solidarity actions to improve working conditions in Asian Transnational Corporations (ATNC). During 2004, all organisations in the network had many opportunities to join together in various training and education programmes, campaigns, research, and publications projects to promote labour rights and publicise the issues of labour under the ATNCs. As the project is implemented by a network that consists now of 16 organisations with different specialities, we were able to cover many different issues, such as automobile and garment industries, women workers, as well as different aspects of monitoring activities, including research, campaigning, education, organising, and publications. Two books in the ATNC Book Series were published by the Asia Monitor Resource Centre (AMRC) editing team, ATNC network researchers, and guest researchers, whose expertise is in the field of research of the network, dealing with the auto industry in Asia and a critical understanding of corporate codes of conduct.

Partner organisations continued to publish their research results on the ATNC web site. Training and education workshops have been organised, focusing on a specific aspect of capacity that is needed to monitor labour conditions and assist organising attempts of workers in ATNCs. Training for campaigners in January 2004 provided the necessary skills for organising campaigns, including company investigation, publicity, grassroots organising of workers in firms with labour disputes, international networking, and web-based campaign skills. Another training course, focusing on the better understanding of women
workers’ rights in the context of the growing globalisation of supply chains was held in June 2004 by organising a workshop with workers from Asian-invested garment and leather producing firms in the mid-Java area of Indonesia. In all major events, ATNC partners in different countries also played a role in bringing other labour organisations into the network’s activities, expanding the basis of the ATNC network in each country.

Through our three years of experience in building a network, we have engaged with workers, campaigners, unionists, and researchers in various fields and countries. One major lesson we’ve learned is that a sustainable way of regulating TNCs in defence of workers’ basic rights can be achieved only with the empowerment of workers in workplaces and workers’ communities. Accordingly, the concept of ‘monitoring’ has been widened, from mere ‘watching’ to a more comprehensive one incorporating research, education and training, campaigning, and publications. This move is based on our understanding that existing ‘external’ monitoring activity does not necessarily lead to general improvement of labour rights; we need to organise pressure from and within the workplaces.

We also realised that we needed to widen contact with workers and grassroots organisations through various programmes that are designed to assist worker organising. Our emphasis on the workers organising themselves to defend their rights at work and communities have been reflected well through our involvement in the global labour campaign, in particular ‘the Play Fair at the Olympics Campaign’, through which we developed new relations with global campaigning groups in Asia and Europe as well as a partnership with a grassroots workers’ organisation.

Our involvement in campaigning and advocacy is related closely to the major motivation in establishing the ATNC network: to compensate for the limits of the current forms of external solidarity driven by the consumer movement, in which the development of a workers’ movement was increasingly dependent on external pressure on the basis of corporate codes of conduct while local organising initiatives took second priority.
In the Olympics campaign, we suggested ‘triangle solidarity’ as a method to leap forward by maximising workers’ involvement. The ultimate aim of triangle solidarity is not merely putting the workers in the centre of the existing campaign mechanism, but changing the campaign mechanism into a new one in which workers organising themselves in workplaces and communities naturally turns into a solidarity campaign with regional and international impact, not aiming at ‘manufacturing’ solidarity but encouraging solidarity to come out of the desperate need to work together with others who face the same obstacles. However, involvement in the Olympics campaign in 2004, which had only limited impact on local organising because it was not firmly based on local labour activism, made us realise the urgent necessity of building a regional support network based more on local organising efforts.

The phase out of the Multifibre Arrangement and the disunited reaction from many labour unions with arguments based on national interests rather than worker interests alerted us to the importance of building a firm network of labour groups. In the ATNC Monitoring Network’s annual conference in August 2004 and a post-Olympics evaluation among the network members, many reflections regarding the ATNC network’s role in a global campaign emerged, emphasising building a labour movement in the region, through which ‘grassroots activism’ can turn into a ‘solidarity-based campaign’ and vice versa, rather than strengthening the existing campaign mechanism, prioritising horizontal solidarity within Asia.

Now we are moving into the second stage of network building, in which we have to develop more stable co-operative relations between member organisations and partners as well as to enhance the quality of our network activities in all aspects. In particular, we are working towards new and creative forms of solidarity between labour organisations, including trade unions, in developing countries to boost grassroots organising, as well as concrete methods to develop stronger support between labour organisations in Asia’s capital importing and exporting countries. The second stage of network building was initiated in 2005 by launching a series of workers’ and organisers’ exchange programmes in which we share organising ini-
tiatives in each country as well as a systematic way of bilateral and multilateral co-operation between different countries in the network. In the first exchange in the Philippines, unions and other labour organisations had a chance to compare organising methods in the face of swiftly changing labour relations in the region. This will continue with focus on organising workers in the context of the growing unstable form of capitalist work and increasing capital mobility in the region.

As the network developed clearer aims and strategy, we succeeded in incorporating an increasing number of organisations in Asia and elsewhere. Now we have 16 member organisations in Asia, including: AMRC (Hong Kong), Center for Workers Education and Leadership Training (CWELD, Philippines), Centre for Education and Communication (CEC, India), Ching-jen Labor Health and Safety Service Center (Taiwan), Documentation for Action Groups in Asia (DAGA, Hong Kong), Hong Kong Christian Industrial Committee (HKCIC, Hong Kong), Korean House for International Solidarity (KHIS, Korea), National Coalition for Protection of Workers Rights (NCPWR, Philippines), Protest Toyota Campaign (PTC, Japan), Sedane Institute for Labour Information (LIPS, Indonesia), Solidarity of Cavite Workers (SCW, Philippines), Thai Labour Campaign (TLC, Thailand), Womyn’s Agenda for Change (WAC, Cambodia), Workers Assistance Center (WAC, Philippines), Yaung Chi Oo Workers Association (YCOWA, Thailand), and YAWAS (Semarang, Indonesia).

Indeed, we need more partnerships with local, provincial, and national labour unions and NGOs, as well as other prominent networks of labour organisations on the basis of transparent and fraternal relationships. We have been developing close working relations with 11 other organisations, including trade unions, grassroots workers’ organisations, and international NGOs. These partners include, Committee for Asian Women (CAW, Asia region), Transnationals Information Exchange – Asia (TIE – Asia, Asia region), Redmaque (Central America region), War on Want (UK), Oxfam Solidarity (Belgium), KASBI (Indonesia), SPN (Indonesia), Alliance of Democratic Trade Unions (Thailand), Women Workers Unity Group (Thai-
land), Clist (Thailand), and Coalition of Cambodian Apparel Workers Democratic Unions (C.CAWDU, Cambodia). We expect many of them to be long-term partners and members of the network in the coming years.

Researchers in the ATNC Monitoring Network have been trying to move research focus from the general picture of ATNCs to particular focuses, so that we can have a comprehensive understanding of ATNCs, including the scale, forms of investment, labour rights, and methods to regulate them. Regarding further development of our research activity, various suggestions have been made by partner organisations; the most important were

1) to concretise the research agenda from ‘foreign direct investment-labour relations’ in general to ‘TNCs-workers’ in particular situations so that the research can directly help the member organisations that are mostly local, and

2) in terms of methodology, more participatory research and gender perspectives are required. Researchers in the network developed a co-ordinated research project on Asian investment and working conditions in Asian-invested firms, the result of which is in this ‘ATNC Outlook 2004’. The first E-version of ATNC Outlook, a collection of the preliminary research reports produced by regional researchers, was published in early 2004. However, it was far from a comprehensive report on ATNCs. I believe that this has improved by team research, which started with a researchers’ meeting in Thailand in May 2004, and whose result was submitted to our annual conference in August 2004. This research was designed to provide a more comprehensive picture about Asian investment, covering overall investment flows and case studies.

This book includes most achievements that ATNC network researchers have made over the last two years. In Part 1, Dae-oup Chang, Kaneko Fumio, Yoon Hyowon, Tsai Chih-Chieh, and Monina Wong theorise about ATNCs providing a general picture of capital movement from Asia and thereby illuminating the importance of monitoring ATNCs.
In Part 2, Dae-oup Chang, Monina Wong, Krishna Shekhar Lal Das, and Dennis Arnold look at the impact of Asian investment on labour in different countries. Understanding the restructuring of labour and the ‘race to the bottom’ of labour conditions as an aspect of a particular form of the globalisation of capital, the authors try to grasp not only the direct impact of capital movement on workers in the South, but also the nature of economic development that the globalisation of capital presupposes.

Part 3 shows how workers and the labour movement cope with the increasing movement of ATNCs through various concrete case studies. The Workers Assistance Center focuses on women workers in export processing zones while Dennis Arnold from the Thai Labour Campaign traces the origin of the inhumane working and living conditions of Burmese migrant workers on the Thai-Burma border. Serapina Cha Mi-kyung shows labour abuse cases by Korean investors and the passive response of the Korean government to the abuse in an attempt to explore a possible strategy to develop social and political pressure on Korean investors. LIPS and YAWAS show workplace labour relations and the impact of Korean capital investment in Indonesia, questioning workers’ benefits from the movement of transnational capital. Finally, the Ching-Jen Labour Health and Safety Service Centre tells us the experience of Taiwanese labour groups in organising an international campaign with other international groups and points out the strategic implications of the experiences.

The major purpose of this book is to review our strategy for controlling capital and to identify conditions under which the labour movement can develop an effective challenge to the destructive aspects of ATNCs. It also explores the underlying problem of foreign direct investment (FDI) in Asia. FDI is problematic not only because it undermines the autonomy of national development in developing countries but also, more fundamentally, because FDI is a particular form through which anti-labour development goes to the extreme. Therefore, a strategy of FDI control must involve workers and be geared towards challenging anti-labour economic development in both South and North. The most important implication may
be about a concrete strategy through which organising labour can be a very effective method to control global capital flow that undermines sustainable social development. We hope that the information and experiences presented in this book will help labour organisations in Asia to develop a way in which solidarity within and between the North and the South can effectively tame the flow of capital and moreover challenge the nature of the development by organising pressures in and against commercial and productive TNCs that develop at the expense of human labour.

Many activists and researchers have been involved in completing this book. Although naming those who contributed to the completion of this book risks overlooking others, I would like to thank our researchers in the ATNC Network—Dennis Arnold, Tsai Chih-Chieh, Serapina Cha Mi-kyung, Ismail Fahmi, Nur Fuad, Kaneko Fumio, Iman Rahmana, Cecile Tuico, Krishna Shekhar, and Monina Wong, who, as activists as well as researchers, have been at the centre of our attempt to build a living network. Also, I would like to thank colleagues in AMRC—Apo Leong, Omana George, May Wong, and Sanjiv Pandita for their continual support for ATNC network activities. Particular thanks should be given to Ed Shepherd, the editor of AMRC, for his time and effort in turning the drafts into a book. My thanks also go to Guillermo Rogel and Jane Turner of War on Want, and Hilde van Regenmortel of Oxfam Solidarity, whose continual support made this book possible. Finally I thank all the workers, organisers, and campaigners who have given our network precious comments and advice on many occasions.
PART 1

TREND AND NATURE OF
ASIAN FOREIGN INVESTMENT
CHAPTER 1

ASIAN TNCs, LABOUR, AND THE MOVEMENT OF CAPITAL

Dae-oup Chang

Introduction

This rather theoretical chapter starts with a very practical question: How can we control the labour practices of Asian transnational corporations (ATNC) in developing countries? This has been the major question to all the organisations that have been involved in the campaign to promote labour rights in Asia for the last decade. Indeed, the alarming reality of the workers in China, where Asian investment plays a significant role in transforming the world’s largest populated country into a capitalist economy, brought more serious concern to us recently. ATNCs’ problems have been addressed by a very unscientific cultural studies school, trying to find out the brutal labour control from the Confucian ideology, family-centred society etc, all of which implies that not only Asian capital but also Asian society has not been civilised yet. Many progressive researchers unfortunately understand this as a trade issue, in which Asian suppliers appear to be subjected to the unfair trade with western counterparts and therefore to be a victim of globalisation. Most of those analyses lack in-depth understanding of the mobility of capital and its implication in both capital exporting countries and importing countries. Lacking this, the strategy of the labour movement has been merely responding to labour abuses in ATNCs case by case, the result of which is difficult to transform into a movement. This article attempts to trace the problems of ATNCs from their most abstract form to the concrete form, capture the movement of social relations in Asia, and thereby characterise the recent recomposition of labour.
The aim of this article is to know the movement of capital in general and ATNCs particular, so that we can start building up a strategy against ATNCs and, starting from that point, find a possibility of a new labour activism in Asia.

1. The origin of the mobility of capital

Capital moves. There is no question about it. Capital circulates, capital expands, capital competes, capital integrates, and therefore capital is constantly in motion. Indeed, the mobility of capital appears not only in ‘external’ forms, such as geographical expansion and relocation but also in internal forms, such as the transformation of productive capital to the money-form of capital, the replacement of ‘human capital’ with new machinery, and so on. In this process, capital moves by taking different forms. What would be the origin of this mobility then? To talk about the mobility of capital, it would be better to start with a question: ‘what is capital?’ Capital is, at first glance, a certain amount of money or things that are transferable into an amount of money. However, we are not referring to any money as capital, nor do we call abandoned machinery capital. For example, if a rich person has a vast amount of money but s/he has no intention to use it other than buying things, we cannot define the money as capital, nor can we identify the money owner as a capitalist. In order to be capital, the money should be set in motion to earn more money (valorising) by engaging in production or speculation (or invested in a financial market). Capital has the potential to be mobile, on the basis of nature inherent in capital as ‘money in motion’.

Having said that capital is money-in-motion, this does not mean money moves around like a living thing. It is important that we understand capital not as a ‘thing’. Capital is not just a certain amount of money set in motion. Capital exists only ‘in relation to’ other societal forces, most of all labour. In this regard, capital is a form of social relation between owners of the means of production and money and owners of labour power, through which a particular form of social labour is organised and mobilised toward production of surplus value (Marx 1990). Capital as a form of social relation is in fact a developed form of a basic social relation between commodity owners – the value relation. To understand ‘value’, we have to look at the commodity, the container of value.

A commodity has a dual nature: it is useful as a product of useful labour, while it also has socially recognised ‘value’ as a product of abstract
labour (Marx 1990). It is the nature of the commodity being a product of (homogeneous and commensurable) abstract labour that makes products real commodities that can be exchanged, sold, and bought on the market. Therefore, a particular nature of ‘capitalist’ labour is that it must be value-producing labour (Clarke 1991).Labouring activity of men and women is socially recognised only insofar as it is producing or helps to produce ‘value’ and, to do so, they are labouring within a particular form of social relation (Negri 1994:9, Cleaver 2002; 138-42).

Other than value producing labour, labouring activities are not socially recognisable and therefore given no reward. This is the social relation that value represents and this relation is between abstract labours. In this sense, value is also not merely some amount of money attached to a commodity. Rather, value is to be understood as a basic form of capitalist social relation between commodity owners, through which a particular form of social labour is organised and mobilised toward production of value that is ‘socially’ recognised (Marx 1990).\(^3\) The most developed value-form can be found in money. All commodities express their value in the same body of a commodity and then express their value ‘in a unified manner’ (Marx 1978: 146). As money universally represents socially recognisable value, i.e. abstract labour, money becomes a dominant form of social relations. In capitalist production process, money is set in motion, buying materials, labour forces and so on. ‘Value’ takes form of relations relation between commodity of labour power and money owner. Capital as money set-in-motion means also capital is value-in-motion (Neary 2002) and capital contains all these social relations. The fact that capital is a form of social relations, more specifically social relations in a tension based on the domination of abstract labour over living labour (or money-in-motion or more fundamentally value-in-motion), gives us the starting point of understanding the reason why capital is in continual movement.

Capital is capital only in relation to capitalist labour. ‘Capital, without labour, ceases to exist’ (Holloway 1996: 140). Without being a particular social relation, capital is just some amount of money, which cannot valorise, therefore cannot be counted as capital. The capital-labour relation appears to be a very technical relation between different sources of revenue, money capital, and labour commodity. However, within this seem-
ingly technical relation, the capitalist continuously tries to produce value, and more concretely, to extract surplus value from living labour, the essence of which is unpaid abstract labour, rather than produce useful things that meet social needs. To keep living labour under the control of abstract labour is the key to this surplus value production. The essential limitation of capital remains intact: capital cannot be capital without relating to living labour. Therefore capital is under constant pressure from living labour. On the other hand, individual capital exists only in competition with other individual capitals in a space, which we call the market. Its mode of existence in relation to labour and in competition with other capital gives instability as well as its dynamics to capital as its intrinsic nature and puts capital under constant pressure to move. Now let us see how the intrinsic dynamics, instability, and mobility of capital as a form of social relations appear in reality.

2. Capital moves under constant pressure

The fact that capital exists in competition with other individual capitals conditions capital mobility by putting capital under competitive pressure. It is nothing unusual that individual capitals (companies) suffer from the problems of overproduction and growing competitive pressure in the market. In fact, this competitive pressure is based on the basic reproductive mechanism of capital: domination of abstract labour over living labour. In capitalist production, the production of social needs (living labour) is subordinated to the need for capital to make profit (abstract labour): the subordination of producing useful things to producing commodities. No private company does business solely to serve public by meeting the social needs. No social needs without making profit attracts investment whereas profit making perspectives attract too many businesses.

Therefore, it is the destiny of capital to fight the competition to survive. In this competition, only individual enterprises that are able to utilise more effective methods to keep the price competitive without degrading its quality, could win and take the superior position in the competition. Although only a few firms reach the superior position and enjoy the competitive edge, it is the perspective and desire to reach the highest possible place that drives all enterprises to keep trying. This vicious cycle between more and more competition and overproduction is not something strange to capitalist development but is a basic rule of capitalism. However, this
does not mean that this development can go on and on without consequence. While many new firms get into a new round of competition, many collapse and disappear. Furthermore, continual investment in the means of production, in the attempt to dominate markets, would result in the overaccumulation of capital at industrial, national, and international levels. If it happens on a large scale, the general profit rate starts going down steeply. If the markets are not expanding fast enough to consume the products or domination over an existing market is not secured, accumulated productive forces cannot avoid becoming idle. Under this constant pressure, exploring new markets, reducing production costs, and diversifying risks are necessary for individual capitals’ everyday operations as well as long-term strategy. In face of this constant pressure, individual capitals have to move. Individual capitals continuously restructure their companies to maximise efficiency and minimise operating costs. They vigorously look for new markets either going beyond the region and national borders or by inventing new social needs.

The basic reproductive mechanism of capital not only causes pressure from overaccumulation, but also produces pressure from workers who, as living labour, sell their abstract labour; workers’ lives cannot be sustained without being abstract labour (labour commodity). In a capitalist ideal, the exchange relation between workers and capitalists appears to be an equivalent and free contract relation between capital and commodity labour as two different sources of revenue or two different individuals who own the functionally differentiated sources of revenue, namely commodity labour power and money-commodity. In reality, the exchange relations are reproduced rather by the attempt of capital to repeatedly present the ideal as if it is the given reality.

However, it does not take much time in the production process for workers to realise the ‘labourer is no longer free, for the reproduction of capital depends on the capitalist controlling the process of production and compelling the labourer to work beyond the necessary labour time’ (Clarke 1991, p. 191). The ideal of free contract relations now appears in the form of the ‘rule of the capitalist over the workers’, ‘rule of things over man, of dead labour over the living, of the product over the producer’ (Marx 1990, p. 991). Increasing accumulation of wealth in the form of capital, in contrast with workers poverty (relative if not absolute) that forces workers
once again into the production process as powerless subjects, inherently precipitates spontaneous and, if more developed, organised forms of struggle by workers. Workers’ struggle imposes pressure not only on direct labour costs of an individual capital, but also what we call the ‘social cost of exploitation’ (see Holloway 1996).

The social cost of exploitation means the effectiveness of capital accumulation, including cost effectiveness of production and circulation, as well as scale of economy in accordance with the size of market. This includes not only direct labour costs, but also indirect costs that capital has to pay, either in terms of paying money or spending time (which means money to capital) to reproduce its social domination over living labour. This includes health care, child care, income tax, corporate tax, severance payment, shipping cost, marketing cost, and donation to political parties that secure the interest of certain sectors of capitalist, and so on.

In the face of these constant pressures, the basis of which is in capitalism’s basic social relations of value producing labour, individual capitals are moving in many directions for survival and expansion. One of the common ways of surviving in competition is squeezing the workers by lengthening the working day or intensifying labour (absolute surplus value exploitation). However, there is a certain limit in doing so because if workers are squeezed to work beyond human capacity, if it went too far, workers would not let it happen.

Therefore, while trying to squeeze workers from time to time, individual capitals continually compete with each other to introduce effective means of production on the basis of new technology. However, specific development of technology for labour process and development of technical division of labour are not naturally given by technological innovation or great invention itself. Rather, the specific social forms that the technological development continually takes are shaped by the development of production relations and organisation of production (Maglin 1982).

The specific form of the development of capitalist technical division of labour and the development of technology is derived primarily by the attempt of the capitalist class to enhance the conditions of surplus value production through innovating control over the work process and individual workers. Introduction of mechanisation and technology, new division of
labour, and introduction of the factory system, Taylorism and Fordism are among those attempts to sustain accumulation in the face of the intrinsic pressures.

If individual capitals are striving to enhance control over labour and productivity of labour, there are two benefits. First, individual capital, which does it well, is able to reduce the production cost, so that it earns extra money. Furthermore, as a result of the competition for better labour productivity, general improvement in labour productivity in the industries that produce goods for workers themselves reduces workers’ living costs, therefore releases collective capital from the pressure of increasing real wages. If workers need less money to survive, capital can take more. This is relative surplus value production, a way capital moves out of the pressures. There are many ways for capital to sustain accumulation on the basis of the extraction of relative surplus value. One of the important ways is, more importantly to our interest in this article, that individual capitals relocate their production facilities in other countries so that the growing numbers of workers consume cheaper imported goods. By doing so, capital absorbs human lives in underdeveloped countries and integrates them into global capitalist social relations. In this global movement of capital, the major actors have been the transnational corporations (TNC).

3. International movement of capital and relative surplus value

There are two main arguments about the movement of productive capital: 1) capital moves to places with cheaper labour, 2) capital does not move for cheap labour. While business circles consistently use the second argument, labour organisations are opportunistically using both. Mainstream discussion about foreign investment often argues that labour regimes are not directly related to foreign investment, by saying that there is no empirical evidence to show that capital tends to be allocated in the countries with worse labour standards and weaker workers’ rights (OECD 2002, p. 170). The archetypal supporting evidence of this sort of argument is that the major destination of foreign investment is developed countries where labour standards are high and that the poorest labour standards do not attract foreign investment (See OECD 2002). In other words, the determination of allocating capital does not always depend on cheap labour because labour is merely a small part of their concern. Response to this argument from the labour movement is twofold. While many trade union-
ists understand the movement of capital only in terms of labour cost, consumer organisations argue that companies are making money not out of labour, but out of marketing. Therefore it is not a big deal for companies to pay decent wages.

Unfortunately both arguments are not convincing because these arguments are based on a very narrowed-down concept of labour cost, labour, and capital. In this sense, there is not much difference between the mainstream argument and response from the labour movement. The better answer would be that capital moves not because of labour cost but because of labour. For individual TNCs, relocation is a way of moving toward better business and it is not necessarily aiming at cheaper wages in their newly located production facilities. It is not about the direct labour cost only – in this sense arguments by capitalists contain a truth. More profit is guaranteed by less cost and better sale, the perspectives of which differ from company to company. Some of them are proven correct and some are proven wrong. However, this does not mean capital moves without regard to labour. Capital moves for better profitability, which depends on how ‘effectively’ to extract abstract labour and realise it by selling goods in the market. This means that, although individual capitals decision can be made on many different variables of making things more effective, the movement of capital is provoked by their attempt to overcome deteriorating social conditions of accumulation, i.e. increasing the social costs of exploitation and competition.

Under these pressures, individual capitals move to places with cheaper labour and also to places with labour as expensive as in their own countries. Significant amount of investment goes to developed countries. Cheaper direct labour cost is not always good for capital to do business. Sometimes it costs more time and money to train workers who have not yet been trained as wage labourers. Skill level is one thing and attitude is another. However, even if capital moves to developed countries and has to pay as much as it did in the home country, capital has some expectation. Firstly, as we mentioned above, exploring new markets, in which they can sell more of their products, is one of the most important ways of avoiding the pressures from competition and increasing the social cost of exploitation. If they can sell more they can still afford lower price, which means that they can import cheaper goods even from the developed countries. If the
products are related to workers’ subsistence, they bring relative surplus value to collective capital. In addition to the cheap imported goods, moving capital has another way to impact on the social cost of exploitation in the home country. Corporations benefit from their enhanced power to keep downward pressure on the social costs of exploitation, including direct labour costs, ‘by being ready to change’ investment destinations. Regarding this impact, it does not really matter where the capital actually goes. What matters is that it moves.

The threat of losing jobs is one of the most important methods to keep workers quiet. Therefore, FDI to developed countries is related to labour exploitation. Relative surplus value is not exactly intended by collective capital. It is rather a result of the thousands of business decisions to improve productivity in firms so that the individual companies can defeat others in the market. Individual capital’s decision led to a different condition of accumulation for collective capital. As we saw, capital relocation is a decision to overcome competitive pressure on individual firms. However, the real consequence is that the decisions collectively create a whole new set of social conditions of accumulation.

Investment to developing countries manifests this relation more clearly. Having an effect of extracting relative surplus value by importing cheap foreign made products is certainly the case for investment in developing countries. Indeed, cheaper direct labour cost is one of the merits. However, it might not be the absolute aim. As some consumer movement organisations argue, TNCs may be able to pay more to the workers since the direct labour cost is a very small portion of the price of the products. However, again, paying decent wages to the workers in the factory does not mean capitalists don’t exploit workers. The direct cost of labour is nothing compared with the whole set of indirect costs. This means even when the exploitation of labour appears to be minimal in the form of paying formal wages, there are huge indirect costs that capital can avoid by relocating capital to developing countries and by doing so employers exploit workers even more severely when paying them small wages. Now the question is whether capital has to pay all of them or some of them, or nothing, to run the business and accumulate capital by exploiting abstract labour. If we consider labour cost in a wider sense, the argument that it is marketing, not cheap labour, from which TNCs are able to make money,
collapses. Where does the marketing money come from? If individual capitals in developing countries have to pay all of these costs, there will be no money that they can invest in marketing. This assumption comes from their narrowing conceptualisation of labour cost, which is based on the narrowing concept of ‘labour’. International movement of capital particularly to developing countries is a gift to capital, although the fact that it has to move is a curse for capital. There are many different ways that capital moves internationally. Amongst many, most of productive capital’s movement is done by foreign direct investment.

4. Forms of the international movement of capital

After huge growth of international financial flows in last two decades, the recent movement of capital is marked by the variety of the forms of investment. Although it is almost impossible to identify all forms of investment, two forms of investment are largely regarded as the major forms of international investment. These are 1) foreign direct investment and 2)

**Box 1. Direct investment relations**

1. **Branch:** a branch is a wholly or jointly owned unincorporated enterprise in the host country. This relationship could be established between parent firm and:
   - A permanent establishment or office of the foreign investor;
   - An unincorporated partnership or joint venture between the foreign investor and one or more third parties;
   - Land, structures, and/or immovable equipment and objects directly owned by a foreign resident;
   - Mobile equipment (such as a ship) operating within a country, other than that of the foreign investor, for at least one-year.

2. **Subsidiary:** an enterprise in which a non-resident investor owns more than 50% of the shareholders’ or members’ voting power/a subsidiary of a subsidiary.

3. **Associate:** an enterprise in which a non-resident investor owns more than 10% of the shareholders’ voting power in a company that is not a subsidiary of any other company. A subsidiary of an associated firm is also an associate.
As we saw above, the former is pushed by the manufacturing (productive) capital and the latter is driven by the financial capital. Direct investment enterprise is normally defined as an enterprise in which a foreign direct investor has more than 10 percent of ordinary shares or voting power and exercises them in order to benefit from the investment (OECD 1996, IMF 1996). Direct investment enterprises, i.e. foreign affiliates, are again divided into three categories, such as branch enterprise, subsidiary, and associate, according to the relation between parent firm and affiliates, on the basis of which the investor exercises managerial power (see Box 1).

**Direct investment** flow is the financial transaction between parent firms and their foreign affiliates. This flow consists of 1) funds invested directly by the foreign investor to the direct investment enterprise 2) reinvestment of earnings of foreign affiliates and 3) inter-company debt transactions (see OECD 1996, IMF 1996 for detail).

Increase in the flow of money capital in the form of rather speculative short-term investment appears in the amount of **portfolio investment** and **other investments** in the balance of payments of nations. Portfolio investment is done by purchasing equity (mainly stocks) and non-equity forms (corporate bonds, certificates of deposit, commercial papers etc.) of securities and other financial derivatives from foreign financial institutions or directly from corporations or governments that issue them. Investment without any involvement of investors in management also includes ‘other

**Box 2. Different instruments in portfolio investment**

- **Equity investment**: investment in stocks and share;
- **Investment in non-equity debt securities**: bonds (usually long and mid-term negotiable debt securities issued by government, government agencies, and international financial institutions and corporations), preference shares, short-term negotiable debt securities (transactions through money markets, including commercial paper, bills, negotiable certificates of deposit, bankers’ acceptances, and marketable promissory notes);
- **Investment in financial derivatives**: secondary market instruments that give the holder a qualified right to receive an economic benefit in the form of cash or another primary financial instrument at some future point in time. This includes options and futures.
forms of investment’, such as 1) loans without collateral between financial institutions and corporations, 2) trade credit and 3) bank deposits.

FDI accompanies establishment of physical assets in host countries, such as machinery and buildings etc, so that it takes a relatively longer time for the investor to liquidate and move. Unlike FDI, portfolio or other forms of investment does not involve any establishment of physical assets in host countries therefore they tend to flow quickly from one country to another.

The nature of the business run by foreign invested firms also varies. 1) Marketing subsidiaries, as an initial form of foreign investment, involve no production activity in the host country. They are established to promote exports of their own products in foreign markets. As a more aggressive strategy, corporations often establish their 2) production facilities in foreign countries. In terms of accessibility to larger markets, it is good for corporations to have their final processing enterprises in or close to countries where most demand exists. By doing so, those companies can reduce final price and enhance price competitiveness that finally allows those companies to dominate the markets. Final processing enterprises are established particularly to avoid trade barriers against final products. Therefore they tend to go where they can enjoy absence of quotas or favourable quotas.

If a parent company could move its final process of production to a country which has free trade relations with the main importer countries, such as Central America’s maquiladoras for the US markets, the firm could make more profit both by taking advantage of abundant labour forces in Central America and by avoiding trade barriers to the US. This is basically what the Korean and Taiwanese garment and textile producers are doing in Mexico and other Central American maquiladoras. In other cases, final processing enterprises are also popular among foreign invested firms in countries, which have both a great potential demand for the products and abundant labour. China is the archetypal case. The most complete form of foreign invested firms can be achieved by establishing a complete vertically integrated supply chain including sub-assembly and components manufacturing subsidiaries in the host country. It depends on cost-effectiveness. If having sub-assembly or component manufacturing in the host country is cheaper than importing those goods (usually cheaper la-
bour cost than trade cost), they might establish these subsidiaries in the host country by themselves or ask their domestic sub-contractors to invest in the same region. In the latter case the subcontracting relation between them expands over national boundaries. At last, core processing or key parts manufacturing can also be transferred into the host country.

Capital is moving into another space and time, turning all the things around our lives into commodities and the whole society into a commodity producing and consuming sphere, getting all of society ‘permeated through and through with the regime of the factory’ (Negri 1994: 10). Movement of capital is not just movement of some amount of money from here to there, but more importantly movement of social relations, i.e. expansion, recomposition, and restructuring of social relations. When capital moves, it involves changes in social relations. It puts people into a new set of social relation, turns employee into unemployed, partner of the unemployed into employee, regular workers into part-timers, farmers into factory workers, housewives into women workers, communities into ghost towns, and schoolgirls into migrant workers. This means that, as capital moves, labour moves as well (Neary 2002). Indeed the recomposition of social relations is not a one-way process. Rather capital is ‘engaging in a continuous struggle to maintain the social conditions deemed necessary for profitability’ (Cowie 1999: 2).

Now, we are focusing on Asia and how the movement of capital into Asia reconfigures the social relations in Asian developing countries.

5. As capital moves: The recomposition of labour in developing countries in Asia

The attempt of TNCs, either from the West or the East, to avoid the above-illustrated constant pressures imposed by a particular social form of labour changed the way in which Asian developing countries organised their development.

Developed countries increasingly pressured developing nations to liberalise foreign investment while the lack of financial resources in the developing nations and their desire to pursue fast capitalist development led them to compete with each other for FDI by liberalising regulation of direct investment. Development plans on the basis of official loans and government-guaranteed bank loans became increasingly irrelevant and
unrealisable. FDI (and portfolio investment) is regarded as a primary tool both for national economic development and for more profitable TNCs.

Since the 1980s, many late Asian developing countries, such as the Thailand, Malaysia, Indonesia, and subsequently China and other developing countries like Cambodia and Sri Lanka, have been relying on FDI as a main financial resource for development. South East Asian countries competitively introduced policies favouring FDI in export sectors, allowing land ownership of foreign companies and offering full tax-exemption and rebates, followed by the liberalisation of interest rates and foreign exchange transaction in the early 1990s.

Consequently, FDI in Asian developing countries increased from $396 million in 1980 to $102,066 million in 2001. The investment flow into these nations accounted for a mere 0.7 percent of global FDI in 1980. In 2001, FDI inflow to Asia’s growing economies accounted for 13.9 percent of the whole FDI inflow, indicating Asia as a main destination of TNCs seeking better investment opportunities. According to UNCTAD, approximately 460,000 foreign affiliates operated in Asia in 2001 (UNCTAD 2002). As far as capital accumulation was concerned, it seemed that liberalisation worked during the boom between the late 1980s and the mid-1990s. The 10-year period after the shift toward liberalisation certainly produced remarkable economic development. As export manufacturing and industrial work emerged as the backbone of development, domestic capital in South East Asia expanded significantly. In Thailand, manufacturing accounted for 13.4 percent in 1995, in comparison to 7.1 percent in 1981. Gross Domestic Product (GDP) per capita more than tripled between 1985 and 1995, reaching US$2,800 in 1995. In Indonesia the contribution of manufacturing to GDP overtook that of agriculture in 1990. GDP per capita increased from about US$500 in 1985 to over US$1,000 in 1995. Experiencing the fastest industrialisation in the region, Malaysia’s manufacturing sector represented about 26 percent of total employment in 1995, in comparison with 15 percent in 1985. GDP per capita went beyond US$4,000 in 1995, double that of 1985.

The movement of capital in the form of FDI into Asia brought significant changes in social relations in Asian developing countries. The most important implication of the movement of capital as a particular form of social relations is the integration of people into capitalist social relations.
This means that labour is becoming truly capitalist labour, a particular social form of labour, not just human labouring activities. However, this integration did not implant the same sort of capital relations that those internationalised capitals had in their own countries. Rather, it developed in a distinctive form in Asia’s developing countries in a particular historical context. It is true that international financial flow is not a new phenomenon but began with the advent of capitalist economy.

However, the particularities of contemporary flow are 1) the origin of the financial flow is not as concrete as in the case of aid or government guaranteed loans. This means the pressure to guarantee social conditions in favour of investors becomes more general and abstract; 2) the speed of transaction is faster than ever and the amount of transaction is huge enough to threaten financial stability in a nation so that the immediate and continual need for actions to satisfy investors is greater; accordingly, the actions taken by national governments and other parties to manage investors’ confidence begin to have more and more pre-emptive and general nature, targeting not a particular company, or a section of a particular industry, but all aspects of social relations of production. The host countries of international capital investment in Asia attempt to reproduce labour relations in favour of investors, in order to attract capital inflow, while investors put pressure on domestic governments, corporations, and most of all workers, in an attempt to maximise the profit from their investment.

Particularly, nations that desperately need financial resources in labour intensive industries for ‘catching-up’ development competitively attempt to attract investment by guaranteeing loose regulation over labour standards and corporate operations. This competition to attract financial resource and more investment appears in the form of a race-to-the bottom between developing countries. In particular, investors in the various forms of special economic zones in developing countries, including Export Processing Zones (EPZ), are the pioneers in degrading labour standards in pursuit of better profitability and loosening regulation of the state over the corporate sector. The particular consequence for many Asian developing countries is that large populations are being integrated into value (capital) relations in the context of privatisation before having large public sectors, informalisation before the formalisation of employment, and anti-labour policy before the establishment of the labour movement.
Having said all this, it is clear that industrialisation has developed only on the particular basis of the unity between liberalised capital from developed countries and deregulated/unprotected labour in developing countries, which integrated these developing countries into a particular global commodity or value chain. This value chain consisted of so-called high-value added process of production, such as R&D and production of core and high-tech components, in the capital exporting countries and so-called low-value added (or labour intensive) processes, such as assembly and final processing, in capital importing countries. ATNCs in the labour intensive sector play a particular role in making of this commodity chain by mediating commercial capital from the West and workers in Asia. Subcontracted to brand names and retailers in the developed countries, ATNCs are in many cases direct employers of the workers in the host countries, playing a particularly important role in forming capitalist social relations in these developing countries.

6. The movement of ATNCs and Asian labour

Foreign investment from Asian countries, especially that from Japan as the main exporter of capital in Asia, significantly grew from $11.4 billion in 1990 to $49.4 billion in 1997. Even if the Asian economic crisis dramatically slowed down the outflow of capital from Asian developing countries, FDI flow from Asia recovered soon after the crisis and reached a record-breaking $81 billion in 2000 (UNCTAD 2002). A significant part of Asian direct capital investment goes into Asia itself (ILO 1997). In other words, cross-border investment within Asian countries is already one of the major financial resources for business in Asia. Japan is the biggest investor in this intra-Asia direct investment, allocating 21 percent of its $38 billion investment abroad to the Asia-Pacific region in 2001 (ASEAN 2002). In 2000, about 45 percent of $7.7 billion Taiwanese FDI outflow (approved) went into Asia and 37 percent of $5.9 billion Korean FDI outflow went into Asia.

This movement of East Asian capital to other countries in Asia is related to changing social conditions of capital accumulations from inside as well as outside, which increased pressure on capital by increasing the social cost of exploitation, in first generation NICs in Asia. Since the mid-1980s, favourable conditions in export-oriented labour intensive industries, such as garment and sportswear, began to move away from Taiwan and Korea. While Taiwan was witnessing growing workers’ challenges that politicised the implementation of
labour law and eroding the KMT’s absolute domination, Korea’s capitalist
development also faced an explosion of the organised labour movement (Chen
and Wong 2002; Chang 2002). Externally, growing protectionist pressure from
the US and increasing competitive pressure from developing countries slowed
export growth while pressure to liberalise commodity and financial markets
grew. Altogether, they motivated capital relocation. Following Japan, whose
export competitiveness was largely undermined by appreciation of the yen
against the US dollar, the first generation NICs started moving manufacturing
sectors into South East Asia and later China.

The influence of ATNCs in shaping capitalist social relations in
Asian developing countries is even bigger than the amount of investment
indicates, because they are concentrated in labour intensive industries,
where the majority of new industrial workers are employed. As a wealth
of documentation on labour problems in ATNC-invested garment facto-
ries in Asia and elsewhere exposed (AMRC 2002), Asian investment
has been a driving force of the race-to-the bottom. Asia’s cross-border
investments give rise to specifically exploitative forms of social rela-
tions within which the workers newly integrated into capitalist produc-
tion have no rights against employers. Individual capitals from Asia do it
by implanting their own labour norms and regimes at the workplaces,
which once existed in their home countries before the institutionalisation
of labour rights and increase in the social cost of exploitation. Therefore,
they are reluctant to recognise labour rights and trade unions, while try-
ing to minimise the indirect cost of exploitation by all means. Worse still,
these corporations are concentrated in the labour intensive industries
where business competition relies largely on cutting labour costs rather
than introducing effective means of production. Hence, most labour prob-
lems in sweatshops in Asia are not mere by-products of the investment
but inevitable results of it.

The fact that ATNCs play a significant role in shaping social relations
in Asian developing countries does not mean that ATNCs are important
only in Asia. Rather, ATNCs are also important in terms of its contribution
to lessening pressures on capital in developed countries by being an agent
for relative surplus value extraction for capital in the developed world.
In Asia, Asian corporations rely heavily on extracting absolute surplus value,
i.e. extending working days and intensifying labour in the factories. How-
ever, on the other hand, they contribute to keeping down the cost of workers’ subsistence in developed countries by exporting cheaper consumer goods, ranging from garments to automobiles. By doing so, together with Western TNCs that import Asian made goods and western capital collectively benefiting from it, ATNCs are very important integral parts of the global domination of capital. Controlling the movement of ATNCs is an extremely important issue for the Asian labour movement. What follows will try to found a strategy of controlling ATNCs, and their implication for the labour movement as a whole.

7. Controlling ATNCs: triangle solidarity on the basis of organising social labour

There has been a development of a new international framework in an attempt to improve labour conditions in developing countries in Asia, particularly for the workers in the firms invested by Asians. Experiences of labour campaigns and organising within this framework perhaps give us a starting point. Consumer organisations in developed countries have been playing an important role in pushing Western TNCs (retailers and brand names) to improve working conditions in Asian invested productive capital, by organising pressure on commercial capitals through mobilising consumer boycotts. In response to the pressure, some firms at least had to introduce voluntary codes of conduct and external inspections to monitor compliance to the codes. On the other hand, based both in capital exporting and importing countries, ATNC monitoring groups have also been trying to assist workers in organising themselves and mobilising solidarity from the capital exporting countries in Asia.

Indeed, rank and file workers and labour activists in Asia, in spite of extremely hostile conditions for the labour movement (such as threats of lay-offs, kidnapping, beating, and even murder), have organised a number of spontaneous struggles and unionised out of the struggles. It is this new ‘triangle solidarity’ between the labour movement in buyers’ countries, supplying countries, and countries where the manufacturing capital comes from, that can be an effective measure to control ATNCs. However, the new framework of solidarity does not automatically guarantee a successful build up of a new labour movement by integrating these different attempts. Some issues are involved in this scepticism.
The consumer movement, working toward building up solidarity between western civil organisations and southern workers’ organisations, takes particular historical forms, which include 1) starting with either an incident in a factory or findings of external monitoring groups 2) factory workers or external labour groups’ calls for solidarity 3) international organisations tracing down the buyers 4) putting pressure on the buyers by manipulating the public media, boycotts, or other campaign methods (such as protest letters) thereby pushing them to pressure the suppliers 5) making them sit with worker representatives 6) trying to guarantee long-term solutions and reinstatement of dismissed workers’ leaders. The particular nature of consumer campaigns, which can be identified as ‘Action Alert Brand Targeting Campaign’ (AABTC), is that the ultimate pressure point is the brand names’ and suppliers’ compliance with codes of conduct of the buyers targets individual factories. The most recent development in the consumer movement emphasises workers’ participation. However, workers’ participation in the campaign has been understood merely as collecting workers’ demands from workers’ organisations, so that workers’ demands are the basis of campaign demands. The limited evolution of the concept of workers participation in the campaign framework is not a technical mistake but an inherent problem in the AABTC approach.

AABTC has a lot of wrong assumptions in itself. The reason why AABTC has become so powerful a method to challenge worsening working conditions in labour intensive industries, although there are as many successful cases of local level struggle and horizontal solidarity, is that the persuasive ‘leverage argument’ that, in the case of the lack of organised workforce in developing countries, the brand names have the most effective leverage over the labour conditions in the suppliers’ factories. The ‘leverage’ argument has developed on the basis of the highly ‘visible’ absolute domination of commercial capital over productive capital in the garment sector, on the one hand, and the domination of productive capital over the workers in developing countries, on the other. The practical answer to the conditions at the strategy level is that targeting brands and retailers is one effective way of making changes in the south. However, the absolute domination that identifies commercial capital as having the key to the solutions works ‘only’ when comparing one individual commercial capital such as Nike with one individual productive capital, such as a
Taiwanese-owned garment factory employing 2,000 workers. Indeed, in reality Nike can exercise huge power over individual suppliers. However, by thinking so, we are actually narrowing down our targets to some individual productive capitals while the beneficiary of the campaign becomes ‘individual’ workers, not the collective of them. In fact, the argued effectiveness of AABTC is based on the illusion of some cases in which individual commercial capital could affect individual productive capital and improve conditions or save the jobs of individual workers, rather than scientific evidence of the existence of the leverage of commercial capital over the performance of productive capital. This illusion is strengthened by the examples of commercial capital, i.e. one or two particular brands attempting to talk to consumer organisations and pressure their ‘individual’ suppliers when they are closing down production facilities in one production country and moving to the next or suppressing labour activism in the factory. However, previous examples have shown that either, a) in so-called ‘good examples’ the individual brands disclaim their responsibility by saying that it is the suppliers’ commercial decision and has little to do with union busting whatsoever; or b) that they control the moving-away suppliers (due to pressure and the need to show ‘goodwill’) without committing themselves or being really ‘forced’ hard enough to change the fundamental nature of capital, which is ultimate profit maximisation. The leverage is there but only as an illusion - good enough to show their goodwill, make some changes in the individual firms without harming their commercial interest in general. To be fair, we cannot deny individual country or organisation’s experience of having some sort of protection of local organising when brands or the campaign steps in. We can’t, by then going to the other extreme, just assume all local groups are benefiting from the campaign. At the individual level, AABTC can be argued as effective. However, if we elevate the discussion to the level above individual capitals and workers, a real problem of this strategy emerges.

The intrinsic limit of the AABTC is that it has no room for ‘class’, either capital or labour, which exist as a sum of individuals, some of them are good and some of them are bad. This understanding of the relations between different fragments of capital or/and workers is prevalent in the consumer movement. It makes it possible to comment: ‘A brand name is much better than B’, ‘the compliance officer in C company really works
hard for workers’. Within this framework, the reality is always us being divided and ruled by companies improving working conditions in one factory but not in another, working with one group but not another, and by funding only visible measurable programmes and social dialogue with western stakeholders. The very limited success of AABTC in encouraging solidarity between workers in the south shows that building a campaign framework on individual success stories cannot be a ‘movement’ that essentially presupposes workers in general as a collective mass, the collective subjectivity of the social change, the basis of which is subsumption of living labour to dead labour and abstract labour. In this sense, AABTC cannot be the ultimate solution since it is different from movement building. The strategy of a radical consumer movement has to be reviewed with the question about how to promote sustainable workers’ organising in the producing countries during and after the campaign, and the framework of solidarity should be changed; not integration of other groups into the consumer campaign framework. Rather, triangle solidarity has to be utilised to build up the basis of a new framework that incorporates the radical consumer movement, the Asian labour movement, and most of all the workers. The triangle solidarity should be a strategy through which ‘grass-roots activism’ turns into a ‘solidarity-based campaign’ and vice versa. This can only be based on a new labour activism in the region.

This new local labour activism as a basis of triangle solidarity and a framework to control ATNCs has a rather more general implication for our attempt to rebuild the labour movement in Asia. Then what kind of labour activism can be basis the of triangle solidarity? Perhaps, the direction of the new labour activism can be summarised as labour activism that moves as capital moves, i.e. the social relations moves. The current situation of the role of the labour movement in the wider movement against capital mobility shows that the labour movement is reluctant, or at least too slow, to move. Mobile capital-driven formation of capitalist social relations, massive increase in the formal and informal capitalist labour in Asian developing countries, as well as the important role of ATNCs in shaping the nature of capitalist social relations and lessening pressure on capital in developed countries, have an important implication for the labour movement in Asia and elsewhere. However, it is not the labour movement in Asia but the so-called social movement that dominates the anti-capital mobility campaign.
8. Toward a new labour activism in Asia: overcoming the old labour movement and the new social movement

As many countries opened their investment market to foreign capital and experienced difficulty in making use of foreign capital to promote national development, regulation of global capital became a hot global issue taken by various social movements. Nevertheless, criticism of FDI by the social movement, caricatured by the anti-WTO movement, seems to fail to put ‘labour’ at the centre of its criticism. Most critical discussion about foreign investment is focused on the volatile and speculative nature of portfolio investment and often concludes by calling for more regulation over the flow of speculative portfolio investment. In this criticism, labour is largely neglected since FDI is categorised as long-term investment, which can be constructive in certain cases. A more critical approach to capital mobility can be found in the other school of critique of capital flow. This school argues that FDI can be as harmful as speculative capital in that FDI reduces the range and spaces for developing countries to manoeuvre investment and industrial policies. Therefore, the core argument of capital control is that the developing countries must get back the regulative power not only over portfolio investment but also over FDI (Singh 2001). It is also important for them to reorient national development regimes toward ‘a more inner-directed pattern of growth that would entail, in many ways, a process of globalisation’ (Bello et al. 2000).

However, discussions about capital control from both schools have little to do with the relation between the movements of capital and labour. These discussions most of all involve the relations either between different forms of capital (the first school) or at best between different nationalities of capital (the second school). In other words, problems of capital movement have been discussed from the perspective of ‘national economy’ or a particular form of capital (usually in favour of manufacturing by those who argue for more regulation over financial flow). Accordingly, the argument about whether or not controlling capital flow, including FDI, has been dominated by competition between different sorts of capitals and nations. The strategy for controlling capital incorporates the workers largely as citizens of nation states, who share the same destiny as their mother countries, rather than as workers that have the same interests as workers in different countries, as it is recognised as a national issue, rather than inter-
national labour issues. Indeed, foreign investment matters, however it matters not only because it deteriorates national economic situations in general or nations’ economic independence but also more importantly because FDI is a form of the movement of social relations.

The major issue here is that capital that moves is ‘foreign’ capital, rather than the movement of capital that reorganises the social relations of labour. What is important for those critiques is whose money it is, not the money itself. However, capital movement is understood not as ‘investment’ only, rather as the movement of social relations that subjects millions of workers into a particular world of capitalist labour and thereby creates particular sociality through which human lives are subjected to the accumulation of capital, in the valorising process. It is in this sense that without the accompanying workers’ struggle challenging the way in which capital moves, efforts to control FDI will remain as an attack on a phenomenal form of the development and therefore there will be no way to ensure the impact of foreign investment. It is in this sense also that the issue of FDI is not a mere investment issue but an important issue of the labour movement that needs to be tackled by labour in both North and South.

The fact that labour is not a sectoral issue or part of a social issue related to capital movement, but the alpha and omega of the movement of capital, has been largely neglected by the labour movement itself. In fact, it is the labour movement that has undermined the centrality of labour in society and changed it into a partial social issue by narrowing down the concept of labour. This is the most serious problem of the dogmatic traditional trade union movement. The dogmatic trade union movement can be identified firstly by its narrowed-down concept of capitalist labour as ‘factory labour’, which results in excluding from its organising effort a large part of the working population newly integrated into expanding (through the movement of capital) capitalist social relations – usually women and informal labourers – the people doing capitalist work within non-direct employment relations. This dogmatism is based on neglecting the expansion, recomposition, and metamorphosis of capitalist labour in accordance with the movement of capital and vice versa. While the new social movement says farewell to the working class since it believes that the contradiction of capitalist labour is largely resolved and its centrality as an insubordinate social force has gone, the traditional trade union movement tends
to believe that the contradiction of labour is still central but only within the factory boundaries, – in fact only the members of a particular union within the factory boundaries – and within the immediate employment relations. By adopting this perspective, they tend to contain labour as a force of social change only within the immediate productive area, the existing hierarchical union structure, bargaining structure and so on, naturalising certain historical methods of the labour movement and thereby denying recognition of newly emerging creative forms and subjectivities of the struggle of living labour.

Worse still, this dogmatism appears also in their attempts to ‘ultimatis’ or ‘essentialise’ ‘trade unionism’, considering a trade union as the ‘exclusive’ vehicle to overcome the contradiction of capitalist labour without seriously addressing the origin of the failure and retreat of the trade union movement over recent decades. This ultimatisation again contributes to precipitating an inward-looking characteristic of the movement, making it difficult for them to freshen themselves and bringing rigidity in activities and views, rather than widening the horizon of the labour movement by working with other forms of movement that pursues non-capitalist alternative development (which is to be part of the labour movement). In many countries, not overcoming the self-interest-centric approach makes them take a desperate stand by essentialising its own organisation as ‘the’ vehicle of change always, making it even more difficult to organise open-minded co-operation with other organisations. The apparent form and result of the dogmatic unionism is found in many international trade unions, whose grand narrative only remains while the substance of the spirit of early trade unionism is emptied. This dogmatism made it impossible for them to overcome the divided interests between production and non-production workers, formal and informal workers, employed and unemployed, and the North and South, as well as deeply rooted social partnership through which unions become a part of the reproduction of social domination of capital and concentrate on defending its existing share of the pie, and abandoning solidarity.

The new labour activism can be developed into a multi-faceted movement by challenging labour issues not as a partial social issue but as a core issue of the development of human society. In other words, this is about moving the labour movement beyond ‘immediate’ labour issues, realising
finally the centrality of labour in social change. It is important and timely for the labour movement to recognise *society, not the factories, as a place where organising can challenge capital*, not because the community is where factory workers are living, but because the increasing movement of capital integrates all aspects of society into its logic of accumulation and extraction of abstract labour. Working at the community level indicates a wider approach to ‘labour’, which will incorporate unwaged labour as well as waged labour, i.e. formal and informal labour. This social-labour approach essentially enables us to view labour issues as development issues, not in the sense that labour is a factor of the development-human resource for the development, but in the sense that labour is ‘the’ development, the idea of which can challenge the existing TINA (there is no alternative) approach to development and labour. This means that the social relations of ‘labour’ are the way in which the particular nature of the development is formed. Labour problems are not something that can be overcome within the existing development strategy, and vice versa.

Local and national network building and regional co-operation strategy can underpin international solidarity, which is driven not by skilled workers, or humungous international confederations or male workers, but by all workers whose sociality is attached to machine-like abstract labour extraction. Within this wider coalition, we will work with groups at different levels that recognise 1) the centrality of labour in understanding the contradictory development of contemporary society and identifying subversive social forces for change, 2) the importance of workers self-organising to bring the change, 3) the importance of supporting organising initiated by workers in non-traditional forms of capitalist work (e.g., informal workers) and by under-empowered groups (e.g., women workers), 4) the importance of trade unions as a major (but not exclusive) vehicle for change, and 5) the importance of co-operation with the wider social and political movement that pursues alternative development, not on the basis of meta-analysis and grand narratives, but on the basis of a clear common agenda and practical aims. It is really important for us to cooperate openly with existing labour networks and other trade union initiatives which for sure have been working on building up local and regional labour movements and agree upon the core aims of the movement building.
Small initiatives at local and national levels, as well as regional discussions and sharing ideas and experiences can be developed in co-operation between all major networks in the region under the principle of transparency and a democratic decision-making process. Relations between existing labour networks have to be re-built, based on the agreement that horizontal solidarity-building in Asia preconditions the better international cooperation and ultimately bringing a new labour movement we can all work on together in the future. The bargaining power should be set up between united local unions that can overcome the division of interests between different production countries vis-à-vis mobile capital. It will work only if that is a real alliance that can rock production (of a particular transnational supplier or brand/retailer), giving them nowhere to go. In this sense, it is increasingly necessary for us to work with not only grass-roots labour NGOs (as we did before) but also a wider range of trade unions, if not confederation, provincial, local, and community levels. By starting from working with the local labour movement, we can change the attitude of the international trade union movement, revealing the frustrating reality that international trade unionism did and continues to juxtapose grass-roots programmes against their programmes and other ‘corporate social responsibility’ initiatives. This will also contribute to stop the consumer movement from following the same steps that international trade unionism had – a complete institutionalisation of the movement. This is the way to build triangle solidarity.

**Conclusion**

In an attempt to address the way in which the labour movement can control Asia-originated capital, we took a long detour. We started with the concept of capital as a form of social relations through which a particular social labour exercises absolute control over human lives. However, at the same time we saw that subordinating living labour to abstract labour puts capital under constant pressure to move. As it moves it brings huge changes in the way people live. This is not only about economic life, but also the way people connect with each other and becoming social beings. Indeed, this is not only a certain number of so-called ‘benefiting’ countries and regions, but all over the place that capital inscribes its trace. Asian direct investment in Asia’s developing countries has the same impact. Indeed, its distinctive feature is that it brought methods to extract absolute surplus
value while it functions as a provider for cheap products so that capital in developed countries enjoys the impact of extracting relative surplus value. Controlling ATNCs is therefore not only a task for the Asian labour movement but also that of the global labour movement. However, unfortunately there is no global labour movement in reality. From our long discussion we can conclude that developing a globe-wide solidarity slowly but consistently will work toward a new labour activism in Asia. By doing so, we will get closer to a new global triangle solidarity that can be the way of killing TNCs softly but permanently.

**Notes**

1 This article draws on ideas from many other articles and presentations written by myself. They appeared in different publications by the ATNC Network. Many comments on different papers and presentations were vital in articulating my arguments in this article. Special thanks to Monina Wong, Dennis Arnold, Iman Rahmana, and Cecile Tuico for their quality comments on many occasions.

2 In capitalist society, ‘value’ is recognised in terms of amount of money and socially valuable things exist in the form of commodities. A grand mom’s 100 years old watch might be very valuable to her grandson, but not to society. It is not until people find that the watch is made of gold or expensive material that the watch gains social value. The sociability of useful things, including the sociability of human labouring practice, is determined by its ‘value’, which can be represented by a certain amount of money in capitalist society. In this sense, the essence of capital is value. And social relations of value is the most fundamental distinction of capitalist society as well as the ultimate basis of the mobility of capital (Marx 1990: 174).

3 These social relations, as Marx explains in his exposition of the value-form of social relations, appear to be relations between commodities containing value, the nature of which is abstract labour by producers. Abstract labour means that it is not important who does that particular labouring activity. Although value is on the basis of the relation between commodity producers and owners, these relations between people are replaced by relations between things: commodities. Once money functions fully and starts mediating exchange, this fetishism gets worse, hiding or placing all the trace of the relations between human behind the relations between things. This is called commodity and money fetishism. Capitalist social relations appear in the form of relations between things. Worse still, these social relations between things become the only reality that every one faces everyday. All the business, state policies and social ideas are built up on the basis of this false-but-real sociality (Rubin 1990: 6).

4 It is funny when TNCs are complaining about the ‘corruption cost’ in develop-
ing countries because it is nothing compared with what they legally pay to political parties if operating in developed countries. Although corruption certainly destroys people’s lives in developing countries, TNCs’ complaints are nothing but comedy.

5 As we saw above, the movement of capital does not only mean the geographical movement of money. It also involves the changing social relations through which a particular sort of social labour is imposed. The movement of labour does not mean ‘migration’ only. Migration is only a part of the way in which labour ‘moves’. Therefore, the usual argument that capital moves but labour is stuck is a very narrow understanding of the movement of capital as well as labour.

6 For example, 67.2 percent of a total 18,068 Korean foreign direct investments went into Asia from 1963, whereas the amount of all investment in Asia accounts for about 40 percent of total investment abroad, reflecting the small and medium size enterprises (SME) driven investment to Asian developing countries. This indicates concentration of investment in labour intensive industries.

7 One might say that these Asian corporations are undermining western capital’s profit, rather than contributing to it, by showing examples of garment making sweatshops in developed countries. However, a simple comparison between profit lost by US garment producers and the saving of the US population out of cheap garment products from Asia answers it. Indeed, if we think workers in both places have to be the winners, it is easy to figure out that these ATNCs enable US garment producers to employ underclass workers, exploit them, and make profit out of them. They are competing with each other. But they are complementing each other in exploiting labour. Both are of the same sort, putting their own risks from competition with each other on workers in both developed and developing countries.

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CHAPTER 2

JAPAN’S RECENT FDI: SPECIFICALLY IN THE MANUFACTURING SECTOR IN ASIA

Kaneko Fumio

Introduction

It is an object of this report to overview the recent trends of Japan’s foreign direct investment, especially in the manufacturing sector in Asia.

As a result of the ongoing evolution of neoliberal globalisation, we have seen some Free Trade Agreements (FTA) be concluded in order to form an economic community in East Asia. This movement corresponds to the expansion of the EU in Europe and the formation of the Free Trade Area of the Americas (FTAA) in North and Latin America. The world economy will develop in the future with these three economic spheres juxtaposed to each other. China, developing remarkably, is close to catching up with Japan, an economic giant, and it is assumed that they will vie more fiercely with each other over hegemony in East Asia.

The formation of an East Asian community is nothing but a crossover and gradual integration of commodity, capital, and labour markets in the region, which will inevitably influence the lives of people living there.

Table 1. Japan’s direct foreign and domestic investments (US$ million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Foreign</th>
<th>Domestic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>4,693</td>
<td>299</td>
</tr>
<tr>
<td>1985</td>
<td>12,217</td>
<td>930</td>
</tr>
<tr>
<td>1990</td>
<td>56,911</td>
<td>2,778</td>
</tr>
<tr>
<td>1995</td>
<td>50,694</td>
<td>3,837</td>
</tr>
<tr>
<td>1996</td>
<td>48,019</td>
<td>6,841</td>
</tr>
<tr>
<td>1997</td>
<td>53,972</td>
<td>5,527</td>
</tr>
<tr>
<td>1998</td>
<td>40,747</td>
<td>10,469</td>
</tr>
<tr>
<td>1999</td>
<td>66,694</td>
<td>21,510</td>
</tr>
<tr>
<td>2000</td>
<td>48,580</td>
<td>28,276</td>
</tr>
<tr>
<td>2001</td>
<td>31,606</td>
<td>17,405</td>
</tr>
<tr>
<td>2002</td>
<td>37,007</td>
<td>18,315</td>
</tr>
</tbody>
</table>

Source: JETRO, JETRO White Paper on Trade and Investment, and others
It is thus another object of the report to examine the formation of the East Asian community through investigating how Japanese companies have been advancing into Asia.

**General trends**

Japan’s foreign direct investment until the early 1980s was less than $10 billion per year. In 1984 investment reached $10 billion, rocketing to...

**Sustained expansion of foreign direct investment**

Table 2. Japan’s direct foreign investment per region, per country

<table>
<thead>
<tr>
<th>Region</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>$1.360 billion</td>
<td>$2.271 billion</td>
<td>$2.127 billion</td>
<td>$1.221 billion</td>
</tr>
<tr>
<td>China</td>
<td>$322 million</td>
<td>$441.1 million</td>
<td>$441.1 million</td>
<td>$441.1 million</td>
</tr>
<tr>
<td>India</td>
<td>$32 million</td>
<td>$461.5 million</td>
<td>$461.5 million</td>
<td>$461.5 million</td>
</tr>
<tr>
<td>Japan</td>
<td>$32 million</td>
<td>$461.5 million</td>
<td>$461.5 million</td>
<td>$461.5 million</td>
</tr>
<tr>
<td>Korea</td>
<td>$32 million</td>
<td>$461.5 million</td>
<td>$461.5 million</td>
<td>$461.5 million</td>
</tr>
<tr>
<td>Malaysia</td>
<td>$32 million</td>
<td>$461.5 million</td>
<td>$461.5 million</td>
<td>$461.5 million</td>
</tr>
<tr>
<td>Philippines</td>
<td>$32 million</td>
<td>$461.5 million</td>
<td>$461.5 million</td>
<td>$461.5 million</td>
</tr>
<tr>
<td>Singapore</td>
<td>$32 million</td>
<td>$461.5 million</td>
<td>$461.5 million</td>
<td>$461.5 million</td>
</tr>
<tr>
<td>South Korea</td>
<td>$32 million</td>
<td>$461.5 million</td>
<td>$461.5 million</td>
<td>$461.5 million</td>
</tr>
<tr>
<td>Taiwan</td>
<td>$32 million</td>
<td>$461.5 million</td>
<td>$461.5 million</td>
<td>$461.5 million</td>
</tr>
<tr>
<td>Total</td>
<td>$32 million</td>
<td>$461.5 million</td>
<td>$461.5 million</td>
<td>$461.5 million</td>
</tr>
</tbody>
</table>

Source: Ibid.
$67.5 billion by 1989. Table 1 shows that investment remained between $30 billion and $50 billion since then. This is because the Japanese economy has slumped ever since the so-called bubble economy collapsed. From a global point of view, nonetheless, it is not right to say that the amount of investment is at a low level, going back to the early 1980s. The outstanding amount of Japan’s foreign direct investment as aggregated on an international balance of payments was $249.1 billion at the end of 1999, reaching $305.6 billion at the end of 2002, an increase of more than 20 percent in these three years, and foreign direct investment is said to be basically expanding in a sustainable manner.

Table 1 shows that foreign direct investment in the Japanese market recorded a sharp increase. Inward foreign investment was low initially, but it exceeded $10 billion in 1998, marking more than 50 percent over foreign direct investment. It suggests that the Japanese economy is largely globalised.

Trends per region, per industry

Table 2 shows how foreign direct investment has changed lately per region and per country. Although there is a certain fluctuation per year, it is known that direct investment in Europe accounts for 30 to 40 percent, the highest, followed by 20 to 30 percent in North America, and approximately 10 to 20 percent in Asia and Latin America. According to the accumulated amounts of investment by the end of 2002, Asia recorded 17.4 percent, North America 39.1 percent, Latin America 12.9 percent, and Europe 23.4 percent, which shows North America ranked relatively low while Europe marked an increase. This is because large-scale investment was made in information communications and automobile industries in Great Britain and the Netherlands.

In Asia, China, South Korea, Taiwan, Hong Kong, and Singapore (NIEs4), and Thailand, the Philippines, Indonesia, and Malaysia (ASEAN4) are Japan’s main direct investment target countries.

Table 3 shows the trends according to type of industry. In 1999 a large-scale investment in electric machinery and food allowed the manufacturing sector to account for a larger part. In other years, however, more investment was made in non-manufacturing sector, reflecting the movements in the financial and insurance industries. The trend in the elec-
Table 3. Japan’s direct foreign investment per type of industry
(billion yen, %)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>4,722(63.2)</td>
<td>1,293(24.0)</td>
<td>1,772(44.4)</td>
<td>1,776(40.2)</td>
<td>37,744(32.5)</td>
</tr>
<tr>
<td>Food</td>
<td>1,663(22.3)</td>
<td>29(0.50)</td>
<td>103(2.60)</td>
<td>27(0.60)</td>
<td>3,312(2.90)</td>
</tr>
<tr>
<td>Fibre</td>
<td>31(0.40)</td>
<td>25(0.50)</td>
<td>25(0.60)</td>
<td>23(0.50)</td>
<td>1,559(1.30)</td>
</tr>
<tr>
<td>Lumber pulp</td>
<td>13(0.20)</td>
<td>16(0.30)</td>
<td>92(2.30)</td>
<td>16(0.40)</td>
<td>1,102(0.90)</td>
</tr>
<tr>
<td>Chemical</td>
<td>189(2.50)</td>
<td>212(3.90)</td>
<td>187(4.70)</td>
<td>234(5.30)</td>
<td>4,899(4.20)</td>
</tr>
<tr>
<td>Fer./non-ferrous</td>
<td>163(2.20)</td>
<td>78(1.40)</td>
<td>80(2.00)</td>
<td>77(1.70)</td>
<td>3,578(3.10)</td>
</tr>
<tr>
<td>Machinery</td>
<td>111(1.50)</td>
<td>156(2.90)</td>
<td>153(3.80)</td>
<td>157(3.60)</td>
<td>3,167(2.70)</td>
</tr>
<tr>
<td>Electricity</td>
<td>1,825(24.4)</td>
<td>338(6.30)</td>
<td>482(12.1)</td>
<td>477(10.8)</td>
<td>10,089(8.70)</td>
</tr>
<tr>
<td>Transport</td>
<td>533(7.10)</td>
<td>347(6.40)</td>
<td>543(13.6)</td>
<td>599(13.6)</td>
<td>5,894(5.10)</td>
</tr>
<tr>
<td>Non-manufacturing</td>
<td>2,725(36.5)</td>
<td>4,064(75.2)</td>
<td>2,185(54.7)</td>
<td>2,604(59.0)</td>
<td>76,518(65.9)</td>
</tr>
<tr>
<td>Mining</td>
<td>103(1.40)</td>
<td>71(1.30)</td>
<td>60(1.50)</td>
<td>42(1.00)</td>
<td>5,294(4.60)</td>
</tr>
<tr>
<td>Commerce</td>
<td>445(6.00)</td>
<td>377(7.00)</td>
<td>328(8.20)</td>
<td>400(9.10)</td>
<td>11,772(10.1)</td>
</tr>
<tr>
<td>Finance/insurance</td>
<td>1,103(14.8)</td>
<td>934(17.3)</td>
<td>1,346(33.7)</td>
<td>1,560(35.3)</td>
<td>23,261(20.0)</td>
</tr>
<tr>
<td>Service</td>
<td>495(6.60)</td>
<td>195(3.60)</td>
<td>194(4.90)</td>
<td>218(4.90)</td>
<td>11,830(10.2)</td>
</tr>
<tr>
<td>Transport</td>
<td>309(4.10)</td>
<td>2,418(44.9)</td>
<td>168(4.20)</td>
<td>183(4.10)</td>
<td>8,213(7.00)</td>
</tr>
<tr>
<td>Real estate</td>
<td>237(3.20)</td>
<td>442(0.80)</td>
<td>70(1.80)</td>
<td>176(4.00)</td>
<td>12,774(11.0)</td>
</tr>
<tr>
<td>Grand total</td>
<td>7,470(100.0)</td>
<td>5,385(100.0)</td>
<td>3,992(100.0)</td>
<td>4,417(100.0)</td>
<td>116,152(100.0)</td>
</tr>
</tbody>
</table>


Electric machinery and transportation machinery industries is influential in the manufacturing sector. The accumulated amounts of investment show that the financial and insurance industries ranked first, followed by the commercial, service, and real estate industries while the electric machinery industry came first in the manufacturing sector, leaving behind the transportation machinery, chemical, ferrous/non-ferrous, food, and general machinery industries.

See Table 4 and Table 5 where the aggregate amounts of investment, as reported, solely in the manufacturing sector are itemised by region and by type of industry, excluding withdrawal of investment made. They are helpful, however, in showing a certain tendency in investment in the manufacturing sector. Table 4 is drawn up according to the number of investments. The number of electric machinery industry investments totalled more than 5,000 and the fibre, general machinery, ferrous/non-ferrous, and chemical industries were approximately 3,000 Asia came first by re-
region in every type of manufacturing sector, accounting for 50 percent or higher generally. In particular the fibre industry reached 73.3 percent.

On the basis of amounts of investments made Table 5 shows that electric machinery ranked first per type of industry, followed by transportation machinery, chemical, ferrous/non-ferrous, food, and general machinery respectively. Compared with the number of investments, the average investment scale is highest in the transportation machinery industry and lowest in the fibre industry. It is to be noted that North America ex-
ceeded Asia by region because the scale of investment in North America is bigger than that in Asia. Asia comes first only in such types of industry as fibre and ferrous/non-ferrous. For Japan, Asia is a region where small-scale investment is concentrated.

**Investment and employment in the manufacturing sector in Asia**

The above is a sketch of macro trends according to data prepared by the Ministry of Finance. In order to look into the actual condition of business activities, data drawn up by the Ministry of Economy and Industry seems to be more useful. In the 1970s the Ministry started conducting annual written surveys of Japanese companies about their business activities in overseas markets. The surveys show us what and how Japanese transnational corporations do overseas. It is to be remembered, nonetheless, that the finance/insurance and real estate industries are not covered by such surveys.

Trends in investment and withdrawal of investment executed

The number of Japan’s companies newly incorporated abroad increased until 1995, but it has been decreasing since then. Meanwhile more and more Japanese companies retreated from overseas markets. The number of companies newly incorporated abroad has been smaller since 2000 than that of companies withdrawing from overseas. The biggest reason for withdrawal is integration/cancellation of business bases resulting from re-organisation and reviewing of management resources. It can be said that Japanese companies are at a stage of restructuring and consolidating overseas business. Withdrawals are made in the form of liquidation, sale, or reduction of investment ratio, which will inevitably result in the dismissal or reduction in the number of employees.

According to the survey, the number of Japan’s companies incorporated abroad was 12,476 as of March 2002, and Table 6 shows such companies per region. As a whole, Japan’s companies incorporated abroad are almost at an equal level in the manufacturing and non-manufacturing sectors. Only in Asia is the manufacturing sector dominant. This trend is much more apparent for ASEAN countries, Thailand, Philippines, Indonesia, and Malaysia, and China than for newly industrialising economies (NIE) (South Korea, Taiwan, Hong Kong, and Singapore). ASEAN and China are the bases for Japan’s manufacturing transnational corporations.
Of the 6,522 companies in the manufacturing sector, electric machinery accounts for 22.6 percent, transportation machinery 16.4 percent, chemical 14.8 percent, and general machinery 13.9 percent.

Trends in sales and profit

Sales amounts by Japan’s companies incorporated abroad are increasing annually, and were expected to reach 140 trillion yan in 2002. The manufacturing sector accounts for 68 trillion yan. Transportation machinery accounted for 24.9 trillion yan (36.4 percent), and electric machinery 22 trillion yan (32.1 percent) by type of industry, followed by 5.6 trillion yan by chemical (8.2 percent), 4.7 trillion yan by general machinery (6.8 percent) and 3.2 trillion yan by ferrous/non-ferrous (4.6 percent).

The rate of overseas production (rate of sales amounts by Japan’s companies incorporated abroad over sales amounts by Japan’s domestic companies) is increasing annually. 6.8 percent in 1991 in the whole manufacturing sector rose to 16.7 percent in 2001. In particular, transportation machinery enjoyed a high increase to 44.1 percent and electric machinery to 27.6 percent. These two industries ranking highest in sales amounts are naturally at a higher ratio of overseas production.

<table>
<thead>
<tr>
<th>Table 6. No. of Japan’s companies incorporated abroad (to March 2002) (No. of companies, %)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Asia</td>
</tr>
<tr>
<td>China</td>
</tr>
<tr>
<td>NIEs3</td>
</tr>
<tr>
<td>ASEAN4</td>
</tr>
<tr>
<td>N America</td>
</tr>
<tr>
<td>Europe</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>


Notes 1: Finance, insurance and real estate are not included.
2: China includes Hong Kong.
3. NIEs 3 = Korea, Taiwan and Singapore.
4. ASEAN 4 = Thailand, the Philippines, Indonesia and Malaysia.

Of the 6,522 companies in the manufacturing sector, electric machinery accounts for 22.6 percent, transportation machinery 16.4 percent, chemical 14.8 percent, and general machinery 13.9 percent.
Let us look at the composition of sales amounts in 2002 per region. North America comes first with sales amounts of 29.4 trillion yan (42.9 percent), followed by Asia with 23.0 trillion yan (33.6 percent) and Europe with 11.8 trillion yan (17.2 percent). In Asia ASEAN4 will reach with 10.2 trillion yan (14.9 percent), China with 6.1 trillion yan (8.9 percent) and NIEs3 (South Korea, Taiwan, Singapore) with 5.6 trillion yan (8.2 percent).

In general, the ordinary profits of Japan’s companies incorporated abroad are basically increasing, but there are heavy fluctuations each year. The ordinary profit recorded 2.27 trillion yan (1.15 trillion yan by the manufacturing sector) in 2001, a decrease of 27.7 percent (33.6 percent by the manufacturing sector) over the previous year. By type of industry, three industries, transportation machinery, electric machinery, and chemicals, earned around 70 percent of the whole manufacturing sector. According to the average profit for the past three years by region, Asia marked 707 billion yan (50.2 percent), North America 515 billion yan (36.6 percent), and Europe 73 billion yan (5.2 percent). In Asia, ASEAN4 gained 239 billion yan (17.0 percent), China 203 billion yan (14.4 percent), and NIEs3 244 billion yan (17.3 percent).

As a result, the average ratio of ordinary profit over sales amount for the past three years was the highest in Asia, amounting to 4.2 percent, higher than that of domestic companies with 3.2 percent. In contrast, the ratio accounted for by North America was 2.6 percent, and only 0.9 percent by Europe. It suggests that Japan’s transnational corporations in the manufacturing sector profited from Asia in the most effective manner. One reason for this may lie in the exploitation of low-wage labour. The next step is to look into the trends of employment.

Trends in employment

The number of employees in Japan’s companies incorporated abroad recorded 1.404 million in 1992, increasing to 3.453 million in 2000. It decreased in 2001 to 3.175 million, but increased 2.26 times over the previous 10 years, corresponding well with the increase in ratio of overseas production. The number of employees by the manufacturing sector amounted to 1.118 million in 1992, recording a 2.36 times growth to 2.633 million in 2001.
Changes in the number of employees per region from 1992 to 2001 were such that 675,000 (48.1 percent) employed in Asia rose to 1.923 million (60.6 percent), and 364,000 (25.9 percent) to 683,000 (21.5 percent) in North America, and 209,000 (14.9 percent) to 358,000 (11.3 percent). The increase in Asia was outstanding. 1.718 million workers (65.2 percent) were employed by the manufacturing sector in Asia, as shown in Table 7, followed by 490,000 (18.6 percent) in North America, 265,000 (10.1 percent) in Europe, and 160,000 (6.1 percent) in other regions. The regional composition by investment amount and by number of investments shows that many more workers were employed in Asia, where labour-intensive business is allegedly widespread. Of the Asian countries, ASEAN4 for 846,000, China 596,000, NIEs3 185,000, indicating that more workers were hired in ASEAN4 and China.

The average number of employees per company in the manufacturing sector is 419 on the whole, 438 in Asia, 409 in North America, and 335 in Europe (per region). This tells us again that more workers are employed in Asia: 565 in ASEAN4, 441 in China, and 213 in NIEs3. The number of employees in ASEAN4 and China is higher than NIEs3.

Changes in 1992 to 2001 per type of industry in the manufacturing sector show that 395,000 (35.3 percent) employees increased to 940,000

**Table 7. No. of employees at Japan’s companies incorporated abroad**
(to March 2002) (No. of employees, %)

<table>
<thead>
<tr>
<th>Region</th>
<th>Manufacturing</th>
<th>Non manufacturing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>1,718 (65.2)</td>
<td>205 (37.8)</td>
<td>1,923 (60.6)</td>
</tr>
<tr>
<td>China</td>
<td>596 (22.6)</td>
<td>63 (11.6)</td>
<td>659 (20.8)</td>
</tr>
<tr>
<td>NIEs3</td>
<td>185 (32.1)</td>
<td>45 (30.3)</td>
<td>230 (7.20)</td>
</tr>
<tr>
<td>ASEAN4</td>
<td>846 (32.1)</td>
<td>86 (15.9)</td>
<td>932 (29.4)</td>
</tr>
<tr>
<td>N America</td>
<td>490 (18.6)</td>
<td>193 (35.6)</td>
<td>683 (21.5)</td>
</tr>
<tr>
<td>Europe</td>
<td>265 (10.1)</td>
<td>93 (17.2)</td>
<td>358 (11.3)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,633 (100.0)</strong></td>
<td><strong>542 (100.0)</strong></td>
<td><strong>3,175 (100.0)</strong></td>
</tr>
</tbody>
</table>

*Source: The Ministry of Economy and Industry, ibid.*

*Notes 1: ibid.*

*2: ibid.*
(35.7 percent) in the electric machinery industry, and 237,000 (21.2 percent) to 678,000 (25.8 percent) in the transportation machinery industry. The number of workers employed by these two industries accounted for 60 percent of the total number of employees in the manufacturing sector overseas. According to the details of employment in the electric machinery industry per region in 2001, 739,000 (78.6 percent) worked in Asia, 96,000 (10.2 percent) in North America, and 81,000 (8.6 percent) in Europe. The number of employees in Asia is overwhelmingly high. In the transportation machinery industry 325,000 (47.9 percent) worked in Asia, 206,000 (30.4 percent) in North America, and 68,000 (10.0 percent) in Europe. Although North America recorded a higher number, it was not able to catch up with Asia.

As seen above, transportation machinery and electric machinery, Japan’s leading industries, have shifted their investment and employment overseas, mainly to Asian countries, without losing time, but it should be understood that such a shift has accompanied restructuring domestic companies on a large scale. Nissan Motors, for example, imposed a revival plan that closed domestic plants, and executed a large-scale investment in the Netherlands, France, the US, and China. Leading companies in the electric machinery industry started restructuring in 2001, without any exception, after the IT bubble economy had collapsed. Toshiba reduced the number of employees from 53,000 in March 2001 to 40,000 in two years, and Hitachi from 54,000 to 42,000. Toshiba is planning, together with Matsushita, to build the world’s biggest thin film transistor (TFT) liquid crystal plant (producing liquid crystal display flat screens, also known as active matrix LCDs) in Singapore. SONY announced in October 2003 a plan to cut 13 percent (20,000 employees) of its labour force and to build, with Samsung Electronics, the newest liquid crystal panel plant in Korea.

As Japan’s manufacturing TNCs advance into Asia, they change positions constantly, domestic employment in Japan has inevitably stagnated and employment in many parts of Asia will become unsteady. Attention must be paid to FTAs in East Asia that are already under way by governmental negotiations because they contain some items which will provide transnational corporations with a better investment environment while driving Asian workers into a more disadvantageous working environment.
Conclusion

Japan’s foreign direct investment is sustaining a high level of $30 to 50 billion per year.

The accumulated investments executed in the manufacturing sector show that on the basis of investment amounts North America comes first, followed by Asia by region, and electric machinery is first, followed by transportation machinery by type of industry. On the basis of the number of investments Asia comes first, followed by North America by region, and electric machinery is first, followed by fibre by type of industry.

The number of Japan’s companies incorporated abroad is much higher in the manufacturing sector than in the non-manufacturing sector in Asia, especially in ASEAN and China.

The sales amounts by Japan’s companies incorporated abroad in the manufacturing sector show that North America comes first, followed by Asia and Europe, but when it comes to profit, Asia ranks first, followed by North America and Europe. The ratio of profit over sales amounts is highest in Asia.

The number of employees by Japan’s companies incorporated abroad is much higher in Asia by region and in the electric machinery and transportation machinery industries by type of industry. Many more workers are employed in ASEAN and China than anywhere else.

While overseas employment expands in the manufacturing sector, domestic employment suffers reduction due to restructuring.

Demanded strongly by the business world, the Japanese government is negotiating FTAs with Korea, Thailand, Philippines, and Malaysia. It aims at reducing tariffs and fully deregulating foreign capital. The formation of an East Asia Community through FTAs will give an opportunity to strengthen transnational corporations while the workers’ jobs and working conditions will become less secure. We need serious discussions about whom FTAs favour and whom they disadvantage. We also need a strong international network to monitor and control transnational corporations.
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CHAPTER 3

THE PRESENT CONDITION AND CHARACTERISTICS OF KOREA’S FOREIGN INVESTMENT

Yoon Hyowon

Introduction

Korea’s foreign investment first started in 1968. The earliest case was when NamBang Development Inc invested $2,850,000 in Indonesia’s forestry industry, expecting to secure natural resources. Up until the 1970s, most of Korea’s foreign investment had been focused on forestry and fisheries. Then just past the mid-1980s, foreign investment on manufacturing industry shot up, due to hopes of gaining a competitive price, using cheap labour in foreign countries.

This trend has been ongoing since the late 1980s, influenced by factors such as inflation of the won, trade surplus, changes in the economic structure due to industry restructuring, and the activeness of labour movement, which resulted in a rise in workers’ wages overseas. Importantly, the regionalisation of the world’s economy, shown by the foundation of NAFTA in mid-1990s, has led Korea’s foreign investment to focus on indirect export-driven investment and improving productivity effectiveness to avoid trade barriers. Nowadays, global sales led by big companies are also emerging as a useful strategy.

Summing up, Korea’s foreign investment began from hopes of gaining capitals and raw materials, developed through stages of market cultivation to approach a lot of foreign companies, then to the restructuring step with an obvious purpose of using cheaper labour.

This report aims to analyse the present condition of Korea’s foreign investment using the overseas investment. Now it is transforming into the
phase of ‘approaching foreign markets’ through the globalisation of business activities.

**The present situation of Korea’s foreign investment**

From 1968 to June 2003, the number of Korean companies’ investments in foreign countries reached 18,068 with a total $42,190 million in 150 countries.

Korea’s overseas investment by government and year

The greatest number of investments made in foreign countries was during President Kim Dae Jung’s term of office.

Investments made in the last 10 years account for 85 percent of all foreign investments.

The number of investments in foreign countries and the amount of money in the first governmental term (1968-1980, President Park Chung Hee) was only 352 (1.9 percent) and $140 million (0.3 percent), in the second term (1981-1987, President Chun Doo Huan), 379 (2.1 percent) and $990 million (2.4 percent), then in the third term (1988-1992, President Roh Tae Woo), the numbers went up to 1,724 investments (9.5 percent) and $4,080 million (9.7 percent). In the fourth term (1993-1997, President Kim Young Sam), the numbers once again shot up to 6, 291 investments (34.8 percent) and $14,704 dollars. The trend went on till the fifth term (1998-2003, President Kim Dae Jung), which is when there were a total of 9,322 investments (51.6 percent) and 22,290 million dollars spent (52.8 percent), accounting for a half of all investments ever made in foreign countries by Korean companies in terms of both the number of investments and money invested. Furthermore, 86.4 percent of the total foreign investments was made only in the last 10 years (the fourth and fifth terms), and 87.6 percent of the total money invested in foreign countries by Korean companies so far was spent in those last 10 years (fourth and fifth presidential terms).

Looking at Korea’s yearly foreign investment, although the number of foreign investments steadily increased until the 1980s, they began to increase very fast starting from the early 1990s, shooting up just after the mid-1990s. The number of foreign investments made by Korean companies never seemed to exceed two digits (91 investments in 1987) for 20
years, but 1988 resulted in a three digit number (171 investments) for the first time. On the other hand, the money invested went down almost by a half, from $409 million in 1987 to $210 million in 1988.

Later on the number of investments consistently increased up to 1,488 investments made in 1994 ($2,302 million dollars), twice the number in 1993, which was 688 investments made in total ($1,060 million dollars). Starting from the mid-1990s, Korea’s foreign investment reached its maximum point in 1998, even as the country faced an economic recession, with a total $4,720 million invested (614 investments). Having already begun a different level of investment since the mid 1990s, Korea’s foreign investment marched on, giving a record of 2,000 investments made every year after year 2000.

In 2001, the money invested reached its maximum of $2,030 million (2,115 investments), and in 2002, there were a total 2,404 investments in foreign countries, which was the highest record ever ($3,003 million).

The proportion of foreign investments made in the 20 years from 1968, which was when it all began, to 1987 are tiny compared to the ones later. Therefore, despite the fact that foreign investment did show some growth in terms of both quality and quantity in the late 1980s, it is correct to say that Korean companies’ foreign investment began in earnest in the 1990s. Not until 1995, did the accumulated amount of money spent on foreign investments exceed $10 billion. Also, the amount of money invested in the last 10 years alone (1994-2003) is nearly 35 billion dollars, accounting for more than 80 percent of the total amount.

<table>
<thead>
<tr>
<th>Government</th>
<th>Invested money</th>
<th>No. of investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Park J H (1968-1980)</td>
<td>145,201</td>
<td>352</td>
</tr>
<tr>
<td>Chun D H (1981-1987)</td>
<td>993,290</td>
<td>379</td>
</tr>
<tr>
<td>Roh T W (1988-1992)</td>
<td>4,082,724</td>
<td>1,724</td>
</tr>
<tr>
<td>Kim Y S (1993-1997)</td>
<td>14,704,780</td>
<td>6,291</td>
</tr>
<tr>
<td>Kim D J (1998-2003)</td>
<td>22,297,905</td>
<td>9,322</td>
</tr>
<tr>
<td>Total</td>
<td>42,223,900</td>
<td>18,068</td>
</tr>
</tbody>
</table>

Source: Korea’s overseas investment DB published by Korea Eximbank
Types of industry

Number of investments in manufacturing alone accounts for 60 percent, and also accounts for 50 percent of the total money invested.

Since 1968, the type of sector in which most foreign investments were made by Korean companies, has been manufacturing, as the number of investments in manufacturing reaches 11,206, which is 62 percent of the 18,068 total number of investments. The second most popular type of industry was wholesale and retail businesses with a total of 2,713 investments (15 percent), then came services/real estate with 1,960 investments (10.8 percent), next was accommodation/restaurant with 721 investments (4.0 percent), followed by agricultural/marine (408, 2.3 percent), then transportation/warehousing (363, 2.0 percent), then construction (349, 1.9 percent), communications (162, 0.9 percent), mining (151, 0.8 percent), and finally finance/insurance (29, 0.2 percent).

The manufacturing sector took up the greatest proportion of the total amount of money invested in foreign countries, accounting for 53.2 percent of the whole, with $22,450 million. Next came wholesale and retail businesses with $9,100 million (21.6 percent), then services/real estate with $4,100 million (9.7 percent), followed by the mining with $2,590 million (6.7 percent), then by the communications ($1,380 million, 3.3 percent), then the accommodation/restaurant ($1,070 million dollars, 2.6 percent), followed by the construction ($760 million, 1.8 percent), and finally transportation/warehousing with $260 million (0.6 percent). In terms of the amount of money invested, while manufacturing, wholesale and retail businesses, and the services/real estate were the top three sectors, just as they did when ranked by the number of investments made, mining and communications came next, which showed that the scales of these two industries are particularly large.

When we broke down the manufacturing industry into specific categories, we found that the number of foreign investments in textiles and clothes was the largest, accounting for 21.4 percent of the whole, with 2,401 total investments. Second biggest was electronic instruments (1,606, 14.3 percent), followed by other industries (1,402, 12.5 percent), then by mechanical instruments (1,037, 9.3 percent), then came textile chemicals (1,002, 8.9 percent), followed by cookery sector (763, 6.8 percent) and finally the shoe leather sector (744, 6.6 percent). On the other hand, the
The largest proportion of money was invested in electronic instruments industry ($8,220 million), accounting for 36.6 percent of the entire amount of money invested in manufacturing. Next came transport (machinery) with $2,600 million (11.6 percent), followed by textiles and clothes, which came first when ranked by the number of investments made ($2,490 million, 11.1 percent). This was followed by textile chemicals with $1,860 million, accounting for 8.3 percent, which was followed by mechanical instruments ($1,780 million dollars, 7.9 percent), and finally came the light metal industry ($1,400 million, 6.2 percent).

The reason why the rankings of different sectors in manufacturing differ according to whether looking at the number of foreign investments made or the total amount of money invested, is because while the textiles...
and clothes industry tends to be labour intensive and dominated by small companies investing relatively small money. But other sectors such as electronic instruments, transport machinery, petrochemicals, and mechanical instruments invest much more money because they have to spend a lot of money on equipment.

Table 3. Korean companies’ overseas investment by manufacturing sector (1968-first half of 2003), (US$1,000)

<table>
<thead>
<tr>
<th>Sector</th>
<th>No. of investments</th>
<th>Invested money</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cookery</td>
<td>763</td>
<td>827,915</td>
</tr>
<tr>
<td>Textile/clothes</td>
<td>2,401</td>
<td>2,490,666</td>
</tr>
<tr>
<td>Shoe leather</td>
<td>744</td>
<td>558,285</td>
</tr>
<tr>
<td>Wood/furniture</td>
<td>406</td>
<td>257,230</td>
</tr>
<tr>
<td>Paper/printing</td>
<td>274</td>
<td>334,740</td>
</tr>
<tr>
<td>Petro-chemical</td>
<td>1,002</td>
<td>1,862,615</td>
</tr>
<tr>
<td>Non-metalic mineral</td>
<td>353</td>
<td>720,406</td>
</tr>
<tr>
<td>Basic metal</td>
<td>276</td>
<td>1,402,746</td>
</tr>
<tr>
<td>Fabricated metal</td>
<td>504</td>
<td>568,781</td>
</tr>
<tr>
<td>Mechanical instruments</td>
<td>1,037</td>
<td>1,784,176</td>
</tr>
<tr>
<td>Electronic instruments</td>
<td>1,606</td>
<td>8,220,562</td>
</tr>
<tr>
<td>Transport machinery</td>
<td>438</td>
<td>2,603,855</td>
</tr>
<tr>
<td>Others</td>
<td>1,402</td>
<td>823,526</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>11,206</td>
<td><strong>22,455,503</strong></td>
</tr>
</tbody>
</table>

Regional conditions

Most investments were in Asia, then in North America, followed by Europe.

Ever since 1968, the region with the greatest number of investments has been Asia. The number of investments in Asia from Korean companies accounted for 67.2 percent (12,141) of the total, and the amount of money spent on investments in Asia accounts for 40.1 percent with more than $16,920 million spent in Asia. Next was North America, with 3,758
investments made in total (20.8 percent) and $12,230 million spent altogether (29.0 percent). Next came Europe, with 809 investments in total (4.5 percent) and $7,190 million spent (17.0 percent). The number of investments and the amount of money invested in other regions such as Latin America, Africa, the Middle East and Oceania (including Australia and New Zealand) combined was only around 10 percent of the total.

For the last 35 years, Korea’s foreign investment mainly occurred in the three regions, Asia, North America, and Europe. In fact, this sounds accurate, because the total number of investments made in these three regions was 16,708, accounting for 92 percent of the whole, and $36,350 million (86.2 percent) was spent in these regions alone. Also, it is useful to note that in North America (US and Canada), the number of investments made in the US alone was 3,752, and the amount of money invested in the US alone was $11,560 million, both of which account for 95 percent of the total number of investments and money invested in North America.

Table 4. Korean companies’ overseas investment by region (1968-first half of 2003), (US$1,000)

<table>
<thead>
<tr>
<th>Region</th>
<th>No. of investments</th>
<th>Invested money</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>12,141</td>
<td>16,921,488</td>
</tr>
<tr>
<td>Middle East</td>
<td>96</td>
<td>801,614</td>
</tr>
<tr>
<td>North America</td>
<td>3,758</td>
<td>12,239,255</td>
</tr>
<tr>
<td>Latin America</td>
<td>516</td>
<td>3,362,452</td>
</tr>
<tr>
<td>Europe</td>
<td>809</td>
<td>7,192,067</td>
</tr>
<tr>
<td>Africa</td>
<td>142</td>
<td>729,368</td>
</tr>
<tr>
<td>Oceania</td>
<td>606</td>
<td>947,656</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18,068</strong></td>
<td><strong>42,193,900</strong></td>
</tr>
</tbody>
</table>

Korea’s overseas investment DB, Korea Eximbank

Foreign countries

Most investments were made in China; the greatest amount of money was invested in the US.

For the last 35 years, Korean companies made foreign investments in 150 different countries around the world, and the greatest number of investments was made in China, the greatest sum of money was spent in the US. Both countries ranked as the top two, proves how much foreign investment from Korean companies is concentrated there.
Looking at the sums of money invested in the top ten countries, the amount of money spent in US accounted for 27.4 percent, with $11,560 million, then came China with $7,170 million (17.0 percent), followed by Holland ($2,150 million, 5.1 percent), followed by Indonesia ($2,020 million dollars, 4.8 percent), followed by Hong Kong ($1,640 million dollars, 3.9 percent), then followed by England, Bermuda, Vietnam, Germany, and India. The total sum of money spent in the top 10 countries exceeded 70 percent of the entire sum of money spent in 150 countries; when we combine the sums of money spent in the US and China, the sum ($18,740 million) exceeded 40 percent of the total money spent altogether. The amount of money invested in Bermuda was $1,480 million (3.5 percent), although there were only 11 investments made in Bermuda altogether. The reason for this must be the large-scale investment in Bermuda on the services/real estate industry ($1,300 million) in year 2000. Also, while in less economically developed countries such as China, Indonesia, Vietnam, and India, there were a large number of investments made but small sums of money invested, in more economically developed countries such as the US, the Netherlands, England, and Germany, there was usually a large sum of money invested although the number of investments was relatively small.

<table>
<thead>
<tr>
<th>Nation</th>
<th>No. of investments</th>
<th>Invested money</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>11,566,099</td>
<td>27.4%</td>
</tr>
<tr>
<td>China</td>
<td>7,176,245</td>
<td>17.0%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2,155,345</td>
<td>5.1%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2,026,343</td>
<td>4.8%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>1,643,802</td>
<td>3.9%</td>
</tr>
<tr>
<td>Bermuda</td>
<td>1,482,887</td>
<td>3.5%</td>
</tr>
<tr>
<td>UK</td>
<td>1,462,474</td>
<td>3.5%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>957,635</td>
<td>2.3%</td>
</tr>
<tr>
<td>Germany</td>
<td>895,404</td>
<td>2.1%</td>
</tr>
<tr>
<td>India</td>
<td>775,098</td>
<td>1.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30,141,332</strong></td>
<td><strong>71.4%</strong></td>
</tr>
</tbody>
</table>

Korea’s overseas investment DB, Korea Eximbank
When we looked at the number of investments made in each country, among the total of 18,068 investments made from Korean companies in 150 different countries, those made in China were the most, accounting for 44.5 percent (8,036), then there were 3,572 investments (19.8 percent) made in US, 639 (3.5 percent) in Japan, 623 (3.4 percent) in the Philippines, 582 (3.2 percent) in Indonesia, then in Hong Kong, Vietnam, Malaysia, Thailand, and finally Australia. China, the US, Indonesia, Hong Kong, and Vietnam were in the top 10 countries when ranked by the amount of money invested. On the other hand, Japan, Philippines, Malaysia, Thailand, and Australia came in the top 10, only when ranked by the number of investments. There were 11,608 investments made in the US and China alone, accounting for more than 60 percent. The sum of the number of investments made in the top 10 countries is 15,127, which accounts for 83.7 percent of the total number of investments made in the 150 countries. The sum of money invested in these top 10 countries was $26,470 million altogether, which accounted for 62.7 percent.

Let us look closely at China and the US, where Korean companies invest a lot of money. Most investments made by Korean companies in China were in manufacturing, with 6,964 investments in total and $6,004 million, accounting for more than 80 percent of the entire investments in

Table 6. Most invested top 10 countries by investment number (1968 - first half of 2003), (US$1,000)

<table>
<thead>
<tr>
<th>Nation</th>
<th>No. of investments</th>
<th>Invested money</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>8,036</td>
<td>7,176,245</td>
</tr>
<tr>
<td>US</td>
<td>3,572</td>
<td>11,566,099</td>
</tr>
<tr>
<td>Japan</td>
<td>639</td>
<td>742,891</td>
</tr>
<tr>
<td>Philippines</td>
<td>623</td>
<td>688,993</td>
</tr>
<tr>
<td>Indonesia</td>
<td>582</td>
<td>2,026,343</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>531</td>
<td>1,643,802</td>
</tr>
<tr>
<td>Vietnam</td>
<td>398</td>
<td>957,635</td>
</tr>
<tr>
<td>Malaysia</td>
<td>269</td>
<td>445,852</td>
</tr>
<tr>
<td>Thailand</td>
<td>250</td>
<td>610,691</td>
</tr>
<tr>
<td>Australia</td>
<td>227</td>
<td>611,800</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15,127</strong></td>
<td><strong>26,470,351</strong></td>
</tr>
</tbody>
</table>

Korea’s overseas investment DB, Korea Eximbank
terms of number and money. The same trend appeared in the investments made in US. The number of investments and the money invested in the US manufacturing industry accounted for 25.6 percent and 46.9 percent respectively with 915 investments and $5,410 million. It averages $5.9 million per investment. It is approximately seven times as big as that in China, which is $860,000 dollars. The total number of investments on manufacturing industry in US and China combined accounts for 70.3 percent of the entire sum, while the total invested money accounts for 50.9 percent of the whole sum.

Scale of investment

Largest sums of money are in large-scale investments but there are many more small-scale investments.

In terms of investment scale, there was clearly a large proportion (82.5 percent, 14,910) of rather small-scale investments consisting of capital of no more than one million dollars. 2,146 investments (11.9 percent) were to do with capital of less than five million dollars, then there were 471 investments (2.6 percent) with capital of no more than $50 million, followed by 411 investments (2.3 percent) with capital of no more than $10 million, which was then followed by 130 investments made (0.7 percent) with capital of more than $50 million.

The total money invested in the category of investments involving capital of more than $50 million, which accounted for less than one percent of the total number of investments, actually reached $20,260 million, nearly half the total. Next came the category of investments to do with capital of no more than fifty million dollars ($10,820 million, 25.7 percent), followed by one with capital less than $5 million ($4,780 million, 11.3 percent), followed by those with less than $1 million ($3,360 million, eight percent), and finally those with capital less than $10 million ($2,960 million, seven percent). This means that small-scale investments took a big proportion of the total in terms of the number of investments while the total money invested in them took a small proportion. For example, the number of investments with no more than $1 million was 14,910 accounting for over 80 percent of the total number, but the total money invested in them accounted for less than 10 percent of the total money. It shows that overseas investments have been mainly led by small companies.
Ratios of investments

Wholly-owned investment is favoured

Ratios of Korean companies’ investments in foreign countries show that Korean companies favours wholly-owned investment. The cases where a single company invested 100 percent accounted for nearly 60 percent (10,758) of all investments, and the sum of money invested on them also accounted for more than 62 percent ($26,320 million) of total foreign investments. The number of cases where the investment ratio was over 50 percent was 14,779 (81.8 percent) and the total invested money of these cases reached $36,980 million, 87.7 percent of the whole sum.

Scale of companies

Large enterprises account for 76 percent of all the investments. They invest in Asia, North America, and Europe while small companies invest mainly in Asia.

Small- and medium-size enterprises tend to focus on investing in Asia.

For the last 35 years, the total number of investments made by large enterprises is 2,791, accounting for 15.4 percent of the total number of investments made, and that of investments made by small- and medium-size enterprises was 11,255, accounting for 62.3 percent. Finally, the rest of investments (4,022, 22.3 percent) were made by private enterprises and others. Whereas the number of investments made by small- and medium-size enterprises outran those made by large enterprises in regions such as Asia, North America, Latin America, and Oceania, while in coun-

Table 7. Korean companies’ overseas investment by investment scale (1968-first half of 2003), (US$1,000)

<table>
<thead>
<tr>
<th>Investment scale</th>
<th>Number of investments</th>
<th>Invested money</th>
</tr>
</thead>
<tbody>
<tr>
<td>~1 million</td>
<td>14,910</td>
<td>3,366,463</td>
</tr>
<tr>
<td>~5 million</td>
<td>2,146</td>
<td>4,781,699</td>
</tr>
<tr>
<td>~10 million</td>
<td>411</td>
<td>2,961,500</td>
</tr>
<tr>
<td>~50 million</td>
<td>471</td>
<td>10,824,202</td>
</tr>
<tr>
<td>50 million ~</td>
<td>130</td>
<td>20,260,036</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18,068</strong></td>
<td><strong>42,193,900</strong></td>
</tr>
</tbody>
</table>

Korea’s overseas investment DB, Korea Eximbank
tries in Europe and the Middle East, the number of investments made by large enterprises was slightly bigger than those made by small- and medium-size enterprises.

On the other hand, comparing foreign investments made by firms of different scale, based on the amount of money invested, the large enterprises altogether invested $32,007 million (76.0 percent), and the small- and medium-size enterprises accounted for 21.7 percent of the whole sum, with $9,170 million. Moreover, though 50.3 percent ($4,880 million) of the investments made by small- and medium-size enterprises were focused in Asia, in the case of the larger enterprises, only 36.3 percent ($11,160 million) of the money was invested in Asia, which tells us that their investments were more evenly spread out. In the cases of investments made in North America, 31.1 percent ($9,950 million) of the money were invested by larger enterprises, whereas only 20.4 percent ($1,870) was invested by the small- and medium-size enterprises. Also, 21.4 percent ($6,860 million) of the money was invested by large enterprises in Europe, whereas the small- and medium-size enterprises invested only 3.4 percent (310 million dollars) in the region. This shows us that though most Korean foreign investments in Asia are led by the small- and medium-size enterprises, enterprises of larger scale are leading foreign investments made in other regions such as North America and Europe. Furthermore, apart from the investments made in Central and South America, in all regions, the sum of money invested by larger enterprises always outran that of money invested by the small- and medium-size enterprises.

<table>
<thead>
<tr>
<th>Ratio</th>
<th>No. of investments</th>
<th>Invested money</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10%</td>
<td>364</td>
<td>2.0% 929,475</td>
</tr>
<tr>
<td>10%~less than 50%</td>
<td>2,925</td>
<td>16.2% 4,277,315</td>
</tr>
<tr>
<td>50%</td>
<td>1,197</td>
<td>6.6% 1,848,484</td>
</tr>
<tr>
<td>50%~less than 100%</td>
<td>2,824</td>
<td>15.6% 8,810,228</td>
</tr>
<tr>
<td>100%</td>
<td>10,758</td>
<td>59.5% 26,328,398</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18,068</strong></td>
<td><strong>100.0% 42,193,900</strong></td>
</tr>
</tbody>
</table>

*Korea’s overseas investment DB, Korea Eximbank*

Table 8. Korean companies’ overseas investment by investment ratio (1968-first half of 2003), (US$1,000)
Periodical Flow of Foreign Investments by Korean firms

Regional comparison

There has been a greater number of investments in Asia than North America since the 1990s.

From studying Korea’s foreign investments in the past 35 years spread over different regions around the world, it seems evident that since the beginning of the 1990s, there were more investments made in Asia than anywhere else in the world. The number of investments in Asia exceeded 1,000 between 1994 and 1996, but fell to three-digits due to the IMF economic recession in Korea; however, by year 2000, Korea had recovered from the recession, resulting in the figures in the number of foreign investments shooting up year by year, and now the number was expected to exceed 1,000 easily in 2003.

The number of investments made in North America, the region where the second biggest number of investments are made by Korean firms, was bigger than any other place until 1987, but it was outrun by that of Asia in 1988, and now it seems to be going downhill ever since its maximum figure (704) in 2000. This, in comparison to the increasing trend of the number of investments in Asia, predicts an upcoming trend of the number of investments in North America continuing to decline in the future. The number of

Table 9. The total money of overseas investment by the scale of company (1968-first half of 2003), (US$1,000)

<table>
<thead>
<tr>
<th>Region</th>
<th>Large enterprises</th>
<th>Small enterprises</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>1,377</td>
<td>8,551</td>
<td>2,213</td>
</tr>
<tr>
<td>North America</td>
<td>644</td>
<td>1,742</td>
<td>1,372</td>
</tr>
<tr>
<td>Europe</td>
<td>376</td>
<td>358</td>
<td>75</td>
</tr>
<tr>
<td>Latin America</td>
<td>178</td>
<td>310</td>
<td>28</td>
</tr>
<tr>
<td>Oceania</td>
<td>103</td>
<td>188</td>
<td>315</td>
</tr>
<tr>
<td>Africa</td>
<td>57</td>
<td>69</td>
<td>16</td>
</tr>
<tr>
<td>Middle East</td>
<td>56</td>
<td>37</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>2,791</td>
<td>11,255</td>
<td>4,022</td>
</tr>
</tbody>
</table>

Korea’s overseas investment DB, Korea Eximbank
investments made in each of the following countries (Europe, Oceania, and Central and South America) has been keeping a consistent two-digit figure every year ever since the mid 1990s.

The amount of money invested in each region for the last 35 years shows a different trend from this. Although when we looked at the number of investments made in different regions previously, there were clear differences between Asia, North America and Europe, here we had the three regions going off in unexpected directions. For example, in 2001, despite a small number of investments made in the Europe (69), the total sum of money invested was $2,120 million, the highest sum of all. On the other hand, in Asia, there were 1,409 investments made, but only $1,290 million invested altogether. This contradiction might have been caused by the fact that there are lots of small- and medium-size enterprises investing in Asia, whereas in Europe and North America, most of the investments have probably been made by larger firms.

### Comparison by country/economic union

- **US and the Association of South East Asian Nations (ASEAN) in lead until early 1990s**

- **China emerged as the country with the most investments made after 1990s.**

- **Up to the early 1990s, America and ASEAN had been the regions**

---

### Table 10. Number of Overseas Investments by Scale of Company (1968-first half of 2003), (US$1,000)

<table>
<thead>
<tr>
<th>Region</th>
<th>Large enterprises</th>
<th>Small enterprises</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>11,638,403</td>
<td>4,886,141</td>
<td>396,944</td>
</tr>
<tr>
<td>North America</td>
<td>9,959,004</td>
<td>1,873,694</td>
<td>406,557</td>
</tr>
<tr>
<td>Europe</td>
<td>6,867,486</td>
<td>310,022</td>
<td>14,559</td>
</tr>
<tr>
<td>Latin America</td>
<td>1,472,756</td>
<td>1,826,877</td>
<td>62,819</td>
</tr>
<tr>
<td>Oceania</td>
<td>661,088</td>
<td>223,557</td>
<td>63,011</td>
</tr>
<tr>
<td>Africa</td>
<td>695,826</td>
<td>31,275</td>
<td>2,267</td>
</tr>
<tr>
<td>Middle East</td>
<td>779,272</td>
<td>21,617</td>
<td>725</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32,073,835</strong></td>
<td><strong>9,173,183</strong></td>
<td><strong>946,882</strong></td>
</tr>
</tbody>
</table>

*Korea’s overseas investment DB, Korea Eximbank*
with most investments by Korean firms. Those two had always been the most popular regions for investments, both in terms of the number of investments made and the amount of money invested; however, this trend shifted, as a good relationship between China and Korea developed further. Now China has become the biggest Korean investment market, but Korea started to invest in the country in 1998, which is very late compared to Korea’s other overseas investments.

Ever since 1992, China not only has been the most popular place for Korean firms’ choice of investments, but also has been in second place behind America all along, when ranked by the amount of money invested. Recently, even in this field, China has outrun America (2002-2003) for the second time (first time was in 1994-1995).

Up to the early 1990s, Korean investments in ASEAN4 countries (Thailand, Indonesia, Philippines and Malaysia) have never outrun those in China and America, except for a short period between 1989 and 1995. Also, since 1993, the amount of money invested in ASEAN fell behind that in China. The number of investments in the ASEAN region had fallen to a two-digit figure during the IMF economic recession, until it showed signs of recovery in the 2000s. The amount of money invested in ASEAN reached its peak amount in 1997, with 610 million, but went consistently downhill afterwards, resulting in a huge drop to 310 million in 2002.

Korea’s foreign investment increased until the 1980s, and in the early 1990s it increased sharply especially in China and the US. But it went downhill during the IMF crisis. Just after 1999, Korean investments in major countries and economic unions such as China, US, EU, and ASEAN recovered, reaching a peak in 2000, but they are gradually decreasing again. The IMF economic recession in November 1997 discouraged the overall aspects of Korea’s foreign investments for a short while. This is backed up by the evidence that the sum of money invested in these countries and regions actually increased faster than ever. For the last 35 years, there were 12,141 investments, $16,920 million invested in total in Asian regions. Investments that occurred in China alone accounted for 66.2 percent (8,036) of all those investments, and 42.4 percent ($7,170 million) of the total sum of money invested in Asia.
In Asia, the second most popular region after China among the Korean firms are the ASEAN countries, accounting for 19.7 percent (2,395) of all the investments in Asia, and 32.6 percent ($5,520 million) of the total amount of money invested. Each investment made in the ASEAN region included capital of approximately $2,305,000, whereas each investment made in China only cost $893,000 on average. This figure for the cost of each investment in the ASEAN region is over twice as big as $1,163,000, an average amount of an investment in Japan, which shows that the scale of Korea’s foreign investments is very big in comparison with other countries. Moreover, the investments (and the sum of money invested) in China and the ASEAN region accounted for 85.9 percent and 79.0 percent respectively, of the total number of investments (or sum of money invested) in Asia overall.

Comparison by types of industry

Mining and retail and wholesale businesses led in overseas investment until the 1980s, but manufacturing came first just after the mid-1990s.

Manufacturing is the number one sector with the biggest number of foreign investments made by Korean firms. In the comparison made using the number of investments and the amount of money invested, it has ranked first since 1988. Until the late 1980s, the mining industry and retail and wholesale businesses had been considered to be the leading industries, and at the beginning of 1990s, services/real estate shot up as a brand new type of industry that people wanted to invest in.

The number of investments in manufacturing was 148 in 1989, dramatically increasing to 1,099 in 1994, but down to 377 in 1998 during the IMF economic recession. However, as a fast recovery was in progress, it exceeded 1,000 again in year 2000, and reached its maximum of 1,533 in 2002. Retail and wholesale businesses were subject to 168 investments in 1994, and continued to increase at a consistent speed, recording 261 investments in 2000, 286 in 2001, and finally 312 in 2002. Services/real estate had 122 investments in 1999, recovering from the IMF economic recession, and increased to 533 investments in 2000; however, it went downhill as the figures decreased from 376 in 2001 to 336 in 2002.

The number of foreign investments made in the manufacturing sector showed a steady increase from the late 1980s to the early 1990s, until it
shot up in 1994, whereas this figure taken from other industries and industries seemed to steadily increase until 1997. Although the number of foreign investments being made in general seemed to go down during the economic recession, it rapidly went up in 2000, mainly in sectors such as manufacturing, services/real estate and accommodation/restaurants; however, now it seems to be going down again.

Comparison by company scale

An increasing number of investments were made by large firms since early 1990s, reaching a maximum in 1998 during the IMF crisis.

In terms of the number of investments made, those of large firms had been bigger than those of the small- and medium-size enterprises by 1988, but after being outrun by the small- and medium-size enterprises some time after 1989, there have so far been more investments made by the small- and medium-size enterprises than by large firms.

The number of investments of the small- and medium-size enterprises reached a very high figure of 1,145 in 1994, but went downhill to a minimum figure of 347 in 1998, which was right after the IMF economic recession. After that, it began to rise dramatically again, and in 2002, it finally reached a record figure of 1,508, and until now the figures have outrun those of big companies or individual investors.

The number of investments made by the bigger firms shows a steady increase with 102 in 1988 and 259 in 1995; however, as Korea’s economy fell in the IMF recession, it went down to 80 in 1999. In 2000, it recovered to 124, but somehow fell from 77 in 2002 to 33 in 2003.

In terms of the amount of money invested, the bigger firms have been outrunning that of the small- and medium-size enterprises for the last 35 years. Until 1984, there was not a big difference, but starting from 1985 it began to show; and by 1998, the gap had increased. In 1998, only $270 million was invested by small- and medium-size enterprises, whereas the larger enterprises invested $4,460 million altogether. However, in 2000, the situation reversed, resulting in the amount of money invested by bigger firms going down to $2,390 million, very close to the amount invested by small- and medium-size enterprises, $2,310 million dollars. By 2001, the amount of money invested by bigger firms had gone back up to $4,005 million dollars, although it started falling again, with a decreased of $1,806
million dollars in 2002, and only $770 million in 2003. The same situation applies to that of the money invested by small- and medium-size enterprises. It only reached $1,040 million in 2002, which is nowhere close to the amount it had reached in 2000.

**Conclusion**

Characteristics

Below are some of the main characteristics of Korea’s foreign investment since 1968, when it first began.

1. By government: The greatest number of foreign investments was made during the fifth government term by President Kim Dae-Jung. More than 50 percent of the total number of investments were made in this period and more than 85 percent was made in the latest decade (fourth and fifth government terms). Korea’s entered a new phase of foreign investment in 1994, when 1,488 investments made and $2,302 million dollars invested in total (1994 figure). The investments showed different patterns around 1994 in terms of number of investments, amount of invested money, and invested types of industry and regions.

2. By type of industry: 60 percent of total investments were in the manufacturing sector, and 50 percent of the total money invested was in manufacturing. Wholesale and retail businesses and services/real estate industry came next. Although up to the 1980s, the mining industry and wholesale and retail businesses had always been in the lead, in terms of foreign investments; in the mid-1990s, manufacturing outran the others. Among the divisions of the manufacturing sector, most investments were made in the textiles and clothing industry (2,401), but in terms of the amount of money invested, the electronic instruments industry came first ($8,220 million).

3. By region: The greatest number of investments made by Korean firms was in Asia, accounting for 67 percent of investments altogether and 40 percent of the total sum of money invested. North America and Europe came next. 92 percent of all the investments were made and 86 percent of all the money was invested in Asia, North America and Europe, which shows these three regions are the biggest investment market.

4. By country/economic organisation: Until the late 1980s, most investments from Korea were in the US and ASEAN; however, China took the lead in 1991-1992. Although the first investment in China was in 1988,
in a short period of 15 years, it came to be the country with the greatest number of investments made by Korean firms and the second in terms of the amount of money invested in total. Next in line to US and China were Holland and Indonesia, when ranked by the total sum of money invested. In developing countries such as China, Indonesia, Vietnam, Thailand, and Malaysia, a great number of small investments were made, whereas in more economically developed countries such as US, Holland, the UK, and Germany, a relatively small number of large-cost investments were made.

5. By scale/ratio of investment: 82 percent of all the foreign investments were less than $1 million; however, the sum of money invested on investments that cost more than $50 million accounted for 48 percent of the total sum of money. The scale of industry in which investments were made had a similar trend to that of the number of investments and the amount of money invested. After the mid-1990s, as Korea’s foreign investments grew significantly, the scale of investments made in general increased, but in the early 2000’s, it seemed to be going downhill. As a ratio of investments, most Korean firms were shown to prefer 100 percent investments, which accounted for 60 percent of the whole, and investments made under the dividend ratio of more than 50 percent accounted for 81 percent of all investments and 87 percent of the total sum of money invested.

6. By scale of enterprise: In terms of the number of investments made, those of the small- and medium-size enterprises accounted for 62 percent, and those of the bigger firms accounted for 15 percent; in terms of the amount of money invested, large enterprises accounted for 76 percent, and the small- and medium-size enterprises for 21 percent. Also, the small- and medium-size enterprises seemed to concentrate on investing in Asia, whereas the big enterprises were investing in three different regions evenly (Asia, North America, and Europe). Investments made in Europe, in particular, were mostly made by big enterprises. This indicates that although investments in developing countries, including China, were made by small- and medium-size enterprises or private enterprises, large firms ran those in more developed countries. The amount of money invested in Asia by large enterprises was much larger than that of small- and medium-size enterprises. After 1989 the small- and medium-size enterprises began to invest more than the bigger firms.
7. The IMF Economic Recession and Economic Situation in 2000: The IMF economic catastrophe in November of 1997 threatened Korea’s economy for a short period of time, but did not affect Korea’s economic growth a lot; however, it brought a negative effect on Korea’s foreign investment situation overall. Still, since 1999, as our economy began to recover, the figures of the number of foreign investments and the amount of money invested shot up, reaching 2,404 investments made in 2002 and $5,030 million dollars in 2001. In the new century Korea's foreign investments have completely recovered from the recession and returned to the level of the mid-twentieth century, but the growth rate is slower.

Meanings of Korea’s foreign investment

Analysis of Korea’s foreign investment situation over the last 35 years indicates several significant points.

First of all, this analysis tells us that the number of foreign investments made by Korean firms increased significantly after the late 1980s due to a rise in the wages of workers in Korea. Although the rise in wages and improved labouring conditions due to the liveliness of labour movement can be one of the causes of increase in the number of foreign investments, it was not the major one. It does not provide enough explanation as to the causes of the huge increase in the number of foreign investments since 1995 and its continuous increase even after the IMF economic recession. It is likely to have been the globalisation and regionalisation of the world’s economy ever since 1990s that attracted many firms to invest in foreign countries. Another cause of this from inside the country was the decisions of several very successful firms such as Hyundai, Samsung, Daewoo, LG, and SK aiming at a number of markets around the earth. This explains why the investments made in China, the US, and Europe accounted for more than 65 percent of all foreign investments and 76 percent of the total sum of money invested. If the rise in wages was the major cause for the increase in foreign investments, it seems natural that most investments should be in developing countries; however that is in fact not what happens.

Secondly, this analysis seems slightly more about the investments made in developing countries than those made in more economically developed countries, although the truth is, that those two are of a very similar scale. Investments in the developed countries in particular have been booming
since 1990, due to a rather free trade system and the fact that it is now easier to approach foreign markets. Excluding China, investments made in the US outran those made in the ASEAN countries, both in terms of the number and money invested. Furthermore, the sum of money invested in the EU was almost similar to that invested in the ASEAN. Therefore, although it is true that a greater number of investments are made in developing countries, there is not a great difference between the two.

Thirdly, there is an increasing number of transnational corporations (TNC) expanding business abroad. The issue of Korean TNCs rises from the activity of large Korean firms in terms of foreign investments and the fact that there are a number of investments being made in developed countries as well as in developing ones. According to a report about Korean TNCs from Korea-Trade Investment Promotion Agency (KOTRA), there have been 215 TNCs established by Samsung, 202 from LG, 190 by Hyundai, 66 by SK, and 195 by Daewoo. These firms have been making profits all around the world, with their huge capital source, plenty of labour, and specific skills and experiences.

Fourthly, it needs to be pointed out that after the mid-1990s, the Korean government hardly did anything, even as Korea’s foreign investments shot up suddenly. The government only pointed out some of the problems and the seriousness of the increased number of foreign investments, such as ‘the unity of manufacturing’, but never suggested any specific policies or vision for the future. In extreme cases, it even showed a negative attitude by ignoring all sorts of threats that a firm would make to labourers, abusing the fact that it is setting a new market in foreign countries. The migration of a Korean firm is inevitable for it to grow, but its effect on the society in Korea is immensely devastating, which means that it is necessary to devise original and long-lasting solutions, by means of implementing economic, industrial, educational, and social polices; however, none came from the government. The government, as well as most of the labour unions, have not been capable of coming up with real solutions to these problems.

Finally, there is no information at all about the workers whom Korean companies hire in other countries. Capital movement follows the use of foreign workers. Foreign workers employed by Korean firms for the last 35 years total nearly 180,000 a year. Yet we have no information about
their working conditions. A large proportion of firms (mainly the small- and medium-size enterprises and private enterprises) provide very poor working conditions for foreign labourers. We hear of this very seldom, only through the media of foreign countries and through human rights reports by NGOs.

Korea’s foreign investments have increased constantly since the mid-1990s and have now created an unchangeable trend, also affecting Korean society very much. Moreover, many foreign workers and their families are affected by the activity of Korean firms. This issue of Korea’s foreign investments has arisen once again as something that should be watched over not only by the government and the labourers, but also by everyone else in Korea.
CHAPTER 4

FDI INWARDS AND OUTWARDS: TAIWAN

Ching-Jen Labor Health & Safety Service Center

Profile of Taiwan

<table>
<thead>
<tr>
<th><strong>Area:</strong></th>
<th>32,260 sq km</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Population:</strong></td>
<td>22,749,838 (July 2004 est.)</td>
</tr>
<tr>
<td><strong>GDP - real growth rate:</strong></td>
<td>3.2% (2004 est.)</td>
</tr>
<tr>
<td><strong>GDP - per capita:</strong></td>
<td>purchasing power parity - $23,400 (2004 est.)</td>
</tr>
<tr>
<td><strong>GDP - per sector:</strong></td>
<td>agriculture: 1.8%; industry: 30.3%; services: 67.9% (2004 est.)</td>
</tr>
<tr>
<td><strong>Labour force:</strong></td>
<td>10.08 million (2004 est.)</td>
</tr>
<tr>
<td><strong>Occupational labour force:</strong></td>
<td>agriculture 7.5%, industry 35%, services 57% (2001 est.)</td>
</tr>
<tr>
<td><strong>Unemployment rate:</strong></td>
<td>5% (2004 est.)</td>
</tr>
<tr>
<td><strong>Industries:</strong></td>
<td>electronics, petroleum refining, chemicals, textiles, iron and steel, machinery, cement, food processing</td>
</tr>
<tr>
<td><strong>Industrial production growth rate:</strong></td>
<td>8.4% (2004 est.)</td>
</tr>
<tr>
<td><strong>Current account balance:</strong></td>
<td>$28.57 billion (2004 est.)</td>
</tr>
<tr>
<td><strong>Exports:</strong></td>
<td>$143 billion Free on Board (f.o.b.) (2004 est.)</td>
</tr>
<tr>
<td><strong>Exports - commodities:</strong></td>
<td>computer products and electrical equipment, metals, textiles, plastics and rubber products, chemicals (2002)</td>
</tr>
<tr>
<td><strong>Exports to:</strong></td>
<td>China 25.3%, US 20.5%, Japan 9.2% (2002)</td>
</tr>
<tr>
<td><strong>Imports:</strong></td>
<td>$119.6 billion f.o.b. (2003 est.)</td>
</tr>
<tr>
<td><strong>Imports:</strong></td>
<td>machinery and electrical equipment 44.5%, minerals, precision instruments</td>
</tr>
<tr>
<td><strong>Imports from:</strong></td>
<td>Japan 24.2%, US 16.1%, China 7.1%, South Korea 6.9% (2002)</td>
</tr>
</tbody>
</table>

The modernisation of Taiwan started from the Japanese colonial days since 1895. Japan’s government tried to squeeze out any possible resource from Taiwan’s agriculture sector and transferred it to support the industrial development of Japan. So basic transportation was needed to ship out the rice, sugar cane, and lumber. On the other hand, later on, Taiwan was the midway stop for Japan’s imperialists invading South East Asia. For this purpose, the Japanese implemented certain infrastructures in Taiwan like railways, sea ports, power plants, and petroleum refining factories.

Some of the infrastructure was destroyed during World War II. But after the Chinese Nationalist Party (KMT - Kuomintang) was defeated by the Chinese Communist Party’s (CCP) People’s Liberation Army and the Republic of China government moved to Taiwan in 1949. The KMT received USAID to recover the infrastructure and advocate economic development. As an anti-communist bastion, the capitalist allies Japan and the US provided capital and technical support for Taiwan industrial development, and opened their domestic markets for Taiwan products.

**FDI inward to Taiwan**

Although Taiwan was one of the first countries to set up Export-Processing Zones (EPZ) and implement an export-oriented industrialization (EOI) policy from the 1970s, the internal economic market was much regulated, including foreign direct investment (FDI). In general, FDI could only invest in manufacturing and a few were allowed in the service and financial sectors. Most FDI came from Japan and the US, especially focusing on the automobile and electronics industries. The transnational companies (TNCs) controlled key techniques for producing the main components. So Taiwanese joint ventures only assembled for huge brand names, like Ford, Toyota, Nissan, Mitsubishi, and Honda in auto; and RCA, Texas Instruments, Panasonic and Hitachi in electronics.

In recent years, FDI from the UK’s Central American territories to Taiwan has obviously increase (see Table 1). Another rising phenomenon is FDI in retail and financial sectors. Along with the liberal economic policy since late 1980s, Taiwan’s government deregulated some limits on foreign capitals to invest in retail and banking. Table 2 shows that FDI in these categories had a quick boom.
Table 1. Approved overseas Chinese and foreign investment:
Selected areas & countries (US$1,000)

Table 1a: Asia

<table>
<thead>
<tr>
<th>Year</th>
<th>Hong Kong</th>
<th>Japan</th>
<th>Sub-total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cases</td>
<td>Amount</td>
<td>Cases</td>
</tr>
<tr>
<td>1952-1993</td>
<td>1,608</td>
<td>1,944,650</td>
<td>2,376</td>
</tr>
<tr>
<td>1994</td>
<td>48</td>
<td>250,685</td>
<td>117</td>
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<td>1995</td>
<td>37</td>
<td>146,606</td>
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<td>1996</td>
<td>57</td>
<td>266,947</td>
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<td>1997</td>
<td>56</td>
<td>237,122</td>
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<td>1998</td>
<td>67</td>
<td>274,508</td>
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<tr>
<td>1999</td>
<td>94</td>
<td>161,082</td>
<td>231</td>
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<tr>
<td>2000</td>
<td>92</td>
<td>270,646</td>
<td>317</td>
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<tr>
<td>2001</td>
<td>106</td>
<td>144,839</td>
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</tr>
<tr>
<td>2002</td>
<td>82</td>
<td>65,857</td>
<td>213</td>
</tr>
<tr>
<td>2003</td>
<td>91</td>
<td>44,562</td>
<td>203</td>
</tr>
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</table>

Source: Investment Commission, Ministry of Economic Affairs, Taiwan

Table 1b: US and UK

<table>
<thead>
<tr>
<th>Year</th>
<th>US</th>
<th>UK</th>
<th>Sub-total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cases</td>
<td>Amount</td>
<td>Cases</td>
<td>Amount</td>
</tr>
<tr>
<td>1952-1993</td>
<td>1,255</td>
<td>4,715,721</td>
<td>90</td>
<td>541,308</td>
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<td>1994</td>
<td>66</td>
<td>326,839</td>
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<td>75,636</td>
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<td>1995</td>
<td>75</td>
<td>1,303,882</td>
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<td>151,062</td>
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<tr>
<td>1996</td>
<td>68</td>
<td>489,082</td>
<td>51</td>
<td>417,442</td>
</tr>
<tr>
<td>1997</td>
<td>107</td>
<td>491,456</td>
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<td>659,243</td>
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<tr>
<td>1998</td>
<td>257</td>
<td>952,027</td>
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<td>711,465</td>
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<tr>
<td>1999</td>
<td>218</td>
<td>1,145,345</td>
<td>200</td>
<td>1,215,765</td>
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<tr>
<td>2000</td>
<td>213</td>
<td>1,328,638</td>
<td>358</td>
<td>2,299,833</td>
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<tr>
<td>2001</td>
<td>158</td>
<td>939,832</td>
<td>273</td>
<td>1,396,708</td>
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<tr>
<td>2002</td>
<td>159</td>
<td>600,366</td>
<td>249</td>
<td>802,661</td>
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<tr>
<td>2003</td>
<td>161</td>
<td>686,986</td>
<td>260</td>
<td>919,527</td>
</tr>
</tbody>
</table>

Source: Investment Commission, Ministry of Economic Affairs, Taiwan
Table 2. Approved overseas Chinese and foreign investment:
Selected industries (US$1,000)

Table 2a

<table>
<thead>
<tr>
<th>Year</th>
<th>Chemicals</th>
<th>Cases</th>
<th>Amount</th>
<th>Electronic &amp; electric appliances</th>
<th>Cases</th>
<th>Amount</th>
<th>Wholesale &amp; retail</th>
<th>Cases</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Cases</td>
<td>Amount</td>
<td></td>
<td>Cases</td>
<td>Amount</td>
<td></td>
<td>Cases</td>
<td>Amount</td>
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<td>494</td>
<td>2,630,817</td>
<td>933</td>
<td>4,255,398</td>
<td>43</td>
<td>105,516</td>
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<td>13</td>
<td>189,567</td>
<td>38</td>
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<td>83</td>
<td>213,543</td>
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<tr>
<td>1995</td>
<td>13</td>
<td>374,874</td>
<td>54</td>
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<td>66</td>
<td>95,747</td>
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<tr>
<td>1996</td>
<td>7</td>
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<td>72</td>
<td>443,147</td>
<td>91</td>
<td>208,945</td>
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<td>1997</td>
<td>21</td>
<td>188,689</td>
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<td>20</td>
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<td>20</td>
<td>146,122</td>
<td>191</td>
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<td>165</td>
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<td>790,157</td>
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<td>2002</td>
<td>21</td>
<td>98,750</td>
<td>143</td>
<td>662,994</td>
<td>427</td>
<td>390,917</td>
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<tr>
<td>2003</td>
<td>20</td>
<td>168,771</td>
<td>148</td>
<td>963,620</td>
<td>405</td>
<td>450,674</td>
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</table>

Table 2b

<table>
<thead>
<tr>
<th>Year</th>
<th>Trade</th>
<th>Cases</th>
<th>Amount</th>
<th>Banking &amp; Insurance</th>
<th>Cases</th>
<th>Amount</th>
<th>Services</th>
<th>Cases</th>
<th>Amount</th>
<th>Total</th>
<th>Cases</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
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<td></td>
<td>Cases</td>
<td>Amount</td>
<td></td>
<td>Cases</td>
<td>Amount</td>
</tr>
<tr>
<td>1952-1993</td>
<td>1,345</td>
<td>1,278,738</td>
<td>158</td>
<td>1,264,000</td>
<td>895</td>
<td>2,101,007</td>
<td>6,895</td>
<td>17,704,886</td>
<td></td>
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<tr>
<td>1994</td>
<td>96</td>
<td>134,243</td>
<td>16</td>
<td>168,558</td>
<td>58</td>
<td>112,229</td>
<td>389</td>
<td>1,630,717</td>
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<td></td>
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<tr>
<td>1995</td>
<td>126</td>
<td>173,814</td>
<td>16</td>
<td>259,110</td>
<td>66</td>
<td>188,061</td>
<td>413</td>
<td>2,925,340</td>
<td></td>
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<tr>
<td>1996</td>
<td>108</td>
<td>159,331</td>
<td>28</td>
<td>318,551</td>
<td>83</td>
<td>249,199</td>
<td>500</td>
<td>2,460,836</td>
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<tr>
<td>1997</td>
<td>156</td>
<td>265,189</td>
<td>45</td>
<td>545,159</td>
<td>111</td>
<td>454,293</td>
<td>683</td>
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<tr>
<td>1998</td>
<td>271</td>
<td>284,642</td>
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<td>1,030,040</td>
<td>143</td>
<td>197,477</td>
<td>1,140</td>
<td>3,738,758</td>
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<td></td>
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<tr>
<td>1999</td>
<td>177</td>
<td>310,275</td>
<td>109</td>
<td>1,029,831</td>
<td>186</td>
<td>555,606</td>
<td>1,089</td>
<td>4,231,404</td>
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<tr>
<td>2000</td>
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<td>1,054,097</td>
<td>1,410</td>
<td>7,607,739</td>
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<td></td>
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<tr>
<td>2001</td>
<td>11</td>
<td>68,720</td>
<td>119</td>
<td>1,474,490</td>
<td>199</td>
<td>664,206</td>
<td>1,178</td>
<td>5,128,529</td>
<td></td>
<td></td>
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<tr>
<td>2002</td>
<td>29</td>
<td>11,053</td>
<td>140</td>
<td>879,242</td>
<td>199</td>
<td>356,557</td>
<td>1,142</td>
<td>3,271,747</td>
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<td>163</td>
<td>710,402</td>
<td>1,078</td>
<td>3,575,656</td>
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</table>

Source: Investment Commission, Ministry of Economic Affairs, Taiwan
Taiwanese capital: FDI to other countries

Under liberal economic policy, Taiwan’s government deregulated the limits on outward investment in 1985 and lifted the ban on outward investment to mainland China in 1990. From that time, Taiwan capitals flowed out a lot. Table 3 shows approved outward investment in five recent years: 51 percent of the money went to mainland China, 36 percent went to the Americas, and about 10 percent went to other Asian countries. Table 3 also shows approved outward investment in five recent years: 51 percent of the money went to mainland China, 36 percent went to the Americas, and about 10 percent went to other Asian countries.

Furthermore, investments in Hong Kong (HK) usually went to mainland China. The total value of investment in UK Central American territories—mainly in Belize—was the biggest and the ones in the Americas were second.

But it’s important to note that the official record is not accurate, because many people invested without having registered with the government; the invested values should be higher than those registered.

Table 3. Approved outward investment by area (1999-2003), (US$1,000)

<table>
<thead>
<tr>
<th></th>
<th>Mainland China</th>
<th>Asia*</th>
<th>Africa</th>
<th>America</th>
<th>Europe</th>
<th>Oceania</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cases</td>
<td>Amount</td>
<td>Cases</td>
<td>Amount</td>
<td>Cases</td>
<td>Amount</td>
<td>Cases</td>
</tr>
<tr>
<td></td>
<td>1999</td>
<td>488</td>
<td>1,252,780</td>
<td>153</td>
<td>836,378</td>
<td>2</td>
<td>41,347</td>
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<td>2000</td>
<td>840</td>
<td>2,607,142</td>
<td>222</td>
<td>851,065</td>
<td>5</td>
<td>6,953</td>
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<tr>
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<td>2001</td>
<td>1,386</td>
<td>2,784,147</td>
<td>222</td>
<td>814,981</td>
<td>6</td>
<td>6,066</td>
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<tr>
<td></td>
<td>2002</td>
<td>3,156</td>
<td>6,723,058</td>
<td>182</td>
<td>528,054</td>
<td>18</td>
<td>17,358</td>
</tr>
<tr>
<td></td>
<td>2003</td>
<td>3,875</td>
<td>7,698,784</td>
<td>186</td>
<td>1,063,204</td>
<td>24</td>
<td>33,429</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>9,745</td>
<td>21,065,911</td>
<td>965</td>
<td>4,093,682</td>
<td>55</td>
<td>105,153</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>65.26</td>
<td>51.35</td>
<td>6.46</td>
<td>9.98</td>
<td>0.37</td>
<td>0.26</td>
</tr>
<tr>
<td></td>
<td>US$/Case</td>
<td>-</td>
<td>2,161.71</td>
<td>-</td>
<td>4,242.16</td>
<td>-</td>
<td>1,911.87</td>
</tr>
</tbody>
</table>

* Mainland China is not included

Source: Investment Commission, Ministry of Economic Affairs, Taiwan
and just took advantage of the tax-free paradises to set up holding companies there. But the final destination was always somewhere else. So the real values of Taiwan’s outward investment should be higher and more concentrated on China.

Mainland China

According to Taiwan’s official statistics (Table 4), the average scale of Taiwanese investments in China is about US$1.1 million. But comparing the statistics in Table 3 the average scale of the near five years outward investments in China is close to 2.2 million, meaning that the recent ones are even bigger. Most cases focus on electronics, metals, plastics, and food production.

Table 4. Indirect investment in mainland China: Selected industries (1991-2003), (US$1,000)

<table>
<thead>
<tr>
<th>Industries</th>
<th>Cases</th>
<th>Amount</th>
<th>Amount per case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; Beverage</td>
<td>2,433</td>
<td>1,844,303</td>
<td>758.04</td>
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<tr>
<td>Textiles</td>
<td>1,155</td>
<td>1,298,115</td>
<td>1,123.91</td>
</tr>
<tr>
<td>Garment &amp; Footwear</td>
<td>1,017</td>
<td>521,748</td>
<td>513.03</td>
</tr>
<tr>
<td>Chemicals</td>
<td>1,938</td>
<td>2,349,801</td>
<td>1,212.49</td>
</tr>
<tr>
<td>Plastic Products</td>
<td>2,603</td>
<td>2,307,889</td>
<td>886.63</td>
</tr>
<tr>
<td>Basic Metals &amp; Metal Products</td>
<td>2,698</td>
<td>2,962,692</td>
<td>1,098.11</td>
</tr>
<tr>
<td>Electronic &amp; Electric Appliances</td>
<td>5,578</td>
<td>10,999,893</td>
<td>1,972.01</td>
</tr>
<tr>
<td>Precision Instruments</td>
<td>2,887</td>
<td>1,894,306</td>
<td>656.15</td>
</tr>
<tr>
<td>Others</td>
<td>10,842</td>
<td>10,129,822</td>
<td>934.31</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>31,151</td>
<td>34,308,569</td>
<td>1,101.36</td>
</tr>
</tbody>
</table>

Source: Investment Commission, Ministry of Economic Affairs, Taiwan

The east coast is China’s fastest developing region and very near to Taiwan; Taiwanese investments mostly go to south and east regions and provinces.
a. The Pearl River Delta

The Pearl River Delta in Guangdong province is the first place in China where special economic zones (SEZ) were created. To date the Taiwanese can’t enter China directly from Taiwan, we have to transfer in a third place, usually Hong Kong or Macao. The Pearl River Delta is used to be the first choice for Taiwan businessmen to invest in China. Rather than the most famous Shenzhen, Dongguan is the very place where Taiwanese investments are located.

Table 5. Indirect mainland China investment in Guangdong province: Selected industries (1991-2003), (US$1,000)

<table>
<thead>
<tr>
<th>Industries</th>
<th>Guangzhou Case Amount</th>
<th>Dongguan Case Amount</th>
<th>Shenzhen Case Amount</th>
<th>Others Case Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; Beverage</td>
<td>92</td>
<td>100,652</td>
<td>19</td>
<td>45,631</td>
</tr>
<tr>
<td>Textile</td>
<td>93</td>
<td>72,844</td>
<td>87</td>
<td>67,740</td>
</tr>
<tr>
<td>Garment &amp; Footwear</td>
<td>20</td>
<td>12,295</td>
<td>58</td>
<td>15,174</td>
</tr>
<tr>
<td>Chemicals</td>
<td>75</td>
<td>97,770</td>
<td>136</td>
<td>64,063</td>
</tr>
<tr>
<td>Plastic Products</td>
<td>161</td>
<td>161,994</td>
<td>495</td>
<td>410,466</td>
</tr>
<tr>
<td>Basic Metals &amp; Metal Products</td>
<td>72</td>
<td>82,399</td>
<td>372</td>
<td>358,224</td>
</tr>
<tr>
<td>Electronic &amp; Electric Appliances</td>
<td>160</td>
<td>379,299</td>
<td>1,036</td>
<td>1,743,704</td>
</tr>
<tr>
<td>Precision Instruments</td>
<td>138</td>
<td>76,284</td>
<td>408</td>
<td>308,671</td>
</tr>
<tr>
<td>Others</td>
<td>437</td>
<td>354,548</td>
<td>753</td>
<td>507,403</td>
</tr>
<tr>
<td>Total</td>
<td>1,248</td>
<td>1,338,085</td>
<td>3,521,076</td>
<td>2,187,495</td>
</tr>
</tbody>
</table>

Resource: Investment Commission, Ministry of Economic Affairs, Taiwan

Who invests in this region?

Food: Uni-President; Footwear: Pou-Chen (Yue-Yuen); Chemical: Kenda Tires & Tubes; Plastic: China General Plastics Corporation; Metal: Yulon Motor; Electronic & Precision: Lite-On Technology, Micro-Star International, Gigabyte Technology, First International Computer.
b. Fujian province

Fujian is China’s nearest province to Taiwan just across the Taiwan Strait. Its geographical location is between the Pearl River Delta and the Yangtze River Delta. The ancestors of many Taiwanese came from this region and the people in southern Fujian speak the same dialect as the Taiwanese. Taiwanese who cannot speak Mandarin can communicate with people without any trouble in Xiamen. Now Taiwan residents whose household registration in Kinmen or Matsu, and Taiwanese businessmen can take boat to Fuzhou or Xiamen directly from the two small islands just off Fujian, no need to transfer. So some Taiwanese also like to do business in this region.

Table 6. Approved indirect mainland China investment in Fujian province: Selected industries (1991-2003), (US$1,000)

<table>
<thead>
<tr>
<th>Industries</th>
<th>Fuzhou</th>
<th>Xiamen</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Case</td>
<td>Amount</td>
<td>Case</td>
</tr>
<tr>
<td>Food &amp; Beverage</td>
<td>92</td>
<td>30,799</td>
<td>77</td>
</tr>
<tr>
<td>Textile</td>
<td>27</td>
<td>29,651</td>
<td>68</td>
</tr>
<tr>
<td>Garment &amp; Footwear</td>
<td>45</td>
<td>14,613</td>
<td>105</td>
</tr>
<tr>
<td>Plastic Products</td>
<td>88</td>
<td>48,120</td>
<td>116</td>
</tr>
<tr>
<td>Non-metallic Minerals</td>
<td>10</td>
<td>8,683</td>
<td>105</td>
</tr>
<tr>
<td>Basic Metals &amp; Metal Products</td>
<td>53</td>
<td>43,890</td>
<td>134</td>
</tr>
<tr>
<td>Electronic &amp; Electric Appliances</td>
<td>74</td>
<td>271,010</td>
<td>217</td>
</tr>
<tr>
<td>Precision Instruments</td>
<td>72</td>
<td>22,877</td>
<td>263</td>
</tr>
<tr>
<td>Others</td>
<td>329</td>
<td>197,570</td>
<td>522</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>790</td>
<td>667,213</td>
<td>1,607</td>
</tr>
</tbody>
</table>

*Source: Investment Commission, Ministry of Economic Affairs, Taiwan*

**Who invests in this region?**

Food: FWUSO Industry; Footwear: Feng-Tay Enterprises; Textile & Plastic: Formosa Plastics Group has a huge project in Haicang – a district of Xiamen; Metal: China Motor; Electronic & Precision: Tsann-Kuen Enterprise, Chunghwa Picture Tubes.
c. Yangtze River Delta

This region includes Shanghai municipality, Jiangsu province and Zhejiang province. This is turning out to be the financial and business centre of China. The Yangtze River Delta is a newly emerging investment paradise and market for businessmen. In recent years the total values of Taiwanese investments there already exceed the ones in the Pearl River Delta. Capitalists in electronic and precision industries especially like to invest in Kunshang, Jiangsu province. Investing in the service sector is also popular in this region.

When the CPP established New China in 1949, some Chinese capitalists, mostly from the textile industry went to Taiwan with the KMT, most were from Shanghai and Shandong. Now that they can go back to invest, many second generation Shanghainese like to develop business in this region, including their original textile industry.

Table 7. Indirect mainland China investment in the Yangtse River Delta: Selected industries (1991-2003), (US$1,000)

<table>
<thead>
<tr>
<th>Industries</th>
<th>Shanghai Case Amount</th>
<th>Jiangsu Case Amount</th>
<th>Zhejiang Case Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile</td>
<td>135</td>
<td>149,011</td>
<td>191</td>
</tr>
<tr>
<td>Garment &amp; Footwear</td>
<td>202</td>
<td>132,735</td>
<td>154</td>
</tr>
<tr>
<td>Chemicals</td>
<td>283</td>
<td>328,877</td>
<td>366</td>
</tr>
<tr>
<td>Plastic Products</td>
<td>287</td>
<td>238,224</td>
<td>243</td>
</tr>
<tr>
<td>Basic Metals &amp; Metal Products</td>
<td>352</td>
<td>328,111</td>
<td>472</td>
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<tr>
<td>Electronic &amp; Electric Appliances</td>
<td>596</td>
<td>1,262,959</td>
<td>1,068</td>
</tr>
<tr>
<td>Precision Instruments</td>
<td>299</td>
<td>209,956</td>
<td>276</td>
</tr>
<tr>
<td>Services</td>
<td>442</td>
<td>381,427</td>
<td>203</td>
</tr>
<tr>
<td>Others</td>
<td>1,639</td>
<td>1,818,617</td>
<td>1,381</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,235</td>
<td>4,849,917</td>
<td>4,354</td>
</tr>
</tbody>
</table>

Source: Investment Commission, Ministry of Economic Affairs, Taiwan
**Who invests in this region?**


Asia

**Table 8. Approved outward investment in all Asia:**
Selected industries (1952-2003), (US$1,000)

<table>
<thead>
<tr>
<th>Industries</th>
<th>Cases</th>
<th>Amount</th>
<th>Amount/Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile</td>
<td>106</td>
<td>657,813</td>
<td>6,205.78</td>
</tr>
<tr>
<td>Garment &amp; Footwear</td>
<td>69</td>
<td>106,962</td>
<td>1,550.17</td>
</tr>
<tr>
<td>Chemicals</td>
<td>132</td>
<td>571,807</td>
<td>4,331.87</td>
</tr>
<tr>
<td>Basic Metals &amp; Metal Products</td>
<td>132</td>
<td>756,158</td>
<td>5,728.47</td>
</tr>
<tr>
<td>Electronic &amp; Electric Appliances</td>
<td>638</td>
<td>2,854,692</td>
<td>4,474.44</td>
</tr>
<tr>
<td>Trade</td>
<td>513</td>
<td>576,303</td>
<td>1,123.40</td>
</tr>
<tr>
<td>Banking &amp; Insurance</td>
<td>223</td>
<td>1,948,887</td>
<td>8,739.40</td>
</tr>
<tr>
<td>Services</td>
<td>216</td>
<td>562,390</td>
<td>2,603.66</td>
</tr>
<tr>
<td>Others</td>
<td>858</td>
<td>2,188,136</td>
<td>2,550.28</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,887</strong></td>
<td><strong>10,223,148</strong></td>
<td><strong>3,541.10</strong></td>
</tr>
</tbody>
</table>

Note: Mainland China is not included

Source: Investment Commission, Ministry of Economic Affairs, Taiwan

Taiwanese investments in Asia are actually concentrated in the south east. Usually Taiwanese businesses focus on manufacturing, but in some places financial and service sectors are also popular.

Another relative issue is the migrant labour and ‘migrant brides’. By the end of 2003, there were 300,150 documented migrant workers in total in Taiwan. Among them, 104,728 from Thailand, 81,335 from the Philippines, 57,603 from Vietnam, and 56,437 from Indonesia. In general, Thais and Filipinos work in factories. Vietnamese and Indonesians are usually domestic workers. Besides, there are some Chinese migrants working on fishing boats.
More and more Taiwanese men feel that it’s not easy to marry Taiwanese women, especially the ones who are low-waged factory workers, handicapped, or live in the countryside or fishery villages. Then finding a ‘migrant bride’ becomes their choice. From 1987 to August 2004, there were about 113,000 ‘migrant brides’ from South East Asian countries, including Vietnam, Indonesia, Thailand, Philippines, and Cambodia, with an additional 198,000 from China. Now, among every 100 couples who get married in Taiwan, 20 brides are from China and 10 are from South East Asia. Migrant brides are often married to families in hardship, so they have to work, no matter legal or illegal.

a. Hong Kong

As mentioned earlier, many Taiwanese investments in Hong Kong eventually go to China. The most famous case is Pou-Chen. Pou-Chen Group set up a subsidiary Yue-Yuen in Hong Kong, and then invested their money in China mainly through Yue-Yuen.

Table 9. Outward investment in Hong Kong:
Selected industries (1952-2003), (US$1,000)

<table>
<thead>
<tr>
<th>Industries</th>
<th>Cases</th>
<th>Amount</th>
<th>Amount/Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>20</td>
<td>53,848</td>
<td>2,692.40</td>
</tr>
<tr>
<td>Electronic &amp; Electric Appliances</td>
<td>138</td>
<td>170,522</td>
<td>1,235.67</td>
</tr>
<tr>
<td>Precision Instruments</td>
<td>12</td>
<td>18,925</td>
<td>1,577.08</td>
</tr>
<tr>
<td>Wholesale &amp; Retail</td>
<td>97</td>
<td>108,936</td>
<td>1,123.05</td>
</tr>
<tr>
<td>Trades</td>
<td>290</td>
<td>455,697</td>
<td>1,571.37</td>
</tr>
<tr>
<td>Transport</td>
<td>15</td>
<td>17,597</td>
<td>1,173.13</td>
</tr>
<tr>
<td>Banking &amp; Insurance</td>
<td>89</td>
<td>1,010,810</td>
<td>11,357.42</td>
</tr>
<tr>
<td>Services</td>
<td>64</td>
<td>252,450</td>
<td>3,944.53</td>
</tr>
<tr>
<td>Others</td>
<td>57</td>
<td>137,590</td>
<td>2,413.86</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>782</strong></td>
<td><strong>2,226,375</strong></td>
<td><strong>2,847.03</strong></td>
</tr>
</tbody>
</table>

Resource: Investment Commission, Ministry of Economic Affairs, Taiwan

b. Cambodia

Due to the civil war, Taiwanese businessmen went to Cambodia later than other South East Asia countries. After the 1993 Peace Accord there was an investment boom from Taiwan. The Taiwanese invested mainly in five industries - garment, wood, service, food, and footwear; all are labour intensive. But investment has
declined in recent years. Generally speaking, there were too many garment factories already and the businessmen couldn’t get enough quotas. It’s believed to be the main reason why Taiwanese stop taking money to Cambodia.

Who invests in this region?

Roo-Hsing Garment, Tommy Textiles.

c. Indonesia

Who invests in this region?


<table>
<thead>
<tr>
<th>Year</th>
<th>Cases</th>
<th>Amount</th>
<th>Amount/Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>2</td>
<td>565,000</td>
<td>282,500.00</td>
</tr>
<tr>
<td>1995</td>
<td>19</td>
<td>14,407,930</td>
<td>758,312.11</td>
</tr>
<tr>
<td>1996</td>
<td>34</td>
<td>163,726,505</td>
<td>4,815,485.44</td>
</tr>
<tr>
<td>1997</td>
<td>63</td>
<td>44,380,306</td>
<td>704,449.30</td>
</tr>
<tr>
<td>1998</td>
<td>25</td>
<td>144,256,205</td>
<td>5,770,248.20</td>
</tr>
<tr>
<td>1999</td>
<td>15</td>
<td>55,392,632</td>
<td>3,692,842.13</td>
</tr>
<tr>
<td>2000</td>
<td>24</td>
<td>36,635,637</td>
<td>1,526,484.88</td>
</tr>
<tr>
<td>2001</td>
<td>8</td>
<td>56,972,989</td>
<td>7,121,623.63</td>
</tr>
<tr>
<td>2002</td>
<td>4</td>
<td>6,825,330</td>
<td>1,706,332.50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>179</strong></td>
<td><strong>500,659,618</strong></td>
<td><strong>2,796,981.11</strong></td>
</tr>
</tbody>
</table>

Resource: Bureau of Foreign Trade, Ministry of Economic Affairs, Taiwan

Table 10. Outward investment in Cambodia (1994-2002), (US$)

<table>
<thead>
<tr>
<th>Industries</th>
<th>Case</th>
<th>Amount</th>
<th>Amount/Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>23</td>
<td>74,408</td>
<td>3,235.13</td>
</tr>
<tr>
<td>Garment &amp; Footwear</td>
<td>13</td>
<td>22,637</td>
<td>1,741.31</td>
</tr>
<tr>
<td>Paper Productions &amp; Printing</td>
<td>4</td>
<td>86,539</td>
<td>21,634.75</td>
</tr>
<tr>
<td>Chemicals</td>
<td>15</td>
<td>34,418</td>
<td>2,294.53</td>
</tr>
<tr>
<td>Non-metallic Minerals</td>
<td>7</td>
<td>67,950</td>
<td>9,707.14</td>
</tr>
<tr>
<td>Basic Metals &amp; Metal Products</td>
<td>23</td>
<td>37,073</td>
<td>1,611.87</td>
</tr>
<tr>
<td>Electronic &amp; Electric Appliances</td>
<td>21</td>
<td>81,340</td>
<td>3,873.33</td>
</tr>
<tr>
<td>Transport Equipment</td>
<td>13</td>
<td>41,548</td>
<td>3,196.00</td>
</tr>
<tr>
<td>Others</td>
<td>68</td>
<td>152,221</td>
<td>2,238.54</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>187</strong></td>
<td><strong>598,134</strong></td>
<td><strong>3,198.58</strong></td>
</tr>
</tbody>
</table>

Resource: Investment Commission, Ministry of Economic Affairs, Taiwan
d. Malaysia

Table 12. Outward investment in Malaysia:
Selected industries (1952-2003), (US$1,000)

<table>
<thead>
<tr>
<th>Industries</th>
<th>Case</th>
<th>Amount</th>
<th>Amount/Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile</td>
<td>5</td>
<td>184,800</td>
<td>36,960.00</td>
</tr>
<tr>
<td>Garment &amp; Footwear</td>
<td>2</td>
<td>1,374</td>
<td>687.00</td>
</tr>
<tr>
<td>Lumber &amp; Bamboo Products</td>
<td>20</td>
<td>34,737</td>
<td>1,736.85</td>
</tr>
<tr>
<td>Chemicals</td>
<td>21</td>
<td>117,856</td>
<td>5,612.19</td>
</tr>
<tr>
<td>Non-metallic Minerals</td>
<td>12</td>
<td>35,252</td>
<td>2,937.67</td>
</tr>
<tr>
<td>Basic Metals &amp; Metal Products</td>
<td>28</td>
<td>482,671</td>
<td>17,238.25</td>
</tr>
<tr>
<td>Electronic &amp; Electric Appliances</td>
<td>75</td>
<td>494,310</td>
<td>6,590.80</td>
</tr>
<tr>
<td>Banking &amp; Insurance</td>
<td>12</td>
<td>59,767</td>
<td>4,980.58</td>
</tr>
<tr>
<td>Others</td>
<td>97</td>
<td>138,461</td>
<td>1,427.43</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>272</strong></td>
<td><strong>1,549,228</strong></td>
<td><strong>5,695.69</strong></td>
</tr>
</tbody>
</table>

Resource: Investment Commission, Ministry of Economic Affairs, Taiwan

Who invests in this region?

Textile: Hualon Corporation (M) SDN BHD; Chemical: Wondy Chemical (M) SDN BHD, Dairen Chemical (M) SDN BHD; Metal: TMC Metal (M) SDN BHD; Electronic: Invectec Electronics (M) SDN BHD, Silitek Corporation SDN BHD.

e. Philippines

Table 13. Outward investment in the Philippines:
Selected industries (1952-2003), (US$1,000)

<table>
<thead>
<tr>
<th>Industries</th>
<th>Case</th>
<th>Amount</th>
<th>Amount/Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; Beverage</td>
<td>4</td>
<td>23,715</td>
<td>5,928.75</td>
</tr>
<tr>
<td>Textile</td>
<td>19</td>
<td>48,484</td>
<td>2,551.79</td>
</tr>
<tr>
<td>Garment &amp; Footwear</td>
<td>14</td>
<td>9,765</td>
<td>697.50</td>
</tr>
<tr>
<td>Chemicals</td>
<td>10</td>
<td>110,491</td>
<td>11,049.10</td>
</tr>
<tr>
<td>Non-metallic Minerals</td>
<td>14</td>
<td>140,373</td>
<td>10,026.64</td>
</tr>
<tr>
<td>Basic Metals &amp; Metal Products</td>
<td>9</td>
<td>17,662</td>
<td>1,962.44</td>
</tr>
<tr>
<td>Electronic &amp; Electric Appliances</td>
<td>31</td>
<td>285,645</td>
<td>9,214.35</td>
</tr>
<tr>
<td>Banking &amp; Insurance</td>
<td>15</td>
<td>49,237</td>
<td>3,282.47</td>
</tr>
<tr>
<td>Others</td>
<td>36</td>
<td>21,809</td>
<td>605.81</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>152</strong></td>
<td><strong>707,181</strong></td>
<td><strong>4,652.51</strong></td>
</tr>
</tbody>
</table>

Resource: Investment Commission, Ministry of Economic Affairs, Taiwan
Who invests in this region?


f. Thailand

<table>
<thead>
<tr>
<th>Industries</th>
<th>Case</th>
<th>Amount</th>
<th>Amount/Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; Beverage</td>
<td>18</td>
<td>83,787</td>
<td>4,654.83</td>
</tr>
<tr>
<td>Textile</td>
<td>19</td>
<td>49,948</td>
<td>2,628.84</td>
</tr>
<tr>
<td>Garment &amp; Footwear</td>
<td>6</td>
<td>2,627</td>
<td>437.83</td>
</tr>
<tr>
<td>Chemicals</td>
<td>24</td>
<td>132,974</td>
<td>5,540.58</td>
</tr>
<tr>
<td>Non-metallic Minerals</td>
<td>31</td>
<td>68,334</td>
<td>2,204.32</td>
</tr>
<tr>
<td>Rubber Products</td>
<td>14</td>
<td>29,358</td>
<td>2,097.00</td>
</tr>
<tr>
<td>Electronic &amp; Electric Appliances</td>
<td>69</td>
<td>482,879</td>
<td>6,998.25</td>
</tr>
<tr>
<td>Banking &amp; Insurance</td>
<td>17</td>
<td>78,714</td>
<td>4,630.24</td>
</tr>
<tr>
<td>Others</td>
<td>133</td>
<td>186,164</td>
<td>1,399.73</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>331</strong></td>
<td><strong>1,114,785</strong></td>
<td><strong>3,367.93</strong></td>
</tr>
</tbody>
</table>

Resource: Investment Commission, Ministry of Economic Affairs, Taiwan

Who invests in this region?

Food: Thai-Sun Foods; Textile: Everest Textile; Chemical: Four Pillars Enterprise; Electronic: Delta Electronic, Lite-On Industry; Banking: Bangkok First Investment & Trust.

g. Vietnam

Because it’s not long since Vietnam opened the door to international capital, Taiwanese investors went there relatively late compared with other South East Asian countries. But soon after Vietnam normalized diplomatic relations with the US, the Taiwanese hurried there seeking the advantages of US trade preferences. Although the investing history is not long, Table 15 shows that the total amount of investments is even bigger than those in other South East Asia countries. People expect that the tendency will con-
Who invests in this region?


Other continents and conclusions

Most outward investments focused on manufacturing industries, with some in financial and service sectors, especially in the advanced capitalist states. Electronics is the most outstanding manufacturing industry; food, textile, garment, chemical, plastic and metal are also common.

In general, Taiwanese businesses not only go out for cheaper labour forces but also for trade preferences. Labour intensive industries, including textile and garment, are the typical ones. Selling to the US market is the priority goal for Taiwanese businesses. They go to Central America because of Caribbean Basin Initiative (CBI) with the following, and the

### Table 15. Outward investment in Vietnam:
Selected industries (1952-2003), (US$1,000)

<table>
<thead>
<tr>
<th>Industries</th>
<th>Case</th>
<th>Amount</th>
<th>Amount/Case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; Beverage</td>
<td>17</td>
<td>129,948</td>
<td>7,644.00</td>
</tr>
<tr>
<td>Textile</td>
<td>23</td>
<td>243,236</td>
<td>10,575.48</td>
</tr>
<tr>
<td>Garment &amp; Footwear</td>
<td>19</td>
<td>48,060</td>
<td>2,529.47</td>
</tr>
<tr>
<td>Chemicals</td>
<td>17</td>
<td>111,080</td>
<td>6,534.12</td>
</tr>
<tr>
<td>Paper Products &amp; Printing</td>
<td>6</td>
<td>109,069</td>
<td>18,178.17</td>
</tr>
<tr>
<td>Basic Metals &amp; Metal Products</td>
<td>9</td>
<td>120,667</td>
<td>13,407.44</td>
</tr>
<tr>
<td>Electronic &amp; Electric Appliances</td>
<td>23</td>
<td>55,983</td>
<td>2,434.04</td>
</tr>
<tr>
<td>Transport Equipment</td>
<td>16</td>
<td>68,310</td>
<td>4,269.38</td>
</tr>
<tr>
<td>Others</td>
<td>108</td>
<td>155,366</td>
<td>1,438.57</td>
</tr>
<tr>
<td>Total</td>
<td>331</td>
<td>1,114,785</td>
<td>3,367.93</td>
</tr>
</tbody>
</table>

Resource: Investment Commission, Ministry of Economic Affairs, Taiwan
3

78,205
34,457

12,572

10,889

13,135

29
46

7
1

4,183
2,411

35,540
-

8
11

59,796 88
42,954 14
99,376 43
257,419 231

379,026
22,911
87,057
626,013

18
6
22
87

20
-

Africa
Oceania
Case Amount Case Amount
1
24
1
896

Table 16. Outward investment outside Asia: Selected Industries (1952-2003), (US$1,000)
America
US
British territories Other Americas Europe
Industries Case Amount Case Amount
Case Amount CaseAmount
Textile
7
39,537
5
17,600
13 50,885
5
87,186
Garment &
Footwear
10
23,680
1
571
40 129,520
1
3,000
Chemicals 261 1,055,036 14
62,064
16 25,539
4
4,815
Basic Metals
& Metal
Products
27
49,898
3
76,193
3
530
2
3,612
Electronic &
Electric
Appliances 1,857 2,401,213 105 383,840
36 607,696
120 253,493
Trade
238 235,938 183 920,396
24 68,055
116 121,315
Banking &
Insurance 203 1,165,621 934 11,265,776 80 1,860,795 58 180,134
Services
1,150 1,086,247 170 1,041,982 43 71,304
44 99,417
Others
495 1,510,007 127 688,008
111 1,507,405 123 280,275
Total
4,248 7,567,177 1,542 14,456,430 366 4,321,729 473 1,033,247
Source: Investment Commission, Ministry of Economic Affairs, Taiwan

Asia Monitor Resource Centre

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coming Central American Free Trade Agreement (CAFTA). And similarly with the African Growth and Opportunity Act (AGOA), they go to Southern Africa.

**Who invests in these regions?**

- Caribbean (Dominic Republic and Haiti): San-Sun Hats & Caps.

**Policy of the Taiwan government**

For the Taiwan government, the policy of outward investment and international trade can never be out of relations with international politics and diplomatic issues.

**Anywhere but China**

To avoid dependency on the China market, Taiwan’s government tries hard to reduce the big investment flow to China, especially after Taiwan’s Democratic Progressive Party came to power in 2000. But Table 3 shows that the attempt is mostly in vain. In number of cases and in amounts, investments in China didn’t shrink but on the contrary are expanding.

**If not China, where? – The diplomatic use of investment**

Due to the ‘one China policy’, the political status of Taiwan is very isolated in international society, because most countries choose the People’s Republic of China as China rather than the Republic of China (Taiwan). Few countries have formal diplomatic relations with Taiwan, many located in Central America. To favour these governments and consolidate diplomacy, the Taiwan government gives some advantages to Taiwanese investors who go to Central America as incentives. Due to the geographical closeness and trying to rope in some countries, South East Asia is another region that the government likes to advocate.

**Free Trade Agreements**

The international political isolation of Taiwan presents difficulties in joining international organisations. For example, it is almost impossible for Taiwan to join the Association of South East Asian Nations (ASEAN) partnership because China definitely opposes it. To avoid dependency on
the China market, the Taiwan government has to show more incentives to businessmen for investing in other areas or staying in Taiwan. Since it’s not easy to join international economic organisations, bilateral free trade agreements (FTA) are the second best choice.

Yet FTAs are not easy. So far Taiwan’s government only accomplished one FTA—with Panama, but trade with Panama is not as important for Taiwan as the milestone agreement. Taiwan seeks more FTAs with other Central American countries, hoping for possibilities to make more trade with the US indirectly by way of Central America, if the CAFTA were realised. Negotiations with Singapore is under way in order to enter the ASEAN common market. Of course, an FTA with the US is the terminal goal.

South Asia and East Europe as the two new propagandas

Besides China, people often identify India as an emerging world factory. After July 2004, the European Union extended its boundary around some East European countries. In 2004 government began to lobby businessmen to invest in these two regions. But according to past experience, taking businesses away from China is not an easy mission.
This article is a small initiative to examine the role of Hong Kong capital in globalised capitalism. Starting with a historical review of the ‘origin’ and development of Hong Kong capital, the following issues emerge.

1. Hong Kong is a free port for investment and capitalisation. The question of Hong Kong origin is problematic as capital that originated from different sourcing countries is generally regarded as ‘Hong Kong capital’ as long as it is listed in Hong Kong and has main operations in Hong Kong.

2. Trading capital has played an important role in the accumulation of manufacturing and finance capital in Hong Kong. Hong Kong capital has acquired a high degree of transnationality, concentrated largely in the tertiary (service) sector.

3. The reproduction of Hong Kong capital is dependent firstly on the exploitation of labour with a weak organising base both in Hong Kong and the Asian region. Secondly it depends on the high degree of openness of the economy, particularly the finance sector, in Hong Kong.

The above features pose challenging questions to the building of monitoring forces and mechanisms on Hong Kong capital that require more transnational and cross-sectoral collaboration in the local and international labour movement.
Foreign trading capital in Hong Kong during early colonisation

Hong Kong was ceded to Britain under the Nanjing Treaty in 1842 after the Qing Dynasty’s defeat in the Opium War in China. A colonial government was set up in 1843 followed by large-scale inflow of British capital, represented predominantly by British companies that had established subsidiary trading houses in Canton (now Guangzhou city in Guangdong province) taking advantages of various wars and treaties that forced the Qing Dynasty to open up ports along the east and south China coasts. By June 1841, 25 British companies had opened in Hong Kong operating trading houses, shipping companies, offices, banks\(^1\), warehouses, dockyards, and ferry piers. The most famous companies are Jardine Matheson Company (1843), the Swire Company (1870), and the Hutchison Company.\(^2\) Their investments aimed at providing a political and economic base to support British trade and investment in China. Before moving into Hong Kong, Jardine Matheson already had capital worth 2.6 million dollars (Lo and Lo 2002)\(^3\), which rose to 40 million by 1914. The company owned tens of large and small ships that traded goods and raw materials between China and the world. The company made huge profits from sales and licensing of products, and processing factories for textiles, mining, shipbuilding, engineering, and tobacco in China as well as investing in Hong Kong’s infrastructure and transportation.\(^4\)

Investment from mainland China and overseas Chinese communities was not negligible. Their investment was mainly in trade and related sectors such as warehouses and shipping. A group of Chinese agents emerged to serve British and western trading capital in China and Asia. They were contracted by the trading houses and got huge profits from commissions, taking advantage of language, filial relations, and personal networking; Li and Fung is the most typical and successful example. The two founders were mainland Chinese previously working in western trading houses in Guangzhou in 1906. The company dealt in fireworks, furniture, gemstones, and handicraft trading in the beginning. The company ventured into manufacturing in Hong Kong for a while during the western embargo on China after the Korean War but soon restructured to focus on regional sourcing. The company now has subsidiary offices in Taiwan, China, Thailand, and Singapore and prides itself on running ‘virtual factories’ for western buy-
ers through its globalised sourcing network. The significance of the trading companies lies in the role they play in accelerating the accumulation of non-western capital in Hong Kong and later, the access to western markets they provided, and thus accumulation of manufacturing capital in Hong Kong.

The predominance of trading activities rendered Hong Kong an entrepôt trade economy. By 1890, the Hong Kong-China trade accounted for 55 percent of China’s total imports and 37 percent of her exports (Lo and Lo 2002, p.111). The only comparable sectors were shipping and shipbuilding.

**Industrialisation and the accumulation of Hong Kong manufacturing capital (1950 – 1970)**

British capital aimed at exploiting the strategic trading position of Hong Kong and the colonial government did not adopt any industrialisation policy. The industrialisation of Hong Kong was generally regarded as a result of the disruption of trade with China firstly in the two world wars and then the Korean War in 1951 that resulted in the US embargo on China. The Chinese Communist Party’s takeover of China and the subsequent nationalisation of industries and political instability resulted in the transfer of the industry base and inflow of mainland capital especially in the textile industry from Shanghai to Hong Kong. The biggest one was the Shanghai-originated Hong Kong Textile Limited. The family business moved to Hong Kong to set up the first milling factory in 1949, as the company could not import machinery due to political instability. By 1958, the Hong Kong Textile Limited employed 1,907 workers on a monthly production capacity of 16.6 million pounds of yarn (Fung Y.B 1997). From 1947 to 1967, the number of textile and garment factories rose from 1,000 to 11,000 and the number of employees increased from 5,200 to 430,000. The so-called ‘Hong Kong’ capital in the textile and garment industry therefore is the result of the ‘naturalisation’ of Shanghai-originated capital. These Shanghai-originated family-based textile and garment businesses later became the major players in the industry as well as the political arena of Hong Kong. Besides the inflow of Shanghai capital, the trading capital in Hong Kong also needed collaborative local manufacturing capital from the 1950s - 1970s when the political situation in Asia was not stable and East Asian governments, such as Korea and Taiwan adopted the import substitution devel-
opment strategy. Hong Kong manufacturing capital started by embedding itself for original equipment manufacturing (OEM) producers in international sub-contracting with western manufacturing and retailing capital. The Hong Kong economy quickly turned from an entrepôt to export-oriented economy and the industrialisation of the territory, which was mainly labour intensive, was accomplished in 20 years. About 80 percent of the domestic production of textiles and garments, electronics, electrical, and plastic products were for export in the 1970s (Census and Statistics Department, Hong Kong 1971). Table 1 shows that textiles and garments was the most important sector in terms of domestic export the 1970s.

Table 1. Performance of major manufacturing industries in Hong Kong

<table>
<thead>
<tr>
<th>Year</th>
<th>Type of industry</th>
<th>Domestic production value (%)</th>
<th>Employment of industrial labour force (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968</td>
<td>Textile and garment</td>
<td>48.5</td>
<td>44</td>
</tr>
<tr>
<td>1974-1975</td>
<td>Textile and garment</td>
<td>50 (garment alone 38)</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td>Electronics</td>
<td>12.5</td>
<td>9.5</td>
</tr>
<tr>
<td></td>
<td>Plastics (include toys)</td>
<td>10.5</td>
<td>11.7</td>
</tr>
<tr>
<td></td>
<td>Watches and clocks</td>
<td>2.2</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Sources: Industrial Investment in Hong Kong 1968 and 1974-75; Hong Kong Trade Development Council

For the first time in 1959, the value of domestic exports overtook re-exports representing 69.9 percent of total exports while re-exports accounted for 30.4 percent. In 1969, about 80 percent of total exports came from domestic exports while 20 percent came from re-exports (Hong Kong Government Census). By the end of 1970s, Hong Kong was the biggest exporter in garment and toy manufacturing in the world.

The growth of the manufacturing industry also benefited from inward FDI. From 1946-50 a total of only US$500 million flowed into Hong Kong compared to HK$10 billion between 1950 and 1970 (Lo and Lo, 2002). This was largely capital from mainland China and over-
seas Chinese communities fleeing political instability in their countries. They contributed largely to the manufacturing and trading sectors in Hong Kong. Non-Chinese capital came mainly from the US, Japan, and UK in the 1970s to establish subsidiary or joint venture factories mainly in the electronics and garments industries in Hong Kong to supply the parent companies. One example is Fairchild Electronics that employed more than 1,000 workers in Hong Kong in the 1970s. In 1973, there was a total of US$280 million FDI flowing into Hong Kong, 22 percent of which went to the textiles and garments sector while 21.8 percent went to the electronics sector. They employed about 11 percent of the industrial work force, contributing about 15 percent to Hong Kong’s domestic exports (HK Trade Development Council 1974-1975).

Besides the larger political environment, the reproduction of Hong Kong’s manufacturing capital was based on a combination of factors, first of which was the supply of cheap mainland labour to Hong Kong in the 1960s and 1970s. The immigration of about one million young workers fleeing political turmoil in China from 1949 – 1970 made up 25 percent of Hong Kong’s total population in 1970. The government adopted a loose immigration policy for these mainland Chinese immigrants to support industrialisation. Factories usually started as small workshops and the average workforce size was around 50-100. They needed a strong, flexible and mutually supportive production network to finish voluminous order placements from western buyers. A ‘flexible’ labour subcontracting system that was based on filial relations developed. The factory owners relied on key ‘contractors’ who had a group of skilled, mobile workers following them to work in different factories or at home in the peak season. These contractors took up labour management and training for the factory owner while negotiating prices between a semi-organised workforce and the management. The system was largely based on individual relations. While it might strengthen somehow the market position of a dispersed workforce, it remained individual bargaining and discouraged union organising. This factor in combination with weak labour regulation and the government’s laissez-faire and ‘active non-intervention’ policies accelerated the speed of capital accumulation.
China’s Open Door Policy and the reproduction and diversification of Hong Kong capital (1980 – 2000)

The second stage of the accumulation of Hong Kong manufacturing capital took place in the 1980s and 1990s benefiting largely from China’s Open Door Policy (1978). Hong Kong experienced full employment in the 1980s and the bargaining position of workers in the market rose. China offered the most convenient exit for Hong Kong manufacturing capital to sustain and further expand itself. Massive relocation of factories took place from Hong Kong to Guangdong province, which was virtually a big ‘Special Economic Hinterland’ for Hong Kong. The political and economic need to rebuild and restore political and economic stability and reform the state-owned sector after the devastation of the Cultural Revolution pushed the government to open the labour and investment markets. Hong Kong capital, management skills, and technology were welcomed to absorb the surplus labour released from poverty-stricken rural areas. Desperate to seek cheap labour, Hong Kong manufacturing capital therefore benefited from favourable government policies and the absence of labour regulation in the newly opened labour market in China that was largely composed of rural migrant workers. The labour struggles in Hong Kong in the 1980s were passive focusing on severance payment and re-employment. Manufacturing capital was able to reproduce during this period because of the weak position of workers both in China and in Hong Kong.

Table 2. Import, export, and re-export changes in Hong Kong from 1970-2003 (HK$)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Merchandise Trade</th>
<th>Imports</th>
<th>Exports</th>
<th>Domestic Export (% to total exports)</th>
<th>Re-export (% to total exports)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>32,846 mn (US$454.9bn)</td>
<td>17,607 mn</td>
<td>15,239 mn</td>
<td>12,347 mn (81%)</td>
<td>2,892 mn (18.9%)</td>
</tr>
<tr>
<td>2003</td>
<td>3548 bn (US$454.9bn)</td>
<td>1805.7bn</td>
<td>1742.5 bn</td>
<td>121.7 bn (6.98%)</td>
<td>1620.8 bn (93%)</td>
</tr>
</tbody>
</table>

Source: Census and Statistics Department of Hong Kong
Note: The figures in 2003 are calculated in US$ in the government statistics; here it is converted into HK$ at 1US$ = 7.8US$ for comparison.
The effect of factory relocation obviously shifted the Hong Kong economy from manufacturing to entrepôt-based again. Re-export took over from domestic export again in 1989. In the 20 years between 1981 and 2000, re-export earnings recorded a growth rate of 20 percent compared to 1.7 percent of domestic export. Re-export contributed 40 percent of Hong Kong’s gross domestic product (GDP) growth while domestic exports only supplied 7.2 percent (Ha J., Fan K., and Chang S. 2003). Table 2 shows that the share of domestic export dropped drastically from 81 percent in 1970 (the highest in Hong Kong’s history) to only 6.98 percent in 2003 whereas re-export surged again from 18.9 percent in 1970 to 93 percent.

The land and stock markets in Hong Kong offer quick ways for capital re-production and diversification. Cheung Kong Holdings Ltd for instance started as a factory producing plastic flowers in 1957. Major capital accumulation was done through buying and developing land and property projects since the 1950s. Today Cheung Kong Holdings is one of the biggest land developers as well as a transnational conglomerate company. The Hong Kong stock market was already the tenth largest in the world in the 1980s enabling local capital to diversify investments across sectors such as real estate, finance, tourism, entertainment, and infrastructure. Table 3 illustrates the structural changes that took place in the Hong Kong economy between 1980 and 2000. The contribution of secondary industries to local GDP and employment dropped from 31.6 percent and 50.1 percent in 1980 to only 12.4 percent and 14.5 percent in 2002. The tertiary sector became the most important sector contributing more than 80 percent to local GDP and employment by 2000. In 20 years Hong Kong’s economy has changed from manufacturing-based to service-based.

<table>
<thead>
<tr>
<th>Year</th>
<th>Tertiary Sector</th>
<th>Secondary Sector</th>
<th>Primary Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of GDP</td>
<td>Employment size</td>
<td>% of GDP</td>
</tr>
<tr>
<td>1980</td>
<td>67.5</td>
<td>48.4</td>
<td>31.6</td>
</tr>
<tr>
<td>2000</td>
<td>85.6</td>
<td>83.4</td>
<td>14.3</td>
</tr>
<tr>
<td>2002</td>
<td>87.5</td>
<td>85.2</td>
<td>12.4</td>
</tr>
</tbody>
</table>

*Source: Hong Kong Year Book 1981, 2001 and 2003, Hong Kong Government*
The overriding importance of the tertiary sector is further illustrated by the FDI figures. By 2002, only US$8.6 billion or 3.6 percent of the total inward FDI (US$244 billion) went to the manufacturing sector.

**Purposes of inward FDI in Hong Kong**

FDI for further capitalisation

UNCTAD’s World Investment Report 2004 estimated that the stock of inward FDI in Hong Kong reached US$335.6 billion or 208 percent of GDP in 2003. More than half of the total stock of inward FDI goes to investment holdings, real estate, and various business services. The statistics also show that the British Virgin Islands (BVI) is the largest source of cumulative FDI in Hong Kong (29.7 percent), followed by China (22.6 percent), Bermuda (10.4 percent), the Netherlands (7.85), the US (7.1 percent), and Japan (5.4 percent). This can be explained by a number of British- or Hong Kong-originated conglomerates’ capital that moved to BVI before 1997 speculating political instability in Hong Kong after its return to China. Hong Kong’s position as the freest financial centre in the world with low taxation, plus accessibility to China makes it a strategic city for round tripping investment from mainland China as well as Taiwan that seeks to avoid the political and financial barriers at home. To enjoy the status of foreign investment, mainland Chinese capital registers in tax havens such as BVI, Bermuda, and the Caymen Islands and invests in China through subsidiary companies based in Hong Kong. In the case of Taiwan, this is to get round the investment ceiling of the Taiwanese government policy to restrain massive capital flight to mainland China. Hong Kong is also the offshore capital-raising centre for mainland Chinese and Taiwanese capital. By the end of 2003, 258 mainland companies including the country’s biggest insurance company PICC, telecommunications company China Mobile, and the biggest computer manufacturer Lenovo were listed in Hong Kong. The mainland companies had a total market capitalisation of US$217 billion or 31 percent of Hong Kong’s total market capitalisation and were able to raise US$100 billion on the Hong Kong stock market by 2003 (Kowloon Chamber of Commerce 2003). It is estimated that of the total US$33 billion worth of shares in Hong Kong between 2000 and March 2004, 79.6 percent was from mainland China while domestic firms made up only 20.4 percent (Hong Kong Trade Development Council 2004). About 20 Taiwanese companies were listed on the Hong Kong stock market between 1995-2004 (Hong Kong Trade Develop-
ment Council 2004a). The Pou Chen Group is another example of FDI seeking further capitalisation through/in Hong Kong. This group was founded in 1969 in Taiwan as a small/medium sized footwear manufacturer. After gaining the first contract with sportswear company adidas in 1980, the company established a subsidiary company, Yue Yuen Industrial Holdings Ltd, for listing in the Hong Kong Stock Market in 1988 to manage the footwear operations in China and the Asian region. Yue Yuen now operates 279 production lines, of which 156 are located in China, 72 in Vietnam, and 51 in Indonesia. Other Taiwanese companies that are seeking capitalisation on the Hong Kong stock market for business in China include the beverage company Kang Shi-fu under the Tinghsin Group and Solomon Systech (owned by Taiwan’s China Development Industrial Bank and Quanta Computer).

Trade and service-seeking FDI

Besides targeting China, western and non-western inward FDI to Hong Kong is also aimed to seek trade in the Asian region. Historically, inward manufacturing FDI in Hong Kong (not including mainland-originated capital)\(^{11}\) was limited and did not stay long. A few US and Japanese companies established subsidiary factories in Hong Kong in the 1970s to supply the home companies and markets; Fairchild Electronics from the US that employed more than 1,000 people in Hong Kong in the 1970s is an example. However, most inward FDI aims to use Hong Kong firstly as a base for accessing labour and the domestic market in China and Asia, and secondly for the provision of trade-related services for finance and supply chain management in the region. Figures provided by the government shows that in 2003, only two percent (US$8.3 billion) of the total stock of inward FDI in Hong Kong was invested in the manufacturing sector compared with 55.6 percent in investment holdings, real estate, and various business services and 13.6 percent in wholesale, retail, and import/export sector (Invest Hong Kong online statistics 2005). Hong Kong is also an important regional business and service centre for international capital. By 2003, the government estimated a total 3,207 overseas companies had regional operations in Hong Kong of which EU-originated companies had the highest number of regional operations, followed by the US, Japan, and China (Kowloon Chamber of Commerce 2004). Hong Kong is also the international/regional sourcing hub for a substantial number of retailing capitals. US and EU department stores such as Macy’s, JC Penny, Federated,
Karstadt Quelle, C&A, and Marks & Spencer, discount stores such as Sears, Target, and Carrefour, specialty chains such as Gap and The Limited, and mail order houses such as Otto and Great Universal Stores have direct buying houses based in Hong Kong. International brand name companies such as Calvin Klein, Donna Karen, Ralph Lauren, Tommy Hilfiger, Nike, and adidas use Hong Kong as a base for regional sourcing through their own buying offices or intermediaries (Hong Kong Trade Development Council 2004b). This is not limited to the garment industry but is also in other industries such as electronics and other hard goods. The case of NEC Technologies Hong Kong Ltd is an example to illustrate Hong Kong’s role in global supply chain management.

**Inward FDI and the regional division of labour of TNCs**

The production network of the electronics industry is segmented by technology level. For NEC, the strategic production of semi-conductors, especially the flash memory chips (DRAM), is run in collaboration with the Korean company Hyundai. This is handled by NEC Japan directly while the NEC subsidiary company in Singapore handles the research and development (R&D) network with Taiwan and Korea. The assembly, packaging, quality control, and testing processes are managed by the NEC office in Hong Kong, which oversees the outsourcing network in a number of Asian countries namely Malaysia, Singapore, Taiwan, and the Philippines. China takes up mainly the least capital-intensive aspects of component manufacturing. NEC Technologies Hong Kong has a staff of 26 who travel within the region to co-ordinate the production of three major goods. The sourcing network includes six to eight local factories in China to produce printers, a number of assembly and components factories in Hong Kong, China, Thailand, and Malaysia for personal computers, and factories for hard disk drives mainly from Thailand and the Philippines. In the words of one NEC executive, “in Hong Kong, NEC is a company without a factory.”(Simon D.F and Jun. Y 1995).

The position of Hong Kong as a hub for regional production can be illustrated from the import, export, and re-export figures of Hong Kong. In 2002, the major source countries of re-exports to mainland China were Japan (HK$109.0 billion or US$14.0 billion), Chinese Taipei (HK$80.4 billion or US$10.3 billion), the US (HK$48.3 billion or US$6.2 billion) and the Republic of Korea (HK$38.9 billion or US$5.0 billion). In return, Hong Kong re-ex-
ported HK$479.2 billion (US$61.4 billion) worth of mainland-produced goods to Asia Pacific economies, representing 41.8 percent of Hong Kong’s total re-exports to the region. It is estimated that more than 80 percent of the goods re-exported from Hong Kong in 2001 was mainland-related, of which 70 percent were processing trade (Bank of China 2002). Hong Kong plays a significant role in facilitating international sub-contracting between western markets and China, which is now the biggest production base in the world.

Outward FDI from Hong Kong and its role in Asia

Outward FDI to China

China is the single biggest recipient country of outward FDI from Hong Kong. By the end of 2004, 48.3 percent of approved FDI projects in China were granted to Hong Kong and the Hong Kong originated FDI stock in China reached US$222.6 billion, which is 44 percent of the national total (Kowloon Chamber of Commerce 2003). Guangdong province, especially the Pearl River Delta (PRD) region, has the highest concentration of manufacturing FDI from Hong Kong, which contributes strongly to the export growth of the province. For example, 71 percent of the FDI stock (US$79 billion) of Guangdong province came from Hong Kong in 2001, when the PRD region recorded the largest inflow of FDI compared with other north east Asian countries. The total export value of the PRD region was higher than any other south east Asian economy other than Japan or mainland China, as a whole reaching US$289 billion and representing 4.69 percent of total world trade of commodities (Federation of Hong Kong Industries 2003). From 1995 to 2000, the average annual growth

Table 4. Outward FDI from HK by major recipient country by end of 2002 (US$ billion)

<table>
<thead>
<tr>
<th>Recipient</th>
<th>US$ bn</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>108.1</td>
<td>49.8</td>
</tr>
<tr>
<td>UK Virgin Islands</td>
<td>68.7</td>
<td>31.6</td>
</tr>
<tr>
<td>United States</td>
<td>4.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Singapore</td>
<td>3.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Thailand</td>
<td>2.7</td>
<td>1.2</td>
</tr>
<tr>
<td>UK</td>
<td>2.6</td>
<td>1.2</td>
</tr>
<tr>
<td>Taiwan</td>
<td>1.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Bermuda</td>
<td>1.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Panama</td>
<td>1.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Others</td>
<td>18.4</td>
<td>8.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>217.2</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Census and Statistics Department of Hong Kong
rate of Hong Kong’s total exports was only 1.8 percent while that of Hong Kong’s PRD-related export was 7.3 percent (Sung Y.M 2004). Income generated by PRD-related exports accounted for 16.6 percent of Hong Kong’s GDP in 1995 and 24.8 percent in 2002 (Hong Kong Trade Development Council 2005). In 1981, Hong Kong companies employed approximately 870,000 manufacturing workers in Hong Kong and few elsewhere. By 2002, Hong Kong companies employed fewer than 200,000 manufacturing workers in Hong Kong, but between 10 and 11 million in the PRD region (Federation of Hong Kong Industries 2003).

Outward FDI to other Asian countries

Hong Kong capital also invests in neighbouring Asian countries and the scope of investment is not limited to manufacturing. The network of overseas Chinese communities provided the basis for investment in trade, infrastructure, and manufacturing in Asian countries where strong ethnic affiliation is an important factor. The outflow of Hong Kong FDI to other Asian countries has never reached top position in terms of stock. The stock of outward direct investment to major Asian countries from HK in 2001 is as follows (Trade and Industry Department 2003):

- Malaysia - US$3.7 billion;
- Singapore - US$3.1 billion;
- Thailand - US$2.6 billion;
- Japan - US$1.5 billion;
- The Philippines - US$1.0 billion;
- The Republic of Korea - US$768.3 million;
- Indonesia - US$182.4 million.

Compared with US$108.2 billion that went from Hong Kong to China in the same year, the other Asian countries are much less significant destinations of Hong Kong investment. Yet, Hong Kong still ranks within the top 10 sources of accumulative foreign investment in some south east Asian countries. For example Hong Kong ranks as the sixth largest foreign investor in Burma in 2001 (US$16.2 million), the fifth largest investor in Cambodia (US$118.2 million though that dropped to eighth in 2004), the fourth largest investor in Vietnam, and the seventh largest investor in the Philippines (US$830mn) (UNCTAD Online FDI Statistics).
Outward FDI in the garment industry

Capital investment from the Hong Kong garment industry is perhaps the most globalised, driven by the need to diversify the origin of production under the Multi-Fibre Arrangement (MFA). While Hong Kong is no longer one of the biggest garment producers in the world, Hong Kong capital still plays a significant role as an OEM and Original Design Manufacturing (ODM) producer by developing strategic partnerships with western retailing capital. The globalised nature of Hong Kong garment companies is manifested in their direct investment in manufacturing and trading in Asian and African countries such as China, Cambodia, Thailand, Indonesia, and Sri Lanka as well as Mauritius and Madagascar largely because of quota restrictions under the MFA. An increasingly higher degree of vertical integration of production is noted. The example of Esquel Group illustrated below is a good example of full vertical integration from the farming of cotton, to yarn spinning, fabric weaving, cut-make-trim, logistics, and trading services. Box 1 lists two conglomerate garment companies in Hong Kong that adopt different strategies to maintain their market position as transnational manufacturers.

**Box 1. Strategies of Fang Brothers’ Knitting and Esquel Group**

<table>
<thead>
<tr>
<th><strong>Fang Brothers’ Knitting</strong></th>
<th><strong>Esquel Group</strong></th>
</tr>
</thead>
</table>

*Source: Company web site*
Fang Brothers’ Knitting is a rare example of a Hong Kong garment company attempting to move into a brand company by creating its own brands and acquiring western garment brand companies. As developing sales channels, marketing, and keen competition in western market remain the biggest obstacles, other companies prefer to venture into the mid-range retailing market in China. They include labels such as Baleno (Texwinca Holdings Ltd), Crocodile (Goldlion Holdings Ltd), Espirit, G-2000, Giordano, and Moiselle and Weeko (Moiselle International Holdings Ltd).

While labour costs are not necessarily the most important factor compared with speedy turnaround time to survive in the global garment industry, Hong Kong manufacturers adapted themselves by ‘adding value’ namely a higher degree of flexibilisation and integration to their function as OEM. The Esquel Group has an example of full vertical integration, by investing in cotton farming, yarn and fabric manufacturing, cut-make-trim, R&D, and logistics. A majority of Hong Kong companies have already expanded their role as manufacturers and traders, by out-sourcing manufacturing, labour management, procurement, and supply chain management from their buyers. TAL Apparel Limited moved to further integrate manufacturing with sales and inventory management with its buyer, JC Penny. TAL is the world’s biggest dressmaker, supplying to Calvin Klein, Banana Republic, Tommy Hilfiger, Liz Claiborne, Ralph Lauren, Brooks Brothers, Debenhams, Next, LL Beans, and Dilliards. It has yarn and fabric plants in Taiwan and Malaysia as well as garment facilities in China and Thailand. Now TAL has moved to control the sales and inventory of JC Penny by collecting data from JC Penny’s 1,040 US stores to decide for the buyer what and how much needs to be replenished. Orders are placed for the exact amount of yarn and fabric from Taiwan and Malaysia to be sewn and finished in China and Thailand and shipped directly from the production sites. By linking Asian factories directly with the US stores, JC Penny was able to reduce its six-month inventory in the warehouses and three-month inventory at the stores to zero. TAL is proposing a joint venture with JC Penny based on this success. Boasting that “the decision is now made at the factory” (Kahn G. 2003), the ‘added-value’ for TAL is based on adapting labour and the organisation of work in the Asia region instantaneously to the US market.
Overseas investment from Hong Kong is not limited to Asia but also to developed countries such as the UK and US. The most famous example is the acquisition of the European 3G telecommunication company, Vodafone by Hutchison Whampoa, a subsidiary of Cheung Kong Holdings. Table 5 shows that only 7.8 percent of total outward FDI from Hong Kong in 2002 went to manufacturing and the rest was diversified to wholesales, real estate, transport, communication, hotels, and insurance. Acceleration of this trend is expected with the Closer Economic Partnership Arrangement (CEPA that began operating in 2004), which gives tariff-free market access to Hong Kong exports to China, 100 percent ownership of China ventures and liberalisation of 18 service sectors for Hong Kong investment.

**Transnational companies from Hong Kong and challenges**

FDI data from UNCTAD further shows that prominent transnational conglomerate companies that are listed and based in Hong Kong and therefore regarded as Hong Kong capital are all investing in the tertiary sector.

<table>
<thead>
<tr>
<th>Sector</th>
<th>US$ bn</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment holdings, real estate and various business services</td>
<td>101.2</td>
<td>46.6%</td>
</tr>
<tr>
<td>Wholesale, retail and import/export trade</td>
<td>27.2</td>
<td>12.5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>16.9</td>
<td>7.8</td>
</tr>
<tr>
<td>Communications</td>
<td>9.3</td>
<td>4.3</td>
</tr>
<tr>
<td>Transport and related services</td>
<td>7.9</td>
<td>3.7</td>
</tr>
<tr>
<td>Financial institutions except banks and deposit-taking companies</td>
<td>5.9</td>
<td>2.7</td>
</tr>
<tr>
<td>Restaurants and hotels</td>
<td>4.9</td>
<td>2.3</td>
</tr>
<tr>
<td>Insurance</td>
<td>3.5</td>
<td>1.6</td>
</tr>
<tr>
<td>Bank/deposit-taking companies</td>
<td>3.2</td>
<td>1.5</td>
</tr>
<tr>
<td>Construction</td>
<td>2.6</td>
<td>1.2</td>
</tr>
<tr>
<td>Other activities</td>
<td>34.6</td>
<td>15.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>217.2</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Census and Statistics Department of Hong Kong*
### Table 6. Presence in the top 50 non-finance TNCs from developing economies ranked by foreign assets 2002 (US$ million, number of employees)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Foreign Assets</th>
<th>TNI *</th>
<th>Corporation</th>
<th>Industry**</th>
<th>Foreign Assets</th>
<th>Sales</th>
<th>No. of Employees</th>
<th>TNI ** %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10</td>
<td></td>
<td>Hutchison Whampoa Ltd subsidiary of HK-based Cheung Kong Holdings</td>
<td>Diversified</td>
<td>48,014</td>
<td>81,088</td>
<td>124,942</td>
<td>71.1</td>
</tr>
<tr>
<td>7</td>
<td>15</td>
<td></td>
<td>Jardine Matheson Holdings Ltd British origin</td>
<td>Diversified</td>
<td>5,729</td>
<td>4,449</td>
<td>60,000</td>
<td>60.7</td>
</tr>
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<td>9</td>
<td>17</td>
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<td>Citic Pacific Ltd Mainland China origin, former SOE</td>
<td>Construction</td>
<td>4170</td>
<td>1567</td>
<td>7388</td>
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<td>Shangri-La Asia Ltd</td>
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<td>3663</td>
<td>463</td>
<td>13000</td>
<td>78.9</td>
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<td></td>
<td>Guangdong Investment Ltd China origin</td>
<td>Diversified</td>
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<td>815</td>
<td>5994</td>
<td>92</td>
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<td>20</td>
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<td></td>
<td>First Pacific Ltd Philippino origin equipment</td>
<td>Electricity, electronics 2276</td>
<td>1892</td>
<td>25</td>
<td>66.1</td>
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<td>26</td>
<td>49</td>
<td></td>
<td>CLP Holdings Ltd Indian origin</td>
<td>Electricity, gas, water</td>
<td>1905</td>
<td>130</td>
<td>37</td>
<td>9.7</td>
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<td>37</td>
<td>16</td>
<td></td>
<td>Orient Overseas International Ltd China origin</td>
<td>Transport, storage</td>
<td>1148</td>
<td>1012</td>
<td>4039</td>
<td>59.6</td>
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<tr>
<td>40</td>
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<td></td>
<td>Swire Pacific Ltd British origin</td>
<td>Business services</td>
<td>1000</td>
<td>963</td>
<td>17969</td>
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<td>46</td>
<td>4</td>
<td></td>
<td>Li and Fung Ltd China origin</td>
<td>Wholesaler</td>
<td>765</td>
<td>4642</td>
<td>3466</td>
<td>86.8</td>
</tr>
<tr>
<td>49</td>
<td>28</td>
<td></td>
<td>Hong Kong and Shanghai Hotel Ltd</td>
<td>Hotel</td>
<td>650</td>
<td>135</td>
<td>3653</td>
<td>43</td>
</tr>
</tbody>
</table>


Notes: All data is based on the company’s annual report unless otherwise stated

Italics by author

* TNI is abbreviation for transnationality index. It is calculated as the average of the following three ratios: foreign assets to local assets, foreign sales to total sales, and foreign employment to local employment

** Industry classification for companies follows the US Standard Industry Classification as used by the US Securities and Exchange Commission
Amongst them, Hutchison Whampoa, Jardine Matheson, Shangri-La Asia, Guangdong Investment, and Li&Fung have the highest index of transnationality both in terms of foreign assets, sales and employment (UNCTAD 2004).

The reproduction of these ‘Hong Kong-based’ transnational capitals takes advantage of the traditional position of Hong Kong as a free port city for capital flow and capitalisation. Although the Confederation of Trade Unions in Hong Kong (HKCTU) focuses on organising the tertiary sector, amongst the above listed companies, the HKCTU has affiliate unions in only three companies at subsidiary company level. The majority of the employees of these companies in Hong Kong are not organised and that the solidarity linkage with workers employed by these companies in the globalised subsidiaries as well as the sub-contracting and sourcing network is weak. Attempts to regulate Hong Kong capital in support of labour organising overseas is so far limited to the manufacturing sector on a case-by-case basis. The investment and industrial relations of Hong Kong-based or originated transnational capital across sectors has seldom been closely examined. The challenges posed to the question of regulating Hong Kong capital come down in the end to the basics of labour solidarity across sectors and across nations.

Notes
1 The Hong Kong and Shanghai Bank, which became the most influential bank in Hong Kong, was formed by merging a number of British banks in Hong Kong in 1865.
2 Many of these companies such as Jardine Matheson Company, made huge profit from trading opium to China under the Qing Dynasty.
3 In terms of currency in Qing Dynasty.
4 The investment of Jardine and Matheson in Hong Kong covered the Canton-Hong Kong Ferry, Whampoa Dockyard insurance company, Jardine Warehouse, Hong Kong Telephone Company, Hong Kong Electricity Company, Hong Kong Landmark and Hong Kong Tram Company etc.
5 A historical review of the chairpersons of the Federation of Hong Kong Industries finds that a larger proportion of them are prominent entrepreneurs in the textile and garment industries. Traditionally textile and garment entrepreneurs have been powerful forces lobbying the government regarding trade and quotas. The second and third generations of the mainland-originated textile and garment
family businesses such as James Tien and Henry Tang (Windsor Industrial Corporation Ltd) are now members of the Legislative Council; the latter is the current Treasurer of the Hong Kong SAR.

6 Share of export in total production in the following sectors in 1971: garment 88.3 percent; electronics and electrical appliances 83.6 percent; plastic 81.4 percent; equipment 80 percent.

7 The Hong Kong government adopted the Touch Base policy in the 1970s. It accepted that any person who managed to cross the China border and reached Hong Kong could legitimately register as Hong Kong citizens. The policy was adopted when Hong Kong’s labour supply was insufficient to meet company demands; it was scrapped in the 1980s.

8 Labour in Hong Kong under the colonial government was regulated under the Employers and Servants Ordinance that barely offered any labour rights protection. The right to strike was banned by the colonial government. The ordinance was replaced by the Employment Ordinance in 1968.

9 Guangdong province has an area of 179,757 sq km and is geographically linked to Hong Kong. In 1979 and 1980, the PRC government announced the establishment of Special Economic Zones in four coastal cities, three of which (Shenzhen, Zhuhai, and Shantou) are in Guangdong province. The province is linked to Hong Kong both by land and sea. The Pearl River Delta became the most concentrated area of industrialisation and FDI investment.

10 Labour law in China applied to state-owned enterprises before the inauguration of the revised law that covered all types of enterprises in 1995.

11 Mainland manufacturing capital played a pivotal role in establishing textiles, which was the major industry in Hong Kong in the 1950s.

12 The Hong Kong Confederation of Trade Unions has company level union affiliates at Swire Beverages (HK) Employees General Union and Cathay Pacific Airways Flight Attendants Union (subsidiaries of Swire Pacific), Wellcome Company Employees Union (subsidiary of Hutchison Whampoa) and Orient Overseas Container Line HK Container Truck Drivers Union (subsidiary of Orient Overseas).
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PART 2

FDI AND LABOUR IN ASIAN COUNTRIES
CHAPTER 6

FDI AND LABOUR IN CHINA
THE ACTORS AND THE POSSIBILITY OF A
NEW WORKING CLASS ACTIVISM

Monina Wong and Dae-oup Chang

Introduction

This article aims to explore the nature of the recent transition of labour relations and the labour movement in China, by looking particularly at foreign-invested private enterprises. We will first of all look into the early formation of capitalist labour relations in China and identify the nature of the fast growth of China’s export sector based on the unity between liberalised global capital and unregulated labour practices. Following closely the articulation and reproduction of shop floor industrial relations in enterprises producing garments, footwear, and toys, the second part of our article will try to grasp the nature of the transition of labour relations. The main finding of our studies on the labour management of East Asian original equipment manufacturing (OEM) capital in Guangdong province will show that institutionalised labour relations between capital and collective labour are absent in these sectors. Worse still, traditional forms of protection and representation by the state and trade union attached to the state apparatus do not exist for the workers in this growing private sector. Lacking both protection by the state and institutional arrangements through which workers can protect themselves, the largely unorganised young and predominantly female migrant workers in foreign-invested private enterprises are vulnerable to management’s desire to take maximum advantage of cheap labour. The third part of this article will review the conditions on the basis of which various attempts to improve labour conditions in these sec-
tors can develop further. In particular, the corporate social responsibility (CSR) movement will be subject to our critical investigation. Initiated by transnational corporations (TNC) in reaction to the consumer campaigns in the west in the 1990s, this movement claims that ‘progress of change’ on shop floor labour conditions has been made. However, according to our experiences from engagement with increasingly popularised CSR initiatives in China, these ‘changes’ are highly fragile if not false, because the ‘ethical’ practices driven by the western buyers did not lead to the development of collective labour relations between capital and organised labour at the supplier level. The possibility of new labour activism on the basis of the space opened by the CSR initiative is also subject to the contesting social relations between the state, official trade unions, and the ‘new working class’ in China. Our conclusion will suggest that an effective challenge to the transition at the expense of millions of Chinese workers will be made possible only when different attempts actually contribute to empowering workers and negotiating for space for worker-organising at the workplace.

1. Making the unity between deregulated capital and unregulated labour in China

The foreign direct investment boom in China’s private sector

Although China began the ‘open door’ to encourage foreign investment in the early 1980s, foreign direct investment (FDI) was minimal and insignificant during the 1980s. It was not until 1992 that FDI inflow to China started increasing dramatically (See Chart 1). Although FDI became a major financial source of development for many national economies, such as the Association of South East Asian Nations (ASEAN) countries, during the period between 1990 and 1995, the FDI boom in China was even more intense. In 1995, it recorded more than

<table>
<thead>
<tr>
<th>Year</th>
<th>World</th>
<th>China</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>54,957</td>
<td>57</td>
<td>0.103717</td>
</tr>
<tr>
<td>1985</td>
<td>57,632</td>
<td>1,659</td>
<td>2.878609</td>
</tr>
<tr>
<td>1990</td>
<td>208,674</td>
<td>3,487</td>
<td>1.671028</td>
</tr>
<tr>
<td>1995</td>
<td>333,812</td>
<td>35,849</td>
<td>10.73928</td>
</tr>
<tr>
<td>1997</td>
<td>481,911</td>
<td>44,237</td>
<td>9.179496</td>
</tr>
<tr>
<td>1998</td>
<td>686,028</td>
<td>43,751</td>
<td>6.377436</td>
</tr>
<tr>
<td>1999</td>
<td>1,079,083</td>
<td>40,319</td>
<td>3.736413</td>
</tr>
<tr>
<td>2000</td>
<td>1,392,957</td>
<td>40,772</td>
<td>2.927011</td>
</tr>
<tr>
<td>2001</td>
<td>823,825</td>
<td>46,846</td>
<td>5.686402</td>
</tr>
<tr>
<td>2002</td>
<td>651,189</td>
<td>52,700</td>
<td>8.092889</td>
</tr>
</tbody>
</table>

Source: UNCTAD on-line database
US$35.8 billion, 10 times more than in 1990 (Table 1). FDI inflow showed minus growth in 1999, due to the Asian economic crisis. However, it recovered quickly from 2001, reaching US$52.7 billion in 2002. As of 2002, FDI inflow to China accounted for about 33 percent of the whole inflow to developing countries and 8.1 percent of FDI inflow in the world (Table 1). A total US$447.8 billion was invested in China by 2002 (Table 2).

In 1997 FDI contributed about 15 percent of gross fixed capital formation (GFCF: the outlays of producers on durable real assets, such as buildings, motor vehicles, plants, and machinery). Although its contribution tended to decrease after the initial period of fast industrialisation, it still made up 11 percent of GFCF in 2001 (Chart 2). The importance of FDI is clear also in comparison to other sources of foreign capital. FDI became almost the sole source of foreign investment in China, occupying more than 95 percent of foreign capital investment, while contributions from foreign loans, including government, commercial, and other forms of in-

**Chart 1. FDI inflow (US$ millions)**

- 1980: 0
- 1985: 2
- 1990: 4
- 1995: 15
- 1997: 15
- 1998: 13
- 1999: 11
- 2000: 10
- 2001: 11
- 2002: 15

**Chart 2. FDI as percentage of GFCF**

- 1980: 0
- 1985: 2
- 1990: 4
- 1995: 15
- 1997: 15
- 1998: 13
- 1999: 11
- 2000: 10
- 2001: 11

**Table 2. FDI inward stock (US$ million)**

<table>
<thead>
<tr>
<th>Year</th>
<th>FDI inward stock (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>6,251</td>
</tr>
<tr>
<td>1985</td>
<td>10,499</td>
</tr>
<tr>
<td>1990</td>
<td>24,762</td>
</tr>
<tr>
<td>1995</td>
<td>137,435</td>
</tr>
<tr>
<td>1997</td>
<td>221,852</td>
</tr>
<tr>
<td>1998</td>
<td>267,255</td>
</tr>
<tr>
<td>1999</td>
<td>307,574</td>
</tr>
<tr>
<td>2000</td>
<td>348,346</td>
</tr>
<tr>
<td>2001</td>
<td>395,192</td>
</tr>
<tr>
<td>2002</td>
<td>447,892</td>
</tr>
</tbody>
</table>
ternational loans, have been continually decreasing. Contrary to other countries encouraging foreign investment as much as China does, equity and non-equity forms of portfolio investments in China are very limited; there are several reasons for the lack of portfolio investment. First of all, direct funding through capital markets, such as stock and bond, has been a minor source of external finance for Chinese firms, which is a legacy of the ‘socialist’ economy. On the contrary, borrowing from state-owned commercial banks is still the dominant form of financing business in China, particularly in state-owned enterprises (SOE); in 1998, more than 80 percent of total external funding for Chinese enterprises was made through indirect funding primarily by commercial banks. This structure of external funding seems not to have changed much in 2000 where only a quarter of external financing was made through the capital market. To date, only one-third of shares (so-called ‘B’ shares) can be freely exchanged in the equity market although the Chinese government has a plan to liberalise the exchange of ‘A’ shares steadily. Only a few selected foreign institutional investors are allowed to trade ‘A’ shares. Indeed, they are not allowed to purchase and sell those shares in the short term.2

During the initial period of FDI-based exports, joint ventures were the major form of investment (Chart 3). In the meantime, most FDI inflows were from new entrants, in other words, ‘greenfield’ investment from abroad. Chart 3 clearly shows changes in the form of FDI, with a growing portion of foreign investment enterprises, i.e., wholly foreign-owned firms. Contributions by joint venture to FDI dropped from 43 percent in 1997 to 28 percent in 2002 while wholly foreign-owned firms increased from 36 percent of total foreign-funded firms in 1997 to 60 percent in 2002. The source of FDI also changed. As foreign firms settled in China, reinvested earnings of foreign affiliates became a
more and more important source of FDI, accounting for a third of whole FDI inflow in 2002 (UNCTAD, 2002, p. 55). The fast growth of FDI inflow shows that China became a major destination of TNCs seeking a place for better profit. In 2002, there were 208,056 foreign-funded enterprises in China (China Statistical Yearbook, 2003).

Indeed, TNCs play a great role in China’s export drive. They produced, for example, 48 percent of China’s export products, 23 percent of total industrial value added, and 18 percent of tax revenue in 2001 (UNCTAD, 2002, p. 56). Most investments go into the manufacturing sector, which accounted for 70 percent of total FDI. Between 1997 and 2002, FDI into manufacturing increased more than 30 percent while FDI into the non-manufacturing sector decreased about seven percent (Chart 5). The origin of investment (Table 4) relies highly on Asian countries and territories, including Hong Kong, Taiwan, Singapore, and Korea, which accounted for 53.8 percent of total FDI to China in 2002. The Hong Kong Special Administration Region (SAR) plays a major role in providing FDI to China, although its contribution decreases continually. Among major capital exporting countries, Japanese investment has stagnated relatively while investment by the US steadily increased to 10 percent of the whole FDI inflow in 2002. There is difference between Asian investments and others. Asian investments are still concentrated in small- and medium-size firms, aiming at international exporting markets, while more and more EU and US capital came into China, aiming at growing domestic markets for relatively capital-intensive industries, such as automobiles (Forlag, 2000, p. 17). For many individual capitals, the ‘Chinese boom’ is based on 1) the
vast reserve army of labour that provides cheap and disposable workers and 2) the vast consuming power that the population provides. The latter is particularly important for the increasing investment for China’s domestic markets such as automobiles. In this case, size matters seriously. Even though the working class earns so little, its total consuming power is well beyond that of many countries. Even if workers cannot afford major TNCs’ products, professionals and the ‘middle class’ are a small proportion of the population they represent a lot in absolute terms. As for the TNCs’ profits, there is no difference between every household buying a car and every other household buying two cars. However, attracting massive foreign manufacturing capital seeking better profitability depends on having not only big potential consuming power but also cheap social costs of exploitation.

This appears more clearly in the case of export-oriented labour-intensive industries, whose investments still dominate China’s FDI inflow, including most Asian investment. The relocation of export-oriented labour-intensive industries presupposes 1) cheap labour available to productive capital operating in the country, 2) deregulation of investment so that foreign productive capital can operate freely in developing countries, not to mention many incentives, 3) deregulation of trade so that importing raw materials and exporting products do not cost much, and 4) easy access to international markets. Of course, these are nothing new. They were all in the package of FDI-based export-oriented development policies of the
second generation of Asian developing countries. Then, what is special about China? The high concentration of manufacturing capital from Asia’s first generation of developing countries, apart from geographical and ethnic reasons, is related to the specific advantage that China’s capitalist development can offer manufacturing TNCs from Asia. As mentioned, cheap labour costs and export opportunities *per se* exist in almost every developing country with a basic infrastructure. This means that the special thing about China’s attraction to transnational manufacturing capital is not so much about what they did as *how* they did it; the process in which China became *a place where deregulated capital meets unregulated labour* and thereby the profitability of manufacturing TNCs can be maximised. To see this, we have to look into how and in what context capitalist social relations formed in China, on the basis of a vast scale of commodification of labour and degradation of working people.

**Global context of the Chinese FDI boom**

The integration of China into global capitalist development from the late 1980s onwards happened in a very specific historical context of global capitalist development: the culmination of the free movement of capital and the consolidation of such a tendency into a complete policy-set: neoliberalism. It is useful to trace the origin of increasing FDI from the 1970s in order to understand the nature of development that promotes and relies on FDI. Foreign investment in general is nothing new in the history of capitalism. However, unprecedented increase in FDI is a relatively new phenomenon that has its origin in the West’s over-accumulation crisis in the 1970s, which ended the post-war boom, which was the longest and biggest in the history of capitalist development. During the boom, a large-scale, unprofitable, and productive force was created as more and more individual capitals came into the market with the perspective of economic growth. Whereas credit expansion, government subsidies, and demands management of Keynesianism enabled backward capitals to stay in competition and sustain economic growth without an immediate overproduction crisis, this caused the problem of over-accumulation of capital, which led to a steady decrease in profitability. As over-accumulation developed in the 1970s, individual capitals experienced difficulty in overcoming falling profitability. It was increasingly difficult for capital to keep wage levels and the Keynesian consensus including high taxation for welfare.
Capital’s response to the situation from the early 1970s appeared in stagnant productive investment and attacks on labour that incurred more strikes and organised labour. In addition, some advanced individual capitals began to escape from their own countries, setting up productive facilities in other countries. By doing so, they avoided taxation and strong unions, while enjoying cheap labour and wider markets in developing countries. But relatively protected foreign commodity and investment markets made it difficult for many capitalists to move abroad. The first and second oil shocks made the situation more dramatic. On the one hand, it increased cost pressures on western productive capital, again stimulating capital to go beyond national boundaries. On the other hand, it increased money capital as oil money came to western financial institutions. Financial capital sought more investment opportunity and accordingly tried to go beyond national boundaries by pressuring developing countries to liberalise investment regimes and offering low interest loans to fast growing economies like Latin America. In the West, more and more backward corporations fell into deficit and subsequently bankruptcies, as they had to pay interest for the loans, which often exceeded profit gains. As unemployment and wage cuts followed, governments suffering fiscal crises had to abandon Keynesian economic policies. Full collapse of Keynesianism and subsequent domination of the neo-liberal agenda in politics gave advanced productive and financial capital chances to accelerate the moves that they had already begun.

New development focused on removing ‘unnecessary’ barriers against the movement of capital in pursuit of better profitability from one to another production, industrial sector, and country. Regulation over the markets, including labour, either on the basis of state intervention or the power of trade unions, was regarded as an obvious barrier and therefore came under severe criticism and attacks. These new trends of capitalist development began to be consolidated ideologically as neo-liberalism and institutionally as solid ‘structural adjustment programmes’ of international trade and financial institutions, such as the IMF, World Bank (and later the WTO). Development plans backed by official loans and government guaranteed bank loans became increasingly unrealisable. Free movement of FDI and other forms of global investment does not merely mean the flow of big amounts of money for investment, through free and frequent capital move-
ment, financial capital attempts to maximise profit gain by speculating everywhere. Productive capital benefits not only from favourable investment conditions in host countries but also from their enhanced power to restructure labour relations at home merely ‘by being ready to change’ investment destinations, thereby imposing serious job instability on workers. Relocation begins with decreasing employment in certain sectors of industry, particularly in labour intensive manufacturing. Increasing the reserve army of labour in a national economy enables corporations to impose new working conditions in other sectors of industry including emerging sectors such as services and capital-intensive manufacturing. Subsequently replacing a welfare system with a workfare system and introducing flexibility in labour functions and in the number of workers in developed countries is justified by the need to invest at home. It is in this sense that the transfer of capital to other countries has been one of the prime methods not only for corporations to avoid bankruptcy but also for capital in developed countries to revitalise the basis of accumulation at home. The unprecedented growth of FDI therefore reflects a particular form of development in which the workers are subjected to extreme instability and exploitation in both North and South.

Developing countries in South East Asia (SEA) accepted the new deal a lot earlier than China. Since the 1980s, SEA countries have witnessed gradual integration into neo-liberal-driven globalisation, while abandoning the nationalist-protectionist import substitution development strategy, which was largely based on the exploitation of natural resources. The lack of financial resources, increasing pressure on their balance of payments due to the pressure on the price of primary and mining products, and the desire of the ruling class to pursue rapid capitalist development led them to liberalise the regulation of capital flow. SEA national governments introduced policies favouring FDI in export sectors, allowing land ownership by foreign companies and offering full tax-exemption and rebates. The partial and complete liberalisation of interest rates and foreign exchange transactions followed in the early 1990s. Capital basically moves from a country with a high social cost of exploitation to one with a low social cost of exploitation. One of the most important parts of keeping the social cost of exploitation is keeping wages down as well as stabilising labour relations. The only way for countries to do the job was by suppress-
ing the labour movement and ignoring labour standards. Not surprisingly, there was not one non-authoritarian state among the fast growing economies in the 1980s and 1990s. In fact, the tighter control they held over the working class, the better the investment condition was. Consequently, industrialisation in developing countries has developed on the basis of the unity between liberalised capital from developed countries (and the first generation of Asian developing countries, such as Taiwan, Korea, Singapore, and Hong Kong) and unregulated labour in the South. Through this process, these developing countries started integration into a particular global commodity or value chain, allocating its resources, including labour, to export sectors producing consumer goods for the brand names from developed countries. The fast growing movement of capital in the late 1980s and 1990s did not mean that those individual capitals moved from one place to another and settled in the latter. Rather, it meant that they were ready to move anywhere all the time. As the fear of relocation became an everyday threat to workers by employers, ‘investor confidence’ became the rule above any constitutions or domestic law. This norm of the rule of the market firmly established itself in the late 1980s and early 1990s. Now, capital was really free to move. In fact, to impose the logic, it had to move continually. And it was in this context that China was developing into a capitalist society by accelerating a particular development of capitalist social relations in China and thereby offering a huge alternative place of investment to global capital.

The formation of capitalist social relations after the Open Door Policy

The new development of global capital movement coincided with China’s restructuring of social relations into capitalist ones, which was the largest and fastest transition of its kind. Chinese capitalist development began with the desperate attempt of the Chinese Communist Party (CCP) to resolve the problems of stagnant so-called socialist development that China faced after the ravages of the Cultural Revolution. Increase in the labouring population without increase in the productive forces in almost every unit of production and the undemocratic control of production widened the gap between the reality and the ideal of their ‘socialist’ motherland in the late 1970s. The worst moment came when urban unemployment peaked due to the cancellation of large scale construction projects, steep increases in the workforce of the post-revolution generation, and
most of all the massive return of millions of former Red Guards who had nominally gone to the countryside as part of a learning and purifying process during the Cultural Revolution. In 1978, official urban unemployment is estimated at 15 million to 17 million. With growing urban unemployment, social stability was being seriously undermined. The state responded to the problems. The initial strategy of the party-state to overcome the growing gap between theory and practice was use of the marketised control of production in retaining a ‘socialist’ economy, rather than democratising the politics of production. In spite of the rhetoric of ‘retaining socialism in China’, as time went on the initial strategy of introducing market ‘elements’ to boost the socialist economy developed into a more systematic strategy that transformed China’s social relations into capitalist social relations. The transformation into capitalist social relations was witnessed in all dimensions of the existing relations between enterprises, labour, and the state.

Changes in the relations between the state and enterprises have been initiated by the separation of management of SOEs from ownership through the ‘contractual management system’. The state reduced the extent of production planning and allowed enterprises autonomy in personnel management and profit allocation, commencing a capitalist form of capital-state relations. SOEs were allowed to reinvest their own earnings as long as they ‘transfer specific profit quota to the central or local state budget’ (Lau, 2001, p. 221). They were also allowed to access commercial banks loans. Instead of direct control over SOEs by planning, now the state tried to control SOEs through commercial banks that were primarily owned and effectively controlled by the state. Following this reform in SOEs, private enterprises were encouraged after the Thirteenth Party Congress legalised the setting up of private companies employing eight or more workers in 1987 (Lau, 2001, p. 222); furthermore, the state pushed privatising SOEs. In 1995, SOEs and urban collective enterprises together employed less than half of the total workforce in manufacturing, more than a 20 percent decrease from 1980. Privatisation was accelerated after the CCP directed policy towards ‘grasp the big one and let the small one go’. According to this policy, except in large strategic SOEs, all small- and some medium-size enterprises were subject to privatisation in one or another form, by selling off shares to domestic and sometimes foreign investors (Hart-Lansberg and Burkett, 2004, pp. 46-7).
While the traditional form of SOEs was in transition, traditional relations of labour to the enterprises and the state also experienced significant change. This began with direct attacks on the permanent employment system called the ‘iron rice bowl’ (*tiefanwan*). The ‘labour contract system’ for newly employed workers in SOEs was introduced in Shanghai in 1980 and applied to all new workers in SOEs from 1986. Later, not only were newly employed but also existing workers were subject to the employment contract system. As a result, the number of contracted workers reached 17 millions by 1990. In the first Labour Law of China, enacted in 1995, contracted employment finally appeared as the primary form of employment. The point of having contracts was gradually replacing social relations of labour with capitalist ones. Employers now could set working conditions and, importantly, terminate employment relations with workers if needed. By mid-1997 when capitalist development was getting to a mature stage, most urban SOE employees appeared to have employment contracts. On the other hand, there were massive lay-offs in the process of downsizing the SOEs. Most downsizing proceeded through a particular process of laying off so-called surplus workers in SOEs, the official name of which was *xiagang* from 1997 (Zhang, 2003). Workers in *xiagang* status are in theory still employed by the firms, paid basic and medical allowances, and offered three years of recruitment training in state training centres. *Xiagang* status lasts for three years and workers who cannot find job within the years become officially unemployed. According to the official statistics, there were 6.2 million workers with this status at the end of 2002, down from 7.4 million in 2001. However, only 37.6 percent of the decrease was due to re-employment (China Labour Statistics Year Book, 2003). By the end of 2002, there were 27 millions SOE workers sacked though the *xiagang* project (Zhang, 2002). Contrary to theory, many *xiagang* workers do not enjoy protection as the firms often ignore the entitlement and local government, which is supposed to complement the cost, has no budget for it. Many of them end up in informal employment. Indeed, laying off workers through *xiagang* has been used, rather than to cut off surplus labour, to change employment relations by sacking permanent workers and employing non-permanent workers. For example, many firms employ migrant workers after laying off permanent workers. By doing so, they are able to cut indirect expenses. In addition, *xiagang* has functioned as a cushion by the Chinese state to reduce political pressure.
caused by increasing unemployment. Through privatisation and mass lay-offs, SOEs’ contribution to total employment in the manufacturing sector fell from 44 percent in 1980 to a mere 14.8 percent in 2001. Urban collective enterprises, which had employed about 23 percent of manufacturing workers in 1980, contributed only slightly more than five percent of manufacturing employment in 2001 (China Statistical Yearbook, 2002). On the other hand, there has been a huge flow of young internal migrant workers into industrialising provinces and cities. These young, particularly women, workers started flowing en masse from rural to urban areas when China’s household registration system (*hukou*), which had controlled geographical mobility of labouring population in order to allocate labour forces according to central planning, relaxed after 1984. These internal migrant workers are from rural areas where the working people were hit by degraded conditions of life, caused by the above-mentioned demolition of traditional forms of production units and social benefits attached to them, more than their urban counterparts were.

Throughout the 1990s, labour in China was almost fully commodified to provide extremely cheap and disposable capitalist labour to private enterprises.

Unity between deregulated global capital and internal migrant workers in foreign invested enterprises

During the transitional period, although the Chinese party-state violently formed capitalist social relations at the expense of the working class, they had a clear limit to create capital. In the 1990s, as a consequence of the world’s largest privatisations, China needed ever more external capital injection to provide financial resources for the development drive and employed that commodified labour. As the formation of capitalist social relations was a highly politicised process, the need for capital has also been translated into political pressure on the party-state, pushing it to pursue more aggressive policies to attract foreign capital. The state-led formation of capitalist social relations was indeed extremely violent, involving mass lay-offs in SOEs and deprivation of welfare benefits, such as housing and minimum living allowance. Given the three-decades of the dominance by the state over the whole area of society after the Chinese revolution, from production to circulation, from factory to household, it was natural that the initial formation of capitalist social relations was an ex-
tremely politicised process. Ironically, the legacy of socialist development became a strong and stable basis of the largest ever social engineering, through which all social relations changed into capitalist social relations. As the state introduced market ‘elements’ one by one, the traditional relations between workers, the state, and enterprises have been seriously restructured.\textsuperscript{4} During the process, workers’ protests against the unequal nature of capitalist development occurred but were kept in remarkably low profile by sheer state suppression.\textsuperscript{5} The nature of the initial development of capitalist social relations shows us that there was a socio-political necessity for the party-state to aggressively attract foreign capital. Otherwise, they might have suffered massive class conflicts resulting from the highly unequal and violent formation of capitalist social relations, the development of which appeared already in the democratic movement in spring and early summer of 1989. The whole process of introducing foreign capital was also led by the party-state that attempted desperately to dilute the political pressure, initiating the development of export processing zones and devising many sorts of benefits for foreign investment. After two decades of attempting to attract foreign investment, China virtually changed the whole territory into more than 2,000 export processing zones in different forms where foreign capital enjoy tax breaks, tariff cuts, and other privileges. After accession to the WTO, the Chinese state introduced more relaxed regulations on foreign investment, increasing the encouraged industrial sectors from 186 to 262 and decreasing the restricted sectors from 112 to 75. China’s accession to the WTO is symbolic in the sense that the state began functioning as a moment of global capital accumulation, playing an active role in mediating global capital with unregulated, cheap, and disposable labour in China.

In relating massive FDI inflow with unregulated labour, a large-scale inflow of internal migrant workers from rural areas played a particularly important role. There were approximately 94 million internal migrant workers in China in 2004 (\textit{China Labour Bulletin}, 2004). In particular, about 30-40 million migrant workers aged 20 to 30 worked for China’s export drive (\textit{China Labour Bulletin}, 2004). As mentioned above, internal migration began to grow dramatically after relaxing the household registration system. However, while the loosening of the \textit{hukou} system allows the migrants to work in big industrial towns, it does not give them the right either
to be permanent residents or to claim social benefits from the town (Chan, 2003, p. 44). Thus, they tend to be treated as secondary citizens with no institutional protections from local government. In addition, for the management, young women migrant workers who lack experience in claiming their rights, are perceived as more docile than their male counterparts. Worse still, there are millions of young workers ready to migrate to cities largely because of the ever diverging living standards between urban and rural areas. All the factors function as a pressure on the downward spiral of their working conditions and wages. The legal minimum wage, which varies significantly from one region to another, was introduced in the early 1990s. However, increase in minimum wages during the 1990s’ economic boom ‘only kept pace with inflation’ (Chan, 2003), showing almost no increase in real wage. Perhaps workers on minimum wage are the lucky ones, given that it is normal to find workers in labour intensive industries who are not paid the minimum wage (HKCIC, 2003a) and whose employers are in wages arrears totalling 100 billion yuan (US$12.1 billion) (China Daily, 30 December 2003).

While internal migrant workers were flowing into newly emerging industrial hubs in China, it was most of all OEM capital that was prepared to employ those migrant workers. Coming from East Asian countries such as Hong Kong, Taiwan, and Korea, these Asian TNCs play a particular role in this new global production chain. Subcontracted to brand names and retailers in the developed countries, they are in many cases direct employers of the workers in China’s export processing zones. As many reports and literature on the labour problems in Asian TNC-invested garment factories in China and elsewhere have exposed, these firms are mostly small- and medium-size, often located at the bottom of the supply chains and, therefore, always under heavy pressure to minimise production costs (AMRC, 2002). Given the fact that the competitiveness of labour intensive and low-value added manufacturing relies on cutting labour costs rather than introducing effective means of production and these firms having escaped from their home countries in an attempt to reduce labour costs, one could easily expect that these firms are the main players in the race to the bottom of deteriorating working conditions and wages. It is in these foreign invested enterprises (FIE) that China appears truly as a place where unregulated labour is united with deregulated capital.
They are mostly concentrated in the coastal provinces and cities. Southern Guangdong province is certainly a model for this trend, absorbing more than a quarter of FDI inflow stock to China ($110 billion) by 2001 and about 20 million migrants working mostly for exporting sectors (Asian Labour News, 31 May 2004), including most of the labour intensive industries such as garment and toy. As a hub of China’s export drive, Guangdong’s exporting sector accounted for 36.5 percent of total export from China in 2002 while FIEs alone export more than $69 billion (Chinese Statistical Yearbook, 2003). Foreign invested firms producing garments, footwear, and toys in Guangdong offer a good example of recent development of labour relations in China. The following sections attempt to scrutinise the recent development of labour relations resulting from the unity between unregulated labour and deregulated capital, by tracing shop floor management and labour practices in the context of contested relations between the state, capital, and labour. The context is that of export-oriented, light industries in Guangdong province where filtering the ‘external’ forces of global capitalism is most explicit. The presence and organisation of the FIEs in China marks a big difference from that of the SOEs. Party-state organs, namely the party secretariat, the All China Federation of Trade Unions (ACFTU), and the Women’s Federation are replicated in the microcosm of the state-owned factory management system in the past. It never takes root in the labour-management system of the FIEs, which are completely run by the market principles.

2. Shop floor industrial relations in the FIEs

Recruitment and labour contract

Recruiting workers for the garment, footwear, toy, and electronics industries in southern China, particularly Guangdong province, is done usually by putting up advertisements outside the factories. An informal network of information about vacancy, work, and pay, the economic status of the company and management practices is built amongst migrant workers via the network of workers from the same place of origin (laoxiang). Given the lack of access to more systematic employment information, the laoxiang network functions as the most effective source of information for migrant workers. Migrant workers looking for jobs in this way have a
rough sense, largely informed by somebody’s experiences, about the pay and work conditions in the FIEs in Guangdong province. Enterprises in the electronics sector that require more disciplined workforces due to higher capital investment may recruit workers through vocational schools operating in towns in various inland provinces. Such enterprises may have higher requirement on the educational level (at least finishing high school). The vocational schools collect school fees, which include the job placement fee and thus act as a quasi job placement agent. Since sending surplus labour to work in the industrial cities in the south and along the coast is an important means of remittance income for inland provinces, the Ministries of Labour and Social Security (MoLSS) of various inland provinces will also assist the FIEs to recruit workers from rural towns and villages.

In addition to the recruitment process, forms of labour contract also reflect the unsystematic and individualised nature of employment relations as well as the lack of collective control over the terms and conditions of employment relations in FIEs. In theory, changing labour relations through contract and collective contract is one of the most important features of the Chinese Labour Law promulgated in 1995. However, a number of important features about the labour contract show how the nature and practices of the employment relations in these industries are ironically reproduced in the discrepancy in the actual implementation of the Labour Law. Firstly, although more FIEs in the above mentioned sectors have labour contracts with their production line workers in recent years, research projects show that it is still common for employers in the FIEs not to sign contracts with production line workers (HKCIC, 2001b). The Chinese Labour Law requires that all employing units and employees ‘should’ sign labour contracts on a voluntary and consensual basis (Articles 16 and 17, Chapter 3). On the one hand this affirms the individualised capitalist labour relations in China after the Open Door Policy. On the other hand, it is supposed to guarantee the basis on which workers claim their basic rights as employees. However, the widespread practice of having no labour contract in fact makes it possible that the relations between employers and employees are highly informal and, therefore, the regulation of terms and conditions of employment are largely absent, leaving workers very vulnerable. Worse still, even in the firms that have formal labour
contracts, the terms of employment become shorter and shorter so that the labour contract functions not to secure employment but to justify insecurity of employment. Research projects in the garment, toy and electronics industries show that contractual employment in the FIEs ranges from as short as three months to two years (HKCIC, 2001b, 2002, 2003b, 2003c, 2003d, 2003e). The short-term employment punctuates the global production cycle of the sector and China’s weak labour law implementation gives employers enough flexibility to dismiss workers in the low season or in times of global market recession.7

In Chapter 3, Article 33, the law also states that the enterprise ‘can’ sign collective labour contracts with employees and the signed collective contracts have binding power for the whole workforce (Article 35, Chapter 3). The collective contract should be discussed and approved by the workers’ congress and signed by the trade union. Where there is no trade union, the collective contract should be signed with worker representatives elected by the workforce (Article 33, Chapter 3). This is also stated clearly in the Trade Union Law (revised and promulgated in 2001).8 Signing collective contracts and safeguarding workplace democracy are regarded as one of the important means of maintaining the socialist principle of workers as ‘master of the country’ while inviting the capitalist mode of economic development under the Open Door Policy (Deng, 1994). In one sense, this mechanism can be taken as collective bargaining between employers and the organised workforce although the choice of the Chinese government’s vocabulary is always purged of labour conflicts; instead ‘consultation’ and ‘consensus’ are the words they choose to use. However, given that the unionising rate is very low in the FIEs, real consultation with workers over labour contracts, even in enterprises that have trade unions, does not take place. Since the language used in the Labour Law is weak (‘can sign collective contract’ (authors’ emphasis)), it is no surprise that the individualised and informal capitalist labour relations with minimal legal regulation are the dominant form in FIEs in Guangdong province. The above de-facto situation is further reflected in the sample labour contract provided by the MoLSS of Guangdong province. The signatories are the employing unit and the individual labourer. In practice, migrant workers know little about trade unions not to mention having trade unions represent them to sign collective contracts with the employer. Even where
The trade union is present, the actual absence of the trade union role in employment policy and production paralyses the Labour Law in this and other aspects.9

The wage structure

The piece-rate payment system is the most common form of wage payment in labour-intensive light industries in Guangdong.10 The legal minimum wage system in China is meant to ‘meet the requirements for the socialist market economy’ (MoLSS, 1994), meaning that the socialist government provides a floor below which Chinese labourers should not be selling their commodified labour power no matter what payment system the enterprises are using.11 The reality is that employers in FIEs usually pay workers by piece-rates that pay lower than the legal minimum wage.12 The following is a case of the wage structure of a female worker making computer keyboards in a Taiwanese-owned factory located in Dongguan city, Guangdong province. The factory is an OEM factory supplying to IBM, Dell, HP, and Compaq. The basic time wage paid in this factory is RMB300/month or RMB1.4/hour, one-third lower than the local legal minimum i.e. RMB450/month or RMB2.7/hr.

Table 3. January 2002 payslip of a worker in a Taiwanese computer keyboard factory in Guangdong province

<table>
<thead>
<tr>
<th>Dept</th>
<th>Assembly</th>
<th>Date of recruitment</th>
<th>April 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic wage</td>
<td>300</td>
<td>Tax</td>
<td></td>
</tr>
<tr>
<td>Efficiency bonus</td>
<td>50</td>
<td>Management Fee</td>
<td>20</td>
</tr>
<tr>
<td>Saturday work subsidy</td>
<td>40</td>
<td>Uniform deduction</td>
<td></td>
</tr>
<tr>
<td>Living allowance</td>
<td>15</td>
<td>Admin Fee</td>
<td>2</td>
</tr>
<tr>
<td>Night shift allowance</td>
<td></td>
<td>Food deduction</td>
<td>75</td>
</tr>
<tr>
<td>Skills allowance</td>
<td></td>
<td>Social insurance</td>
<td></td>
</tr>
<tr>
<td>OT compensation</td>
<td>265.8</td>
<td>Other deductions</td>
<td></td>
</tr>
<tr>
<td>Quarterly efficiency bonus</td>
<td></td>
<td>Total deductions</td>
<td>97</td>
</tr>
<tr>
<td>Total wage</td>
<td>670.8</td>
<td>Actual wage</td>
<td>573.8</td>
</tr>
</tbody>
</table>
The overtime (OT) rate paid (RMB2/hour on weekdays) is also lower than the legal minimum (RMB4/hr on weekdays). The piece-rate income earned by the worker, from OT compensation and other production related bonuses such as efficiency bonus and Saturday work subsidy, amounts to RMB355.8, which is more than her basic time wage (RMB300/month).

Paid by piece-rate at a rate below the minimum wage and earning a big proportion of her income from OT work and performance-related bonuses, she has to work up to her capacity, work quickly and take no leave. The employer can buy and control her labour power with the piece-rate system, which is related to the daily production target. If we take the legal minimum wage scale set by the Chinese government as the minimum cost that labour power takes to produce, sustain, and reproduce itself in a given period of time, the employer is certainly able to undercut that minimum. The employer is still able to find workers willing to sell their labour power below the cost. The underpayment situation illustrated here is not an isolated case, nor is it limited to the FIEs in Guangdong province.

The social cost of the reproduction of labour

The fact that workers are paid predominantly by piece-rate means that employers pay only for labour that results directly in products during a given period of time and a large part of the social cost of the reproduction of labour is imposed on individual workers, rather than on the state or on the employers. On top of that, the privatisation of social security accelerates the tendency. This problem is illustrated in the workers’ welfare system, including health and safety, pension, leave, and training in the FIEs. According to the Labour Law and the Ordinance of Social Security, the employing unit should participate in the MoLSS’s scheme on five types of insurance including pension, industrial injury, maternity, health, and unemployment. However, given the huge supply of labour in China, a migrant worker may serve as only short-term labour either for a few months in the peak season or a few years in their lifetime with an enterprise. The short term nature of FDI investment in the export-oriented and labour-intensive industry subject to the boom and bust cycle of the global market and negotiation of international trade agreements also provides little incentive to employers to provide migrant workers with pensions and other welfare provisions. As a result:

1. Most of the FIEs do not pay migrant workers old age insurance.
2. Migrant workers on the production line seldom enjoy paid annual leave.
to go back to their hometown in contrast to the requirements in the Labour Law.\textsuperscript{14} In addition, although it is stated in the law, FIEs do not pay migrant workers for sick leave or day leave especially during the peak season. Liable to losing a day’s wage and the full attendance allowance if they take leave, they will just buy medicine from local pharmacies and rest after work.

3. Maternity leave of 90 days as required by the Chinese Labour Law (Article 62, Chapter 7) is seldom granted to female migrant workers on the production line.\textsuperscript{15} Management practices such as 2. and 3. coupled with the social household system policies of the Chinese government as well as the fluctuating need for short-term labour in export-oriented sector, results in changing the family structure of migrant workers. Husbands and wives, parents, and children are separated and grandparents and children are left in the rural area while the young labour force leaves to seek jobs in urban areas. The question of child education and family integration is an issue that has larger social repercussions.

4. Vocational and skills training is seldom provided to the labourers in the FIEs in contravention to the law (Article 68, Chapter 8, PRC Labour Law). Although some large scale FIEs are providing classes such as English, Cantonese, and computer literacy to migrant workers, they function more as labour pacification practices rather than upgrading the skills of the production line workers for job promotion.

5. Enterprises do not pay industrial injury insurance in full to the MoLSS. Common acute industrial injuries in the export-oriented light industry sector include cuts and amputation of hands, arms, and feet. In case of industrial injury, the employer would negotiate and pay compensation privately with the industrial victim and not necessarily according to the scale and procedure based on official injury rating as stated in law.\textsuperscript{16}

Labour pacification and complaint resolution mechanisms on the shop floor

Writing about the socialist labour relations in China characterises the factory system in China as a paternalistic administrative organ of the CCP (Walder, 1986). SOE managers solicit co-operation from workers through offering paternalistic protection and assistance, usually in kind and in the form of personal relationships that bring other benefits. Management paternalism, though exercised through different practices and systems, is also found in the FIEs, par-
Occupational Health and Safety in China

The nature of crude and short-term exploitation of labour is shown in the area of safety and health. According to the figures of the Shenzhen City MoLSS, a worker was industrially injured every 3.1 days in 1998 and every 4.5 days, there was a worker killed in industrial accident (HKCIC 2001a, p. 80). The impact of workers acquiring occupational disease is even more difficult to assess. According to the figures of the Hygiene Department of the Shenzhen City, Guangdong province, in 2001, 42.7 percent of the enterprises in Shenzhen is engaging in manufacturing activities liable to poisoning and other hazards. 95 percent of the cases of chemical poisoning involving the use of solvents took place in FIEs in 2001 (HKCIC 2001a, p. 92). This is because of the low awareness both of the workers and the management, the administrative and legal barriers in assessment and litigation, and the inadequacies and poor implementation of the laws and regulations on occupational disease.¹ Employers in the FIEs provide only the minimal level of safety and health provision (usually fire safety) to the labourers.²

a. Safety and health engineering on the shop floor level and the provision of personal protective equipment is usually not adequate and even if provided, it is largely meant to pass the labour inspection.

b. Safety and health training is provided by the factories mainly on how to wear personal protective equipment to make sure that audits either by the labour bureau or by the buyers would be passed.³

The nature of the FDI in the export-oriented sector also results in the employers’ negligence on worker consciousness and participation on work place safety and health issues as important.

c. Long working hours is one of the major reasons for shop floor injuries. Workers are put to work overnight continuously during the peak season without proper rest thus putting them to high risk of getting injured and even death at the workplace due to over work. The ‘just-in-time’ and ‘build-to-order’ buying practices of the international buyers⁴ directly result in extremely ‘flexible’ working hours and thus high safety and health risks on the shop floor of the FIEs.
particularly in small- and medium-size enterprises (SME) owned by Hong Kong and Taiwan capital. These SMEs usually started as processing workshops in the 1960s and 1970s at home and they bear the characteristics of primitive capital accumulation in the early stage in Hong Kong and Taiwan. Some of these characteristics are reproduced in the local context when they relocate to China. The employers themselves may have been workers and they employ a management team through filial relationships. Formal ‘industrial relations’ in the modern sense is not applicable in such SMEs. Rather ‘rule by relationships’, and ‘flexibility’ in the organisation of work, decision-making, and employment are key to their operation and business success as one Hong Kong owner of a garment SME that was relocated to China in 1982 told the authors about ‘industrial relations’ and conflict resolution in his factory:

“We have a lot of old workers who have been with us since day one. They built their own houses within our factory complex. If they have any problems about wages or want to receive their salary in advance, they just walk into my room and ask... I don’t want to devise systems. We have a long term relationship and I prefer flexibility in handling that.”

Personal relationships, affiliation, and a sense of identity with the factory or owner are the lubricants of industrial relations in his factory. Shop floor industrial relations are mediated by consensus rather than ruled by conflict and negotiation. The interests of the workers are not represented institutionally and resolved quickly by small concessions from both sides based on a sense of affiliation. The owner is ready to share profits by giving year-end bonus or other benefits in money or kind, and holding lucky draws etc. instead of regular negotiations on work and pay conditions. The above example may be regarded as ‘pre-modern’ today. It may not necessarily be applicable as the factory relocates and employs a workforce that is large in number, less homogeneous, and highly organised in modern production lines. Yet management paternalism is still dominant in shop floor labour practices in the FIEs. The general features of this management style include:

a) The Personnel Department is responsible for recruitment, orientation, labour discipline, and sometimes organising social activities and taking care of personal problems for the employees as well. This is typical in Hong Kong- and Taiwan-owned factories that do not have trade unions.

b) In Taiwanese-invested factories, it is common to find a special adminis-
trative unit called the Workers’ Life Consultation Office, run by graduates from the Social Work Department or the Head of the Student Discipline Department in Taiwanese universities. The Office handles affairs related to social life and entertainment as well as peer relations and personal problems of the migrant workers. It may exist side by side with the shop floor trade union or as a replacement for the trade union. Complaints not relating to production issues are settled by the Office.

c) Workers’ complaints are either not handled (in some factories there is no grievance procedure at all) or handled by the personnel department or the consultation office instead of being represented by a trade union or elected worker representatives.

d) A sense of family and factory identity is promoted by explicit propaganda (such as putting up slogans reading ‘The factory is our home’) and factory oriented activities, as well as written down in the dormitory rules. It is also constructed through organising social activities such as sports contests, birthday parties, and entertainment activities on National Day and before Chinese New Year.

Having seen the prevailing industrial relations in FIEs, the internal migrant workers in China resemble what Marx called ‘free labour’ in every sense. Displaced from their rural origins due to a number of socio-economic reasons after the end of the Cultural Revolution and the inauguration of the Open Door Policy under Deng Xiaoping, they have nothing but their labour power to sell in the newly emerging ‘free’ labour market. The inflow of FDI mainly from Hong Kong in the first 10 years of the Open Door Policy functioned to absorb rural surplus labour and provide capital and technology for primitive capital accumulation. The labour relation between the migrant workers and their employers is one of primitive buying and selling of labour power. This is structured and reproduced by the recruitment process, labour contract, wage structure, and labour dispute resolution process in FIEs.

3. China’s labour relations as a contesting ground: corporate social responsibility and labour activism

Growing labour activism in FIEs

As we saw above, compared to the SOEs that have the means and institutions to resolve conflicts under the ‘socialist’ relations system, industrial relations in the FIEs are seriously imbalanced. The FIEs operate
as depoliticised, purely economic islands on which Party institutions do not have, and more often than not refrain from developing, mass-based organisations. Employers have almost absolute power over a mass of migrant workers who are not organised and are divided by different places of origin, customs, educational level, pay scale, and the fear of losing jobs. However, some broad trends of change regarding shopfloor labour activism and labour relations practices in the FIEs should be noted. Most of all, industrial action is increasingly taken by workers in the FIEs both individually and collectively against labour exploitation. The action is widely reported in the local media to create the spreading effect. Action includes (1) individual actions ranging from sabotaging production to individual retaliation against the employers and the management, (2) shop floor collective action such as work stoppage and wildcat strikes, (3) letter petitions to local and central governments, (4) more violent forms of action such as collective sabotage against company facilities and (5) legal action. The number of disputes put to the labour tribunal at all levels and collective lawsuits against the employers rose to 226,000 in 2003 involving 800,000 workers. In 2002, 184,116 disputes were processed by the MoLSS at different levels; 77,340 of them were lawsuits against the employers. The number increases by 157 percent in 2002 compared with 71,524 cases processed in 1997. The number of labour disputes in FIEs remains similar: 23,244 cases in 1997 and 22,930 cases in 2002 (MoLSS, 1998, 2003).

Corporate social responsibility in changing labour activism in China

In addition to the emerging activism, there are new actors appearing, as the labour standards in China’s FIEs have increasingly become the centre of international attention since the 1990s. These FIEs are usually the subcontracting OEM companies supplying to western transnational brand and retailing companies. There are also foreign-invested original design manufacturing (ODM) and original brand manufacturing (OBM) companies that have relocated from home countries seeking low production cost. As China absorbs more and more FDI, labour standards violations in this sector are increasingly emerging under different contexts, such as the WTO and trade agreement negotiations, corporate social responsibility (CSR) debated among corporations in western capitalist countries and the international labour movement. The issue of labour standards in China became a contesting ground where the divergent interests of inter-
national governments, transnational capital, and international social movements collide and make alliances with each other. Different actors seek to appropriate the issue of labour standards in China to serve their own interests. Such interests are mediated via different agenda such as social clauses attached to trade agreements, company codes of conduct, CSR, and international labour and consumer campaigns.

The role of the international labour and consumer movement that seeks to bring about changes in industrial relations in China by building alliances with actors in China and Hong Kong is the focus of discussion here. The international labour and consumer movement in the First World that has developed since the 1990s, has particular implications for the future development of industrial relations in China. The movement makes strategic use of the private or voluntary means of regulation to control transnational capital. In spite of the intrinsic limit of a voluntary approach, international campaigns have been using voluntary codes and the buying power of the international capital in a particular way that it functions as a ‘soft power’ to penetrate the global supply chain, bypass the party state, and pressure the OEM subcontractors in China. Codes of Conduct and CSR are frequently used by non-governmental organisations (NGO) in China and Hong Kong to access the FIEs for worker education and other labour-related programmes.

Recent development of this trend shows an integration of the trade union movement and the consumer campaign in seeking to regulate capital relocation in the capital-exporting countries. The anti-sweatshop movement in the US and the consumer campaign in Europe started as NGO movements in the 1990s. Efforts to seek alliances between the NGO movement and the trade union movement in the First World are mixed with struggles. As First World trade unions eventually realise the impact of capital relocation in terms of declining union memberships and lost control over home capital, closer alliances with the NGO movement at home and abroad are sought. The Make Trade Fair Campaign in the 2004 Olympics initiated by the Clean Clothes Campaign (CCC), the Oxfam International, the International Confederation of Free Trade Unions (ICFTU), and the Global Union is an example. This collaboration, if it could overcome the long-lived protectionism-based approach to the labour problems in
the Third World and integrate voices from southern labour organisations, might contribute to the radicalisation of the labour-consumer campaigns in the First World, driving it gradually from demanding formal labour standards to campaigning for procedural and collective rights for workers in the production countries, including the right to freedom of association, collective bargaining, strike, and democratic participation in decision-making at work. By doing so, transnational capital can be pressured into a situation that would make it look as though challenging the representativeness of the party-state and its organs on the shop floor.

Furthermore, more structural approaches towards regulating transnational capital are developed. National unions from developed countries and global unions are increasingly supporting unions and labour organisations in developing countries to organise under the same company roof and negotiate international framework agreements with TNCs. The Olympics Campaign of 2004 targeted the international sportswear trade association, the WFSGI, to demand a sectoral labour programme for the sportswear industry as a whole. The structural approach, if it works, would help to establish an international floor at both company and industry levels for better implementation of national labour laws and International Labour Organisation (ILO) conventions. The twin approaches of cross-border company union and sectoral organising might result in exerting more pressure on the Chinese government to comply with international standards. On the other hand, ‘China-bashing’ disguised as First World protectionism would lose colour as the campaign involves Third World labour struggles and unions against transnational capital. Two crucial questions remain unanswered. What is the impact of these changes brought by western-initiated CSR on shop floor management-labour practices in the FIEs in China? And what is the macro impact brought to the capitalist social relations system in China?

Impact of CSR-based approach in labour relations in FIEs

One impact on shop floor labour relations in FIEs is that increasing pressure has been exerted on western buying companies to address the collective rights of workers, namely freedom of association in China. This shift of focus from monitoring substantive rights to freedom of association has taken concrete effect in only a handful of buying companies.
Western TNCs are expected and requested by international campaigns to take up a higher degree of direct intervention on shop floor industrial relation practices at the supplier level in China. Such intervention includes advising or requiring the suppliers to adopt industrial re-engineering and modern human resource management practices,\textsuperscript{43} which serve to give a ‘human face’ to transnational commercial capital and contain labour discontent. Some western buyers go so far as to address the issue of trade unions and force their suppliers to build worker representation mechanisms or even run trade union elections on the shop floor.\textsuperscript{44} Recently, increasing worker involvement in CSR practices and social auditing seem to contribute to a higher level of worker consciousness, as an ironic result of the falsification practices used by supplying factories to cheat the social auditors sent by the international buyers.\textsuperscript{45} The systematic practice of falsification of time, pay, and contract records as well as coaching workers with ‘standard’ answers based on the labour law when the auditors interview workers actually educates migrant workers in labour rights, contrary to managements’ original intention. Some brand companies also publish labour law handbooks and distribute them to workers during social auditing. Workers are invited to launch complaints about the implementation of the codes to the brand company’s representatives directly.\textsuperscript{46}

International labour and consumer campaigns are increasingly engaging with local stakeholders, in this case labour and civil organisations in Hong Kong and China, as implementation agents on the ground. The programmes range from research, monitoring code implementation, participation in social auditing, worker training, and complaint handling to organising worker representation mechanisms at the supplier level in China. The campaigns therefore help in creating fissures and bring in new actors to the capitalist social relations system in China where previously the party-state organs were the only legitimate actors. NGOs arise as a new major actor in the industrial relations system in China as a result of the lack of credibility and inadequacy of the ACFTU to cope with the challenges of globalisation. Labour-related NGOs from mainland China\textsuperscript{47} and Hong Kong are increasingly sought both as a ‘mouthpiece’ for the unorganised and usually silent migrant workers in China as well as the implementation agents for codes of conduct for transnational capital. Transnational capital also has a structural need for agents that can dissolve shop floor labour resist-
ance in the course of capital accumulation while covering that up with CSR and ‘stakeholder engagement’. NGOs are invited to participate in worker training, labour rights monitoring, and grievance handling. In some cases they negotiate with the factory owners about shop floor working conditions and compensation issues. They are expected to play the role of regulator, mediator, and organiser, the role that in the first place should belong to the party-state and the trade union.

The party-state and changing conditions of the labour movement

It may be too early to speculate the macro impact of the western originated CSR initiatives on social relations in China. However, it is likely that the changes in labour relations and activism in FIEs that CSR has brought will eventually affect more macro level social relations of capitalist development in China by imposing increasing socio-political pressure on the state and the ACFTU. Private or voluntary means of labour and capital regulation has become more dominant in China. Even if it is the case also in many other developed and developing countries that the role of the state and organised labour has been largely weakened by the globalisation of capital and the absence of a global monitoring structure, given the massive scale of privatisation in China, the accelerating growth rate of the private sector, and the huge size of FDI, the pressure of public regulation imposed on the Chinese government is enormous. Therefore, it is inevitable that, although private or voluntary regulation of capital takes effect first of all in the FIEs in China, it will spill over to other sectors. The growing private sector as well as some SOEs that have been liquidated as public-private shareholding companies is eventually placed under international pressure for convergence. Appropriated by the logic of International Organisation for Standardisation (ISO)-style quality certification, privatised labour auditing and certification is generally regarded in China as the ‘passport’ necessary for international export markets. A new industry of social auditing, social certification, and CSR consultation has emerged in China. Equal enthusiasm is shown by mainland NGOs and semi-affiliated institutions to promote CSR to create the so-called ‘win-win’ situation for labour rights and exports. Academics in China join the debate, some of them call for ‘a Chinese version of CSR’. Research institutes under the Ministry of Commerce (MOFCOM) are investigating the nature of codes of conduct and CSR from the angle of trade protection.
More importantly, how the party-state and the ACFTU will take the challenge and what role they will play against the tide of privatisation of labour rights in China will be the key to altering the contesting capitalist relations at the macro level.

The state and in particular the MoLSS is viewed by the migrant workers as the institution that could assist in labour disputes. Yet the MoLSS, especially at local level, seems to be caught in a contradiction between the divergent roles of promoting economic development and protecting the rights and interests of workers, the origin of which is rooted deeper in the intrinsic contradiction between a higher degree of economic laissez-faire and absolute political control: the contradiction encompassed under the slogan ‘Socialism with Chinese Characteristics’. In terms of labour relations, it means promoting productivity while containing labour disputes and preventing independent organising in order to sustain the rule of the CCP, which is seen as equivalent to guaranteeing the economic and political interests of the people. News stories in the mainland about workers knocking on closed doors, confronting bureaucratic officials as well as cases of bribery and corruption between different government organs and the employers are frequently reported.50

To cope with the inevitable emergence of the contradiction in ‘marketisation’, new laws have been promulgated or revised to regulate capital as well as labour, such as the Company Law, the Contract Law, the Labour Law, and the Trade Union Law. Regulation over substantive labour rights has become more specific, for instance the Work Safety Law (approved on 29 June 2002) and the Prevention of Occupational Disease Law (promulgated on 1 May 2002) were introduced in reaction to bad publicity resulting from increasing cases of mining and firework factory explosions, and industrial accidents that include mass chemical poisoning. A combination of state legislation and privatised monitoring is used here. Government institutions such as the State Administration of Work Safety and State Administration of Coal Mine Safety (both directly under the State Council of the PRC) have taken on more responsibilities, including drafting legislation, directly monitoring coal mine and firework production, co-ordinating government institutions for factory safety inspections, safety education and training, as well as an occupational safety and health management system (OSHMS) certification. Subsidiary regulations and ordi-
nances have been passed and the local labour administration departments are supposed to better regulate burning issues such as (re)employment, working hours, back wages, as well as old age and industrial injury insurance to prevent labour disputes. However such efforts by the state to improve the role of the regulator are often offset by the capacity to regulate as the MoLSS has limited resources for factory inspections. The arbitrator role is also compromised as the MoLSS is faced with financial constraints over social security payments to retired and dismissed SOE workers as well as compensation to industrially injured workers.51 Weak union representation and ‘local protectionism’ by local governments also water down the state’s role as mediator. Indeed, the capacity to regulate in the end is related to internal and external resistance to stronger public regulation that has a direct conflict of interests with international capital, local governments, and local-interest blocs.

The official trade union under pressure

The role of the ACFTU is strengthened by law to exercise the collective rights of workers under the legitimate control of the party-state. The 1950 Trade Union Law was revised in 1992 and 2001 ‘to adapt to the new needs of economic development’; it has four major characteristics:

1. it applies to all forms of enterprises and all types of labourers;
2. it reinforces the role of the ACFTU in defending the rights of all labourers;
3. it strengthens the rights and the role of the ACFTU at enterprise level namely in signing collective contracts, having a say in matters regarding the working and safety and health conditions on the shop floor, and intervening in labour disputes; and
4. it states clearly the legal responsibilities of the employers in case of violations of the rights of the trade union and infringement of the Labour Law. However the ACFTU is often not regarded as an agent that migrant workers in the FIEs would turn to for representation and assistance in times of labour disputes. The ACFTU has been torn historically between the ‘transmission belt’ of the CCP and the representation of workers’ interests.52

Reform of the role of the ACFTU looks inevitable as well as difficult in face of political and bureaucratic obstacles. Its political mission and affiliation of interest with the Party is one, internal resistance based on
individual interests within the ACFTU is another. The ACFTU can only act as the assistant to the party-state in smoothing SOE reforms and worker lay-offs. Facing the growing private and FIE sector that has low unionising rate vis-à-vis the shrinking SOE sector, the ACFTU is faced with the double challenge of losing its mandate and income. Although the new Trade Union Law provides legal ground for the ACFTU to establish itself in all types of enterprises, it is faced with the difficulties of establishing a presence in the FIEs. Clashes of interest are inevitable with local governments, which are ready to concede public regulation to compete for more foreign capital. That sways the union towards using, legislative means and private and voluntary means of regulation to claim its mandate. Therefore, as Taylor, Chang, and Li rightly point out, ‘the ACFTU mostly plays a minimal role in dispute resolution, with workers relying much more on direct appeals to management or the government’ (Taylor, Chang, and Li, 2003, p. 213).

Situated at the crossroads of undermined Party-State regulation and accelerating privatisation of labour regulation, there has also been increasing discussion within the ACFTU about the impact of company codes of conduct and western initiated CSR. Opinions diverge; on one hand, codes of conduct, and western CSR is seen as usurping the role of the union and even developing ‘a second trade union’ in China. Concerned over the credibility issue, TNCs that are sensitive to public relations hold back from directly engaging with the ACFTU; NGOs are generally preferred. They are brought to the shop floor by ‘foreign forces’ and are actively involved in the monitoring of the labour standards in the FIEs. They are often viewed as ‘competing’ with the union for representation of workers. On the other hand the ACFTU takes these initiatives more positively as an external push for the ACFTU to reform itself to become the workers’ representative. These initiatives, if placed under ‘proper’ control and mandate, can give the ACFTU access to the private and foreign sectors. The ‘win-win situation’ view sees the ACFTU playing a role to assist private auditing and certification programmes so as to promote export. The dilemma of union reform and engagement with private regulation practices will continue. Another variable is the interaction between the ACFTU and the international and other national trade unions. While international trade unions such as the International Confederation of Free Trade Unions (ICFTU)
and a number of national and global trade unions insist on not engaging with the ACFTU because of its lack of legitimacy and democracy, the ACFTU is not diplomatically isolated. The rising power of China and increasing subcontracting in manufacturing and services create much pressure for other national trade unions to engage with the ACFTU to serve the political and union agenda at home. In some FIEs and joint ventures that are directly invested with western capital, such as Volkswagen from Germany, collaboration and exchanges between the ACFTU and the trade unions of the mother company have taken place. To what extent such exchanges lead to democratic reform within the ACFTU remains to be seen.

As a product of the Open Door Policy, civil society is growing within political limits. The burgeoning mass media, driven not only by the state but also by market competition plays a role in pressuring the state for changes. News stories about corrupt government officials, labour abuses, labour disputes, strikes, and workers petitions to local and central governments are widely reported. They pressure local and central governments for stricter public regulation while promoting the social consciousness of migrant workers. Academics, for instance those in labour law, are starting to focus more on the procedural and collective rights of workers especially in terms of legalising the right to strike as well as the convergence of the PRC Labour Law with international labour standards and private codes of conduct. TNCs are also eager to involve mainland academics’ participating in CSR projects such as research, social auditing, and worker training. To control the ‘side effects’ of the Open Door Policy and the privatisation of public regulation, the party-state resorts to either more administrative control or more legislation to make sure that civil society expands safely. However, the state still has ultimate control over the media; the recent example of Shenzhen’s local government suing a popular local newspaper for being too vocal is an example of such power. In 1998 Shenzhen city also experimented with the promulgation of the ‘Social Organisation Registration and Management Ordinance’ in an attempt to put civil organisations under public regulation. ‘Civil non-enterprise organisations’ should follow the national constitution, not threaten national unity and security, and not damage the interests of the nation and society and interests of involved organisations and citizens. Civil organisations have to register
with administrative departments or delegated organisations under the State Council and county-level governments. State regulation provides the macro framework to regulate the growth of civil society and civil organisations. Yet it is always at the micro level where the local actors such as local administrative departments, trade unions, civil organisations, factory owners, transnational buyers, and workers mediate the space and the power relations.

**Conclusion**

The legacy of state socialism ironically became the successful basis of the formation of capital relations that at least temporarily offers to foreign and domestic capital a strong basis to realise the neo-liberal dream. In China’s capitalist development with the vast scale of privatisation and mass lay-offs, the working class paid the cost while newly emerging capitalists benefited. The politicised formation of capital relations seems successful so far at all levels, state-led privatisation, commodification of labour, and attraction of FDI. However, at all levels, it bears unresolved problems and these problems are likely to emerge in more volatile forms in the second stage of capitalist development. First of all, more and more SOE privatisations without proper financial resources either from the state or local capital needs ever more foreign capital, which in fact will reduce the effectiveness of the control over the development process by the state by reducing its control over individual capitals and integrate Chinese development into the crisis-ridden development of global capitalism. The difficulty of the remaining SOEs to compete with private firms and their accordingly low performance is reducing the revenue to the Chinese government. This again will lead to selling off more SOEs to mostly foreign investors to stabilise the state’s fiscal crisis for short-term income. Thus, state control over the whole development process on the basis of its control over SOEs’ financial resources through state-owned banks is likely to be undermined to a large extent in the near future. Strengthening the alliance with foreign capital at the expense of the working class also can undermine the effectiveness of politically controlled development. For effective politicised development, it is important for the party-state to exercise its force to suppress political aspirations of the working class while it continuously makes itself into a ruler of the law and defender of the national interest in general, rather than a mere committee of capitalists. So far it does relatively well in
both. However, as mentioned above, the growing dominance of foreign private capital undermines the strong grip of the state over the process. Meanwhile, growing unemployment and declining social security will add pressure on the state. As capitalist development in China absorbs more and more workers into capitalist production, upward pressure on wages and growing political aspirations of the new working class looks inevitable. The possibility of new working class activism exists on the basis of the unfolding of unresolved problems of earlier capitalist development in China.

At the moment, workers in the FIEs remain the ‘silent majority’ with the least leverage and bargaining power in the changing social relations system. The persistent sacrifice of their rights for economic development and the de facto lack of representation of their interests certainly contributed to continuous FDI inflow to China on one hand, and the proliferation of private means of labour regulation on the other. Their absence also led to the growth of the ‘labour business’ and the NGO sector that is likely to act and speak on their behalf. Since the CCP came to power, the interests of the workers have been subsumed to the interests of the people. Migrant workers in China have been constructed, represented, and appropriated as a subject in government propaganda, and in academic and business and social movement discourses. Factory owners and westerners view the migrant or peasant workers as lacking labour consciousness, wanting to make as much money as possible within a few years and return to their hometowns and villages. Government officials also view the migrant workers as having low educational and civilisation level. Besides doing injustice to the migrant workers and under the dynamics of what is happening on the ground, these views have political implications while serving the common interests of capital and the state at some point. The myth continues to efface workers as an autonomous subject in the capitalist social relations system in China. From the interests of capital, the labour situation and thus the ‘business risks’ of investing in China should be resolved and dissolved through voluntary and top-down labour monitoring programmes by ‘safe’, cherry-picked agents. Respecting freedom of association in China is a dangerous public relation ploy and the last thing that CSR should do is to be implicated in political instability in China. For the party-state, the growing labour activism of the ‘new working class’ (Taylor, Chang, and Li, 2003) as well as the infiltration of ‘external influences’ that
use labour and human rights to serve other political purposes means challenging the rule of the CCP. At the moment CSR is a double-edged sword. On one hand, it could create space to promote labour consciousness and organising at the grass-roots level and within the existing political framework and union structure. On the other hand, it is always an easy public relations tool for transnational capital. It can also be appropriated by the party-state and other actors, in the name of conformity to international practices and promoting economic development, to further suppress real worker participation and the emergence of a new labour movement in China.

The last generation of SOE workers has received Party and socialist education about constructing a socialist nation state to counterbalance the infringement of capitalism. The new generation of migrant workers comes from the countryside. They were born at a time when the party-state was beginning to lose its tight grip of ideological and social control at the grass-roots level. Having withstood the socio-political instability brought by the massive lay-offs of the SOEs, the next nightmare for the party-state is losing control over the ‘new working class’, which could threaten the legitimacy of the CCP. Yet, despite the rising number of spontaneous labour resistance and industrial actions, the development of activism of workers, especially that of the migrant workers in the FIEs, remains to be seen. Needless to say, the nature of China’s development depends in the end on the labour movement, how much they can fight for democratic control over development, and overcome the challenge of global capitalism with Chinese characteristics.

Notes
1 An earlier version of this paper was presented at the Employment Research Unit Annual Conference, Cardiff University, UK, 8 - 9 September 2004.
2 As we look at in more detail later in this paper, the liberalisation of the Chinese capital market means to Chinese capitalist development far more than merely attracting more foreign investors. While it would ease cash flow for individual capitals in China, it would also make it increasingly difficult for the Chinese government to control financial flow and thereby individual capitals. This means the liberalisation of the Chinese capital market is related to the reproduction of the particular trajectory of Chinese capitalist development. Thus, in spite of its accession to WTO and expectations of speculating investors from developed countries, further liberalisation of capital markets and increase in portfolio investment
Table 4. FDI by country of origin

<table>
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<tr>
<th></th>
<th>1997 %</th>
<th>1998 %</th>
<th>1999 %</th>
<th>2000 %</th>
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<td>4546275</td>
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<td>4071481</td>
<td>4687759</td>
<td>5274286</td>
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<td>3133102</td>
<td>100</td>
<td>4546275</td>
<td>100</td>
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<td>40.71104</td>
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<td>340036</td>
<td>7.479442</td>
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<td>7.161645</td>
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<td>340397</td>
<td>7.487383</td>
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<td>180320</td>
<td>3.966324</td>
<td>148961</td>
<td>3.658644</td>
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<td>291521</td>
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<td>23839</td>
<td>0.524363</td>
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</tr>
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</table>

remain to be seen.

3 The household system, which was a strict barrier on rural-urban migration, was designed in the 1950s to protect the interests of the urban working class. The agricultural sector functioned to support the raw materials and food supply to the urban working class. Peasants were not allowed to move freely to the urban cities by means of the residence system that was linked to food rationing. The system eventually collapsed with the Open Door Policy that was meant partly to absorb surplus rural labour. Migrant workers have to apply for a number of documents including marriage certificate, birth certificate, and temporary residence permit to stay and work in the cities. Yet since household registration is still attached to place of origin, the system still works to bar migrant workers from enjoying social benefits in the cities where they work and their children from receiving education at government funded schools in the cities.

4 However, the strong dominance of the state over the earlier development does not mean that the Chinese state exists separately from capital, autonomously instructing development, although it looks differentiated from capital by exercising its leadership against not only workers but also individual capitals. In fact, it is not exactly leadership. Particularly in relation to many SOEs, the state cannot clearly be differentiated from capital since many state bureaucrats are still personally connected to capital. It appears clear when we witness the emerging dominance of global capital through the attempt of the state to boost capitalist development by attracting foreign capital.

5 The All China Federation of Trade Unions did not play an important role, not to mention a leading role, in protecting workers. Rather than representing the workers, it functioned as a transmission belt from state to workers by endorsing the state’s restructuring programme.

6 Foreign investment from Asian countries, not to mention that from Japan, as a traditional main exporter of capital in Asia, significantly grew from $11.4 billion in 1990 to $49.4 billion in 1997. Even if the Asian economic crisis dramatically slowed down the outflow of capital from Asian developing countries, FDI flow from Asia recovered soon after the crisis and reached a record-breaking $81 billion in 2000. A significant part of Asian direct capital investment goes into Asia itself. In other words, cross-border investment within Asian countries is already one of the major financial resources for business in Asia. Japan is the biggest investor in this intra-Asia direct investment, allocating 21 percent of its $38 billion investment abroad to Asia-Pacific region in 2001. In 2000, about 45 percent of $7.7 billion Taiwanese FDI outflow (approved) and 37 percent of $5.9 billion Korean FDI outflow went into Asia. The number of investments from Asian NIEs to developing countries is more significant. 67.6 percent of total 19,378 Korean foreign direct investments went into Asia between 1980 and 2003, reflecting the small- and
medium-size enterprise (SME) driven investment to Asian developing countries.  
7 The toy industry in particular is vulnerable to the global market. A big workforce is needed starting from April/May to October each year for the Christmas production. After that, workers are dismissed or ‘allowed’ to take leave to return home during the low season. They return to the same enterprise when the next peak season comes.  
9 The Ordinance on the Signing of Collective Contracts states clearly the process of signing collective contracts is between employer and worker representatives. ACFTU and MoLSS propaganda uses statistics of the number of collective contracts signed each year. Yet the signing rate is low in the FIEs. Despite the fact that the Labour Law and the Trade Union Law both state the right to democratic participation and monitoring and defending the rights of workers for the trade union, the actual situation is the opposite in FIEs that have trade unions.  
10 In some factories, employers pay workers by a mixture of time and piece-rate. That is labourers are paid for a period of time given that a production quota is accomplished. This is a way to ensure that the labourers use their labour power up to what it is ‘valued’ for. The piece-rate is calculated using a number of variables namely the unit price of the order placed by the overseas buyers, the number of pieces of work a labourer finishes within a period of time and the actual market price of labour in the region or in the industry. Piece-rate payment is used to give labourers the illusion that they earn more if they work harder. In actuality, the piece-rate system has a ‘ceiling’ which is usually the converted legal time rate for accomplishing a certain step of production. This is calculated by dividing the legal time rate with the number of steps needed to finish a capital or consumer product. That is why the workers interviewed by researchers often complained about the employers ‘suppressing’ the unit price when they had surpassed a certain speed of production, so they feel that their income does not grow as much as their speed does. In one sense, piece-rate payment is the crudest form of surplus value extraction. The concept of piece-rate payment is that the labourer is paid only when he/she is realising his/her labour power into the manufacturing of capital or consumer products. Contrary to the time-rate, it does not allow the loophole of letting labourers not to labour up to his/her fullest potential when the labourer is selling labour power.  
11 The legal requirement on minimum wages in China states clearly the wage payment be delivered to labourers after working the legally stated number of ‘regular’ working hours, i.e. 40 hours a week and 21.5 days a month (MoLSS 1995).  
12 The basic wage paid by the employer may be calculated on longer working hours and working days than the ‘regular’ ones stated by the Labour Law (e.g. based on nine or 10 hours a day and 24 days a month). Further, basic wages are
deliberately suppressed to be supplemented by various bonus payments such as the beyond-the-quota-bonus or the full-attendance bonus, in order to create the false impression of ‘work more and earn more’. The grand total of a labourer’s monthly wage surpasses the legal minimum wage only after adding piece-rate income, overtime pay, and various bonuses.

13 The local level MoLSS decides the cover rate and the percentage for integrated social security and collect them from the enterprises. Enterprises can always get around that by using ‘relationships’ (guanxi) with local officials or falsifying the size of the workforce to the MoLSS. Usually non-production staff and local workers are covered by old age insurance. This is also due to the lack of a comprehensive management system of the central pension fund at national level. Migrant workers do not understand the concept and also do not want to have less monthly income to pay for old age insurance.

14 Article 45, Chapter 4 of the Labour Law states that labourers who have served one year or above with the enterprise are entitled to paid-annual leave.

15 Research on the toy industry (HKCIC, 2001a) shows that female labourers are either unaware of their right to maternity leave or they have internalised the concept that pregnant workers are useless to the employers. Most said that pregnant workers should leave the factory as they cannot fully sell their labour power to employers. Local workers, usually administration staff, are liable to enjoy maternity leave.

16 According to the Ordinance of Industrial Injury Insurance, the employing unit has to pay (1) all medical fees during the treatment period, (2) average monthly salary during the treatment period, (3) living allowance to the victim during the treatment period, (4) injury insurance based on the disability rating and the average monthly wage, (5) travelling costs, living allowances to the family of the injured, and other expenses if the victim cannot work and has to return home, and (6) consolation money for the deceased.

17 At the moment, there are only 14 official categories of occupational diseases (with 13 more soon) recognised for compensation in China. Ergonomic diseases, which are common in the manufacturing and service sectors, are not included.

18 That was largely due to a fire that took place in a Hong Kong-owned factory called Zhili Toy Factory in Shenzhen, China in 1993. 87 women workers choked to death because the staircase of the dormitory was locked at night. This fire coincided with another fire in another Hong Kong-invested factory in Bangkok in 1993. Both suppliers were producing toys for TNCs such as Chicco in the first case and Mattel in the latter. The two incidents rang alarm bells in the FIEs in Guangdong province on fire safety.

19 Interviews by the author (Wong) from 2000-2004 show that factories asked workers to put on masks, gloves, goggles, and other equipment before labour
inspections and social audits. After that, the management would take the PPE back.

20 The garment industry particularly emphasises the need for just-in-time orders to meet as closely as possible market demand in the First World. The computer industry is increasingly based on the Dell model of building to customer orders. The international buyers are shifting the cost of inventory and market risks to suppliers that eventually pass it on to workers.

21 SME here refers to enterprises that employ less than 500 workers. Many SMEs start off as even smaller SMEs in Hong Kong and Taiwan before relocation to China.

22 The author visited this Hong Kong-owned garment factory that supplies to European buyers. The factory started in the 1960s in Hong Kong in small workshops. In 1980-1, the factory moved to Shenzhen, the first Special Economic Zone (SEZ) built after Deng Xiaoping announced the Open Door Policy in 1979. A son inherited the factory and keeps many old workers as supervisors while employing migrant workers as well. The author finds management style and organisation of work strongly resembles the Hong Kong garment factory system in the 1970s and 1980s.

23 The biggest shoe manufacturer in the world, Taiwanese Pou Chen Corporation, employs an estimated 200,000 workers from different provinces in China at its subsidiary factories located at four industrial cities in Guangdong province. The number of workers of the Hong Kong and Taiwan OEM factories in labour intensive industries varies from less than 200 to tens of thousands in the Pearl River Delta, Guangdong province.

24 It is not the intention here to take these pacification practices as cultural stereotypes of the ‘larger China’ region as described in many culturalist arguments on East Asian labour relations. Rather, we understand such management practices as products of a particular socio-political context in the formation of capitalist labour relations in the home countries of investment and the host countries. Certainly, the industrial relations system in China is not a closed system of relations confined to the so-called ‘China’ context in its historical unfolding. Rather it is a porous system cross-marked by fissures opened by the inflow of foreign investment and thus it becomes the contesting ground of the reproduction of the capitalist social relations of the capital-exporting countries both in the West and in North East Asia.

25 The State does not appoint a secretariat from the party to the FIEs. Nor necessarily does the party-state exercise political and administrative influence to force the FIEs to establish affiliate unions or organisations of the ACFTU, the Communist Youth League or the Women’s Federation. In some instances, however, when the FIEs are approached, they may take the political signal and voluntary invite the ACFTU or even the CCP to set up affiliate unions or branch committees on the
shop floor. The biggest computer OEM company from Taiwan, the Hon Hai Corporation is an interesting example of setting up a Party committee in their operation in Shenzhen city, Guangdong province.

26 Of course industrial actions are not only limited to FIE workers. The actions taken by laid off SOE workers mainly in the northern part of China are even more radical including laying down on railroads, mass sit-ins outside the labour bureau and public demonstrations. But the contexts and the worker background behind the industrial actions that take place in the FIEs and SOEs are different and thus it requires analysis on the different factors and agencies that instigate labour activism under different contexts.

27 In another occasion, a young female worker in a Taiwan-owned footwear factory told the author, “If I am not happy with the supervisor, I make deliberate mistakes with the products.” (field interview, Wong, 2002)

28 One may find news about the murder or blackmail of the owners of factories, usually Taiwanese, between around the end of the year and before Chinese New Year. Cash flow is usually a problem for factories at that time and the problem of back wages is rampant. Workers may take radical actions to vent their anger.

29 The number of wildcat strikes is not publicised officially and it is difficult to get information. However the author once talked to a female migrant worker about her participation in a strike four years ago: “I had only good dreams about the cities and Guangdong province. I heard only the fancy stories told by my cousin who had worked in factories there and I wanted to go so much... The first time I felt being exploited was that night when I was made to work overnight... The supervisors took the lead. Our unit price was too low and the supervisors were experienced. They knew how to organise us and how the factory operates. We followed and the whole workplace was on strike. It took a few days. In the end the factory owner bought off a few supervisors while all of us that had taken part in the strike were dismissed.” (field interview, Wong, 2004)

30 A recent case at the time of writing was in a Taiwanese footwear factory located in Chang Ping town, Guangdong province in April 2004. The factory had seven subsidiary factories located at different places. Workers smashed the machines and computers at the workplace. They pushed down the telephone booths and smashed the goods in the company’s tuck shop out of anger against the factory management’s calculation of wages. The police arrested a number of ‘leaders’. The factory was supplying sports shoes to famous international sports brand companies. The ‘leaders’ are still detained and charged for civil offences (Apple Daily News, June 2004).

31 The official statistics on labour disputes put to the Labour Tribunal in 2002 are: the MoLSS at all levels has processed a total of 184,116 cases. 11,000 cases were collective labour dispute cases (increasing 12 percent over 2001) involving a total
of 61,000 workers. 179,000 cases or 91 percent of the cases were settled. Sources: Labour Statistics Yearbook 2003, published by the MoLSS Web site:  http://www.molss.gov.cn/tongji/2003nj/09/9-01.htm

32 The number of labour disputes in FIEs takes up 32 percent of total cases processed by the MoLSS in 1997. The percentage actually dropped in 2002 to 12 percent of total dispute cases because the proportion of disputes increased much quicker in the SOEs and private enterprises. The major reason for labour disputes in the FIEs is remuneration.

33 For Original Brand Manufacturing companies such as Samsung, Epson, GE, Dupont etc. have direct invested enterprises in China.

34 First World states are making use of the labour and social standards of China, as well as other developing countries, to swing the negotiations in the WTO and in the bilateral or multilateral trade agreement towards forcing China and the developing countries to further open their markets, adopt more radical structural re-adjustment programmes as well as deregulation and liberalisation policies.

35 The interested party here is largely western-originated transnational capital that is liable to regulation either by civil society movements, shareholder regulation, and state monitoring at home. CSR here is understood as a cushion used by transnational capital to continue justifying international subcontracting to developing countries so as to undercut price and compete for greater share of the global market. International subcontracting is a double-edged sword as it reduces costs as well as creates new ‘management risks’ capable of dragging the western buyers into human rights and environmental scandals. CSR is used for blue- and green-washing globalised exploitation. Addressing labour rights issues in China and in other developing countries is ironically a recuperation of such risks for greater capital accumulation. The logic of the mainstream CSR movement also changed. Many social responsibility organisations moved their emphasis, explicitly or implicitly, from ‘responsibility’ to ‘profitability’, in the attempts to attract businesses to the stakeholder partnership. The profitability approach is based on the idea that ‘socially responsible business practices affect all the aspects of business operations and contribute significantly to corporate productivity and profitability’ (BSR, 2003, p. 1), by bringing to the corporations reduced operating costs, enhanced brand image and reputation, increased sales and customer royalty, access to capital, and overall improved financial performance (BSR, 2002; SAI, 2003). This tendency shows a certain degree of convergence between two traditionally opposing arguments about corporations’ responsibility: business for the sake of society and business for the sake of profit. Indeed, this trend shows an increasing integration of CSR into the world of business. The theory of synergic relations between profit (usually long-term) and better social responsibility at a glance sounds perfect. However, many labour
organisations in the south pointed out the imminent danger of the profitability approach: it abandoned the foremost principle that workers’ rights have to be respected no matter how successful the business is, subjecting labour rights to market conditions and confining improvement of labour condition within a few advanced individual capitals that have ability to take action without undermining business profitability (Chang, 2003).

36 It started in Europe in 1989 when Dutch NGOs campaigned for the overseas labour rights abuses of Dutch garment companies in the Philippines. This led to the formation of the Clean Clothes Campaign Europe-wide later. The US campaign began in 1992 when Levis was first targeted in the media for labour rights abuses at its overseas suppliers. That kicked off the anti-sweatshop movement first on US university campuses and other supporting NGOs in the 1990s.

37 Bound by their national mandate, national trade unions in the first world are regarded by NGOs as slow to react to regulating home capital and sometimes even having a protectionist agenda rather than truly supporting third world worker struggles. NGOs on the other hand, are often accused by trade unions as having no democratic base, funding-driven, and seeking media exposure only.

38 Global unions refer to international unions such as the International Confederation of Trade Unions (ICFTU) and the international sectoral unions such as the International Textile, Garment and Leather Workers Federation (ITGLWF), the International Metalworkers Federation (IMF), the International Federation of Chemical, Energy, Mine and General Workers Union (ICEM) etc.

39 The World Federation of Sports Goods Industry (WFSGI) is an international trade association that has members of most of the sports brands, retailers, traders, and national sports industry trade associations.

40 The sectoral programme of work includes both substantive rights such as implementing the WFSGI code of conduct, collective rights e.g. freedom of association, as well as changes in the purchasing practices of the sportswear buying companies. The latter issue is related to regulating the race-to-the-bottom competition in the global sportswear market and can be addressed only at the sectoral level. See the Web site of the Play Fair at the Olympics Campaign http://www.playfair.org

41 This is particularly as the CCP claims itself to be the ‘friend’ of Third World, non-aligned countries; the propaganda of the CCP in the 1950s and 1960s emphasised supporting Third World workers’ struggles.

42 It should be recognised that to a large extent the concern for freedom of association in China on the part of the buying companies is driven by public relations considerations. In terms of social auditing in China, it is an eternal obstacle and target of attack from the campaign side. For instance auditors in China equate freedom of association with the presence of a complaint box for
workers, a claim frequently criticized by campaigners. But there is now more
discussion amongst the buying companies about supporting bottom-up worker
participation as a more sustainable means of implementing labour codes on the
ground and checking the suppliers.
43 These human resource management (HRM) practices include setting up a
grievance procedure, a management-worker communication mechanism and pro-
viding skills training such as computer literacy and language courses and even
micro-credit financing for migrant workers (Global Alliance web site).
44 From 2002 to 2004, Reebok gave pressure to three of its footwear subcontrac-
tors to run elections and form trade unions. The election procedure followed
China’s Labour Law and Trade Union Law and the unions were affiliated to the
ACFTU.
45 According to research conducted by HKCIC, there was an approximate 20
percent rise in the level of worker consciousness about labour law and codes of
46 This practice is more commonly found with sportswear and toy companies. It
is difficult for retailers to take a more pro-active role because they do not source
directly and thus do not have direct influence on the factories. Besides they are
overwhelmed also by the huge number of suppliers who monitor their labour
standards.
47 Whether there are really independent NGOs in China has always been a ques-
tion. The failure of the ACFTU to take up its job and the pressure of the interna-
tional campaign, however, does create a ‘market’ for organisations that are based
in or have access to China to take up the ‘business’ of delivering labour services
to migrant workers in China.
48 Social standard certification includes industry-wide certification, e.g. the In-
ternational Council of the Toy Industry has a certification programme for the toy
industry based on its own code. The other common form of social certification is
SA8000, which sells a factory-based, voluntary certification programme to ex-
port-oriented suppliers based on the SA8000 code. SA8000 is severely criticised
by international labour organisations for running a labour business and under-
mining worker organising. China is a big market for SA8000 and suppliers as well
as the government and the ACFTU are studying the benefits of SA8000 certifica-
tion to promote export.
49 There is no official figure on the number of registered social auditing and busi-
ness consultation companies in China. For a lot of auditing and consultation com-
panies, social auditing is a new service developing along with other financial audits
and product quality laboratory testing services. Almost all the top 10 international
auditing and business consultation companies have developed social auditing
programmes and have either regional headquarters or branch offices in China.
50 The author’s field interviews with migrant workers in FIEs also reflect a general sense of scepticism about the government in defending the interests of the migrant workers. The author was told that the local labour bureau always protects the interests of the investors. Officials use delaying tactics to dilute the determination and frustration of the migrant workers that come to them for help. Their pessimism in confronting the state and capital shows in the saying, ‘All the crows are black’ (field interview, Wong, May 2004).

51 In many cases of labour arbitration, the MoLSS has limited power to enforce the court ruling on enterprises for compensation over labour rights abuses. Administrative blockades and low collection rates of social security instalments by the enterprises are the norm. Flexible implementation of the labour law by local governments is the major problem.

52 From the late 1950s and early 1960s, the ACFTU started debating its contradictory role of representing the interests of the party-state and defending the interests of workers against Party bureaucracy. The former path was attacked by factions in the CCP as being ‘corporatism’ and deviating from Party control. Great pains were taken by the ACFTU leader to negotiate the ‘contradictions in unity’ and reform was called for. But it was disrupted quickly by political movements and the Cultural Revolution later.

53 That is a trade union not affiliated to and independent from the Party-controlled ACFTU.

54 The newspaper, *Nan Fang Du Shi Bao*, is popular for exposing the corruption of government administration. It was the first media to expose the first case of SARS in Guangdong province in 2003. The paper’s reporting the case of a migrant beaten to death by the local police in a detention centre in Guangdong province led to the revision of government policy on the detention and repatriation policy of migrants without identification papers. The local government was outraged and raided the newspaper. In the end the chief editors of the newspaper were accused of misusing company funds and sentenced to jail for 13 years or so.

55 This is the most common view on workers when the employers of FIEs and JVs talk about their migrant employees. The argument follows that attempts to reduce the number of working hours would not be relished because workers want more overtime, or that migrant workers are interested in making money not participating in any worker organisation or labour rights education etc.

56 The first generation of migrant workers refers to those born in the mid-1960s (assuming that they worked in the FIEs and JVs in the very first SEZs, which were established in 1979 and 1980, at the age of 18-20). They were mostly young people coming from rural areas within Guangdong and Fujian provinces where the SEZs are located. The second generation who came to the south and the coastal for jobs in the 1990s were born in the 1980s in inland provinces. It would be interest-
ing to contrast the education and ideological training received by different generations of workers to understand how their concepts of socialism and capitalism evolved.

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CHAPTER 7

FDI TRENDS AND LABOUR IN INDIA

Krishna Shekhar Lal Das

1. Introduction

The Indian economy grew at a rate of about five percent per annum during the 1980s. Despite this growth the country faced an acute economic crisis, reflecting some domestic problems but primarily external ones relating to pressure on the balance of payments. Major domestic problems related to inflation, which peaked at 17 percent in 1991, and a central government fiscal deficit that stood at an all time high of 8.4 percent of gross domestic product (GDP). On the external front, foreign exchange reserves continued to fall - plunging to $1.2 billion - just enough to pay for two weeks of imports. The current account deficit widened to almost $8 billion (2.6 percent of GDP). It was inevitable that these symptoms would result in loss of confidence by international bankers and the debasing of India’s credit risk ranking by Moody’s. With these problems the International Monetary Fund (IMF) and the World Bank financially supported the country on condition that a Stabilisation and Structural Adjustment economic package was implemented. Faced with such economic difficulties, a new government that took power in June 1991 approached the IMF and World Bank to bail it out. In India, it has been a subject of debate; given these bleak economic conditions India had little choice but to embark on a liberalisation drive while other point of view is that India could have overcome this situation by adopting tough measures of financial discipline particularly for non-planned expenditure and mobilising resources from within as well as unconditional external financial borrowing.
2. Policy changes

2.1 FDI policies before 2000

Before the economy was liberalised India was following the ‘import substitution industrialisation’ policy and therefore attracting foreign direct investment (FDI) for industrialisation was not the priority. After liberalisation in 1991 the government tried to attract FDI by initiating various policies. The original policy declaration in 1991, which laid the foundation for foreign investment in India, indicated the Government’s expectations, which were:

- Technology transfer;
- Marketing expertise;
- Introduction of modern management techniques;
- Export promotion.

Subsequent sections discuss how much these expectations were met by FDI during the decade of liberalisation.

In the initial years though there was some increase in FDI it was not encouraging and far from adequate. Comprehensive policies to boost FDI were announced in 1998-1999 and in subsequent years it has been consolidated by various measures. Projects for electricity generation, transmission, and distribution, roads and highways, ports and harbours, and vehicular tunnels and bridges have been permitted foreign equity participation up to 100 percent under the ‘automatic route’.

Regarding equity participation in private sector banks, multilateral financial institutions have been allowed to contribute equity to the extent of the shortfall in NRI holdings within the overall permissible limit of 40 percent. The Government also permitted FDI up to 49 percent of total equity, subject to license, in companies providing Global Mobile Personal Communication by Satellite (GMPCS) services. Also, minimum capitalisation norms earlier required for pure financial consultancy services have been relaxed.

2.2 FDI policy limit of year 2000

By 2000 the Ministry of Industry had included more industries for automatic approval. The ministry also proposed to increase the percentage of Foreign Direct Investment limit from 51 to 74 percent for these industries (http://www.finindia.com/approval.html) including passenger cars,
cement, rubber products, ceramics, and power equipment.

However, enterprises with higher foreign equity than the stipulated limit on the automatic route will go through the Foreign Investment Promotion Board (FIPB) route.

Perhaps the most important of these relaxations from the foreign investor’s viewpoint was the discontinuation in 2000 of the provision for ‘dividend balancing’ in 22 categories of enterprises (mainly consumer goods and consumer durables). Under this provision, dividends repatriated to the parent country had to be balanced by export earnings over a seven-year period, such exports being optionally from own production or merchant exports.

### Box 1. Various FDI Related Policies

<table>
<thead>
<tr>
<th>Year</th>
<th>Policy Changes</th>
</tr>
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<tbody>
<tr>
<td>1992</td>
<td>* Foreign firms obtained automatic rights over international brand names</td>
</tr>
</tbody>
</table>
| 1993 | * Industrial licensing in specified industries (white goods, entertainment, electronics) abolished  
  * ‘Foreign investment inward’ (FII) allowed to invest in new Mutual Fund schemes |
| 1994 | * Banks allowed to set their own rates for lending  
  * Companies allowed to issue preferential equity to FIIs |
| 1996 | * Overseas pension funds, charities, foundations qualify as FIIs  
  * FIIs allowed to invest in un-listed firms  
  * FIIs allowed to invest 100 percent of funds (previously 30 percent) in debt instruments |
| 1998 | * Further concessions to FIIs – now allowed to invest in Government securities, Treasury Bills, listed and un-listed debt securities |
| 1999 | * FIIs allowed conditional forward foreign exchange cover  
  * FIIs could participate in open offers in accordance with takeover codes |
| 2000 | * 100 percent foreign equity allowed in infrastructure projects – ports, roads, highways |
| 2002 | * Limited FDI in print media permitted |
Whatever policy changes and concessions made by government were sometimes forced or influenced by external factors as well. For example, in response to a US complaint, the World Trade Organisation (WTO) ruled that the compulsion to raise the indigenous content of cars to prescribed levels was not permissible, and the Government of India had to withdraw this clause.

The present policies are such that once a foreign firm receives permission (prior sanction is not needed in most cases), it enjoys equal treatment with Indian Companies; in fact Indian industry has justifiably complained that the laws often favour foreign investors. In the telecom services sector, for example, foreign financial collaboration was made a prerequisite for all local bidders; in the power sector, more liberal terms were offered to foreign investors than to Indian ones.

Over and above the inducements offered by the Central Government were the incentives offered by provincial governments. Land, for instance, was and still is offered at very low rates to foreign-owned factories. Waivers or concessions are routine: Ford obtained a 15-year holiday from local sales tax in Tamil Nadu. General Motors had a 30 kilometre stretch of road completely resurfaced by the Government of Gujarat.

Some of the incentives and inducements were remarkable feats of financial engineering. Enron, for example, obtained a financial guarantee from the Central Government against default by the Maharashtra State Government. Meanwhile, the State Government agreed to purchase electricity produced by Enron at a rate determined by Enron’s capacity utilisation rather than demand and supply. Not surprisingly, such agreements collapsed.

3. FDI approvals and inflows

With the beginning of liberalisation in 1991 FDI inflow to India started increasing and by 1995 it reached around a 10 times increase compared with 1990, before liberalisation. By 1997 it reached $3,619 million but decreased for the next two years till 1999 and thereafter it again started getting momentum due to the disinvestments (privatisation) drive by the National Democratic Alliance government, however by 2002 it had received $3,449 million but did not touch the 1997 level (See Table 1 and Chart 1).

It is also evident that until 1991, inflows of private capital from overseas were negligible, averaging less than $200 million a year in the period
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<td>3006.6</td>
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<td>0.96</td>
<td>1.04</td>
<td>0.52</td>
<td>0.30</td>
<td>0.23</td>
<td>0.50</td>
<td>0.72</td>
</tr>
<tr>
<td><strong>China</strong></td>
<td>57</td>
<td>1,659</td>
<td>3,487</td>
<td>35,849</td>
<td>40,180</td>
<td>44,237</td>
<td>43,751</td>
<td>40,319</td>
<td>40,772</td>
<td>46,846</td>
<td>52,700</td>
</tr>
<tr>
<td><strong>China % in World</strong></td>
<td>0.10</td>
<td>2.88</td>
<td>1.67</td>
<td>10.74</td>
<td>10.44</td>
<td>9.18</td>
<td>6.38</td>
<td>3.74</td>
<td>2.93</td>
<td>5.69</td>
<td>8.09</td>
</tr>
<tr>
<td><strong>World</strong></td>
<td>54,957</td>
<td>57,632</td>
<td>208,674</td>
<td>333,812</td>
<td>384,960</td>
<td>481,911</td>
<td>686,028</td>
<td>1,079,083</td>
<td>1,392,957</td>
<td>823,825</td>
<td>651,189</td>
</tr>
</tbody>
</table>

Source: UNCTAD online database
Three years after the 1991 liberalisation, FDI became a significant component of total foreign investment inflow (Table 2). The initial impetus was with portfolio investment. In the main, foreign companies already operating in India with less than 50 percent equity stakes took the opportunity to raise their shareholding levels to the maximum permitted by the Government. Additionally, a number of multinational companies (MNC) had entered into Joint Ventures with Indian partners, this being the only way they could establish a presence in the Indian market. Such MNCs bought out their local partners, thus contributing to FII inflows.

India’s share of total FDI inflow to developing counties is 2.1 percent (WIR, 2003). The 10 largest FDI recipients in the world are developed countries with the only exceptions of China and Hong Kong China.

FDI as a proportion of total GDP was only 0.9 percent in India in 2001 and total inflow of world FDI it was just 0.53 percent compared much less than China with 8.1 percent of world share (Table 1).

Table 2: Net foreign investment inflows (US$ millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>GDRs*</th>
<th>FII**</th>
<th>Other</th>
<th>FDI</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>91-92</td>
<td>240</td>
<td>1</td>
<td>4</td>
<td>129</td>
<td>133</td>
</tr>
<tr>
<td>92-93</td>
<td>1520</td>
<td>1665</td>
<td>3</td>
<td>315</td>
<td>559</td>
</tr>
<tr>
<td>93-94</td>
<td>2082</td>
<td>1503</td>
<td>382</td>
<td>586</td>
<td>4153</td>
</tr>
<tr>
<td>94-95</td>
<td>683</td>
<td>2009</td>
<td>239</td>
<td>1314</td>
<td>4513</td>
</tr>
<tr>
<td>95-96</td>
<td>1366</td>
<td>1926</td>
<td>56</td>
<td>2144</td>
<td>5138</td>
</tr>
<tr>
<td>96-97</td>
<td>645</td>
<td>979</td>
<td>20</td>
<td>2821</td>
<td>4892</td>
</tr>
<tr>
<td>97-98</td>
<td>270</td>
<td>-390</td>
<td>204</td>
<td>3557</td>
<td>5385</td>
</tr>
<tr>
<td>98-99</td>
<td>768</td>
<td>2135</td>
<td>59</td>
<td>2462</td>
<td>5181</td>
</tr>
<tr>
<td>99-00</td>
<td>831</td>
<td>1847</td>
<td>132</td>
<td>2462</td>
<td>5099</td>
</tr>
<tr>
<td>00-01</td>
<td>1847</td>
<td>1847</td>
<td>682</td>
<td>2462</td>
<td>5099</td>
</tr>
</tbody>
</table>

*Represents amounts raised by Indian Companies.
**Represents fresh inflow of funds by FIIs

Although the major investors are US and European, Japan and South Korea are also becoming important investors especially in the auto and consumer electronic sectors. The top place ranking of Mauritius in 2003 (Economic Survey, 2003 – 2004. p. 145) as the largest investor is interesting and provides evidence for those commentators who believe that since liberalisation Indian businesses have used Mauritius’ status as a tax haven to convert ‘black’ money into ‘white’. Such investments therefore cannot be regarded as fresh inflows. The key to the apparent paradox lies in the provisions of a two-decade old bilateral agreement, the Double Taxation Avoidance Convention (DTAC). Foreign entities set up paper companies in Mauritius, claiming to be Mauritian residents, invested in India. Taking advantage of the DTAC they avoid paying taxes in India. They pay no taxes in Mauritius too. (Sridhar, 2003).

4. FDI experiences and debate

In 2002 – 2003 India was among a handful of countries that witnessed a rise in FDI inflow. The disinvestments drive of India contributed to FDI inflow for the first time. The amount includes a Rs 10 billion control premium paid by Suzuki Motor of Japan for increasing its shareholding in Maruti Udyog Ltd. In April 2003 the government
cleared 47 proposals envisaging Rs 2.850 billion FDI. Among them was one proposal by Korean consumer electronics major LG to amalgamate two companies; auto makers Suzuki Motor Corporation proposed divesting 6,580,181 shares of its subsidiary MUL, the other one was Japanese auto maker Honda Motor Company that proposed to produce electric generating sets; Honda also proposed increasing foreign equity in Honda Siel Cars India from 99 percent to 99.9 percent by investing Rs 32.4 million; Singapore Computer System’s proposed to hike equity Rs 450 million in Bangalore-based Kshema Technologies; Singapore-based company Borouge Pte Ltd proposed Rs 200 million to undertake wholesale marketing, distribution, supply, import, and export and distribution of high performance of polyolefin through 100 percent subsidiary Borouge India and Singapore-based Advent Electronics for components and high-end networking, data, security, products, and consultancy.

The major sectors attracting FDI from January 1991 to March 2004 (Table 5) were energy (26.62 percent), telecommunications (19.61 percent), electrical equipment (9.94 percent), transportation 7.51, and miscellaneous others (36.32).

Available data shows that there still remains a large gap between approvals and actual investment. Many blame the persistence of bureaucratic hurdles for this but others, more optimistically, point to the long gestation period of some of the sectoral projects. Power stations and telecommunications networks take several years to complete and investment comes in several tranches. But eventually, it is argued, approvals will match actual inflows. As far as sectoral distribution is concerned, as stated previously a bulk of the FDI is flowing into the energy and telecommunications sectors.

Notwithstanding the wooing of foreign investment, particularly FDI, there is a feeling that FDI has been inadequate in quantitative and qualitative terms. Quantitatively, foreign investment remains insignificant relative to India’s GDP, see Table 6.

*FDI into India is higher than others in South Asian Association for Regional Co-operation (SAARC) but low in relation to several other countries.* But measurement of absolute FDI is an
### Table 4: Share of top investing countries in FDI inflows - Rs 10 million (US$ billion)

<table>
<thead>
<tr>
<th>Country</th>
<th>Jan-1991-Dec 1999</th>
<th>Calendar year</th>
<th>Jan-Mar 2004</th>
<th>FDI Inflows (In US$)</th>
<th>% total in Rupees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mauritius</td>
<td>12,465.90 (3.42)</td>
<td>3,568.65 (0.83)</td>
<td>7,503.61 (1.67)</td>
<td>2,585.93 (0.56)</td>
<td>33,820.73 (8.09)</td>
</tr>
<tr>
<td>USA</td>
<td>8,354.23 (2.31)</td>
<td>1,799.31 (0.42)</td>
<td>1,654.13 (0.37)</td>
<td>1,904.00 (0.41)</td>
<td>15,409.92 (3.89)</td>
</tr>
<tr>
<td>Japan</td>
<td>2,969.37 (0.82)</td>
<td>985.69 (0.23)</td>
<td>996.54 (0.22)</td>
<td>434.39 (0.09)</td>
<td>7,503.61 (1.67)</td>
</tr>
<tr>
<td>UK</td>
<td>2,227.90 (0.66)</td>
<td>281.48 (0.07)</td>
<td>1,284.02 (0.29)</td>
<td>862.90 (0.19)</td>
<td>6,484.56 (1.61)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2,174.33 (0.61)</td>
<td>546.80 (0.13)</td>
<td>1,031.55 (0.23)</td>
<td>1,161.88 (0.25)</td>
<td>5,969.43 (1.65)</td>
</tr>
<tr>
<td>Germany</td>
<td>2,351.08 (0.66)</td>
<td>371.47 (0.09)</td>
<td>598.13 (0.13)</td>
<td>362.50 (0.08)</td>
<td>4,512.30 (1.13)</td>
</tr>
<tr>
<td>France</td>
<td>963.81 (0.27)</td>
<td>341.58 (0.08)</td>
<td>595.13 (0.13)</td>
<td>164.25 (0.04)</td>
<td>2,656.57 (0.64)</td>
</tr>
<tr>
<td>S Korea</td>
<td>2,092.09 (0.57)</td>
<td>76.17 (0.12)</td>
<td>20.30 (0.01)</td>
<td>112.86 (0.02)</td>
<td>2,489.66 (0.66)</td>
</tr>
<tr>
<td>Singapore</td>
<td>1,239.32 (0.34)</td>
<td>501.52 (0.12)</td>
<td>160.66 (0.04)</td>
<td>428.96 (0.09)</td>
<td>1,842.79 (0.46)</td>
</tr>
<tr>
<td>Sw’zerland</td>
<td>795.12 (0.23)</td>
<td>187.22 (0.04)</td>
<td>178.02 (0.04)</td>
<td>1.72 (0.00)</td>
<td>96,036.33 N.A.</td>
</tr>
<tr>
<td>Total of all countries</td>
<td>41,380.64</td>
<td>10,092.38</td>
<td>15,841.80</td>
<td>9,564.04</td>
<td>3,034.11</td>
</tr>
<tr>
<td>(excluding ADRs, IGDR etc.)</td>
<td>(11.49)</td>
<td>(2.35)</td>
<td>(3.52)</td>
<td>(2.08)</td>
<td>(0.66)</td>
</tr>
</tbody>
</table>

**Notes**
1. Total amount includes FDI inflows received through FIPB+SIA+RBI routes. acquisition of shares, RBI’s NRI schemes, stock swapped, amount on account of ADRs/GDRs & advance pending for issue of shares.
2. Ranking of countries is on the basis of cumulative FDI inflows from January 1991 to March 2004.
3. Percentage figures do not take into account the amount of FDI inflows for ADRs/GDRs/IFCCBs, RBI’s-NRI Schemes’ acquisition of existing shares (1996-1999 only), stock swapped & advance pending for allotment of shares, as these are not categorised country-wise for years 1991- March 2004.
4. Country-wise FDI inflows figures during the year 2000-2003 (upto March) includes FDI inflows received through FIPB/SIA route, RBI’s automatic routes and acquisition of existing shares only.
<table>
<thead>
<tr>
<th>Sector</th>
<th>FDI approvals</th>
<th>No. of FDI approved</th>
<th>% total FDI approved</th>
<th>FDI Inflows</th>
<th>% total FDI Inflows</th>
<th>% of inflows over approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>701</td>
<td>77,828 (20.99)</td>
<td>26.62</td>
<td>9,802</td>
<td>10.21 (2.32)</td>
<td>12.59</td>
</tr>
<tr>
<td>Power</td>
<td>362</td>
<td>43,703, 34,125</td>
<td>@14.95 (11.67)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil Refinery</td>
<td>339</td>
<td>(9.09)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telecom</td>
<td>803</td>
<td>57,328 (15.43)</td>
<td>19.61</td>
<td>10,725</td>
<td>11.17 (2.56)</td>
<td>18.71</td>
</tr>
<tr>
<td>Electrical Equipment</td>
<td>4,495</td>
<td>28,072 (7.29)</td>
<td>9.94</td>
<td>13,930</td>
<td>14.50 (3.32)</td>
<td>47.92</td>
</tr>
<tr>
<td>(including computer software &amp; electronics)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>1,069</td>
<td>21,966 (5.73)</td>
<td>7.51</td>
<td>11,517</td>
<td>11.99 (2.78)</td>
<td>52.43</td>
</tr>
<tr>
<td>Services</td>
<td>1,102</td>
<td>19,261 (5.12)</td>
<td>6.59</td>
<td>8,134</td>
<td>8.47 (2.04)</td>
<td>42.23</td>
</tr>
<tr>
<td>Metallurgy</td>
<td>407</td>
<td>15,534 (4.27)</td>
<td>5.31</td>
<td>1,254</td>
<td>1.31 (0.31)</td>
<td>8.07</td>
</tr>
<tr>
<td>Chemicals (non-fertilizers)</td>
<td>1,053</td>
<td>13,090 (3.73)</td>
<td>4.48</td>
<td>5,692</td>
<td>5.93 (1.49)</td>
<td>43.48</td>
</tr>
<tr>
<td>Food &amp; food processing</td>
<td>771</td>
<td>9,620 (2.77)</td>
<td>3.29</td>
<td>4,346</td>
<td>4.53 (1.09)</td>
<td>45.18</td>
</tr>
<tr>
<td>Hotels &amp; Tourism</td>
<td>504</td>
<td>5,215 (1.4)</td>
<td>1.78</td>
<td>899 (2.14)</td>
<td>0.87 (0.31)</td>
<td>17.24</td>
</tr>
<tr>
<td>Textiles</td>
<td>641</td>
<td>3,517 (1.02)</td>
<td>1.20</td>
<td>1,163</td>
<td>1.21 (0.31)</td>
<td>33.07</td>
</tr>
</tbody>
</table>

Note: Percentage figures do not take into account the amount of FDI Inflows for ADRs/GDRs/FCCBs, RBI’s- NRI Schemes, acquisition of existing shares (to 1999), stock swapped & advance pending for allotment of shares, as these are not categorised sector-wise.

inadequate measure of performance since it ignores fundamentals such as the size of the economy of the host country. The World Investment Report 2002 (UNCTAD) thus converts absolute flows into an index. The UNCTAD Inward FDI Performance Index is the ratio of a country’s share in global FDI inflow to its share in GDP.

Two facts are immediately evident. First, that India’s FDI Performance Index is very low – in fact it ranks 120th amongst the 140 countries listed in the World Investment Report 2003. On the positive side, India is the only country amongst this group whose Performance Index shows an improvement in 1998-2000 over the decade 1988-90.

It can be said that the trend is favourable; FDI inflows into India are far from adequate, given India’s size. However, even the Performance-

<table>
<thead>
<tr>
<th>Table 7: India’s inward FDI performance index compared</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988-90</td>
</tr>
<tr>
<td>---------</td>
</tr>
<tr>
<td>India</td>
</tr>
<tr>
<td>Pakistan</td>
</tr>
<tr>
<td>Sri Lanka</td>
</tr>
<tr>
<td>Mongolia</td>
</tr>
<tr>
<td>Chinese Taipei</td>
</tr>
<tr>
<td>Brunei</td>
</tr>
<tr>
<td>Indonesia</td>
</tr>
<tr>
<td>Malaysia</td>
</tr>
<tr>
<td>Myanmar</td>
</tr>
<tr>
<td>Philippines</td>
</tr>
<tr>
<td>Singapore</td>
</tr>
<tr>
<td>Thailand</td>
</tr>
</tbody>
</table>

Source: UNCTAD World Investment Report, 2002
ance Indices should be interpreted with some circumspection. Under the same definitions Angola ranks second amongst all nations whereas Singapore is 6th. However India’s ranking during 1998 – 2000 was 104 out of 140 countries. The World Investment Report 2003 concludes that India is under-performing in terms of both performance and potential.

4.1 FDI and technology transfers

There has been significant investment in the manufacture of automobiles and consumer goods, including electronics products, but still the capital equipment and the assembly lines for their production is imported. Little of the design and development work takes place in India. During the fieldwork of a CEC–AMRC study on electronics sweatshops in India, researchers tried to find the fabrication and production of electronics chips but not a single instance was found all over India. We found that only local assembly of knocked-down kits in all MNCs and of course there is no question of having indigenous capacity of local companies. So far, FDI in India has not been tantamount to an all-round technological upgrade of Indian design and manufacturing. Some companies assemble personal computers in India; India’s share of world hardware manufacturing is less than that of Taiwan, Korea, Malaysia, China, or Singapore, and even lower than Thailand or the Philippines.

4.2 MNCs’ ethical practices and the question of transparency

There are numerous instances where multinationals have not only displayed a lack of ethics and ‘transparency’ but have actually broken the law. For instance a 2 October 1998 report in The Hindu entitled: Large-scale tax evasion by MNCs unearthed. The author of that report, Sujay Mehdudia, wrote: “Income Tax officials have alleged that these companies evade taxes with impunity as the tax laws of the country are ‘inadequate and ineffective’ to deal with such cases.” He wrote of multinational giants flouting tax laws knowing very well that they could not be arrested or criminally prosecuted under the Indian legal system and could get away by paying tax dues when caught. Violations were neither rare nor exceptional, since all the companies surveyed by the Income Tax authorities in the recent past had shown a tendency to violate the law. The article quoted a high-ranking tax officer who said: “Had the violations
taken place in some other country, not only would criminal proceedings have been launched but the people responsible for it would have been put behind bars.” The author concluded his article with the statement: “In the recent past, cases of tax evasion by some Japanese and South Korean firms operating in India have come to the notice of the authorities, highlighting a ‘certain intention’ on the part of these companies to dupe the Government.”

A Hindustan Times report, 12 May 2000, was more specific; it began with the headline: Rs 21 billion tax evasion by MNCs. Minister of State for Finance, V Dhananjaya Kumar, in a written reply to a question posed in the Lok Sabha, had provided data that indicated that MNCs had evaded Rs 14.3389 billion in income tax, Rs 1.438 billion on central excise duty as well as Rs 5.3505 billion on account of import duty payable during the last three years. Sony was identified as the biggest evader, and charged with evading over Rs 4.5 billion. SEDCO Forex International Drilling, Swiss-Swedish major Asia Brown Baveri, Hyundai Motors, Johnson & Johnson, Siemens, LG, Hewlett Packard, and Philips were also implicated in cheating on import duties.

With violations and other means of tax evasion, the loss to the government may amount to Rs 10 billion. Rather than increase the government’s ability to solve pressing problems, liberalisation and FDI has actually weakened the government’s financial ability to intervene in the areas of education, healthcare, and essential infrastructure.

5. Contrasting India with China:

How can we explain the differentials?

India and China are both large economies, both geographically and in terms of population. They have both embarked upon economic reform although China started a decade or so earlier than India. In recent years, both have enjoyed quite reasonable rates of growth. However they have both experienced quite a considerable difference in success in attracting FDI since their reforms began and especially in the 1990s. For instance, FDI inflows to China grew from $3.5 billion in 1990 to a record-breaking $52.7 billion in 2002. In contrast, India’s figures for the same years were just $0.4 billion to $5.5 billion. Even allowing for the fact that the figures for both countries may be inflated due to round-tripping (through Hong
Kong and Mauritius respectively), the contrast still remains quite considerable. China attracted around 10 times more FDI than India while FDI accounted for 3.2 percent of China’s GDP compared with only 1.1 percent in India.

There is also a significant difference in the contribution of FDI to the process of economic development. In China’s case there is a strong correlation between FDI inflows and growth in merchandise, especially manufacturing exports, the latter growing at an annual rate of 15 percent between 1989 and 2001. Further whereas foreign affiliates in 1989 accounted for less than nine percent of total Chinese exports, by 2002 they provided 50 percent. For some industries, such as the hi-tech sector, this share is even higher. For instance in electronics circuits and mobile phones the share of foreign affiliates was 91 percent and 96 percent respectively (Endnote, WIR 02, pp. 162-63). In India, however, there appears to be little correlation between export growth and FDI inflows. Most of the FDI inflows to India have been domestic market seeking, especially in the consumer goods and automobile sectors. The only exception is in the information technology sector where there is stronger involvement by both multinationals and non-resident Indians, especially through the Asia-Silicon Valley Connection. By early 1990s FDI accounted for a mere three percent of Indian manufacturing exports and more recent estimates suggest that this may have risen to about 10 percent. (Endnote UNCTAD-2003 FDI and Perform-

**Table 8: China and India: selected FDI indicators**

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FDI Flows (US$ bn)</strong></td>
<td>China</td>
<td>3.5</td>
<td>40.8</td>
<td>46.8</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>0.1</td>
<td>4.0</td>
<td>6.1</td>
</tr>
<tr>
<td><strong>Inward FDI stock (US$ bn)</strong></td>
<td>China</td>
<td>24.8</td>
<td>348.3</td>
<td>395.2</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>1.5</td>
<td>21.0</td>
<td>27.1</td>
</tr>
<tr>
<td><strong>Growth of FDI Inflows (annual %)</strong></td>
<td>China</td>
<td>2.8</td>
<td>1.1</td>
<td>14.9</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>-76.3</td>
<td>87.0*</td>
<td>52.2</td>
</tr>
<tr>
<td><strong>FDI Stock to GDP (%)</strong></td>
<td>China</td>
<td>7.0</td>
<td>33.2</td>
<td>33.2</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>0.5</td>
<td>4.5</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>FDI Flows to GDCF (%)</strong></td>
<td>China</td>
<td>3.5</td>
<td>10.3</td>
<td>10.5</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>0.1</td>
<td>3.9</td>
<td>5.8</td>
</tr>
<tr>
<td><strong>FDI Flows Per Capita</strong></td>
<td>China</td>
<td>3.0</td>
<td>32.0</td>
<td>36.5</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>0.1</td>
<td>3.9</td>
<td>5.9</td>
</tr>
</tbody>
</table>

*The large increase is due to change in definition*

ance Requirements: New Evidence from Selected Countries, p.86). Further FDI inflows to India have mainly gone to a narrow range of industries—such as services, electronics, electrical equipment, and engineering and computer services—unlike in China where they have been relatively broad-based.

What would explain such a contrast in FDI performance? Three main reasons are identified for differing experiences: basic determinants of FDI, nature of development strategies and policies, and the role of overseas networks. In terms of basic determinants, China provides indicators that are much more attractive for FDI: it has a higher GDP and GDP per capita, its higher literacy and education rates give it an edge in terms of skilled labour, it has large natural resource endowments, and its physical infrastructure, especially in the coastal areas, is highly developed. All of these together make China an attractive destination for both market-seeking and efficiency-seeking FDI. By contrast India appears to do better in certain sectors because of its advantage in technical manpower (especially in the Bangalore triangle) and better English language skills. These advantages are clearly illustrated in the differences in the composition of their FDI inflows. Thus, taking the example of the information and communication technology sector, China offers a competitive environment for hardware design and manufacturing, whereas India offers an edge in IT services, call centres, back-office operations, and R&D, including bespoke software (Balasubramanian, 2002). Other determinants relate to the overall environment for FDI as given by domestic attitudes, regulatory framework for procedures, and policies. One policy that stands out refers to the rigidity of labour laws that do not allow an exit option for businesses employing less than 100 workers. In all these determinants, China scores relatively highly and offers a much more FDI-friendly business environment, simplified procedures, clear policies, and labour costs.

The second explanation for the differing performance relates to the nature of development strategies and policies. China’s open-door policy, including FDI liberalisation, started in earnest in the late 1980s whereas India’s only started in the early 1990s, a gap of more than a decade. China began attracting FDI initially in the Special Economic Zones (SEZ) and Coastal Development Policy, whereas India opened up the whole of
the economy but retained high restrictions on sectors of entry and levels of foreign participation. There was also a significant difference in the broad aims of industrialisation strategies. Since independent India had adopted the import-substitution policy, providing high trade protection for domestic firms operating in both the private and public sectors. Even after the reform process started in 1991 there remained many restrictions for foreign firms wanting to operate in the Indian market. In China, on the other hand, once opening-up had started, the emphasis was placed on export-oriented FDI. Although this increased FDI, especially from Overseas Chinese and from other Asian countries such as Japan, South Korea, and Taiwan, it also encouraged round-tripping through funds channelled by domestic Chinese firms into Hong Kong (China, SAR) and reinvested back in China to take advantage of special fiscal incentives given to foreign investors and/or to circumvent regulatory restrictions. Both India and China are members of the WTO but China has a more liberalised FDI environment to meet WTO commitments than has India. Although India’s FDI regulatory framework is continually changing, policy initiatives take a long time to be implemented and even where there are clear lessons that India could learn from China, as for instance in establishing SEZs, Indian responses tend to be protracted in both initiation and implementation.

The final reason for the differing experiences is related to the mobilisation of the Chinese and Indian Diasporas in undertaking FDI in their homelands. There is ample evidence which suggests that China has been far more successful in mobilizing its Diaspora than India in ensuring that their homeland is the destination of choice when undertaking FDI. There is substantial literature on the role of Chinese business networks and their significant contribution to investment in the mainland, especially coastal China (Banik Arindam et al, 2004). Indian overseas networks do exist but are much smaller. There are several reasons to explain this contrast: Overseas Chinese are larger in number, around 55 million compared with 22 million, tend to be more entrepreneurial given their socio-economic backgrounds, enjoy strong family connections (guanxi) in China, enjoy very cordial relations with the Chinese political leadership, and have the interest and financial capability to invest in China. In contrast overseas Indians (PIOs) are smaller in number, more differentiated
with only a small number in the professional category and therefore with ability to invest, do not have strong family business or social networks and have, until recently, been largely ignored by Indian governments. Despite the fact that the contribution by way of Chinese Diaspora finance may have been exaggerated when compared to the Indian Diaspora’s contribution, a significant difference remains nevertheless (Chaudhuri, 2004).

6. Liberalisation, FDI, and labour in India

On the basis of the Annual Survey of Industries it is evident that the growth in organised employment was not significant during the liberalisation period. The 1980s saw a growth of approximately 1.5 percent per annum while that figure declined to less than one percent in the 1990s. These growth rates were less than the growth in the labour force that was greater than two percent (Anant, 2004).

Liberalisation and the consequent inflow of FDI to India have had many consequences for labour standards. Workers face production methods and managerial styles that are not familiar to them and which demand adequate responses from the trade unions. Some of the problems they face are: outsourcing strategies, flexibilisation, and the growing amount of contract labour and temporary work. An important consequence of these trends is a reduction of bargaining power of trade unions (IREN News, 28 March 1999). Growth in contract labour has been remarkable after the liberalisation from seven percent in the early 1990s to 21 percent by 1998; in absolute terms private firms do twice as much contracting out (Anant, 2004). After the liberalisation policies, the process of casualisation and absorption of labour to the informal sector are rising, as has been found by various studies (Mitra, 2001).

With the advent of globalisation and liberalisation, many Indian labour laws were changed or indirectly relaxed to suit employers to attract FDI. Various provincial governments have looked to private domestic and foreign investment for employment generation as well as revenue. The liberalisation measures taken by the Government of India and followed by various provincial governments were reciprocated and many MNCs came to operate in India. Anecdotal evidence suggests that certain provincial governments grant mandatory permission for restructuring, retrenchment, and closure more liberally than earlier. This situation has created a fertile
ground for violation of labour rights. Nowadays the most gross violation of labour rights is the violation of International Labour Organisation (ILO) conventions 87 and 98 concerning freedom of association, collective bargaining, the right of workers to form organisations of their own, and to negotiate freely working conditions with employers. This has major complications for the workforce in India where trade unions already have problems facing the new challenges of globalisation. Voluntary retirement schemes with sometimes generous terms acceptable to enterprise level trade unions are also becoming common.

Liberalisation and the inflow of FDI has had somewhat negative effects on the ILO’s four core labour standards. It is believed that increasing competition in the automotive sector and demand for better quality, which it was argued implies better labour standards, but they did not improve. Company pressure on productivity created more stress on workers though. The inflow of FDI has introduced new technologies with a generally negative influence on health and safety standards in the assembly plants. MNCs in India normally introduce new technology but ignore corresponding health and safety measures. Now workers have greater exposure to chemicals and fumes. Foreign companies in the automobile sector tend to have a slightly better record on wages than in other industries but have a negative record on the collective process.

Now it is evident that liberalisation and the inflow of FDI have contributed to these negative trends and the situation discussed in the preceding sections. Before liberalisation labour standards were already very poor. The governments do not implement labour laws as it has the opposite priority. MNCs fully exploit the current favourable situation to them by banning independent trade unions in their plants, only allowing sweetheart unions, which certainly negatively affect labour standards. The period of liberalisation shows many unsuccessful attempts by workers and unions in various factories to gain their basic rights and due share in profits, such as the cases of the Maruti–Suzuki workers’ struggle during 2001-2002, Honda Seal and Hyundai during 2003-2004. The expected impact on industries originating in India, some of which are now Asian MNCs, is similar to western MNCs in terms of industrial relations and management practices. In indigenous industries workers and trade unions are in retreat or defeat.
FDI and information technology workers:

Information technology linked with FDI has grown very rapidly in the 1990s, mainly in the export market in offshore services for developed countries. Labour turnover is high in this fast growing sector with a young worker age profile. The two to three years after the IT-bubble burst in the US had adverse consequences in India. Anecdotal evidence appearing in economic newspapers indicated widespread prevalence of ‘pink-slips’ without these reportedly contested under the Industrial Disputes Act (IDA). It is not clear whether the IDA was taken to be inapplicable or whether new informal labour market norms of accepting retrenchment are evolving in this segment (Tendulkar 2004). Two studies by CEC on labour rights violations in the IT industry (2001) and Electronics Sweatshops found that in the private sector as well as in the MNCs, workers invariably have to work for more than the stipulated eight hours to complete the quota assigned for the day. So it is performance-based rather than time-based. Indeterminate employment relationships have emerged where short-term contracts, marginal part-time work, in- and out-sourcing, and ‘teleworking’ is representative of the changing nature of employment. However, employee interaction with top managers is direct and very frequent. Moreover, MNCs prefer to keep the company union free, insisting that worker problems are taken up individually even if the problems are similar in nature (CEC, 2001; CEC and AMRC 2003).

7. Conclusion

Despite the hype over the inevitability of FDI and consequential invitations and relaxations, it did not happen as predicted; rather it performed very poorly in India. Total foreign investment has been hovering just around one percent of GDP for the last few years and cannot be said to be making any significant impact. FDI constitutes a little less than half the total, and its impact is thus even lower.

The Indian economy and working class faced more negative impacts than positive. With the beginning of FDI flows into a liberalised India some key characteristics of employment in India have emerged which have been negative. On the employment generation front there has been slow growth in comparison to growth in the labour force and the growth in value added in the economy. This slow growth is more evident in the organised sector,
particularly in larger enterprises, and there has been a remarkable rise in casual employment.

On technology transfer and the development of know-how and the infrastructure, the absence of significant investment in the local design and manufacture of advanced electronic components, computer chips, and telecommunications hardware must be seen as a significant failure from labour viewpoint of this decade of the rapid globalisation and FDI regime.

Whatever amount of FDI India has received from the beginning of liberalisation, a detailed analysis of the last few years of FDI indicates that a sizeable portion of this investment has not gone into the creating new productive capacities. Much of the investment has simply gone into takeovers of existing Indian enterprises or towards speculative investments in the Indian stock market. Moreover, other than India’s ‘hot’ IT companies and select MNCs - the vast majority of Indian stocks have not benefited from the highly volatile FDI flows.

The FDI regime, with MNCs as its main agents, has implemented a new kind of management where collective initiatives of labour and union have been suppressed successfully.

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CHAPTER 8

ATTRACTING FDI THROUGH THE SPREAD OF FREE TRADE AGREEMENTS
UNRAVELLING THE RATIONALE AND IMPACT ON LABOUR CONDITIONS IN ASEAN

Dennis Arnold

1. Introduction

Since the 1980s the global economy and how nations interact with one another has significantly changed, as has the kind of employment we find, how we work, and too often whether we work. Globally trade has expanded along with foreign investment and in the process millions have left rural villages and agricultural work to find opportunities in cities and manufacturing centres. Foreign direct investment (FDI) has been touted as the economic engine for development, which, according to proponents of free trade helps nations take part in and take advantage of the unprecedented wealth the global economy is producing. Several nations in Southeast Asia have received massive amounts of FDI during this period and the number of factories producing for export has dramatically increased as has wealth, but only for a limited number of people. A great majority of the workers who produce goods for export which are driving many national economies in Asia and increasing trade globally are not engaged in a sustainable form of employment as wages are low, work conditions are poor and the time one can be employed in the manufacturing sector is often short, as large pools of younger job seekers are often available in abundance. This leads to the question of whether national and increasingly regional development on the basis of FDI is sustainable, given the greater complexity and competitiveness of the global economy in attracting foreign investment, particularly with the sharp increase in bilateral and regional free trade agreements around the world. Since the 1980s the pat-
tern in Southeast Asia (SEA) and other developing nations and regions has been to suppress and maintain authoritarian control over labour and trade unions in order to maintain ‘investor confidence’ and FDI inflows. Free trade agreements are often falsely associated with improved labour conditions, more jobs, and better pay, but as is proven in the case of Mexico, the reality is far removed from this promise. Ignoring the hard lessons Mexico has learned after 10 years of free trade and increased market access under the North American Free Trade Agreement (NAFTA), Thailand is forging ahead on free trade agreement (FTA) negotiations with the US, and if concluded the negative consequences could be felt not only by manufacturing, service, and agricultural workers in Thailand (among others), but also others in the region as this FTA has a high potential for spillover effects.

2. Significance of foreign direct investment in Southeast Asia

The 10 Association of Southeast Asian Nations1 (ASEAN) members are a politically and economically diverse bloc of over 500 million people ranking behind only the North American Free Trade Agreement (NAFTA) and the European Union (EU) regional blocs in terms of market size. Despite the massive gulf in per capita income among ASEAN nations, which reflects the disparities in economic and living standards within ASEAN, ASEAN is continuing to promote regional economic integration as a primary means of attracting FDI in continuing members’ paths of development using FDI as a financial source. SEA countries that lacked domestic financial resources necessary for export-oriented manufacturing have in recent history relied on FDI as a cornerstone of industrialisation and growth, as FDI is considered a more stable form of investment, as opposed to short term bank and portfolio flows2. Portfolio capital, or investment in government bonds and corporate stocks and bonds, which may be issued for terms as short as a few months, is considered more ‘footloose’ than FDI. In short, FDI entails activities such as actual construction of factories and acquisition of equipment that may be hard to resell. FDI is considered a ‘longer term’ capital for several reasons other than its providing financial resources; FDI could facilitate the transfer of intangible assets such as technology, skills, and management know-how, thus helping to directly boost productivity and growth. From the perspective of investors, SEA has been an attractive investment destination based
on its strategic geographical position, ownership advantages, market potential, and returns on investment. In terms of foreign ownership, investors have strong control over their products, patents, technologies, production processes, marketing, and management techniques, in many cases more so than in their home countries (see Daquila, 2002).

Table 1: Distribution of FDI stock, by industry, selected Asian economies, 1995, 2002 (US$ million)

<table>
<thead>
<tr>
<th>Economy</th>
<th>Primary</th>
<th>M’fcturing</th>
<th>Services</th>
<th>Primary</th>
<th>M’fcturing</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1.6</td>
<td>58.5</td>
<td>36.1</td>
<td>1.9</td>
<td>63.3</td>
<td>31.4</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>-</td>
<td>8.3</td>
<td>91.7</td>
<td>-</td>
<td>2.8</td>
<td>93.0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>18.2</td>
<td>64.5</td>
<td>17.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.5</td>
<td>52.7</td>
<td>33.5</td>
<td>24.0</td>
<td>38.0</td>
<td>38.0</td>
</tr>
<tr>
<td>Philippines</td>
<td>17.0</td>
<td>55.0</td>
<td>28.0</td>
<td>10.9</td>
<td>39.3</td>
<td>43.9</td>
</tr>
<tr>
<td>Korea</td>
<td>0.2</td>
<td>62.2</td>
<td>35.2</td>
<td>0.5</td>
<td>57.4</td>
<td>42.0</td>
</tr>
<tr>
<td>Singapore</td>
<td>-</td>
<td>38.2</td>
<td>61.7</td>
<td>-</td>
<td>36.1</td>
<td>63.8</td>
</tr>
<tr>
<td>Thailand</td>
<td>6.0</td>
<td>36.6</td>
<td>57.4</td>
<td>2.4</td>
<td>37.7</td>
<td>56.8</td>
</tr>
</tbody>
</table>

Source, UNCTAD World Investment Report, 2004

In the 1980s and 1990s prior to the Asian financial crisis, many SEA nations experienced surges in FDI, particularly in export sectors where transnational corporations (TNC) initially sought low-wage workforces whose rights were suppressed by authoritarian governments keen on maintaining investor confidence, particularly as wages in Asian FDI source nations such as Japan, Taiwan, Hong Kong, and Korea have been on the rise from the 1980s, in the case of Japan much earlier, as has the proliferation of more independent, democratic trade unions. Noting the success of the first generation Asian developing countries and regions (Taiwan, Korea, Singapore, and Hong Kong) SEA nations keen on fast track capitalist development such as the ASEAN-4 nations Indonesia, Malaysia, Philippines and Thailand, and later Cambodia, Viet Nam, China and others, offered corporations not only cheap labour, but also deregulation of investment so that foreign productive capital could operate freely and deregulation of trade so that importing raw materials and exporting goods would be cost effective and profitable (see Chang, 2004). The region has received three types of FDI since the 1950s: the first type in natural resources, the
second type enabled foreign investors to access the regional market by setting up industries to produce cheap consumer goods for local markets, and the third is the previously mentioned export-oriented FDI, which investors used in the region as a production and export base for manufactured goods, with successive waves of inward FDI from East Asia, North America, and Europe. The ASEAN-4 nations succeeded in uniting liberalised capital and deregulated labour practices, their economies boomed to varying degrees, and over the past several decades SEA has transformed dramatically, for better or worse.

The transformation in ASEAN-4 states has taken place since the 1950s with the switch from import-substitution industrialisation (ISI), which is a process of restricting imports that compete with domestic products, to export oriented industrialisation (EOI) which relies heavily on FDI, particularly in manufactured goods. Singapore had the shortest ISI period in SEA due to its small domestic market and lack of natural resources, while the Philippines had the longest standing ISI period which led to the development of an inward-looking manufacturing sector and an urban-based development policy (see Daquila, 2002). Singapore was the first SEA nation to make the switch to EOI, in addition to the shift from labour intensive manufacturing to more skill-oriented, high-technology and high-value-added industries, a shift that other SEA nations are struggling to make, as is returned to later in the paper.

Globally FDI flows have risen sharply in two phases (see Freeman and Bartels, 2004). The first phase, from 1985 to 1990, saw global annual flows boom from roughly US$55 billion to US$202 billion. During this phase SEA’s share expanded nearly five-and-a-half times, from US$2.2 billion to US$12.1 billion, with Singapore accounting for roughly 50 percent during this period, while Malay-

<table>
<thead>
<tr>
<th>Table 2: Average FDI inflows in Asian countries/regions (percentage)</th>
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</thead>
<tbody>
<tr>
<td><strong>Inward FDI as % of GDI</strong></td>
</tr>
<tr>
<td>Hong Kong</td>
</tr>
<tr>
<td>Indonesia</td>
</tr>
<tr>
<td>Korea</td>
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<tr>
<td>Malaysia</td>
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<tr>
<td>Singapore</td>
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<td>Taiwan</td>
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<td>Thailand</td>
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</table>

Source: UNCTAD, World Investment Report, 1999

Through the 1980s to late 1990s the ASEAN-5 nations (which include Singapore) have been well positioned to attract relatively large portions of global booms in FDI. However, just as productive and investment capital moved from the developed economies to first generation Asian developing countries/regions and to SEA, other and in some cases more attractive host nations (re-)emerged in the 1990s including China, Eastern Europe,
Latin America, South Asia, and Southern Africa. Levels of FDI have declined or stagnated for much of SEA, and to a great extent the problems of attracting FDI in SEA today are due to their success: other developing countries have seen that FDI could be used to promote capitalist industrialisation, so SEA may never retain its regional proportion of global FDI flows.

Greater FDI flows to one nation or region do not necessarily imply less to other countries or regions, but competition is becoming more intense, and those SEA countries pursuing export-oriented industrialisation are taking steps to ensure that investors don’t pass them by. As a regional group, ASEAN is attempting to increase its attractiveness via such measures as the ASEAN Free Trade Area (AFTA), which attempts to offer higher risk-adjusted returns to investors; however, given the divergent levels of socio-economic development among SEA countries a comprehensive plan or ambitions for such measures as a single market are many years away. Among other objectives AFTA is an attempt to lock member nations into structural reforms, deregulation, and liberalisation of the domestic market to promote competition, phased reduction on tariffs on manufactured imports from ASEAN members through the Common Effective Preferential Tariff (CEPT) schemes, and a forum for conducting trade talks with significant sources of investment such as Japan, Korea, the US, and EU, and to secure a foothold in nations with massive market potential such as China, and ASEAN’s biggest export market, the US.

**Graphic 2. Investment flows to ASEAN and intra-ASEAN investment flows to manufacturing industry, 1995 - 1st Quarter 2004**

*Source: ASEAN Statistical Yearbook, 2004*
By promoting itself as a group of closely co-operating nations with a large combined market, rather than self-interested nation-states, ASEAN’s possible strategy is to attract non-ASEAN FDI by facilitating intra-ASEAN FDI. Singapore, Malaysia, and to a lesser extent Thailand are becoming a significant source of FDI in SEA pursuing a production division of labour within ASEAN, while simultaneously promoting their maturing market potential in terms of market size, market growth, and tariff discrimination of ASEAN, or at least parts of ASEAN, to foreign TNCs. Those SEA TNCs operating in Viet Nam, for example, may pursue a strategy of attracting FDI from or in partnership with non-ASEAN TNCs or their subsidiaries in the region. Regional integration also encourages reinvestment by TNCs, prevents their departure and can target new, perhaps smaller TNCs in industries not yet present in SEA.

However, to promote investment on the national, intra-ASEAN, and trans-ASEAN levels, a wide range of policies would need to be initiated under the AFTA and the ASEAN Investment Area (AIA) such as: (see Mirza, 2002)

- Policies to ensure regional political and economic stability;
- Trade related measures such as AFTA, WTO, and FTAs;
- Reduction in restriction on foreign investors;
- Creation of an enabling environment for FDI such as knowledge or technology base, good physical and communication infrastructure, transparency of laws, quality workforce, and ASEAN-wide harmonisation of FDI policies, laws, and regulations; and
- Incentives for FDI.

The AIA aims to make ASEAN a competitive, conducive, and liberal investment area through the following measures (see http://www.aseansec.org/6480.htm):

1. Implementing co-ordinated ASEAN investment co-operation and facilitation programmes;
2. Implementing a co-ordinated promotion programme and investment awareness activities;
3. Immediate opening up of all industries for investment, with some ex-
exceptions as specified in the Temporary Exclusion List (TEL) and the Sensitive List (SL), to ASEAN investors by 2010 and to all investors by 2020;

4. Granting immediate national treatment, with some exceptions as specified in the Temporary Exclusion List (TEL) and the Sensitive List (SL), to ASEAN investors by 2010 and to all investors by 2020;

5. Actively involving the private sector in the AIA development process;

6. Promoting freer flows of capital, skilled labour, professional expertise, and technology amongst the member countries;

7. Providing transparency in investment policies, rules, procedures, and administrative processes;

8. Providing a more streamlined and simplified investment process; and

9. Eliminating investment barriers and liberalising investment rules and policies in the sectors covered by the Agreement.

The longer term effect of these policy measures, broadly categorised as neoliberal structural reforms, and its implications such as greater reliance on FDI from TNCs for development and promoting an intra-ASEAN division of labour, are questionable at best, and are returned to in Section 3. Opponents of neoliberal globalisation⁴ contend that nations and regional groups could be important actors in the process of economic ‘devolution’ and be developed beyond their current manifestations (EU, Mercosur, ASEAN etc.), which inherently reinforce division of labour among countries (see Bello, 2002), while Mirza and other economists consider it to be a natural process that needs to be encouraged. Development of a sustainable industrial base, whether for export or the local market is an objective most can agree upon, but how to ensure transfer of technology, backward and forward linkages and other necessary components of industrial development from TNCs or from government capacity and infrastructure development projects is a difficult reality for which there are few viable alternatives, other than continued reliance on FDI. Currently many developing nations and regional groups such as ASEAN are at a significant turning point on how to move forward in the increasingly competitive global economy. The nationalist-protectionist import substitution development strategy and export-oriented development which was effective for the East Asian Newly Industrialised Countries (NIC) and to an extent Malaysia, Thailand, and other
nations, was possible at a gone phase of global capitalism, and less developed economies are now forced to deal with global markets, which are not hospitable to protectionist policies, as market forces are now quick to discipline discriminatory trade practices; and government policies which contradict free market principles often find their companies retrenching and investors finding other more hospitable conditions. The most significant trend or means to lock nations and regional blocs into the global economy since the mid-1990s is the proliferation of bilateral and regional FTAs. While regional and multilateral trade agreements have the potential to be conducive to sustainable socio-economic development if negotiated on an equal footing among developing and advanced economies (although this has not been accomplished in the World Trade Organisation, the NAFTA, negotiations for the Free Trade Area of the Americas etc), bi-lateral FTAs leave developing economies at a considerable disadvantage for a number of reasons, not least of all given the lack of capacity or experience of trade negotiators from the South in conducting a number of trade negotiations simultaneously.
3. Complexity of FTAs and US’ ambitions in Southeast Asia

Contrary to mainstream globalisation theories, the reality of the global free trade regime is that it is increasingly being segmented into regionalism and a highly complex web of free trade deals, albeit generally congruent with and reported to the WTO, which is a cause of alarm for some neoliberal economists, trade unionists, anti-neoliberal academics, and activists alike. In fact, national policies and domestic economies are still the principal determinants of economic affairs, while globalisation and economic interdependence among national and regional economies are becoming more important. The proliferation of bilateral and regional FTAs is perhaps best seen within this framework.

The recent slowdown in multilateral negotiations in the WTO has led to varying strategies of regional groups and individual nations that are pursuing greater liberalisation. Economic policymakers in SEA have been engaging alternative possibilities for expanding their bilateral, regional, and multilateral trade relations and investment potential. This includes dialogue with the US under its Enterprise for ASEAN Initiative (EAI); negotiations are underway for ASEAN-Japan and ASEAN-China free trade initiatives; the ASEAN Plus Three (APT) plan, including ASEAN, Japan, Korea, and China is a plan to create a free trade area among those 13 nations which has failed to proceed beyond initial dialogue, as have initiatives for free trade discussions among ASEAN, China, Japan, Korea, Australia, and New Zealand under the proposed ASEAN- Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) FTA. In July 2003 the EU proposed a plan for trade and investment co-operation with ASEAN, called the Trans-Regional EU-ASEAN Trade Initiative (TREATI), which is significant for ASEAN as the EU was its largest source of FDI from 1995-2003.

The US is among the top sources of FDI in ASEAN and it is also ASEAN’s largest export market in addition to being perceived as the leader or ‘manipulator’ of global capitalism, so national and regional economies are keen to secure deals with the US, particularly at the time of writing as the US has concluded only a handful of FTAs. The EAI was initiated in November 2002 by the Bush administration and is modelled upon the Enterprise for America Initiative launched in 1990 that led to NAFTA negotiations. The EAI is a road map for members of ASEAN to pursue bilateral FTAs with the US. These FTAs are currently mod-
elled upon the US-Singapore FTA (USSFTA), as is the case with Thailand, which began FTA negotiations with the US in June 2004, despite the fact that Thailand and Singapore are quite different in terms of structure, nature, and levels of development. The only requirements to enter FTA negotiations under the EAI are that the SEA nation is a member of the WTO and has signed a trade and investment facilitation agreement (TIFA) with the US. TIFA discussions are wide-ranging and provide the foundation and indicate intent for formal negotiation of a bilateral FTA with the US; to date Brunei Darussalam, Indonesia, Philippines, Malaysia, and Thailand have signed a TIFA.  

The US has concluded an FTA with Canada and Mexico under NAFTA; the US has completed FTAs with 12 countries including: Jordan, Chile, Singapore, Australia, Morocco, Bahrain, and Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and the Dominican Republic under the Central America Free Trade Agreement (CAFTA). The US is currently negotiating FTAs with 10 more countries: Panama, Colombia, Ecuador, Peru, Thailand, and with the five nations of the Southern African Customs Union (SACU) – Botswana, South Africa, Lesotho, Swaziland, and Namibia. New and pending FTA partners, taken together, would constitute the US’ third largest export market and the sixth largest economy in the world (see http://www.ustr.gov). The Free Trade Area of the Americas negotiations include all but one of the 35 nations of the Western Hemisphere (Cuba), and have been ongoing since 1994. Only the NAFTA (1994) and its precursor the Canada-United States Free Trade Agreement (1989) and the US-Israel FTA (1985) were not concluded during the Bush presidency (2000-present), and the proliferation marks a significant shift in the US trade agenda, which until a few years ago seemed dead set on multilateral agreements under the WTO.
Interestingly, it is the EU and the former Soviet Union countries in transition that have been and remain the most prolific pursuants of regional trade agreements, and it is arguably the EU that triggered the rush for regional and bi-lateral FTAs. In fact, there are only six countries that the EU trades on normal, or most favoured nation basis - Australia, Canada, Japan, New Zealand, Taiwan, and the US. The EU’s preference for regional trade agreements may not have been enough to trigger a global push; until recently Japan, Korea, and China had not entered any regional trade agreements but are currently negotiating the previously mentioned FTAs with ASEAN, while Korea has concluded an FTA with Chile and is conducting negotiations with Thailand (until April 2004 Korea and Mongolia were the only two WTO members which hadn’t concluded an FTA\(^8\)), and importantly Japan has concluded FTAs with Singapore and Mexico in addition to the negotiations with ASEAN which has sparked greater interest in regionalism in Asia, and has undoubtedly led the US to reconsider its strategy in the region, combined with the rising significance of China as an economic and political force.

**Competitive liberalisation**

The idea behind the US policy of competitive liberalisation, as US Trade Representative (USTR) Robert Zoellick stated on behalf of President Bush (see Schott, 2004), if we are to believe that Bush actually came up with the idea himself, is that the President is pressing ahead with trade liberalisation on three fronts: globally, regionally, and bilaterally. The logic is that by advancing on multiple fronts, the US is positioning itself at the centre of a global network of initiatives to open markets through competition. Simply put, the US is seeking to lock strategic partners, politically and economically, into market liberalisation for fear that they will lose out if they don’t sign up to the deals. These bilateral and regional FTAs are valuable to the US, or more specifically US TNCs, in that they free trade in themselves, but also push nations forward with multilateral trade liberalisation at the WTO. From the perspective of the US, the risk of failure is too high if the US Trade Representative only pushes forward on the multilateral level, given the failure of the ministerials in Seattle and Cancun, and pursuing trade liberalisation solely on the bilateral and regional levels would mean slower than desired trade liberalisation, and the exclusion of a majority of the US trade partners.
The US is often perceived as promoting a world solely dictated by markets, though in reality this is an oversimplification as US economic strategy and security concerns play a major role in economic policy and decision making in Washington, the same could be said for the EU, particularly with the global significance of China’s rising economic and political weight. For example, in addition to trade related concerns, the US is also linking geopolitical security issues tied to the ‘War on Terror’ by offering trade deals with those who co-operate with the agenda of US military aggression in Iraq. Within ASEAN, this is to be an issue for Indonesia and Malaysia, which have opposed the US invasion of Iraq. Indonesia, which is still struggling to overcome the Asian financial crisis will feel this pressure in FTA negotiations with the US or the lead up to them, and it’s certainly a central consideration of the US FTA negotiations with the Morocco and Bahrain FTAs under the Middle East Free Trade Area. Malaysia under former Prime Minister Mahathir Mohamad was not only opposed to the ‘War on Terror’ but also the proliferation of bilateral FTAs in SEA, as then Prime Minister Mahathir considered FTAs to be incompatible with ASEAN’s longer term strategy under AFTA. However, since Mahathir stepped down in October 2003 Malaysia signed a TIFA with the US in May 2004.

The EAI, and the bilateral FTA currently being negotiated by the US and Thailand within the EAI (with more bilateral FTA negotiations with the US likely to come for the Philippines, Indonesia, Malaysia, and others in SEA if the Thailand-US FTA is concluded) has to be seen within the context described above, and the myths of market access, more jobs, and higher pay that are promised via bilateral FTAs with the US should be dispelled since nations and regions, which combined comprise a significant proportion of total global trade, have either concluded or are in the process of negotiating FTAs with the US. In sum, the US has only so much market to offer its trading partners, in fact the US has nearly reached its limit on trade concessions it will offer (see Freeman and Bartles, 2004), so the crux of the EAI and other FTAs is that the US is intent on boosting trade (i.e. US exports) in a wide range of goods and services, in addition to unrestrained capital flows for TNCs.
4. The case against FTAs - learning from NAFTA

A majority of global trade and FDI flows occur among the world’s advanced economies, the US, EU, and Japan, and over the past 20 to 30 years the trade regime of these nations and consequently the global economy has been radically altered. A number of factors, which go beyond the scope of this paper, contribute to these changes, broadly defined as political, economic and technological developments. The end of the Cold War and the Soviet command economy, and along with it the advent of China’s Capitalism with Chinese Characteristics, the failure of the Third World’s ISI strategy and the success of the US economy in the 1990s have in combination led to greater acceptance that unrestricted markets and free flow of capital and goods are the answers to the economic troubles of developing countries, although the legitimacy of these neoliberal claims are in crisis.

As productive capital and foreign investment from East Asia and the North began to seek cheaper workforces and new markets for their goods, a significant shift in the distribution of industry occurred, as has national economic decision-making. With this shift the East Asian NICs and nations in SEA, which most successfully harnessed the massive flows in FDI (Singapore, Malaysia, Thailand, and Indonesia), erected varying trade and investment barriers to prevent foreign capital and goods from dominating domestic markets. TNCs from East Asia, North America, and the EU have been intent to diminish or strip these barriers through institutions such as the WTO, the International Monetary Fund (IMF) and the World Bank, and increasingly bilateral trade negotiations and FTAs. Due to this increased political and economic pressure for liberalised markets, combined with the increased vulnerability of nations in the global economy, political and economic regionalism is spreading. And as the international economy has become more closely integrated both within and outside the WTO, regional groupings of states have increased their co-operation in order to strengthen their autonomy, improve their bargaining positions, and promote other objectives (see Gilpin, 2001). This is recognised globally, and has in part led to the rush for bilateral and regional FTAs.

Free trade and FTAs are often sold to the public as formulae that will bring economic prosperity and development to the nation and its people, as export markets will increase and industry will develop. There is a lot of
grey area when discussing the impacts of FTAs since they are recent occurrences, so conclusive evidence either for or against bilateral FTAs in Asia is not available. However, the reality in Mexico is far from free trade dogma given the destructive impact NAFTA has had on workers and particularly the rural poor in Mexico. NAFTA has virtually eliminated certain agricultural sectors and pushed wages and work conditions down in both the maquiladoras (assembly factories) and non-maquila factory sectors. If countries, particularly the developing nations that sign FTAs and other trade agreements with developed countries, hope to ‘take advantage’ of the trade deal they must pursue domestic economic policies - in conjunction with their trade reforms - which mean they must liberalise their own trade and regulatory barriers in order to attract foreign investment, which is a key rationale for entering FTAs. Liberalisation is a slippery slope which when begun is difficult to turn back on as structural reform is essentially locked in with FTAs.

Mexico under NAFTA

“One free trade and increased economic integration are key factors for raising standards of living, improving the working conditions of people in the Americas, and better protecting the environment.”

In the early 1980s Mexico moved from its economic strategy of ISI to EOI due primarily to massive external debt that sparked a major economic crisis in 1982. With the EOI strategy Mexico liberalised its economy by reducing the size of the public sector, promoting land ownership reform, and committed in 1991 to negotiations for an FTA with the US and Canada, which went into force in 1994 as NAFTA. In terms of trade and investment for US-based TNCs, NAFTA has been a great success (see Brown, 2004): Mexico’s exports almost tripled between 1993 and 2002 ($67.5 billion to $187.4 billion) and FDI totalled more than $124 billion in the same period, with FDI from the US jumping 204 percent. Labour productivity has risen 45 percent since 1995. Mexico’s economy has become completely dependent and intertwined with the US, with 65 percent of Mexico’s imports from the US, and 89 percent of its exports going to the US. More than 40 percent of the US-Mexico trade is actually intra-corporate trade within divisions or subsidiaries of the same company. However, the per capita gross domestic product (GDP) of Mexico was the same in 2003 as it was in 1980, and the GDP growth rate during NAFTA averaged one percent.
After 20 years of trade liberalisation and 10 years of NAFTA Mexico has failed to ascend to the ‘First World’, and as the first developing country in the world to sign a major trade deal with a developed country there are many lessons to be learned for other countries attempting to use trade liberalisation with the US as an engine of sustainable economic development. More than two-dozen 10-year anniversary reports analysing the affects of NAFTA on Mexico have been published which are variably characterised as ‘not enough’ for sustained economic growth (World Bank) to ‘broken promises’ for broad social development (Joseph Stiglitz) (see Brown, 2004). The report *NAFTA’s Promise and Reality, Lessons from Mexico for the Hemisphere* (see Audley et al, 2003), funded by the Carnegie Endowment for International Peace is a relatively objective assessment of NAFTA after 10 years, and it offers insight into the grim reality of the trade deal and the crisis of legitimacy which proponents of trade liberalisation are facing today.

Conclusions from the report include:

- NAFTA has not helped the Mexican economy keep pace with the growing demand for jobs. Unprecedented growth in trade, increasing productivity, and a surge in both portfolio and foreign direct investment have led to an increase of 500,000 jobs in manufacturing from 1994 to 2002. However, there has been a decline in domestic manufacturing employment, related in part to import competition and perhaps also to the substitution of foreign input in assembly operations. About 30 percent of the jobs that were created in maquiladoras in the 1990s have since disappeared. The agricultural sector, where almost a fifth of Mexicans still work, has lost 1.3 million jobs since 1994, due to agricultural imports from the US. [US exports of subsidised crops such as corn have depressed agricultural prices in Mexico, making it impossible for rural poor to compete].
- Real wages for most Mexicans today are lower than they were when NAFTA took effect. However, this setback in wages was caused more by the peso crisis of 1994-1995... That said, the productivity growth that has occurred over the last decade has not translated into growth in wages. Despite predictions to the contrary, Mexican wages have not converged with US wages.
- NAFTA has not stemmed the flow of poor Mexicans into the US in search of jobs; in fact, there has been a dramatic rise in the number of migrants to the US...
NAFTA has accelerated Mexico’s transition to a liberalised economy without creating the necessary conditions for the public and private sectors to respond to the economic, social, and environmental shocks of trading with two of the biggest economies in the world. Mexico’s most vulnerable citizens have faced a maelstrom of change beyond their capacity, or that of their government, to control.

NAFTA was sold in North America largely by political leaders’ and businesses’ promises that it would create jobs and lead to higher wages. Although the volume of manufactured exports has grown under NAFTA, the much-anticipated growth in employment and quality of employment has not accompanied it. One explanation listed above is increase in productivity. Though it was fairly modest it alone cannot account for the slow growth in manufacturing employment. Another explanation is the manufacturing model used in Mexico that is largely assembly, in which parts are imported, then processed or assembled, and re-exported. This model leads to few backward and forward linkages, such as the stimulation of domestic businesses that supply parts and materials. In the maquiladora sector 97 percent of components are imported and only three percent are produced locally in Mexico. Similar patterns are found in the non-maquila sectors in the auto and electronics industries that also rely heavily on imported inputs. Other factors in the decline include the loss of jobs in manufacturing for the domestic market, due to imports, and importantly, the fact that Mexico has lost its advantage as the first mover on an FTA with the US. Since the beginning of NAFTA in 1994 a number of FTAs listed above have been concluded or are being negotiated by the US. Additionally, China’s accession to the WTO in 2001 greatly increases the global competition Mexico is facing for exports to the all-important US market, and these factors dilute the advantage Mexico once had.

With lacklustre growth in manufacturing jobs, Mexicans displaced by the loss of employment in agriculture face the obvious difficulty in adjusting to the new job possibilities under NAFTA, and these factors may have contributed to an overall loss of jobs in Mexico since the enactment of NAFTA. In 1993 8.1 million were employed in agriculture, down to 6.8 million in 2002, with a loss of 1.3 million jobs (see Polaski, 2003). A large number of Mexicans who lost work have been forced to find other employment as Mexico has no unemployment insurance programme, and no
safety-net for displaced workers due to NAFTA was created, which means the informal sector grew through much of the 1990s, and accounts for roughly 46 percent of jobs in Mexico. The most sensitive agricultural tariffs have not yet come down but are scheduled to by 2008. This combined with the fact that there is no sign that they will be absorbed by Mexico’s export sector in the foreseeable future points to the conclusion that the coming years will see even greater difficulty for displaced workers in Mexico.

Another central rationale for entering NAFTA was the alleged rise in wages that would come, and this failure has been the most striking reality for Mexico. Despite the dramatic increase in exports and FDI wages have not risen in Mexico, in fact they are below pre-NAFTA levels for production workers, highly educated workers in the manufacturing sectors, and workers with university and even postgraduate degrees in other sectors (see Polaski, 2003). While NAFTA supporters are quick to shift the blame for this on the peso crisis of 1994-95, the fact that wages are down in Mexico is irrefutable proof that the free trade model is not inextricably linked to better jobs and pay, as its proponents claim.

Labour rights have been set back under NAFTA, and basic rights such as freedom of association and collective bargaining have been repressed in Mexico through weak labour laws that have not been addressed under NAFTA. For example, a Mexican labour law allows only one union to hold a contract per workplace, so instances of management colluding with non-representative or ‘yellow’ unions to sign weak collective bargaining agreements is reportedly widespread, particularly in the maquiladora sector.

The North American Agreement on Co-operation and Chapter 11

The ‘labour side agreement’ of NAFTA is the North American Agreement on Labor Co-operation (NAALC), signed by Canada, Mexico, and the US, and its stated objective is to ‘protect, enhance, and enforce’ 11 major labour principles which actually include a wider range of issues than the eight Core International Labour Organisation (ILO) Standards, including protections for migrant workers and workers’ compensation. The NAALC does not incorporate international labour rights norms; instead, it calls on the signatories to enforce their domestic labour standards effectively while working co-operatively with the ILO; it does not address the
activities of employers. The NAALC is widely regarded as an utter failure in protecting, enhancing, and enforcing labour rights due to a lack of political will to implement the agreement, and the lack of will or even ability on the part of Mexico to enforce labour rights, given their desire to maintain ‘investor confidence’, limits on government resources, and longstanding problems with corruption in government labour ministries and departments. The NAALC contrasts sharply with NAFTA’s Chapter 11, which allows corporations to sue the NAFTA governments whose laws or policies the corporation believes have limited or prevented corporate profits. Since 1994, 28 complaints have been submitted to the National Administrative Offices (NAO) under the NAALC, which receive submissions, investigate allegations, and issue reports and recommendations. The NAO resolutions of submissions have all stopped at reports, seminars, conferences, Web sites, and outreach sessions (see Brown 2004). The mechanisms under NAALC are non-enforceable, and complaints can only be filed with the NAO of another NAFTA country. Employers cannot be ordered to reinstate unjustly sacked workers, there is no available remedy or compensation available for workers who suffer from violations of national laws due to non-compliance by their employers, and workers have no way to participate in the process beyond submission of their complaints.

In stark contrast, 27 Chapter 11 suits have been filed by TNCs since 1994, and resolutions include: the Mexican government was ordered to pay $16.7 million to the US-based Metalclad Corp in 2000 for the blocking the siting of a hazardous waste dump in an ecologically sensitive area of Mexico. In 2001 the Canadian government was forced to pay $13 million to the US-based Ethyl Corporation for banning the ground polluting and human-health hazard gasoline additive MBTE (see Brown, 2004). Other cases under NAFTA’s Chapter 11 are pending.

The 10-year experience of NAFTA in Mexico is best summarised as the stark contrast of winners and losers, winners being primarily US-based corporations, and losers the rural poor and workers in domestic manufacturing and agriculture in Mexico. When comparing the labour enforcement (NAALC) and corporate enforcement provision (Chapter 11) of NAFTA and its labour side agreement, it’s easy to find the corporate driven rationale behind NAFTA for a low-cost production site and market for US goods, at the expense of any form of sustainable socio-economic development for Mexico.
5. The Enterprise for ASEAN Initiative and labour conditions

In a majority of Asian countries trade unions and labour movements have not been active participants in campaigns against the WTO and FTAs, with the exception of the international departments of the Korean Confederation of Trade Unions, the Hong Kong Confederation of Trade Unions, the State Enterprises Workers Relations Confederation of Thailand, and a number of state enterprises and service sector unions in the Philippines, among a handful of others. One reason for this is information about the WTO and FTAs is often perceived as abstract and not directly relevant to workers as much is focused on intellectual property rights, agriculture, and services etc. and is therefore not considered an immediate concern for workers in sectors other than state-owned enterprises that are being privatised under neoliberal structural reforms. With the increasing prominence of FTAs globally, certain trade unions’ understanding of them is that FTAs could help generate compliance with international labour standards and help secure export markets, which in turn are supposed to create greater job security, improved work conditions, and kinds of work through increased technology transfer, and lead to higher paying jobs. Also, when considering bilateral FTAs workers, trade unions, and peoples’ movements are tempted and often led directly into positions that are based on self-interest, on a national level, sectoral level, or both.

While building an ASEAN wide investment promotion base, individual SEA nations are also pursuing policies and measures that could have profound effects on their neighbours. Bilateral FTAs in SEA, led by Singapore and in more recent years aggressively pursued by Thailand could send shock waves to the region, as other nations feel increased pressure to enter FTAs with high potential for negative social and economic consequences for the workers and the rural poor, particularly for nations like Thailand, Indonesia, and the Philippines with wide and ever increasing gaps in income distribution, and a majority or large proportion of its citizens employed or involved in the agricultural sector. As is currently the case in Mexico, the potential for massive job displacement in agriculture due to the influx of subsidised imports from the US and the EU, in addition to low cost imports from China that could also cause major disruptions to these countries, and displace many workers. (In Singapore this is not really the issue, with a population of only three million and no agricultural
sector). Likewise, as the Mexican experience under NAFTA has proven, liberalised trade and FTAs are no guarantee that employment options or wages will increase.

**USSFTA-template for future FTAs in SEA**

The labour and environment provision of both the US-Singapore and US-Chile FTAs are touted by the US Government as ‘providing groundbreaking co-operation in promoting labour rights and the environment’, and this has been accepted by many who have not looked into the details of the labour provisions of either FTA.

Firstly, the USSFTA does not require signatories to adopt and enforce core ILO labour standards. The only enforceable labour or environmental standard is to enforce existing domestic standards, regardless of how inadequate those laws are. There is nothing in the USSFTA that prevents signatories from lowering standards, and nothing requiring the establishment of standards. This is a significant point that is currently misunderstood by many in countries considering an FTA with the US. Under the US-Jordan FTA there was language included that stated signatories were not able to lower standards, and that signatories should establish standards. The USSFTA is considered a rollback from the US-Jordan FTA in that there is no parity of enforcement of labour and environment with other measures such as those protecting commercial interests (as is exemplified under NAFTA with Chapter 11). Under the existing Generalized System of Preferences (GSP) the US is able to deny trade benefits if nations have not taken, or are not taking, steps to afford internationally recognised worker rights. The GSP petition tool allows workers to instigate a review of labour rights abuses, which in limited instances have led nations to amend their labour laws in order to continue receiving preferential market access under the GSP programme. This system is highly flawed and overall does little to actually improve worker rights in developing countries that trade with the US, which is nearly every developing country in the world. That the US is promoting a model which in practice will step back from this in terms of enforcement is a point which needs to be clear, as the dispute mechanism under labour provisions of the USSFTA allows only weak fines to be imposed, and if a country is going to sign an FTA with the US under this model, then national labour standards need to be raised and enforced before the deal is signed.
In its report to the US President, the USTR, and Congress, the Labor Advisory Committee for Trade Negotiations and Trade Policy found that¹¹:

By focusing exclusively on enforcement of domestic labour laws, the Singapore and Chile FTAs end up creating a perverse incentive. Under the Chile and Singapore FTAs, a country that is challenged for failing to enforce its existing labour laws could simply weaken or eliminate those laws to avoid dispute settlement. A country could amend its laws to ban unions, allow child labour and forced labour, and invalidate all collective bargaining agreements, and face no possible penalty under the Chile and Singapore agreements. This makes a mockery of the agreements’ one enforceable labour provision, essentially gutting the entire labour chapter of both agreements. This is an absurd and self-defeating policy that would not be tolerated in an area of concern to business.

The crux of the USSFTA is expanded TNC market access in goods, services, investment, government procurement, and intellectual property rights protection. With the deal, Singapore guarantees zero tariffs on all US goods and that Singapore cannot increase its duties on any US product. For Singapore exports to the US, duties are phased out in different stages, with tariffs on the most sensitive products phased out over a 10-year period. Singapore is already one of the most liberalised nations in the world, so the USSFTA is not as dramatic of a shift in trade and investment policy as it would be for Thailand, Indonesia, the Philippines, and other less industrialised, developing economies.

The Thailand-US FTA

Thailand has already concluded bilateral FTAs with Australia, Bahrain, and China, and is negotiating, or expressed intent to negotiate, bilateral FTAs with India, Bangladesh, Sri Lanka, Pakistan, Saudi Arabia, Japan, Korea, Chile, Peru, Mexico, the US, New Zealand, Croatia, and the Czech Republic. Regional FTAs include the previously mentioned ASEAN deals; negotiations are underway under BIMSTEC, which includes Bangladesh, India, Burma (Myanmar), Sri Lanka, AFTA-CER including New Zealand and Australia; the Greater Mekong Sub-region trade negotiations (Viet Nam, Thailand, Burma, Cambodia, Laos, and Yunnan-China); and trade negotiations under the Asia Pacific Economic Co-operation (APEC), which has become less significant over the past five years. (See TDRI (Thailand Development Research Institute), 2003)
In addition to multilateral trade negotiations under the WTO, it’s obvious that Thailand trade negotiators are busy, and it is plausible that they lack the capacity to forge ahead effectively with so many trade deals at once. Regardless, while pushing ahead with ASEAN FTAs, Thailand’s pursuit of bilateral FTAs is already having an impact on neighbouring countries in SEA, initially in the perception that they must also begin or accelerate extra-ASEAN FTAs if they are to keep up with the regional and global trend. The Thai government has not publicly announced a position of ‘competitive liberalisation’ or the like in terms of its aggressive pursuit for FTAs, yet as a leading proponent of economic liberalisation under AFTA and in SEA, Thailand’s current policy has a similar effect.

Of all the trade deals Thailand has signed and is negotiating, the Thai-US FTA has garnered the most attention both in Thailand and the region, as US corporations’ ability to deeply penetrate the Thai economy would have a profound effect on the country, not least of which is the ability of the Thai government to maintain sovereignty over political and economic decisions relating to its path of development, which in turn has the potential to affect profoundly the Thai economy and society. The TDRI found that the projected real economic expansion following the FTA is a mere 1.34 percent per year over three years (see TDRI, 2003). They also conclude that to benefit from the FTA in the longer term, Thailand must undergo modernisation of the services economy and diffusion of higher level of technology, know-how, and that labour and management skills are essential for the Thai economy to move ahead and out of competition with lower-wage developing countries in the region, primarily China and Vietnam. However, the shift to increased competitiveness of Thai products on the US market (and others), including sectors that are touted as ‘winners’ of the Thailand-US FTA such as auto, agricultural products, and textiles and garments, is not automatic. Firstly, the above mentioned sectors constitute a significant political lobbying group in the US, whether as business or organised labour, and are not likely to welcome increased competition from cheaper imports from Thailand, and if an FTA is signed it is plausible that non-tariff barriers would make it hard for these goods to reach the US market.

Thailand, which promotes itself as ‘The Detroit of the East’ would have a hard time seeing its products in Detroit for a number of reasons. To
reap benefits from access to the US market and US investments in the auto industry in Thailand, Thai suppliers must reach minimal international standards in three areas: quality, cost, and delivery time (QCD) (see TDRI, 2003).

- Product quality. Currently Thai lower-tier parts suppliers are struggling with present defect rates of more than 1,000 parts per million (ppm), while some assemblers such as General Motors have started to demand less than 20ppm. US autos also require much higher environmental standards that suppliers in Thailand can’t meet at the moment.

- Many assemblers have set targets to reduce prices 20-30 percent within two to three years (GM has set the target of five percent per year). While this is possible for many large, direct suppliers, smaller indirect suppliers, of which there are a high proportion in Thailand, would have a hard time meeting these goals.

- With shorter product life cycles and the adoption of just-in-time procurement by assemblers, suppliers not only need to strengthen quality control, but also would need to greatly improve design and test capabilities. Increasingly first-tier suppliers need to propose design to direct assemblers, which until recently used to order parts according to blueprints. This requires a huge investment in facilities and skills acquisition among domestic first tier suppliers, which is out of reach for most in Thailand. Additionally, suppliers need to adopt the use of information technology in their supply chain management to shorten lead time, lower inventory, increase interaction within the supply chain, and improve capacity in terms of procurement, production, and distribution. This requires large production volumes in order to be cost efficient.

In order to meet the above requirements to access the US auto market, major changes are needed, including the all-important cost-saving measures. As is the case with the textile and garment industry which has undergone similar restructuring of supply chains over the past decade to accommodate just-in-time delivery, greater reliance on IT, and reorganisation of production into a complex web of suppliers and producers, workers at the lower end of the supply chain have been squeezed into accepting lower wages, longer working hours, higher quality standards, and lower lead times. Trade unions in the auto sector in Thailand, which are currently
among the strongest, are certain to bear a significant amount of the brunt of cost-saving measures. Under NAFTA, Mexican suppliers and domestic producers have either been driven out of business or are unable to establish domestic input in auto and electronics assembly. Given the weak capacity of first-tier suppliers in Thailand it is quite possible that they would be replaced by foreign suppliers once local content requirements are eliminated under the proposed Thailand-US FTA, potentially eliminating crucial backward and forward linkages from the production process.

The TDRI study on the Thai-US FTA only mentions one side of the trade coin: exports to the US market; there is no mention of imports from the US. Thailand is currently the second largest consumer of trucks in the world, behind only the US, and the market potential in autos has long lured East Asian auto companies that produce in Thailand. Again, the primary benefit for the US in entering FTAs is market access, and as the WTO has proven, the US is an expert at writing trade rules that protect domestic goods and industries while gaining favourable export agreements. In addition to auto, double and even triple digit (percentage) surges in US bilateral exports of sensitive agricultural commodities, processed foods, textiles, and apparel are projected (see DeRosa in Schott ed., 2004), meaning a huge surge in US exports to Thailand and other nations in SEA considering a bilateral FTA under the EAI.

Textile and garment

Market access for textile and garments has long been a strategic tool of the US in inducing trade liberalisation among developing countries. A significant portion of the rationale for Central American countries in pursuing the CAFTA is increased, or at least continued, exports of textile and garments to the US. With Multifibre Arrangement (MFA) quotas lifted in January 2005, developing nations with significant numbers of workers in that sector are keen to maintain or increase exports. With the Thailand-US FTA, it’s ironic that a basic rationale behind signing the FTA is the potential to move away from low-wage and -skill sectors in which Thailand has difficulty competing with nations such as Vietnam and China, yet the Thai government and the Thai Garment Manufacturers Association are promoting the Thai-US FTA as a necessity to maintain these jobs which employ over one million workers.
While the Thailand-US FTA would secure exports in the textile and garment sector, particularly in the limited number of higher-technology factories, it doesn’t mean that competition is going to be any less fierce. Given the number of FTAs the US is signing with developing nations and regions, a great many of which are significant textile and garment exporters, there is only so much market access the US can promise, particularly combined with increased exports from China and the strong lobby and projectionist measures of the textile and garment unions in the US, which are naturally keen to survive, but the overall strategy to do so is based on national self-interest rather than promoting tangible solidarity among textile and garment workers in the North and South, which is generally the case with most sectors of labour movements all over the world.

The trend in the textile and garment sector in Thailand since the Asian financial crisis has been a steady increase of informal, subcontract, and contract workers and an increase in migrant workers who are paid roughly one-third to one-half of the minimum wage and enjoy virtually no labour rights, which they are guaranteed under Thailand’s labour laws. Given the exceptionally weak labour provisions under the USSFTA which could be transferred to the Thailand-US FTA, there is little hope that these trends will cease, in fact they are likely to be accelerated, and it has the potential to push existing unionised factories into proposed Special Economic Zones including areas of Thailand with few to no unions such as the Northeast and Mae Sot (where there are over 100,000 Burmese migrant workers) and greater frequency of home-based, contract, and migrant workers in the areas surrounding Bangkok.

If Thailand and other developing countries pursuing an FTA with the US are taking steps to shift into capital-intensive production, a significant transfer of technology is required, assuming they are still relying upon FDI from foreign TNCs for the transfer. Article 15.8 of the USSFTA prohibits Parties from imposing a) export requirement, b) local content requirement, c) purchase of or provision of preference to local goods or services requirement, d) net foreign exchange generation - i.e. tying import value/volume to export value/volume, e) transfer of technology, production process, or other proprietary knowledge requirement, f) requirement that goods or services to a specific regional or global market be supplied exclusively from the territory or Party.
Among these points a) to d) are covered by Trade Related Investment Measures under the WTO, but points f. and g. are not, which is typical of FTAs as many provisions go beyond the WTO requirements. Again, the Thai government is selling this FTA to the Thai public as a golden road to development while failing to mention the massive amounts of investment required to reach the technological and infrastructure development levels necessary to take advantage of an FTA with the US. Given the extreme levels of competition globally, US and other corporations, including Asian TNCs using SEA as an export base to the US and other markets, will by no means automatically transfer technology to local manufacturers. For the past two decades Thailand and a number of other nations have been slow to acquire technology, management and labour skills necessary for capital-intensive manufacturing, partially due to a lack of government investment and initiatives, but also because of corporation’s reluctance to transfer technology and skills which could one day compete with them. In Thailand the lack of backward and forward linkages is a primary reason for the lack of transfer and diffusion of technology. Another criticism of FDI is the lack of research and design in the FDI host country as it is usually done in TNCs home country, keeping higher value added production processes at home. If applied to the Thailand-US FTA, Article 15.8 structurally ensures that transfer and diffusion of technology would be a very long-term process indeed, and given Mexico’s experiences the FTA should not be relied upon to induce technology transfers.

Apart from the manufacturing sector, the Thai-US FTA would have a huge impact on agriculture, state owned enterprises, services, telecommunication and E-commerce, the financial sector, intellectual property rights, investment, and the environment. Under the template of the USSFTA, the negative impacts are likely to seriously outweigh the positive results from increases in trade with the US. Although FDI as a result of the FTA is projected to increase, including from third party nations that wish to use Thailand as a manufacturing or export base to the US for select goods, the chances are high that a Thailand-US FTA would not only be detrimental to the Thai economy and workers in the manufacturing sector, but also for Southeast Asia as a whole as it could fragment the steps forward ASEAN has made to stress its critical mass.
as a region of 500 million people in closely co-operating economies, rather than a set of individualist nations pursuing self-interest in competition with one another. It has not yet been proven, but a case could be made that Singapore, and to a greater extent Thailand, are in the process of significantly weakening this combined critical mass and potential economic force that could be the SEA region’s best chance to weather the current and inhospitable global economy driven by corporations’ desire for liberalised markets, flexible labour, and increased profits.

6. Conclusion

Currently labour and people’s movements around the world who are negatively affected by the course of their national economy, which is becoming interconnected with the global economy, are often inadvertently forced into a defensive position. Nations are increasingly competing with one another for FDI and employment, and workers and people at the bottom are often only able to see that which is in front of them, their job, livelihood, and often survival; to expect millions of people in South Africa and Brazil to take action to fight the Thailand-US FTA is pushing the current boundaries of international solidarity. However, as a minimum requirement it is increasingly necessary for people from regions to understand that their futures are becoming interwoven, and that the ease of corporations’ unrestrained ability to scour the globe for profits cannot be effectively confronted solely through nationalist or inward-looking strategies. People-led-regionalism is a potential threat to capital as corporations and the nations/politicians who promote corporate interests are not willing to bypass an entire region as they are willing to do for a few national economies within a region. SEA is a region with significant potential yet its fragmentation via a number of bilateral FTAs and other policies is imminent. Furthermore, free trade agreements and national or regional development on the basis of FDI within the context of unprecedented global competition for FDI and growth is not sustainable for people, yet it is for corporations. As the case of Mexico has proven over the short and medium term, free trade, increased market integration, and FTAs have a greater affinity with authoritarian labour control, increased poverty, job displacement, and weakening of the development process than they do with sustainable development.
Appendix 1. FDI in Cambodia, Indonesia, and Viet Nam

Cambodia

In 1993 Cambodia formed a coalition government bringing an end to decades of war and conflict, and in 1994 adopted market-oriented reforms and trade was liberalised along with the promulgation of very liberal investment laws. In the first few years following reform FDI boomed, primarily in the textile and garment industry, telecommunications, and tourism.

Though the Cambodian economy has grown over the past decade (at about six percent from 1994-2003), so has the size of the workforce, inequitable distribution of the wealth, and poverty. In September 2003 Cambodia was invited to join the WTO, along with Nepal the first Least Developed Country (LDC), and success in the WTO depends on competitiveness. With MFA phase out and its inevitable affect on the textile and garment sector on which Cambodia is nearly completely dependent for exports and hundreds of thousands of jobs, future FDI trends in Cambodia are not likely to reverse from the steady decline of recent years.

The percentage of FDI of GDP went from 3.5 percent in 1994 to 8.3 percent in 1996 to less than 1.5 percent in 2002. (IMF, ‘International Financial Statistics’, April 2004). This decline up to 2002 comes despite large investment in the garment industry since 1997 and in tourism since 1999. The garment sector started to slow in 2001, but investment has been relatively strong since the Asian financial crisis. According to the World Bank productivity of garment workers has doubled from 1995 to 2002, but still remains low compared to China and India.

Cambodia’s trade from 1995-2002 increased, thanks to the garment and tourism sectors, at an annual rate of 12 percent in real terms (IMF, International Finance Statistic-IFS, April 2004), and accounting for 51 percent of GDP in 2003. Of the 51 percent, it’s estimated that less than 15 percent stays in Cambodia, as raw material imports represent the most important share in the garment production cost, meaning that the industry is dependent upon foreign suppliers, in this case linked directly to access to the US market. In 1999 the US and Cambodia entered an agreement on trade in textiles and garments, which stipulates export quantities though the end of 2004. The agreement and increases in quotas were extended.
based on bi-annual inspections conducted by the ILO. This relates to regulations on wages, working hours, freedom of association, labour and safety standards, the right to collective bargaining, and the banning of child labour, discrimination, and forced labour.

At the end of 2004 the agreement expired, along with the MFA, leading to questions on how Cambodia can continue to promote itself as an ‘ethical producer’, if this is the strategy to be continued. However, the Cambodian government’s plans to build Export Processing Zones in the Cambodia-Thailand border towns of Poipet and Koh Kong lead to concerns that trade unions and several key labour rights provisions will be kept out of the proposed EPZ.

Workforce

Cambodia’s population has been growing along with the number of poor in the country. Roughly 70 percent of the workforce is engaged in the agricultural sector, with wealth, tourism, and industry concentrated in urban areas.

According to an April 2004 World Bank report poverty in Cambodia grew from 36.7 percent in 1996 to 45.5 percent in 2003, as Cambodia’s population has grown over the past 10 years. World Bank figures are based on the questionable $1 per day per capita, but the point is that FDI and the garment sector have not had a significant impact on poverty reduction in Cambodia, and that the labour force is swelling and underemployed.

Drawing on the 1998 census, The Economic Institute of Cambodia estimated that between 1994-1998 Cambodia had an average of 150,000 new entrants to the labour market per year, and between 1999-2002 the number was 200,000 per year, and the number is estimated to go up. This one year increase is equal to the total number of workers employed by textile and garment factories in Cambodia, which is the backbone of exports for the entire nation, accounting for over 90 percent.

A large portion of Cambodia’s urban labour-intensive workforce comes from rural areas, and to provide employment opportunities for the increasing rural and urban population is an urgent issue. Between 1994 and 2003 Cambodia’s labour force increased by an estimated two million people, but the modern sector (manufacturing and tourism) absorbed only about 20
percent of the labour force. The rest stayed in rural areas, but the problem lies in the fact that the agricultural sector is already overly saturated.

Underemployment and unemployment has led to over 300,000 Cambodian migrant workers going to Thailand to seek employment, primarily in fisheries and fish processing, but from 1 July 2004 Thailand introduced much stricter migrant labour regulations, meaning it is increasingly difficult for Cambodian migrant workers to find jobs in Thailand through legal channels.

**Indonesia**

From 1991-2000 Indonesia ranked in the top 20 in the world for FDI inflows, but in the latter part of the decade following the Asian financial crisis that hit Indonesia the hardest, it was experiencing net outflows of FDI (1998-2002), along with political instability, unemployment, and a myriad of other problems.

Indonesia’s peak FDI years came following the end of the oil boom in 1982 when the Suharto government liberalised its foreign investment policy to attract, among other things, FDI in export-oriented manufacturing and natural resources. A surge of FDI from the mid 1980s through 1996 came in two waves. The first, from 1987-1990, came in the form of investment, particularly from Taiwan and Korea, in export oriented FDI. A majority of this came in labour intensive industries like textile and garment, footwear, and electronics assembly. The second surge came in early 1994 and was partially driven by the worldwide boom in FDI.

In 1981 manufactured exports accounted for only seven percent of Indonesia’s total merchandise export, but by 1996 it accounted for 53 percent. During this time low levels of technology transfer took place from foreign TNCs to local manufacturers and workers.

The 1997 crisis had a major impact on several nations including Thailand and Korea, yet their economies have been steadily recovering, while Indonesia shows little sign of improvement. The relocation of foreign owned plants combined with the closure of many domestically owned plants have led to a decline in industrial capacity. Lacking competitiveness in value added production and efficiency, Indonesia currently has a hard time attracting export oriented FDI.

In 2000-2001 the only country with positive flows of FDI in Indonesia
(on balance of payment basis) was Malaysia, at 850,000 in 2000 and 1,400,000 in 2001. From 1999-2001 the only economic sectors with positive FDI (Balance of Payments (BOP) basis: ASEAN Secretariat) were construction in 1999 at US$52.10 million, agriculture, fishery and forestry in 2000 at US$8.74 million and Financial Intermediation and Services at US$81.93 million in 2001.

With the ominous phrase ‘investor confidence’ low due to a variety of domestic factors such as legal uncertainty, investors citing an inhospitable labour climate caused by militancy and business-unfriendly labour laws, lack of security, and rapid political successions, the coming years are not projected to bring sharp increases in FDI in Indonesia, particularly in light of competition with more attractive host countries.

**Viet Nam**

In 1987 the VIIIth National Assembly of Viet Nam passed the Law on FDI that opened the market to capital investment and technology. With it the State guarantees the ownership of the invested capital and other rights of foreign investors.

During the early 1990s Viet Nam attracted high levels of FDI. Overall investment stocks increased from US$260 million in 1990 to over $17,100 million in 2002. FDI inflows peaked in the mid 1990s, fell sharply but levelled off at around US$1,200 million from 2000-2002. In 2002 Viet Nam ranked fourth in FDI flows in ASEAN behind Singapore, Malaysia, and Thailand.

A majority of FDI is directed toward the manufacturing sector. From 1995-1999 flows to heavy industry accounted for 39.8 percent (including electronics and electrical parts, cement, machinery, and metal products…), light industry accounted for 25 percent (including textile and garments, food and food processing, leather products…) and 18.5 percent to construction. Viet Nam has attracted FDI in light industries since the opening of the economy in the 1980s, since the mid-1990s the share of heavy industries has expanded more rapidly. Investment in heavy industry mainly covered typical import substitution sectors such as cement and the automobile industry. The share of investment capital in light industries tends to be small; Japanese FDI is concentrated in heavy industry, particularly in terms of investment capital.
Top investing source countries in Viet Nam over the past decade have been Asian NICs and Japan, which explains declines in FDI since the Asian financial crisis, combined with the increased competition for investment in labour intensive industries. Another reason for the chill in FDI during the financial crisis and the years afterward is the fact that the investment climate in Viet Nam is relatively less friendly than other countries in the region. In 2001 the top sources of FDI (BOP basis, including all sectors) is Taiwan at US$215.37 million, followed by Singapore at US$160.62 million, Netherlands at US$136.99 million (in 2000 FDI from Netherlands was only US$20.65 million), and Japan at US$87.45 million. Since 1999 Hong Kong, Korea, and Thailand have been important sources of FDI in Viet Nam as well.

Overall, foreign firms account for an increasing share in the Vietnamese manufacturing sector. As a member of ASEAN, and due to Viet Nam’s geographic location, trade and FDI within Asia have and will continue to be important.

Some of the long-standing practices which discourage foreign investors, according to the Vietnam Venture Group, Inc include (1) corruption at nearly every level of government; (2) duel pricing that discriminates against foreigners; (3) extensive bureaucratic red tape that enhances corruption, fuels multiple-level pricing, and increases costs; and (4) lack of transparency in laws and policies.

Since Viet Nam’s entry into ASEAN there is little evidence to suggest this has had a profound effect on TNC entry into the country. However, Viet Nam has become increasingly integrated into the regional and global value chains, and ASEAN-based TNCs are seen as a possible growing source of FDI in coming years. Regionally Viet Nam, as a member of AFTA (and is restructuring its trade and tariffs system primarily through its membership), has initiated negotiations to join the WTO and most favoured nation status with the USA. However, Asia remains the key trade partner for Viet Nam, accounting for over 47 percent of its total exports and 77 percent of its total imports in 2001.
Viet Nam in regional and TNC supply chain

Currently Viet Nam is at the lowest level of the supply chain with a very low level of backward and forward linkages, and capital accumulation. Domestic firms have little access to the technology and know how related to more advanced methods of production; even more advanced economies like Thailand are lacking in these aspects, leaving relatively limited prospects for domestic access in Viet Nam.

In manufacturing, Viet Nam is competing for labour intensive industries with Burma on the ASEAN level (they are at par for resource-based and labour-intensive industries), with a clear advantage given the larger population and potential market of Viet Nam, and the sanctions targeting Burma. While China is the leading destination of FDI in Asia, it cannot have a comparative advantage in everything. However, China and Viet Nam are at similar levels of socio-economic development and are competing for low value added production, leaving Viet Nam at a disadvantage given the market size of China, among other factors.
### FDI inflows into ASEAN by ISIC sector in 1999-2002

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*Source: ASEAN Statistical Yearbook, 2004 (Balance of Payment basis)*
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**Data collection methods vary by nation.**

Compiled from the respective ASEAN Central Banks and National Statistical Offices (Balance of Payments Basis).

Sources: ASEAN Statistical Yearbook, 2004
### FDI stocks (US$ millions)

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*Source: UNCTAD World Investment Report 2003*
# FDI Flows (annual average)

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Source: UNCTAD World Investment Report 2003
**Foreign investment flow to the manufacturing sector in projects with foreign interest**
(Approval and apportionment basis) *Source: ASEAN FDI Database, 2002*

1. Cambodia

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*Source: ASEAN FDI Database, 2002*
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Source: Asia Monitor Resource Centre

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### 6. ASEAN

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Notes

1 ASEAN was established in 1967 by the five original Member Countries: Indonesia, Malaysia, Philippines, Singapore, and Thailand. Brunei Darussalam joined in 1984, Viet Nam in 1995, Laos and Burma (Myanmar) in 1997, and Cambodia in 1999. The ASEAN region has a combined gross domestic product of US$737 billion, and a total trade of US$720 billion (http://www.aseansec.org).

2 AFTA was formulated in 1992 when it was declared that a free trade area would be established by 2008, though this date has been pushed back.

3 Several trade-related organisations have published numerous documents relating to the effects of neoliberal globalisation: see Oxfam International, Focus on the Global South, the Polaris Institute, and Our World is not for Sale among other organisations’ web sites.

4 As a point of reference this paper focuses on US intent on FTAs under the EAI, but by no means does it mean that other North-South FTAs and South-South FTAs should be considered benign deals that counterbalance US economic hegemony, if such a thing actually exists given the increasingly free flow of capital over the past two decades.

5 http://www.ustr.gov/Trade_Agreements/Regional/Enterprise_for_ASEAN_Initiative/Section_Index.html

6 In May 2003, the [US] President announced his initiative to create a Middle East Free Trade Area (MEFTA) by 2013. The initiative is designed to deepen US trade relationships with all countries of the region, through steps tailored to individual countries’ levels of development. Since that announcement, the US has concluded FTA negotiations with Morocco and Bahrain, and signed TIFAs with Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, Yemen, and Oman. The US already has TIFAs with Egypt, Algeria, and Tunisia. The US recently held its first TIFA Council meetings with Tunisia, the UAE, Kuwait, and Qatar. In addition, the US has made progress with the WTO accessions of Saudi Arabia and Algeria, and in the case of Algeria, extended GSP benefits. (http://www.ustr.gov/Document_Library/Press_Releases/2004/September/United_States_Bahrain_Sign_Free_Trade_Agreement.html)


9 Industrial linkages between the foreign firms and domestic suppliers (backward linkage) and between the foreign firms and domestic clients (forward linkage).

10 It’s worth noting that the Labor Advisory Committee was the only one of the 31 USTR chartered advisory committees that did not support the final agreement on
the USSFTA, meaning movements opposed to FTAs with the US cannot expect significant support in Congress. However, Thailand’s poor labour rights record is slated to be an issue in the Thailand-US FTA negotiations as the enforcement of labour standards in Thailand, particularly in the cases of children and migrant workers, is considered to be much lower than in countries which have concluded FTAs with the US.

11 Excluding the Joint Countries category used by ASEAN FDI Database.

**References**


Daquila, Teofilo C. (2002) ASEAN’s Economic Performance: Reviewing the past, looking to the future, Harvard Asia Quarterly (Online), VI, 3 (Summer 2002).


PART 3

WORKERS IN AND AGAINST ASIAN TNCs
CHAPTER 9

A PRELIMINARY STUDY ON THE GENDER STRUGGLE OF WOMEN WORKERS IN FACTORIES IN THE PHILIPPINES’ CAVITE ECONOMIC ZONE

Workers Assistance Center Inc

Introduction

The exploitation by capital of the working class is reflected in the struggle for higher wages, job security, humane working conditions, and democratic rights. The problems associated with these issues bring specific burdens on women workers because of the characteristics of their gender.

First, the reproductive system of women is characterised by a monthly menstrual period and pregnancy, which are accompanied by hormonal changes and increased need of the body for nourishment, adequate rest, and safety.

During pregnancy, strict rules and regulations in factories such as day-long standing or sitting while working, lengthy and forced overtime or overnight work, prohibition to use the rest room frequently, or an unsanitary, hot and cramped working place, may expose her and her unborn child to unnecessary distress, tension, or danger. Moreover, unfavourable working conditions bring unnecessary risks to the health and physical capacity of the women workers because of bleeding during the menstrual period.

Second, the predominant belief in Filipino society that women have the primary and greater responsibility in maintaining the home, doing the household chores, and attending to the needs of husband and children still prevails.

Despite the growth and development of women’s rights advocacy groups worldwide, the vast majority of the Filipinos still believe that women should do the housework. It is not unusual to hear someone say, “You must learn how to clean, wash clothes, and cook because you are a woman.”
This belief is more prevalent in rural areas where feudal and patriarchal influences on relationships are strong. Which is why despite exhausting work in the factory, the women are still the ones who oversee the house and the family after work. Even during their rest day they can be seen cleaning houses or washing clothes instead of taking part in community activities, nurturing personal growth, or relaxing and having fun with their families.

The recognition that discrimination against women prevails is reflected in provisions for women in laws and in the labour code. The Constitution of the Republic of the Philippines provides: “the State shall protect workwomen by providing safe and healthful working conditions, taking into account their maternal functions, and such facilities and opportunities that will enhance their welfare and enable them to realise their full potential in the service of the nation.” (Article XIII, Section 14).

This provision is reflected in the Labor Code of the Philippines (Title III, Chapter I, Article 130-138), in the policies of the Department of Labor and Employment (DOLE), the Philippine Economic Zone Authority (PEZA), and in the laws of nation.

It is noticeable that organising workers begins and often stagnates on issues such as job security, wages and benefits, problem working conditions, and the right to form organisations. From the Workers’ Assistance Center’s (WAC) experience, organising the workers is facilitated when job security is under threat.

In the areas that are being assisted by WAC, the vast majority of workers are women. However, organising these women based on issues of gender has not been given much consideration. On the other hand, the issues on the effects of the working conditions in relation to their status and role as women are inadvertently not brought up by the workers during discussions about their problems.

A close look at the collective bargaining agreements of some of the unions that WAC came across reveals that women’s issues have not been given ample consideration given that a large part of the work force are women with particular interests, needs, and characteristics.

Because of this, WAC decided to look into how the women workers
consider and give importance to the problems and issues arising from or related to their roles as workers, mothers’ and women. Further, this study seeks to know if the workers have experiences in the struggle for gender-related issues.

Ultimately, WAC will be able to utilise the information that will be obtained from the findings of this study to further improve its services in assisting, organising and mobilising workers.

Objectives of the study

Based on the information obtained from PEZA, there are almost 60,000 workers in over 200 factories within the Cavite Economic Zone (CEZ) in Rosario, Cavite, more than 70 percent of who are women.

In recognition that workwomen have particular characteristics and that there are expectations of them by society, it is natural that they have particular demands and goals. This study aims to acquire additional knowledge on the working conditions of the workers and at the same time to have a preliminary knowledge on how those working conditions affect the worker as a worker, as a mother, and as a woman.

This study also aims to understand how workers and unions give importance to these issues especially where the majority of workers are women. Further, this study aspires to find out the responses and actions taken by government and capital to resolve the issues that affect women workers based on their own experiences and perspectives.

The information that will be obtained from this initial research is expected to help (1) determine how the issues on their gender affect and are given significance by the women workers in their struggles for life and jobs; (2) understand and establish how the issues of women workers can help in organising and mobilising; (3) serve as a basis for future research that will address the issues and include a bigger number of workers and factories should the need be established.

Scope and limitation of the study

As a preliminary study, only a limited number of factories are involved. The main objective is to describe the working conditions and their effects on the women workers from the different factories with varying situations and conditions and to be aware of their views and opinions regarding this. The results are presented as case studies.
To see if there is any difference in the conditions, demands, and views, the case studies include organised workers with a collective bargaining agreement (CBA), two factories with a union but no CBA, and one factory whose workers have not been organised.

Some workers outside the above-mentioned factories were also interviewed so as to have an initial comparative study. All the factories are within the CEZ.

A summation of the situations, effects, opinions, and responses is in the *Summary of the results of the study* below.

The information on the profiles of the company that was used in the case studies is a collection of data from the different experiences of the workers. The PEZA Web site was also a source of information. The latest information on the number of the workers and other relevant information were not given by PEZA even when WAC had sent a formal letter.

Methodology of the study

The primary sources of data are the workers, who were interviewed from each factory were selected randomly except that they are from the subject factories. Another source of information was the discussions with the union officers in organised factories. For purposes of comparative analysis, some workers from factories other than the selected factories were also interviewed; they were also selected randomly and all work at the CEZ.

All the respondents, except the discussions with the union officers, were interviewed in their homes or were invited to the WAC office. The interviewer met some of the respondents through other workers.

In the analysis of the data gathered from this study, the documents of WAC served as important references. These documents include data collated from WAC’s organising activities, assisting of workers, handling of legal cases, and from other research and studies conducted by the institution.

Summary of the results of the study

The interviewees included women workers from 14 factories.

63 percent of the workers are from four garments factories—Triple Eight Garments Mfg. Corp. (with union and CBA); Chong Won Fashion
Inc. and Sun Kim Apparel Phils. Inc. (with union but without CBA); and San Technology Inc. (no union).


These products are primarily exported to the US, Canada, and Europe. Garments include labels such as GAP, American Eagle Outfitters, Nautica, Izod, and Greg Norman. Wal Mart is one of the contractors or buyers of these garments.

Profile of the workers who were interviewed

90.41 percent of the workers are regular workers; 9.59 percent are contractual. 60 percent of the workers interviewed have been in their present jobs for two years or less while 12 percent have been working in the factory for seven to 10 years. 43 percent of the workers are less than 25 years old while 29 percent are more than 30. Among those who were interviewed, the eldest was 49, the youngest was 16. Four workers had faked their ages in order to qualify as 18-year olds when applying for the job.

67 percent of those interviewed were single, the rest were married, separated, or widowed. The spouses of 86 percent of married workers are employed. 64 percent of the married workers have one or two children while 18 percent have four or five children.

Only 25 percent of the interviewed workers were from Cavite. 74 percent came from different provinces in Luzon (except the National Capital Region), Visayas, and Mindanao. The main sources of livelihood of the workers’ families are farming and fishing. Only four percent of the interviewees’ parents belong to the working class.

47 percent of the workers came from families of five to eight children and 34 percent have three or less siblings. 17 percent came from families of nine to 12 children.

27 percent of the workers have either reached or finished a college degree or a vocational course while 45 percent are high school graduates.
70 percent of the workers who were interviewed are from the six factories with organised unions—Triple Eight, Chong Won, Sun Kim, South Gold, DRI, and JRA.

The situation of women workers

a. Wage and benefits

In general, regular workers receive the minimum wages. Wages among contractual workers vary depending on the company or work done.

In the electronics companies, the varying figures in the workers’ wages are based on employment status and the result of performance evaluation. Apprentices only get 75 percent of the minimum wage while the contractual and regular workers receive the mandated minimum wage upon hiring. Performance evaluation is based on productivity efficiency, attendance, and by being acquiescent to their superiors. This is why some workers who started with the minimum wage, and have been with the company for three years still receive the minimum wage. Meanwhile, workers who have been with the company for only a year receive more than the minimum wage.

The wages of workers from the garments industry differ according to their employment status, length of tenure, and kind of job. Some contractual workers, such as trimmers, movers, and helpers, receive below minimum wage because capital considers their jobs of minor importance. The result of this study indicate that wage increases are based more on seniority pay, rather than performance evaluation and from benefits acquired from the CBA.

Provision of incentives is not common in garment and small electronics factories. Only a few of these factories provide incentives (e.g. perfect attendance for one year or when the production quota is reached). In general, these are also the factories that have frequent and extended vacations because of lack or absence of orders.

On payday, a worker does not get her entire wage; deductions are made for the social security system (SSS), Philhealth, and PAG-IBIG, which are mandated by law. Moreover, the workers complain that much of their wage goes to income tax. According to the workers, the additional income that they get from exhausting overtime work just covers the deductions from the wage so that they actually receive the entire daily basic wage.
In the end, the worker’s wage is just enough to meet her or the family’s basic needs. A large part of the worker’s wage is spent on food, fares, utility bills, and house rent. Another portion of the wage pays for the children’s education, sending financial support to the parents, and personal needs such as soap, shampoo, toothpaste, and sanitary napkins.

From the meagre income, the worker makes both ends meet by living as frugally as possible, sacrificing the primary and basic needs of the family. For instance, food depends on how much money is available. Mothers admitted that they spend as low as P20 on food each day for each family member, even when their husbands are employed. Some workers said that most of the time they eat no breakfast to lessen food expenses. Because there is a need to live thrifyly, they have to bear eating just noodles or rice on some occasions.

Because of strict implementation of the company rules and regulations (CRR) on absences, to ensure income some workers report for work even when they feel unwell. A worker from Chong Won knew that she needed rest to remedy a chronic cough but could not ask for leave because the management would not allow it; she would not earn anything if she took leave.

Not all workers have the capacity or the opportunity for other sources of income. In emergency situations such as sickness or death of a relative, workers resort to loans to fulfil obligations. Situations like these are more burdensome when emergencies arise during production shutdowns or vacations.

According to a worker from JRA, “You are not allowed to get sick when you are a worker because a lot of time and money is wasted, and the management does not easily grant sick leave; but when your performance was good when you were not sick, then they will approve your leave.”

b. Rules and regulations in the factory

There are many prohibitions in the factories; it is prohibited to take a bag, jewellery, or slippers to the production area; borrowing tools and supplies (for sewing) from a co-worker is not allowed. Reporting late for work is forbidden. In fact, a worker must be in the factory at least five minutes before her shift starts. When a worker arrives a minute late, she is sent home and is not paid for the day.
Absence from work is forbidden. When a worker is sick, she has to notify the management so that they know she would not report for work. Upon reporting for work after recovery, the worker must present a medical certificate. Even if it was just a fever because of cold, cough, or over-fatigue, the worker must go to a doctor for the medical certificate. Failure to do so would mean suspension, or worse, dismissal. The worker gets no pay for absence from work.

Even if a worker forgoes a break time in order to reach a quota, she is not allowed to eat in the production area because the food crumbs might damage the quality of the product. Yet the CRR indicate that the worker must meet the quota. Workers who violate this rule could be suspended or dismissed.

Leaving the workstation during working hours is also not allowed as is frequent use of the rest room even when the woman is pregnant or has her period. Many workers endure the discomfort of not going to the toilet to avoid frequently leaving their stations to avoid reprimands from their supervisors.

Talking is prohibited at work. The worker needs to concentrate on her work to ensure that production runs swiftly while conforming to the standard of quality set by the company. Only during brief coffee breaks (if provided) or meal breaks can they talk or rest. At the very least, workers who violate this rule are admonished and yelled at by the supervisor.

Ultimately, baldly stated or hinted at, workers are forbidden from organising. Many workers who management has identified as union members or sympathisers are unfairly reproved or shouted at for the slightest mistake.

There are many more prohibitions in the CRR, violation of which could mean suspension or dismissal from work. Violators are at least warned and are reprimanded or shouted at by the supervisor even in front of her workmates to instil fear among other workers.

The CRR is strictly imposed to ensure that productivity is high. In this way, capital guarantees unencumbered production of high quality goods. CRR also creates fear and anxiety that render the workers submissive, contented with wages, accept the working conditions, and refrain from complaining about any problems related to their jobs.
Workers have observed that CRR are rigidly implemented during ‘normal’ operations. The management could easily discipline them when there is no need to speed up production. At these times, it is common for workers to be suspended or dismissed. However, when product demand is high, the capitalist cannot afford situations that hinder productivity. During such times, management is less strict with CRR.

These situations show that the strength of workers is stronger when orders necessitate continuous production. During normal production, the large number of unemployed and contractuals who constantly hunt for work are taken advantage of by capital to dismiss workers whom it considers as possible threats to production.

The foremost reason why the worker keeps her mouth shut and refrains from fighting for her right to fair compensation and good working conditions is the fear of losing the job. It is common to hear workers say, “I don’t mind the meagre income, as long as I have a job,” and, “I would rather endure the hardship than lose my job.”

c. Working conditions

Workers in garment factories differ in perception about working conditions from those in the electronics industry; a worker from Pulse Electronics said, “When I was working in a garments factory, the work was exhausting; the job is really hard.”

The notion of ‘favourable’ and ‘comfortable’ working conditions in electronics factories was described by a worker from DRI, “I used to fancy working in a fully air-conditioned company and now I am working in one. They said I will become fair-skinned and I did…” However, she added, “I always have colds and often get sick because it is extremely cold in our section.”

Almost every electronics factory worker who was interviewed claimed that her work place is orderly and clean and has adequate facilities like good ventilation and lighting, workers’ primary bases at work. They are provided with protective gadgets when working such as the bunny suit, apron, finger coat, gloves, and mask, but the protection is not for them but because of the sensitivity of the products, which must not be contaminated.

A clean and comfortable workplace conceals the dangers of electron-
ics workers—continuous exposure to the chemicals that are used in production. Garments workers tell a different story; their workplace is stifling, cramped, and disorderly. Some workers claimed that they had to bring their own drinking water because tap water in the company is dirty; rest rooms are inadequate and unclean. Some are provided with protective gadgets only when the prospective buyers visit the factory.

It is common for all the workers to work for long periods of time especially during high demand for the product. Overtime work extends from four up to 12 hours; at times a worker is made to work for 36 continuous hours. Often workers are made to report for work during rest days.

Although the workers made varying remarks about overtime being forced or voluntary, they seldom refuse their superiors when asked to work overtime. Aside from the additional income, they are also wary of the possible effect of refusing on their job security. The workers claimed that employment contracts stipulate that they should be prepared to work overtime whenever management demands it. Those who had refused to work overtime were deprived of it, or worse, they were suspended or dismissed from work.

The extended hours of exhausting work are aggravated by the rule that forbids the workers from standing, sitting, or leaving the workplace in order to rest or stretch their bodies. Even workers who sit during production are not comfortable or cannot rest even for a while because their chairs have no back support.

d. Occupational health and safety

The usual complaints of workers at work are headache, stomach ache, and painful eyes. Electronics workers experience blurred vision, which they blame on the constant use of microscopes when assembling miniscule parts. Workers also believe that their cold, cough, dizziness, or asthma is due to the chemicals (electronics) or the textile fibres (garments) that they inhale and the extreme temperatures in the production area. A worker from DRI noticed that her memory sometimes falters, which might be the effect of constant exposure to chemicals.

The difficulties of workers resulting from extended hours of tedious work with inadequate rest periods include one exhausting posture, ex-
treme temperatures, lack of facilities and protective devices, and the CRR. These are contributing factors that undermine the health and safety of the women workers.

Extended and forced overtime gradually puts a strain on workers’ health. Sometimes they suddenly lose consciousness while working because their weakened bodies cannot take the stress. According to workers from Sun Kim, because of extended overtime and the small amount of food provided during overtime, some of their workmates lost consciousness because of over-fatigue. It is no consolation to know that even though the patient is taken to hospital, medical expenses will be deducted from her wage.

Workers also experience fevers and chronic coughs mainly because of over-fatigue and lack of sleep and rest, aggravated by lack of nourishment. They have to eat fast during meal breaks and not allowed to eat in the production area. Others said that some of their pregnant workmates had suffered miscarriages because of the rigors of the job.

The deplorable situation in the factories is exacerbated, especially for married women, who have the responsibility for most of the housework. Day after working day, they rush back to work still lethargic from lack of rest because reporting late for work or not reporting for work at all without a compelling reason is strictly prohibited. Some workers believe that the rule banning them from using the rest room frequently is the reason for urinary tract problems.

Only a few electronics workers mentioned the possibility that their common illnesses and discomforts are related to chemicals that they use at work. This is probably because the symptoms of the chemicals’ effects on their bodies are not visible yet. But the observation of a worker, “My memory has faltered…” should be cause for alarm especially when there is an existence of similar documented cases of illnesses from other factories (not included in this study).

WAC’s records show that there have been numerous cases of reported illnesses that may be attributed to chemical exposure at work. Some workers have had body rashes that could have been caused by chemical allergies. Others have had miscarriages or contracted respiratory diseases. There is also one documented case of Steven Johnson’s Syndrome (SJS).
After working overtime they are exposed to further dangers when going home late at night. Because they are weary and in a hurry, they sometimes stumble or fall in a ditch as they go along the poorly-lit way out of CEZ.

e. Gender

Women workers generally have primary responsibility for housework and family even on the rest day. As a result, they do not have time for union activities (if one exists) or join activities that could help their personal development. Women usually manage the families’ income and daily expenses. There are times when this becomes the cause of misunderstandings between husband and wife especially when the man is unemployed or when he complains that his wife has neglected her obligations to him and the children.

According to most husbands of women workers they have accepted the situation already; they help and support each other in earning a living and in tending the home and children; when need arises, they seek help from relatives to look after their children while they work.

There are no written rules and regulations that give special favours to women workers who are pregnant or menstruating. Favours are provided only at the discretion of immediate supervisors.

Most women who were interviewed stated that there have been changes and special considerations in the way the pregnant or menstruating workers are treated at work, such as reassignment to less demanding work. They are also not assigned in areas of possible exposure to harmful chemicals or forced to work overtime, and they are allowed to leave early when they feel unwell (with wage deduction). Pregnant workers are also permitted to take earlier maternity leave whenever the job gets too strenuous for them.

A menstruating worker is allowed to rest in the company clinic when feeling unwell; if she cannot bear the period pains, she can go home but will only be paid according to the number of hours worked.

These considerations are granted only at management’s discretion. Not all workers from each of the factories enjoy such good treatment.

In this study there was one confirmed case of sexual harassment in a
factory (see case study of Sun Kim Apparel Phils. Inc.) where the workers’ private parts were touched or they were subject to lecherous glances from employers. However, the workers did not protest or file official complaints fearing further harassment or job loss.

**Views and convictions of the women workers**

a. Regarding the organisation of the workers or the union

All the workers who were interviewed agreed that a union is crucial for their struggle, to defend their welfare, and to uphold their rights and their struggle against exploitation.

Workers in unionised factories have experienced these. If in the past they held back and endured penalties for the slightest mistakes, establishing a union in the factory enabled them to face up to unjust suspensions, dismissal from work, or prolonged overtime.

In the factories covered by this study, there are two unions with CBAs. Even when a problem of wage distortion arose in the Triple Eight factory when the minimum wage increased, the union defended the workers’ rights.

Almost all workers who are not organised are hesitant to form a union. Even though they are aware that the union could help them, they fear losing their jobs for organising a union.

CRR are deterrents to workers organising. Where there are unions, CRR hinder union activities by preventing workers from convening inside the factory premises, limiting their chances of talking to each other, attending union activities through extended working hours and short breaks, and by direct or indirect threats of company shutdown should they organise.

Workers’ leaders at Chong Won Fashion Corp. claimed that on the eve of their certification election (CE) in August 2001, management announced that if the union prevailed, their buyers would back out and they would have no choice but to shut down the factory.

Some workers, identified as active union members or officers or workers, often complain of management intimidation. For flimsy reasons these workers are reprimanded to deter them from organising or to force them to resign. Sometimes union officers are deployed to another section of the factory to segregate or totally isolate them from other workers.
Despite the existence of unions in some factories that are included in this study, union struggles remained as struggles for the rights of the class (or as workers). Some union officers admitted that priorities are given to basic issues such as wages, benefits, job security, and the right of the workers to organise rather than issues related to their gender. At the moment these basic issues are at stake.

Even among other workers (organised or not), the primary concern at hand is having a job. Issues on wages and other democratic rights are secondary, but gender issues are far behind. Like a worker from DRI said, “It is better this way than not to have any job at all.”

b. Regarding the management

There is a remarkable difference in the opinions of electronics workers and the garment workers regarding management in their companies.

Workers in electronics factories have no problems with the way management treat them. A worker from DRI said, “Management in the factory is good even if there were times when we don’t have work and the policies are strictly implemented.”

Based on WAC’s documentation of workers from other factories, illnesses attributable to harmful chemicals are conspiratorially concealed by the government and capital. The company usually deploys workers to another department when they start to show symptoms of illnesses due to chemicals. Worse, the worker is dismissed because she is no longer capable of doing her job. Because capitalists do not acknowledge that illnesses may be due to chemical exposure; workers get practically no compensation from the company.

In garments factories, managers are rigid and insensitive about workers’ general well-being and safety. Regular and contract workers affirm that they are treated as slaves, “The management has not done anything good to us,” and “They have not provided us with even one candy...one mistake and you are fired.”

As aforementioned, it was the experience of workers from Sun Kim that hospitalisation or medical expenses are deducted from wages even if they had lost consciousness from prolonged overtime.

In general, there is a consensus among the women workers that there is a need for a separate provision in the CRR regarding women’s issues,
especially when the women are married and have children. One worker
said that it was difficult when she had domestic problems because super-
visors could reprimand her if caught preoccupied.

All the workers generally agree that the capitalist should accept or-
ganising and the presence of a union in the factory.
c. Regarding the government

Workers in all industries agree that laws and government are inutile to
do anything to alleviate miserable conditions and problems. The workers
added that capital does not even abide by the laws. If they go and refer
their problems to PEZA they said, “They will not help us but instead
they will be on the side of the capitalist as a willing conspirator.”

Workers lamented, “I am furious because our cries and appeals fall on
the deaf ears of the government,” and, “We help the government by duti-
fully paying our taxes but they do not give a damn about our welfare.”

The workers firmly believe that the government connives with the
capitalist to skirt the laws and ignore the rights of the working class.

**Conclusion**

The issues related to women’s gender are important but they are sec-
ondary to having a job, job security, wages and benefits, and democratic
rights in the factory, respectively. Issues that primarily affect women work-
ers are also not considered or are the first to be given up during negotia-
tions for a CBA.

75 percent of those interviewed are from provinces outside Cavite; 85
percent are from the peasant sector. These workers not in a position to be
unemployed for long, especially as most are far from a supportive family.

Coming from a peasant family where the chances of achieving a col-
lege degree is remote, working in a hi-tech or air-conditioned electronics
factory is considered an achievement.

Having a regular income, even less than the minimum wage, is prefer-
able to a life of rural destitution.

To most single workers, having a job is important because they want
to be self-supporting and somehow be able to help their families. To mar-
rried workers, keeping their jobs is a must so that they will be able to sus-
tain the family’s primary needs day after day.
Having a job and securing it is the priority. As one worker put it, “It is better this way than not to have any job at all.” For similar reasons, and despite awareness of the significance of having a union, workers are hesitant to organise, especially when there is no major threat of unemployment to the majority. Organised workers believe that obeying the CRR is the main factor guaranteeing job security even if this means no time for themselves and the union.

Union officers are convinced that their struggle for job security, wages, and democratic rights are the principal issues at stake. Meanwhile, the gender issue remains secondary. Therefore, issues regarding gender can be tackled according to need.

The feudal thinking of Filipinos that is prevalent in the rural areas, has a remarkable effect on the worker; she develops a feeling of gratitude towards the capitalist for providing her with livelihood. Instead of complaining about despicable working conditions, the worker believes that she has to work hard for the company to thrive.

Recommendation

This study revealed that a job and job security are workers’ primary concerns before wages and benefits.

The issues on gender are on the workers’ agenda but they must be aware of their significance, through constant networking and dialogues regarding their interests, objectives, and problems so that they can overcome fears of the ever-present threat by capital on job security. Networking and dialogues with workers deepens the understanding of their situation, anxieties, and goals.

The lack of job opportunities and abject poverty, which are both appalling consequences of an unrelenting economic crisis, are the primary factors hindering workers from organising. The workers’ situation is exacerbated as capital uses its powers to full advantage by treating workers as pawns of production, knowing that they are afraid to lose their jobs.

Further, the gender issues are another way to show workers the significance of organising in the struggle for better working conditions. These issues can also serve as an instrument for organisers to succeed in organising and mobilising the women workers.
Case 1: Triple Eight Garments Manufacturing Corporation

Company Profile

Triple Eight Garments is owned by Fung Yu San, also known as John Fung, a Hong Kong national/Taiwanese, who is also company president.

The factory was established in June 1992. Its main products are shirts, sweaters, and jackets, which are exported to Taiwan, Hong Kong, and the US. The produce for brands including GAP, Nautica, Timberlands, Harry Hall, and Perry Ellis.

There are about 100 regular workers in three departments—cutting, sewing, and finishing. 80 percent of the workers are women; almost 50 percent of them have been with the factory for nine years or more.

There are almost as many contractual workers as regular workers and could be even more when there is a big order.

Profile of the workers interviewed

All the interviewed workers are regular workers, ranging in age from 19-39, and have worked in the factory for two (10 percent) to nine (40 percent) years. 30 percent of them are married with children. 30 percent of the workers hail from Cavite and are single. 50 percent of the interviewees came from the peasant class. 60 percent of them either reached or finished high school while 40 percent reached or finished a college degree or a vocational course.

Women workers at Triple eight

When compared to other factory workers, the Triple Eight workers are privileged to have had a CBA since 1999. One of the benefits that they enjoy is the increase of P.30 ($1.00 = P54) in their wage in a period of three years, P.15 in the first year, P.10 in the second, and P.5 in the third.

The unity and determination of the workers was proven when they launched a strike in 2001, which was violently dispersed by the PEZA police. One week later they were back on the picket line. The protest lasted until the conflict was finally resolved.

There is no provision in the CBA that grants special consideration to women workers gender. Only at the discretion of their immediate supervisor may they receive special treatment concerning menstrual period, pregnancy, and domestic problems that need resolution.
a. Rules and regulations in the factory

Workers are not allowed to leave workstations during working hours; rest rooms are dirty so they often endure the discomfort of not relieving themselves. Some believe that this could be the reason for kidney disorders and urinary tract infections (UTI).

They are not allowed to eat in the production area. Pregnant workers are not given special consideration. Occasionally, they sneak food into work. A worker related an incident when the personnel manager roughly dragged a pregnant worker out of the production area when she was caught eating candy because she felt nauseous. Two months after giving birth the baby died because it was weak.

b. Wages and benefits

The workers receive above minimum wages as provided for in the CBA. However, there is no provision in the agreement on the corresponding increase when the minimum wage increases. As a result, the latest increase in mandated minimum wage defeated the increase they won in CBA. At present, a case of wage distortion filed by the union is pending at the National Conciliation and Mediation Board of the DOLE.

All the workers agree that their wages do not suffice for personal and family basic needs. Since they have no other income, they make both ends meet by frugal living.

When production is in recess due to lack of orders, the workers feel the inadequacy of their wage. Although extended overtime during big orders augments workers’ income, this hastens production, which means lesser working days for them; during production breaks workers have no income.

c. Working conditions and occupational health

During normal production, the average working day is eight hours. They are able to use their day off for housework, time for themselves, and rest.

But when the orders are enormous, work usually lasts up to 12 hours. Like in other factories, workers have to report for work on rest days.
Some regular workers, especially union members, can refuse to work overtime. However that refusal meant that they would no longer be offered overtime work. One of them said, “We need overtime work because we need the additional income. What we refuse is the very long and consecutive overtime work,” because they simply need to rest. But because they still have housework, they barely have time to rest. This is more difficult for married women whose husbands do not help with housework.

Pregnant workers are not forced to render overtime and are sometimes given less demanding work.

Like most garment factories in the CEZ, the production area is hot and cramped, but protective masks are provided only when buyers visit. Consequently workers had to buy masks or use scarves or handkerchiefs to protect against inhaling textile fibres.

The workers believe that poor ventilation and lack of protective masks while working are the causes of the common respiratory diseases.

d. Occupational safety and gender

The workers reported no incident of sexual harassment. Most of those interviewed say that they are not worried about safety when leaving the factory, while 30 percent of them maintained that they are apprehensive when they are out late at night because of overtime.

The absence of concern for women workers by capital and the government was shown when they were without discrimination for gender violently driven away from their picket line in 2001.

Uttered a worker, “I will never forget for as long as I live the time what the EPZA police did to the workers when we were on strike...[we were] shoved and driven out. They did not care that we were women. We experienced much harassment and maltreatment.”

Views and opinions of the workers

Regular workers see the continuously growing number of contractual workers as a threat to job security. Even though the contractuals receive lower wages and are subservient to management, regular workers opine that the contractuals are given more favour. For instance, the management prioritise the contractual workers for overtime work or when there is little work; the contractuals are favoured for work while
the regular workers go ‘on vacation’. According to union officers, management uses this scheme to get even with them for complaining about work.

In general, management has no special provisions in the CRR for women. A worker added, “The capitalist is after profit only and they do not give consideration to the workers.”

Workers (especially women) do not get any support from the government. At the same time, the labour code is inutile. From the workers’ point of view the government’s implementation of the Labour Code favours capital allowing managers to ignores the laws.

Organisation of the workers

In May 1998 the Triple Eight workers organised a union, Bukluran ng Nagkakaisang Manggagawa sa Triple Eight.

The workers highly respect the labour union. It gives them strength to struggle against coercion. Their conditions are different now than when they were not unionised. They used to be timid and apprehensive of management and resolved problems individually.

The workers have high regards for the unity and camaraderie among union members against management exploitation even though they have suffered hardships while working at Triple Eight. “I suffered from so much pain and hurt while working at Triple Eight...Our union was strong and we stuck together for better or worse. I vividly remember everything that happened and sometimes I still cry over it...but I am happy with our achievement,” declared one worker who was interviewed.

The union not only participates in the struggles of the working class, it also joins provincial and national political and sectoral mobilisations. However, there is no record of a factory-level mobilisation concerning gender-related issues.

Discussions with workers and union officers revealed that recognition of rights and welfare remain the primary problems regardless of gender. Because workers’ basic rights (such as the right to just compensation and the right to refuse overtime) are still being fought for, they have not yet considered fighting for their issues as women workers.
Case 2: Chong Won Fashion Corporation

Profile of the factory

Chong Won was established in 1990 and is owned by Mr. Hae Bum Song, a Korean national, who is also the president of the Board of Directors.

As a garment factory, their main products are shirts but they also produce dresses, short pants, long pants, jackets, and sleepwear. From 1991 to 2002, they also produced knitwear and sweaters when there were separate departments for sweaters and T-shirts.

Finished products are exported mainly to Canada and the US, usually passing through the trading company in Korea, Chong Won Trading, which directly gets contracts from different buyers and delivers the goods to the contractors. Chong Won has buyers in Asia such as Hong Kong and Singapore. Workers say that if the products are below the buyers’ standard of quality, they are sold in local markets or at a trade fair in the CEZ in December. They produce for GAP, Mossimo, No Boundaries, Sprockets, and American Eagle Outfitters.

There are nine sections in the T-shirt department including maintenance and technicians.

Most of the workers have been with the company for 10 years or more. There are around 350 to 400 regular workers employed by the company. Depending on the volume of orders, the number of workers increases to 500 or 600, even reaching 1,000 including contractual and the emergency workers. The large number of contractual workers is used by capital to threaten union members who protest and struggle. Contractual workers are harassed and threatened with dismissal if ever they complain or protest in lies against bad working conditions. Capital uses them to neutralise the strength of the union by lessening the impact of the protest actions to continuous production. While this alarms union members, they have learned that they are not easily dismissed by capital because of the expertise gained from long employment with the company and because of the unity and strength they possess when they take collective action.
Profile of the interviewees

All workers interviewed are regular workers, having previously worked in other factories in the CEZ. 38 percent of these workers have been with the company for more than five years while 38 percent have worked for not more than two years. The youngest worker is 20 years old; the oldest is 49. 46 percent of the workers are 18-25 years old; 31 percent are more than 30. 62 percent are single; spouses of married workers are employed.

46 percent of the workers are locals of Cavite; 54 percent come from Luzon and Visayas. 92 percent of workers’ families belong to the peasant sector.

Situation of the workers at Chong Won

Workers at Chong Won have to endure extended working hours in order to achieve the company quota and render overtime work during rest days. Unworked rest days are spent doing housework. During peak production when they must work on rest days, workers do housework after work.

The workers complain of times when there is no work. Even though in general these are short periods, they are without income and such vacations undermine earnings when working. Wages earned during peaks in production do not meet a family’s basic needs. The periodic absence of work is additional burden to the workers.

a. Rules and regulations in the factory

Workers cannot take food or eat inside the production area. A worker who violates this rule may be suspended from six days or dismissed on the third offence. But during peak production, workers shorten break times to achieve the daily quota. One worker said, “I was given a verbal warning when I was caught sneaking in some food to the production area because I was already very hungry.”

Workers are compelled to work hard because the CRR specifies that they could be penalised by warning or dismissal if they cannot achieve quota for the fourth time within one week.

They are prohibited to talk or laugh during working hours. However, they secretly talk to relieve the monotony of work under threat of three to 15-days suspension or dismissal. They use break times to talk.
Worker activists said that this is one factor that hinders them from assembling workers to explain concrete plans and programmes of the union.

The workers are also forbidden to go to the rest room or washroom frequently. Mostly they can only use the rest room during breaks. It is worse when production is high because they forego relieving themselves in order to finish work earlier.

These conditions contribute to headaches, stomach aches, and UTIs. One further related that there are times when she puts off regularly changing her sanitary napkin during her menstrual period due to the heavy workload.

Reporting late for work also has its penalty. Work usually starts at 8:00 a.m. A worker must be at the designated station at least five minutes early. When a worker arrives in the factory at 7:59, s/he is sent home unpaid for the day. This happens even when production is at its peak. A worker said, “I am always in a hurry to report for work because I do not want to be late and be suspended from work. My laundry (at home) just keeps on piling up because I have to report for work even on my rest day (Sunday) when there is tremendous work in the factory.”

This study also revealed that the married women workers experience more pressure at home because of their obligations to husbands and children. Housework is limited for most single women who live in boarding houses, but they complain that they still have practically no time for resting.

b. Wages and benefits

Workers receive the minimum wage plus P1.00 seniority pay for each year’s service. However, some contractual workers receive less than the minimum wage such as trimmers, helpers, and movers. Most workers receive above minimum wage. However, 85 percent of those interviewed revealed that their income is inadequate. Much of their income is spent on food, transport, boarding or house rental, and utility bills. Married women lament their insufficient income even though their husbands are also employed; this is especially so when the children are in school and have various educational needs.
Most workers’ (even married ones) parents expect them to help with family expenses. But no worker mentioned that finances caused discord among the family.

Workers relying on basic or minimum wages feel the heavy impact of its insufficiency. That is why even exhausted workers force themselves to render overtime.

SSS, Philhealth, and PAG-IBIG premiums are deducted from wages. Workers say they do not mind the deductions as long as they are able to use the benefits.

The workers vehemently protest the 20 percent tax deduction. A worker complained, “We are extremely overworked and our tax deduction is enormous but we do not benefit from it. They only use it to pay the DOLE and PEZA staff who do not give a damn about our situations and who conspire with the capitalist in oppressing us.”

c. Working conditions and occupational health

During normal daily production workers work an average eight hours starting at 8:00 a.m. When the capitalist has immense orders, work times usually last for 12 to 24 hours and sometimes an exhausting 36 hours. Production is often high and overtime is lengthy yearlong. There is rarely a period when production is at a normal pace.

The workers complain about lengthy and consecutive forced overtime or overnight work but they can hardly decline. A worker said, “One time, I sneaked off at around 6:00 in the afternoon because I wanted to go home already and I have accomplished the day’s quota. The management did not permit me to go home because they have a new quota…I was suspended from work.”

A worker who has been with the company for more than 10 years related an unforgettable experience, “Working hours are very long; there are times when we stay in the factory for three days and nights. Meals are provided free if you render overtime work but in the morning we have to buy our own food.”

Even if workers are aware of the buyer’s code of conduct, that forbids excessive overtime, they cannot refuse to render overtime work. The capitalist skirts this condition by not punching out the time cards of the workers after extended overtime work. Allegedly, “The security guards...
reset the bundy clock before punching out the time cards for the workers. The real record that reflects the time we left the company is with the line leaders.” In this way, the buyers have no clue about code of conduct violations.

Workers are not allowed to change positions while working in order to relieve their tired bodies. Because they are also not allowed to stand (when the normal position while working is sitting and with bowed head like the sewer), stretch, or sit (when the position while working is standing like the QC, revisers, and cutters), workers often complain of headache, dizziness, and over-fatigue. When they can no longer bear it, they devise ways to leave their stations by pretending to get something or lean on the wall or table to rest; they are careful not to be caught by supervisors because there are penalties for violations.

There are no air-conditioning units inside the production area. Although there are enough electric fans and exhaust fans for ventilation, these do not relieve the heat especially on extremely hot days. According to the workers, electric fans may help relieve the discomfort but they scatter the fibres, which sometimes causes skin irritation. Without masks workers inhale the fibres that can result in byssinosis (severe lung disease).

Management provides protective masks only when buyers’ agents visit the factory.

The usual complaints of the workers are colds, coughs, allergies, asthma, fever, headache, dizziness, over-fatigue, fainting, stomach ache, UTI, and painful eyes. The workers are convinced that the lack of proper ventilation and lighting, the absence of protective masks, prohibition of frequent use of the rest room, and extended working hours are the causes of discomforts and ailments.

The only chemicals used in the factory are acetone or chlorotyl, used to remove stains from clothes.

Aside from the uncomfortable working conditions in the factory, the workers are not given special considerations during their menstrual period, and pregnant workers do not receive special favours. They are made to do the usual work and are forced to render over-
time work; sometimes pregnant workers have to work overnight. They are seldom designated less demanding work. When workers have period pains, they are not allowed to rest in the company clinic. Even in these conditions, they are not allowed frequent use of the rest room.

In general, workers have difficulty in taking leave even when they are already ill, especially during peak production. One of the workers lamented, “I consulted a doctor for asthma and I asked permission from the line leader but the production manager would not sign my sick leave papers even if it has already been filed at the SSS.”

d. Occupational safety and gender

There is no record of sexual harassment in the factory. However, workers disclosed that they do not like the way the women security guards inspect them when leaving the factory premises, because they even touch their private parts.

The women feel apprehensive when they leave the factory late at night. However, most of them believe that they are safe when they go home.

One worker described an unforgettable incident, “My co-worker almost lost her sight in an accident one night. There was not enough light. She bumped into a container and her head hit the ground. Fortunately, the other workers who saw the accident brought her to the hospital.”

Views and opinions of the workers

In order to accomplish housework, it is a lot easier if the husband, a relative, or a child could help with the chores. When there is no one to leave the children with at home, they are sent to their grandparents so that the husband and wife can earn a living.

The workers barely have time for personal development and for integrating in their communities because most of their time is spent for work and housework.

The workers believe that the company has no clear consideration on
women workers’ issues. The importance of their labour is unrecognised as it is not reflected in the CRR.

Workers receive no help from government departments such as the PEZA and DOLE. The workers believe that these agencies are in conspiracy with capitalists in circumventing the law in order to disregard their basic rights and welfare. According to them, “The labour code is useless because it is not followed by the employer.” Furthermore, they see no concrete government programmes and services that address their problems as women workers.

It is their opinion that organisations such as the WAC and the Solidarity of Cavite Workers provide immense help with services such as education and legal assistance.

Organisation of the workers

The Nagkakaisang Manggagawa sa Chong Won (United Workers of Chong Won) was established in 1999. Prior to this, DOLE cancelled its first registration in 1998 for technical mistakes.

Union organisation consolidated the workers’ ranks though they admit that organising is not easy; they now make grievances known and fight for their rights. If management is oppressing them, they seek the help of the union. Even contractual workers, who do not go to the union for fear of management harassment, believe that a workers organisation is important, but they remain submissive.

Union leaders find it difficult to assemble the workers for meetings because much of the workers’ time is spent in production.

Likewise, that the union members earn the ill will of the management affects the relationship among workmates. A worker said, “It’s sometimes difficult being a union member because some of my workmates who are contractual or regular non-union members have avoided me...my friend who is a contractual worker in the company avoids me because she is afraid she might lose her job.”

In spite of these, the workers have a positive perception about the importance of having a labour union. One worker said, “I was able to gain more friends with the successful founding of the union.”

The union has staged successful mobilisations/protest rallies to air their
grievances including actions against rampant suspensions, illegal dismissals, transferring workers to other sections/lines, and segregating workers who are harassed by management.

Similarly, the union has participated in mobilisations related to national, provincial, and sectoral issues. But despite all this, the union has admitted that it has not given attention to issues specific to women workers even though it has formed a Committee on Women. At present, they believe that it remains important to focus on basic issues: wages and benefits, regulations, and factory working conditions. According to them, they find it difficult to mobilise the workers, even over basic issues. Hence, women’s issues are relegated to the sidelines.

Founding the union is not the workers’ first attempt at organising. In 1996, a chapter of the Alyansa ng Makabagong Obrero (Alliance of New Workers) was organised in the factory. At first it succeeded but it became passive. Its natural demise as an organisation was attributed to union busting, insufficiency of funds, and a lack of programmes for the workers.
Case 3: Sun Kim Apparel Phils
(by the end of 2002, the factory had shut down)

Profile of the company

Kyoung Han Kim, a Korean national and company president, owned Sun Kim Apparel Phils. Inc. Before Sun Kim was established in April 1999, Mr. Kim was the General Director of Dong Seung Garments, another factory within the CEZ. According to some workers, Sun Kim first concealed its real identity under the pseudonym Gold and Green Apparel until its official registration with the Philippine Economic Zone Authority (PEZA) in November 1999. Sun Kim made T-shirts, long pants, maternity dresses, skirts, jackets, and vests mainly for buyers from the US and Canada.

According to the workers who were interviewed, there were more than 250 workers in six departments of production—issuance, cutting, sewing/production, finishing, trimming, pressing, quality control, and packing. 71 percent of the workers were women. It was also estimated that 40 percent of the workforce were contractual. Some of the pioneer workers in the company have been asked by Mr. Kim to move from Dong Seung.

Profile of the workers who had been interviewed

All of the women workers interviewed were regular workers at Sun Kim and had previously worked at other factories within the CEZ. The oldest worker was 37 years old; the youngest was 21. 45 percent of the women were single. The married workers had one to five children and their husbands were all employed. 82 percent of the workers were from provinces outside Cavite; their families belonged to the peasant class.

Situation of women workers at Sun Kim

One of the worst fears of these workers was to be humiliated by the employers in front of their workmates. At Sun Kim it was normal for employers to shout at the workers for the slightest mistake they committed while working.

A worker recounted, “Compared to my previous employers, Sun Kim is the worst ever because I have personally witnessed my Korean employer reprimanding, yelling at, and even strangling my workmates in front of the whole department. We are forced to render overtime
and if we do not comply we are given a warning and eventually sus- pended for a month. If we work overnight, we are provided with a measly meal of soda, plain bread, and two pieces of candies. It is no wonder many of the workers just pass out due to the workload. We needed to work fast to accomplish the 1,000 quota to be included in the shipment the next day.”

Despite their awareness and recognition of the problem, the workers continued to work for the company. They rationalised that it was harder to look for another job where the possibility of becoming a regular worker was remote.

The vast number of unemployed workers could replace contractual workers anytime, especially when orders are enormous. When workers were given high quotas, they just shrugged their shoulders and worked harder at production so as not to lose their jobs.

Management increased quotas when workers reached the previous quota, which was usually set for eight hours of work. The capitalist squeezed the last ounce of energy out of the workers by forcing them to work over-time, which usually lasted until the next day. As a result, the orders were finished ahead of schedule and the workers found themselves at home on temporary ‘vacation’ until the next order arrived.

The poor working conditions were aggravated when the women workers were not given special considerations especially when they were married with children or were primarily expected to help out the family.

a. Wage and benefits

For married women workers, managing income is a major problem, and this is usually the cause of domestic arguments.

Because most of the interviewed workers are regular employees they received the mandated minimum wage; workers who had worked there for more than five years received 5.99 percent more.

Except for one worker who had only one child and whose husband was an overseas Filipino worker (OFW), the workers claimed that their incomes were simply not enough for the whole family. For additional income, workers sold clothes, preserved meat, and other kinds of food. The husband’s wage also helped in the daily expenditure of the family.
Because there are expenses that cannot be avoided, like school expenses, transportation, medicines, and boarding house rentals, workers tried hard to save on water and electric consumption.

The married women workers spent sparingly on food, usually P20.00 to P35.00 a day for each member of the family. In contrast, single workers spent about P50.00 to P200.00 each day for food mainly because they seldom cook. During emergency situations in the family, aside from the difficulty in applying for leave, the workers have to contend with financial constraints.

b. Regulations and working conditions

Often after coming home from work, the women still had to cook and look after each member of the family.

In general, the workers’ rest day (during normal production) was spent washing clothes, going to the market, cooking, cleaning the house, and attending to the children. Single workers did the cleaning on rest days.

Despite the double burden of housework and family responsibilities and the unfavourable working conditions brought about by forced overtime and uncomfortable working positions, management strictly implemented the CRR. Workers were not allowed to report late for work, absent herself, or refuse overtime. The slightest violation of these rules was a threat to job security. For instance, if a worker arrived late for work, she was reprimanded or given a warning. Absenting from work is also equivalent to a memo or a warning. In some cases, one mistake meant suspension.

The workers were not allowed to eat unless it was break time. But during the height of production, they sometimes neglected to eat properly to accomplish the quota. When they worked overtime, they were only provided with biscuits or bread and soda for dinner.

Moreover, there were no proper lighting and ventilation facilities in the production area and only a few electric fans. The heat was stifling and there was an air of general disorder. They were only provided with masks to protect against fibre inhalation when there were visitors or buyers.

The management did not give consideration to women who had period pains. Similarly, pregnant workers were not given favours; when they needed
nourishment and rest, they were forced to work overtime, eat sparingly, and endure inhumane working conditions.

When they became tired or experienced stomach pains, they were not allowed to stand if their working posture was sitting or with head bowed (sewer), or not allowed to sit if their working posture was standing. Violation of these rules could mean suspension from work.

The workers were also not allowed frequent use of the rest room. If the administrators noticed a worker doing this for the first time, she was given a warning. On the other hand, workers complained that rest room facilities are always dirty.

Regardless of health status, workers had to push themselves to the limit. Their usual complaints are over-fatigue, anaemia, stomach ache or ulcer, headache, cold, and cough. Some workers fainted due to over-fatigue.

Pregnant workers had no free check-ups or consultations. The company had a clinic and first aid medicine but the workers complained about its inadequacy.

c. Occupational safety and gender

Sun Kim is the only factory in this study that reported cases of sexual harassment. According to workers, the Koreans made sexual advances by patting women’s buttocks, putting their arms around their shoulders, stealing kisses, and, in workers’ opinions, the Koreans stared at them indecently.

According to one worker, “When Mr. Kim sets his sights on an attractive worker, he would usually put his arm around the woman and kiss her then eventually the girl would be moved to a less demanding department.” Another said, “Mr. Kim is fond of beautiful women. In fact, beautiful sewers are made to sit in front of the line. When the buyers arrive, who are mostly Koreans, the women are displayed as models for the visitors.”

Most of the workers felt apprehensive about going home late at night after overtime work. Because only a few public transport vehicles are available at this time, they are forced to walk along the dark road out of the CEZ. To ensure their safety, the women ask their husbands or boyfriends to fetch them from work.
Views and opinions of the women workers

At home, women workers consider it a big help if there is a chance for relatives to live with them to help with household chores or take care of the younger children while both parents are at work. Husbands may also help with taking care of the children.

With practically all their waking hours spent at work, workers are denied the opportunity to integrate into communities, spend quality time with families, or engage in activities for personal growth and development. Likewise, their participation in the activities of the union was limited because of housework that has piled up after coming home from work or during rest days.

It is undeniable that the owner of the company and its administrators did nothing to improve working conditions regardless of sex. Instead workers were harassed for the slightest mistake. Worse, there was always the possibility of being dismissed from the job.

Workers believe that the government has turned a blind eye to their plight. Instead of helping them, the DOLE and the PEZA collaborate with capitalists, ignoring their democratic rights, and have done nothing to improve working conditions.

Organisation of the workers

In June 2001, the workers organised a labour union, Sama-samang Manggagawa sa Sun Kim (Allied Workers of Sun Kim). According to the workers, organising the union gave them enough courage to air their grievances to the administrators with successful results. The workers regard the union positively. Among the successes the union achieved was the reinstatement of workers who were suspended from work for refusing to work overnight.

<table>
<thead>
<tr>
<th>Plant</th>
<th>Workforce</th>
<th>No. of Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>VCM Plant</td>
<td>563</td>
<td>494</td>
</tr>
<tr>
<td>MH Plant</td>
<td>955</td>
<td>918</td>
</tr>
<tr>
<td>Neomax Plant 1</td>
<td>250</td>
<td>115</td>
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<tr>
<td>Neomax Plant 2</td>
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<tr>
<td>STP</td>
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<td>44</td>
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<tr>
<td>TFT</td>
<td>344</td>
<td>340</td>
</tr>
<tr>
<td>Bonded Magnet Plant</td>
<td>15</td>
<td>10</td>
</tr>
</tbody>
</table>
Case 4: San Technology

Profile of the Factory

San Technology Inc. is an electronics company that is 100 percent Japanese-owned and is one of largest and most stable factories within the CEZ. Its president and general administrator is Yukata Yamada. It started operations in the CEZ in 1989.

At present, it has seven separate plants within the CEZ with around 2,300 workers, 85 percent are women (refer to table below). There are only a small number of contractual workers compared to the number of the regular workers.

San Technology’s main products are computer components, magnets for microspeakers and CD-ROM pick ups, PHS filters, voice coil motor assemblies (VCM), printed circuit boards (PCB), PCB modules for the computer liquid crystal displays (LCD), nickel-plating VCM products, and magnetised VCM plates.

According to interviewed workers, the raw materials that they use in production are either imported from Japan or from local companies in Cavite like Hayakawa Electronics. Finished products are exported to Japan or sold to companies in Laguna and Cavite such as Intel Philippines and Kohzan Cavite.

Profile of the interviewed workers

83 percent of those interviewed were regular workers. From the 91 percent who said that it is their first or second job, 55 percent declared that it is their first job.

75 percent of those interviewed were 18-23 years old. However, one worker admitted that she started working aged 17 by faking her age. 75 percent are single.

92 percent of the workers are from provinces outside Cavite. 83 percent came from families belonging to the peasant class.

Situation of the women workers at San Tech

In general, the workers interviewed believed that they had no major problems in the factory. The facilities in the production area are complete and they can work in comfort. Beginning employment as a contractual
worker, the minimum wage is paid. They also believe that women workers are given special considerations.

a. Wage and benefits

Contract workers at San Tech start on minimum daily wages. Wage increases are based on personal performance evaluation by the company. This is why there are workers who have been with the company for some time but still receive minimum wages because of poor evaluations. Among those interviewed were workers who have been with the company for more than four years still receiving minimum wages. There are also workers who have been in service for more than a year but receive 2.3 percent more than minimum wages. According to workers, evaluations are based on criteria such as attendance, number (productivity), quality of products (efficiency), and participation in maintenance and cleanliness of the company.

83 percent of interviewees (mostly single) said that their wage is adequate to meet basic needs. Eight percent of married workers with children maintained that their income is enough, have husbands who have regular incomes, and receive financial help from in-laws in times of difficulty. Further discussion with the workers revealed that their wage is almost enough for their basic needs like food, accommodation, transport, and personal needs. During emergencies (e.g. getting sick) they feel the insufficiency of their wage. Workers have no time for recreation after extended and exhausting hours at work. One worker complained, “My salary is not enough…it is hard to live on a meager income.” Another worker added, “If the blanket is small, learn how to curl up.”

On the other hand, interviews with workers outside the scope of this particular study revealed that three out of four workers maintained that their wage was insufficient to meet basic needs especially those with children.

b. Rules and regulations and working conditions

“I was happy when I got the job because the barrio folks admire and respect us if we work in an electronics company. Most of my friends have asked me to help them get a job at EPZA.”
This perception comes from the imposing image projected by the large and stable electronics factories where the workplace is relatively comfortable and the management provides relatively higher salaries and incentives than most other factories.

80 percent of the workers maintained that facilities are adequate. Workers usually say ‘OK’, when asked about the working conditions because the factory is ‘air conditioned’ ‘there is sufficient lighting facilities’, ‘orderly’, and ‘there is a substantial number of clean rest rooms’. Most workers are provided with safety gadgets like bunny suits, finger coats, waist straps, gloves, and gas masks.

However, ‘comfortable’ air conditioning is also the source of numerous complaints from the workers. “I often get sick because it is extremely cold at my work station where the centralised air conditioning is located”, related one worker.

Even though it is strictly prohibited to sleep at work, a worker said, “I cannot help feeling drowsy because of the air conditioning, the cool temperature invites sleep, however I am careful not to get caught because I could be suspended.”

The workers are entitled to one day off every week but during peaks in production, they work seven days a week and render overtime from two to eight hours. Even though most workers declared that overtime is voluntary, they also said it depends on whether the workload calls for it or if somebody will be able to relieve them at their workstation.

c. Occupational safety and gender

None of the workers mentioned any apprehension about the chemicals they use in production even when there are times that they inhale hazardous fumes. These chemicals include flux, solder, trichloroethylene, different acids, sodium and ammonium compounds, and sulphates and sulphites.

The workers suffer from common illnesses and discomforts like back aches, painful eyes, coughs, colds, dizziness, chest pains, and asthma. They believe that these are caused by the near-freezing temperature in the production area, over fatigue, the use of microscopes, and different chemicals. Some of the workers were also afflicted with tuberculosis (TB), fever, asthma, stroke, and blurred vision.
One of the workers interviewed said that her workmate had a miscarriage due to overwork.

In general, workers say that management gives consideration to women. During their periods, they are permitted to be absent from work or go home when they do not feel well. While at work, they are allowed to sit (when the working position is standing) or rest for a while at the clinic. Pregnant workers are given less demanding work and are allowed to go on early maternity leave.

None of the workers reported any incident of sexual harassment in the factory. They do not see any possible threats to their safety when they go home from work late at night.

Overall, the interviews revealed that even though their rest days are spent on catching up on housework they have time to rest and relax. Even married workers do not see any problem that might hinder their work because their immediate families assist with housework and help with the families’ daily expenditures.

Views and opinions of the women workers

The workers maintained that the management treats them fairly well that is why ‘There is no conflict in the factory’. One of the workers said that when her father died the company gave her P5,000.00 as assistance.

However, further discussions with the workers revealed that the company has no official rules or regulations related to women workers except through the discretion of the administrators. Further, the women are worried about having problems at home because of the company rules that suggest that priority should be accorded their jobs before anything else, ‘I am afraid of losing my job if I give priority to my own problems.’

The women also believe that the administration should be liberal about organising the factory union. On the other hand, they also know that organising or supporting a union could mean losing their jobs.

The women further believe that the labour code is in favour of the investors and not the workers. They know that the law is seldom observed. They also want the government to open its eyes to the plight of the women workers and address the issue on contractualisation so that they will have job security.
Organisation of the workers

At present, there is no workers’ organisation at San Tech. However, 75 percent of those interviewed recognised the need for a union to protect against abusive employers. At the moment, they air grievances to supervisors or workmates. They are apprehensive about joining a union because they are afraid of losing their job.

They believe that contractual workers should have a separate organisation but they also think that this is impossible because contractuals are afraid to lose the chance of becoming a regular worker. The women workers observed that the management is more rigid with contractuals than with regular workers; that is why the former have to work harder to keep their jobs.

Note

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CHAPTER 10

KOREAN FOREIGN DIRECT INVESTMENT
ITS TENDENCY AND TREATMENT TOWARDS WORKERS IN INDONESIA

Sedane Institute for Labour Information (LIPS) and
Wabyn Sosial Foundation (YAWAS)

Foreign direct investment: an introduction

Prior to the early 1980s, most capital flows to the developing nations were in the form of either debt or official development aid. Nevertheless, after the Mexican default of 1983, and the subsequent debt crisis throughout Latin America, debt flows to developing economies dried up dramatically, as lenders reassessed the risk of loans to developing countries.

The majority of foreign direct investment (FDI) does go to the developed economies such Japanese automakers opening plants in the US and UK, but FDI to developing nations is still huge and has increased substantially. Inward FDI to developing countries increased from US$8.4 billion in 1980 to US$36.9 billion in 1990 and to US$190.7 billion in 2002. This is spread around the world, with substantial gains seen in many countries and in every region (see Table 1 overleaf).

This growth across regions disguises the high concentration of FDI to developing nations. In 2001, about 62 percent of inward FDI to developing countries went to five countries: China, Mexico, Brazil, Hong Kong, and Poland. The least developed economies, including many in Africa, continue to receive very little FDI. These tend to be shunned by multinational corporations (MNCs), which prefer to invest in countries known to be ‘safe’, with relatively high levels of political stability,
infrastructure, education, well-enforced property rights, and so forth; to some extent Indonesia is no exception, especially during the New Order era from the 1960s to the 1990s.

I. Indonesian development strategy

State Law No. 2/1968 on foreign investment in Indonesia commenced economic development of the New Order government (under Soeharto) that focused on growth, welfare and national stability. In fact, ‘developmentalism’ that became the New Order’s ideology is another term of industrialisation that prioritises growth and stability instead of people’s welfare and prosperity. Stability became the main attraction for foreign investment to assist Indonesia’s economic growth.

Import substitution industrialisation (ISI) was the economic development model that developed in Indonesia up to the third Five Year Development Plan (Repelita) that ran since the 1970s. At that time, the model was effectively implemented thanks to increased production and vast reserves of Indonesian oil.

When income from oil and natural gas declined in the 1980s, the ISI strategy was then changed to export oriented industrialisation (EOI).2 Since then, many factories were built in industrial areas such as Tangerang, Bogor, and Bekasi in West Java, Gerbangkertasusila in East Java, and many more. The building of factories reached a peak in the 1990s.

Since foreign investment was originally perceived as being able to increase state income and the economic growth rate, the government gradually developed more policies guaranteeing FDI and facilitated trade and investment in Indonesia. One of the policies was Government Decree No.

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Table 1. Inward foreign direct investment

<table>
<thead>
<tr>
<th>Region</th>
<th>FDI 1990 (US$ billion)</th>
<th>FDI 2002 (US$ billion)</th>
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<td>Latin America</td>
<td>9.7</td>
<td>56.0</td>
</tr>
<tr>
<td>South, East, and SE Asia</td>
<td>22.1</td>
<td>88.6</td>
</tr>
<tr>
<td>West and Central Asia</td>
<td>2.1</td>
<td>6.4</td>
</tr>
<tr>
<td>Central and Eastern Europe</td>
<td>0.6</td>
<td>28.7</td>
</tr>
<tr>
<td>Africa</td>
<td>2.4</td>
<td>11.0</td>
</tr>
</tbody>
</table>

20.1994, which reinstated foreign investment status as it was at the beginning of the New Order administration, which allowed investments to be owned fully by foreign investors. The Government also continued to promote the comparative advantage of business in Indonesia, i.e. cheap labour.

The policy gave a way for large capitalist companies to develop their businesses in Indonesia freely. This was signified by the emergence of multinational corporations, which are cross border companies with control centres in capitalist countries. Indonesia was then part of the global game.

Indonesia’s involvement in global affairs and free trade forums, becoming the host of the APEC conference in Bogor in 1994, brought a tremendous change to the business community including foreign investors. The commitment to free trade compelled Indonesia to conduct three basic concepts of globalisation; 1) eliminating trade and investment barriers, 2) creating regional trade blocks such as AFTA for the South East Asia region and APEC for Asia Pacific, 3) creating rules that enforce the reality of new economic integration, free trade, and economic liberalisation. These developments came as no surprise since foreign investment influence Indonesia’s economic in many ways.

When Indonesia was hit by the economic crisis in 1997 the investment climate worsened. FDI dropped 35.2 percent from January to December 2002 compared to the same period in 2001, while domestic investment was even worse: a 57 percent decline in the same period. Domestic Investment Project Acceptance value dropped 57 percent in 2002 compared with 2001, while the Foreign Investment Project Acceptance dropped 35 percent. Indonesia is the only country in Asia that is still experiencing considerable outflow of foreign investment since 1998. This can be seen from the value of foreign investment growth between 1994 and 2004, which, though the number of projects increased, their real value actually fell. The same thing happened with domestic investment. For example, in 2000, there were 39 projects with the total value of Rp.94 trillion (US$ 11, 1 billion) compared that with the total project of 188 in 2002 but the value is only Rp.25 trillion (US$ 3 billion). Although the value of domestic investment increased in 2003 by US$ 6 billion, it was decreased again in 2004 by US$ 3.2 billion.
<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Investment (billion)</th>
<th>Foreign Investment (billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Value</td>
</tr>
<tr>
<td></td>
<td>Projects</td>
<td>Projects</td>
</tr>
<tr>
<td>1994</td>
<td>8.98,542</td>
<td>230,050</td>
</tr>
<tr>
<td>1995</td>
<td>9.57,117</td>
<td>857,380</td>
</tr>
<tr>
<td>1996</td>
<td>9.79,540</td>
<td>1,105,784,973,654</td>
</tr>
<tr>
<td>1997</td>
<td>1,026,567</td>
<td>1,334,319</td>
</tr>
<tr>
<td>1998</td>
<td>1,006,342</td>
<td>1,263,345</td>
</tr>
<tr>
<td>2000</td>
<td>1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>2004</td>
<td>1,016,947</td>
<td>1,016,947</td>
</tr>
</tbody>
</table>

Source: Investment Coordinating Body, 1994-2000, processed by LIPS
Many observers perceive the decline of investment in Indonesia as the result of the worsening perception by foreign investors and the business world on Indonesia’s security situation and law enforcement. The Political and Economic Risk and Consultancy (PERC) survey in 2002 states that Indonesia is the second most expensive and most uncomfortable country for investors and foreign businesses after India. From the aspect of responsiveness, the Indonesia Government was even judged as the most unresponsive government towards foreign investors’ complaints. Indonesia occupied the worse place in the Systematic Risk Index, Socio-Political Risk Index, and other investment climate variables including market scale and economic dynamics. This condition made Indonesia, which is perceived as unsafe by many investors, become a country shunned by many investors.

Investment attractiveness of a country is based on 1) rental cost, 2) tax burden, 3) tax system quality, 4) existence of monopoly or cartel, 5) competition between government and private sectors, 6) bureaucracy, 7) ease of creating a business, 8) import limitation, 9) copyright breach, 10) legal protection, and 11) regional competitiveness.

However, the government changed development strategy in 1999 from Repelita in National Development Programme to Propenas for 2000 – 2004. Propenas mentioned a step to speed up economic recovery by managing macroeconomic and microeconomic policies to create economic stability and growth.

The strategy to tackle economic problems focused on efforts to stabilise the economy and encourage a climate conducive to business by ensuring the supply of basic needs. To stabilise the economy, careful fiscal and monetary policies were implemented. Macro Economy Management Programme focused on inflation control, rupiah exchange rate, and on-going transactions. To control the inflation rate and rupiah exchange rate, Bank Indonesia was responsible for setting interest rates. Fiscal policy was in the form of reducing subsidies. In mid-term, the inflation rate is hoped to fall to three percent of the world’s average inflation rate. While the Rupiah exchange rate has stabilised at 7,000 – 8,000 to US$1, there is still a two percent surplus of on-going transactions in 1999/2000. There will be a 1.8 percent deficit in 2004/2005 due to the growth of national economy.
The financial sector revitalisation programme includes restructuring banking and private debts. The real sector revitalisation programme is hoped to create a simplified investment procedure, a supply of cheap raw materials to support export-oriented production, and public basic needs available at low prices. From this, it is obvious how heavily Indonesia depends on foreign investment. It is likely that the government will keep facilitating the investing and business environment rather than launching policies to protect workers since investment is needed to redevelop Indonesia economy after the economic crisis.

Until now Indonesian unemployment figure has kept increasing, a sign of serious labour problem in the country with a population of 220 million. The unemployment explosion is the highest ever in Indonesia. The Indonesia National Institute for Science (Lembaga Ilmu Pengetahuan Indonesia - LIPI) states that the known unemployment figures reached 9.5 million in 2003 or about 9.2% of the total work force, while the underemployment or disguised unemployment figure reached 26.8 million or about 26.1% of the total work force. In 2004, both unemployment figures reached respectively 10.7 million and 28.9 million or about 10.1% and 27.5% respectively of the total work force.

The above unemployment data demands the immediate undivided attention of the government, since it has the potentially damaging socio-economic impacts upon Indonesians’ quality of life. The problem is that the majority of economic technocrats in Indonesia are still trapped in a neo-liberal frame of thinking, a concept which makes sure that those with strong capitals win. In this economic concept, unemployment is viewed merely as a derivation or a side effect of low investment interest. The implication is that the unemployment problem is still far from being handled directly by all the governmental elements. In other words the government believes that unemployment can only be handled by creating favourable investment conditions for the investors; when the investment volume increases, it is hoped that not only economic growth will increase but also the unemployment problems will disappear.

At first glance, the above argument sounds very convincing. However, the argument is trapped in the assumption that unemployment is just a result of low investment volume and, to handle it properly, favourable investment conditions are therefore called for. The implication is
that government is prioritising the investors before the common people facing the prospect of or involved in unemployment. From a political economic perspective, it is not wrong to say that this frame of thinking is interpreted as a strategy of the investors and their neo-liberal cronies to create a political commodity out of unemployment to leverage their bargaining power when facing the governmental sectors. The issue worsens as a third of the state budget is used to repay the state’s debt principal and the ever-increasing interest, while on the other hand, misuse of state money keeps happening with the volume almost equal to the annual state budget.  

Judging from the combination of severe debt burdens, high rates of unemployment and underemployment, and the more than 100 million people hovering on the brink of poverty with a daily spending of less than US$2, Indonesia should be entitled, theoretically, to debt rescheduling and even debt relief under the Heavily Indebted Poor Country (HIPC) Initiative of the World Bank and the IMF. But, joining the HIPC Initiative would also place the government directly under the IMF’s oversight again, the very condition rejected by the Indonesian people and the Assembly. 

Recently, however, the government promised foreign investors a much better investment climate as the government aims to lure a whopping US$120 billion in new investment for the development of roads, power plants, and other crucial infrastructure facilities over the next five years. The President of the republic said that the government planned a ‘new partnership’ that would help ensure legal certainty for investors and aimed to eliminate distortions to investment and economic activities through improved tax and fiscal policies, an efficient and effective administration, and higher economic competitiveness. 

<table>
<thead>
<tr>
<th>Sector</th>
<th>Value (US$1,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>314,839</td>
</tr>
<tr>
<td>Garments</td>
<td>132,168</td>
</tr>
<tr>
<td>Sports Footwear</td>
<td>286,318</td>
</tr>
<tr>
<td>Ply wood/ other wood products</td>
<td>152,680</td>
</tr>
<tr>
<td>Toys</td>
<td>18,555</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>904,560</strong></td>
</tr>
</tbody>
</table>

*Source: Investment Coordinating Body 1996*
II. Korean investment pattern

Korean investment in Indonesia is not too big and Korea is considered as a newcomer. Even though Korean investment started coming in 1969, 1995 was the start of intensified investment of Korean businesses in Indonesia. This was due to cheap labour, potential market buying power, and a revenue-free system. Most business is labour-intensive, and is preferred since it absorbs a large number of workers. The labour-intensive industries and the value of their investments can be seen in Table 3.

The first Korean company in Indonesia was Kodeco in 1969, which dealt with offshore oil mining in the Madura Sea. This company also owned the largest coconut and rubber plantation in the world located in Kalimantan. In the mid-1980s, labour-intensive industries such as shoes, toys, and textiles mushroomed. The boom of South Korean business in Indonesia was facilitated by the work of the Korea Trade and Investment Promotion Body (Kontra), which was established in 1962 by the South Korean government. It now has offices in 82 countries.

In 1991, Korea started to diversify its investments in several other countries such as China, Vietnam, Indonesia, and East European countries. These countries are considered not very attractive by Japanese investors but South Korean companies have another competitive edge. At the beginning of their business, they do not create their own technology to minimise research costs. Korean businesses pay their workers quite poorly including the managers. This makes the price of Korean cars in Indonesia about 30 percent cheaper.

Until March 1996, total amount of approved Korea FDI reached US$ 6, 8 billion. In 1995 Korean car manufacturers entered the Indonesian market with Hyundai, Daewoo, and Kia. According to Kim Eun Sang, a former Korean Minister of Trade and Industry, there are approximately 300 Korean companies conducting businesses in Indonesia in numerous types of business activities including joint ventures, trading, and general trading companies. Those approximately 300 companies employed 335,000 native people. Still, according to Kim Eun Sang, Indonesia, with a 220 million population (2004) is a very attractive car market. The need of cars will certainly increase as living and economic standards increase.

By 1996, South Korean investors had established a strong foothold in the Indonesian market and they were able to prove their ability to compete.
with other countries. This was made even clearer at the beginning of 1996 with the release of Governmental Decree No. 20 / 1996 on the appointment of PT. Timor Putra Nusantara owned by Hutomo Mandala Putra as the sole company to develop Indonesia’s national car, which was fully supported by Kia motors. Since August 1998, Kodeco produced a significant amount of cement together with an Indonesian company. In 2001, South Korea showed interest in Tangerang as a strategic business area. Until then, there were 27 South Korean businesses operating in the Tangerang Regency. They had opened factories in labour-intensive sectors such as shoes, which absorbed thousands of workers.

However, South Korean investments gradually shifted from textile and textile products to machinery, electronics, electrical products, metal industries, starting around 1994. In 1994, Korean businesses withdrew investments in fact. In an Indonesian Kompas report on 24 February 1994, the South Korea – Indonesia Garment Association stated that South Korean businesses in Indonesia withdrew investments and relocated in China, North Korea, and Vietnam.14

Since then, Goldstar Corporation appeared with an investment value of US$25 billion in electronic consumer goods specifically refrigerators, audio tape, and television; South Korea’s trade was valued at US$5 billion. Samsung on the other hand has total 40 percent of its foreign investments in Indonesia. Samsung has invested US$135 million and employs 14,030 people.

On the approval rating of importing countries of foreign investors, from the number of projects of FDI in Indonesia, South Korea was placed in the first position with total projects of 208. But, the value reached only 3.9 percent of total FDI which inflow in the year. Korea is the seventh biggest investor with investment value of US$ 402.4 million (See table 4).

According to the South Korean Embassy’s data, Indonesia is currently the third-largest destination for Korea’s overseas investment with a total of 570 companies. By the end of 2004, the accumulative amount of its investments reached US$10.2 billion.15 Although the investment climate has not improved, Korean employers seem to invest more without any intention of leaving the country. They realise that the market potential in Indonesia is still very vast.16 However, workers’ opinions on Korean employers are that they were the worst employers who mostly refuse to negotiate and infringe labour rights. Considering the Korean choice of investment, Indonesians working for Korean companies could easily be
laid off and are exposed to a high level of repression and low level of welfare. To demonstrate this, following is a case of how a Korean business conducts business activities in Semarang, Central Java.

### III. Case study: working conditions in Korean company PT. Koryo Puspita Indonesia

PT. Koryo Puspita Indonesia (PT. KPI) was founded in 1990. It is located at JL. Raya Karang Jati KM 26, Karang Jati, Semarang Regency. It is a Korean foreign investment company. A Korean national holds the position of President Director by the name of Mr Gopak. PT. KPI owns the whole factory and the land the factory is built on. The business activity is sub-contract (order based).

PT. KPI produces leather handbags and leather gloves. The raw materials are imported directly from Korea. A Korean company Koryo Pyo supplies the raw materials. PT. KPI handles brand names Boa, Spalding,

<table>
<thead>
<tr>
<th>Country</th>
<th>Project</th>
<th>Value (US$ million)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>4</td>
<td>3,018.0</td>
<td>29.4</td>
</tr>
<tr>
<td>Japan</td>
<td>74</td>
<td>1,683.4</td>
<td>16.4</td>
</tr>
<tr>
<td>UK</td>
<td>80</td>
<td>1,317.1</td>
<td>12.8</td>
</tr>
<tr>
<td>Singapore</td>
<td>150</td>
<td>576.5</td>
<td>5.6</td>
</tr>
<tr>
<td>Australia</td>
<td>39</td>
<td>481.2</td>
<td>4.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>109</td>
<td>461.5</td>
<td>4.5</td>
</tr>
<tr>
<td>South Korea</td>
<td>208</td>
<td>402.4</td>
<td>3.9</td>
</tr>
<tr>
<td>Mauritius</td>
<td>5</td>
<td>355.4</td>
<td>3.5</td>
</tr>
<tr>
<td>Switzerland</td>
<td>7</td>
<td>299.0</td>
<td>2.9</td>
</tr>
<tr>
<td>Netherlands</td>
<td>34</td>
<td>258.7</td>
<td>2.5</td>
</tr>
<tr>
<td>USA</td>
<td>24</td>
<td>133.2</td>
<td>1.3</td>
</tr>
<tr>
<td>New Zealand</td>
<td>5</td>
<td>107.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>11</td>
<td>99.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Brazil</td>
<td>2</td>
<td>70.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Taiwan</td>
<td>40</td>
<td>68.6</td>
<td>0.7</td>
</tr>
</tbody>
</table>

*Source: Investment Co-ordinating Body, 2005*
Raidley, and Tulla. PT. KPI handles orders from the UK, for example Boa, whose orders are directly accepted from the UK. Tulla orders are also from the UK but not ordered directly, they are accepted via India. Export market orientation of PT. KPI is UK, Australia, USA, and India.

This section will explore the management style of a Korean company represented by PT. KPI, including its production organisation, recruitment pattern, payment system, and regulations that disadvantaged the workers. Afterwards it emphasises woman workers and the union, and concludes with some notes.

1. Production organisation

In the beginning, PT. KPI had 200 employees in three departments:
1. Baseball Gloves Department (BBG) producing baseball gloves for the Boa brand;
2. Golf Gloves Department (GG) producing golf gloves with trade name Spalding;
3. Hand Bag Department (HB) producing Tulla and Readley handbags.

BBG, GG, and HB departments are handled entirely by PT. KPI. In 1997, PT. KPI employed 1,000 workers in three departments. However, in 1998, the number of workers started to decrease; now there are only 200 people still working there due to transferring Indonesian workers to Korea since 1998 and BBG and GG departments’ rationalisation from 2000 to 2001. Now only HB operates and worker transfer to Korea continues, though transfer for 2004 has not been conducted at the time of writing.

A Korean national, Mr Kim, is in charge of daily production. He also deals with workers directly. He is the vice-director of the factory and the factory manager. The president director is in Korea, responsible for taking orders and export processing. Everything is conducted under the supervision of Mr Kim. In controlling the workers, Mr Kim is assisted by a General Affairs officer who administers direct control over the production workers.

In every department, there are three sections each with a section head: Storage, Cutting & Sewing, and Packing. The sewing section has four lines. Production starts with raw materials taken from the storage room to Cutting. Before the material is passed on to Sewing, it is treated so that the sewing process can be carried out smoothly. This treatment is conducted by the ‘Extra Man’. So, for every one in Sewing there is an ‘Extra Man’.
In Sewing, every line is led by a supervisor who is in charge of setting jobs and controlling workers. There is also a quality control officer for each line to check the production. For every line in Sewing there are 35 workers. The company’s structure and the composition of male and female workers are shown in Diagram 1 and Table 5.

PT. KPI implements a five-day standard working week starting at 07:00 and ending at 15:45; overtime is compulsory until 17:00. Saturdays and Sundays are often worked as overtime. Every line must produce 100 handbags a day. With overtime until 17:00, 150 handbags can be produced a day. In a month, PT. KPI can export twice; the total amount of handbags is 14,400.

The above work system is highly dependent on orders. When there are not many orders, working time is reduced or there may even be ‘rationalisation’ of workers. When there are many orders, working hours are lengthened and even the ‘putting-out’ system is implemented to speed up the production process.

Diagram 1: Production organisation

2. Recruitment
The first recruitment (1990) was aimed at acquiring female workers aged 17 with sewing skills.
Job qualifications are as follows:
a. Showing the highest education diploma (Elementary School, Junior High School, or Senior High School).

b. A copy of ID card.

c. A letter of application.

d. A letter of good conduct from the local police station.

After that, candidates are interviewed and given a written mathematics test. In 1990, PT. KPI accepted 200 workers with an average age of 16 or 17. The company prioritised female workers with sewing skills from Bawen and its surrounding areas (Ungaran, Karang Jati, Salatiga, and Ambarawa). There were also some workers from areas outside Bawen (Demak, Boyolali, Pati, Solo, and Klaten). A large portion of the workers recruited are recommended by workers of PT. KPI, but they still need the application letters and other necessary documentation.

In 1998, the company started to send workers to work for companies in Korea. Every other year, the company sends 10 men contracted to work for two years, after that they are replaced with 10 other people. The worker transfer starts by registering with the company and completing documentation such as:

a. Permission letter from parents or next of kin.

b. Manager’s approval.

c. Passport.

d. ID card.

e. Resignation letter from active status in PT. KPI.

Cost is borne by PT. KPI. Only male workers are sent; women are not. Before departure to Korea, they must sign a resignation letter. They are awarded money equivalent to five months’ salary and no severance pay.

In sending workers to Korea, PT. KPI, being the intermediary, deals directly with PT. Koryo Pyo in Korea. PT. Koryo Pyo produces processed leather for export to the UK, India, and other countries, including PT. KPI in Indonesia. Most workers sent by PT. KPI only work for one to two years and then return to Indonesia.

PT. Koryo Pyo in Korea provides food and housing, even though the
workers still pay for it by salary deductions. A worker can pocket about Rp. 2,500,000 ($261) a month net. Their positions in PT. Koryo Pyo change all the time. Many workers dream to be able to go to Korea. But after working in Korea, they cannot work again for PT. KPI.

3. Individual contract/work contract

Before a worker is accepted to work at PT. KPI, s/he must go through an interview, a written test, and a sewing test. If the worker passes, s/he is informed of the working conditions where the worker will be placed, the company’s regulations including working hours, and a three months training contract. All of these are not in written form but in verbal. There is no written agreement about whether after the training period the worker will be permanent or not or when the contract expires; so when the company does not need the worker or the performance is not good, training could be ended straight away.

After the worker completes the training period and has good performance, s/he will be awarded with permanent status and all benefits the worker is entitled to such as social security, lunch money, transport, leave permission, working period benefit, and attendance premium. After that, all agreements are in verbal form never written. The only things written are the basic salary and working hours.

PT. KPI employs all workers on permanent status, recruited directly by the company itself. In June and July 2004, the company contracted 10 workers. This is profitable for the company since it is cheaper than permanent workers, and makes it easier for the company when it wants to downsize number of workers. In addition, some process of baseball gloves production is put-out to local people living around the factory (Karang Jati village). The local people use to be sub-contracted and paid at much lower piece rate wages. By implementing this target-based working system and putting-out system, the company keeps increasing its benefits.

PT. KPI implements an order-based work system. When orders are low, work hours are reduced even workers are rationalised. It is very easy for the company to lay off workers since there is no work agreement between workers and the company. When the orders are high, working hours are lengthened without adding more workers. Other than overtime, the company also practices a ‘putting-out’ system by contracting orders to speed up production.
4. Company regulations and sanctions

There is no written work agreement or rules. Up until now, all rules and regulations are given verbally, impacting on the clarity of rules, regulations, and sanctions. The workers are powerless before the company. When the workers are faced with the formal law, they have no bargaining power whatsoever. This is worsened by family relations between workers themselves and workers and management that tend to co-opt and tame protest possibilities.

The trade union there cannot function fully as a real union since it only has legal status; the company has limited the true functions of union. It is proven from deliberate alienation of the union in every case faced by the workers and denial to collect membership fee through the Check of System (COS). Furthermore, the company keeps closing the space for workers becoming aware of their rights.

PT. KPI relies on verbal rules in the process of disciplinary actions in accordance with what the company wants at a certain time. Mr Kim decides the rules and regulations.

The main rules are:
a. No lateness in coming to work; not even five minutes.
b. If a worker is absent for a day, the worker must replace it with another day. If there is no replacement, it counts as an absence.
c. Absence must be done personally.
d. No food or eating is allowed in production room.
e. Workers are not allowed to buy food outside the gate of the company.
f. When a worker needs to go to the toilet, the worker must stand in line using a special card indicating permission has been granted (see below).

If any of the above rules is broken, sanctions will be administered; there are no standard sanctions. The heaviest sanction is expulsion and work termination without severance pay. The lightest is a reprimand. The following are examples of sanctions:
a. Taking food to production room. Sanction: redeployment to cleaning service.
b. Leave of absence more than three days. Sanction: Forced resignation.
If a worker breaks a rule that can jeopardise the company, the worker is forced to resign without severance pay, only service money. There is no work agreement between the company and the workers.

5. Payment system

PT. KPI pays the workers monthly. Every worker is paid differently. The highest grade is US$50 (Rp. 452,000) and the second US$49 (Rp. 442,500). The determining factor is not the duration of the work, but the performance. Working year benefit is given but the company never gives clear regulation on this, so the company decides the benefit every month, meaning the benefit changes every month.

*Salary components:*

a. Basic salary in accordance with Regency Minimum Wages. US$48 (Rp. 430,000).


c. Hourly overtime pay. US$0.30 (Rp. 2,615).

d. Daily transport. US$0.11 (Rp. 1,000).

e. Leave replacement. US$0.85 (Rp. 7,500).

f. Attendance incentive.

Salary differences between working 1 year and 14 years are only on work grade. Lunch with rice and egg is provided by the company. Transport is given not based on distance or fuel cost. Workers who live near the factory receive the same amount of transport allowance, US$0.11 (Rp. 1,000), as those who live far away.

Overtime is obligatory. Pregnant workers or workers with young children are allowed not to do all overtime; but they must do overtime until 17:00 and on Saturdays or Sundays. Overtime is counted as 14 working hours; from 07:00 – 14:30. Therefore, in a week, the workers work for 52 hours in total; nine hours Monday to Friday including one hour of overtime and seven hours of overtime on Saturdays.

Salary reduction is in the form of co-operation instalment pay and workers insurance (ASTEK), around US$0.90 (Rp. 8,600). When a worker is absent, no attendance incentive is paid.
Lately, the company has given no bonuses. Before 2000, the company often gave bonuses of Rp. 26,000 per worker. Under present conditions after reductions in two departments (BBG and GG), the workers never receive bonuses.

Workers receive holiday bonus only for Idul Fitri (also called Eid, at the end of Ramadan), given a week before Idul Fitri. The amount is the same for all workers: one month’s wages.

Working conditions in PT. KPI are no more than ‘reimbursement’ of time given by the workers to the company. The award on production done by the workers has never been given based on real work performance. Workers with average working time of 12 to 14 years are only awarded basic wages in accordance with City Minimum Wages. This means, workers who have just worked for one year and workers who have worked for 14 years receive wages that are not far different.

Even though a worker can now receive US$123 (Rp. 1,100,000)—this amount is only earned after doing long overtime—the company still uses worker productivity as its standard. When a worker is able to complete production the fastest, then this worker will receive the highest grade in salary component. In a month, a worker can work for 220 hours with the total overtime pay of US$64 (Rp. 576,000). Therefore, the overtime pay is higher than the basic salary they get. There is a misconception here. The workers are led to think that with US$112 (Rp. 1 million), they have already passed their welfare level. The wages they receive are not balanced with the amount of work they must do.

6. Leave and allowances
a. Leave

PT. KPI sets leave as follows:
• two days menstruation leave per month.
• three months maternity leave.
• 12 days annual leave.

In practice, it is very difficult for workers to take most rightful leave. Menstruation leave is replaced with Rp. 14,000. Maternity leave is fully granted. Yearly leave—six days are given around Idul Fitri and the other six days when workers need them. When a worker wants to take his/her
leave, he/she must submit a leave request one month in advance. The request is given to the supervisor who then submits it to the section head. The section head then submits it to Personnel. If Personnel agrees to it but the factory manager does not, then the leave will never be issued.

Agreed leave will not have affect the worker’s pay. If a worker never takes his/her leave rights, the company replaces it with money.

b. Worker Social Insurance (Jamsostek)

Jamsostek is given to the workers by PT. KPI in the forms of:

- Retirement plan.
- Work accident insurance.
- Death insurance.
- Health insurance.

Health insurance is provided by the company in the factory compound in the form of a polyclinic with a standby doctor every Monday, Wednesday, and Friday. Polyclinic can also be used for the workers’ children, husbands, or wives. In reality, workers are reluctant to use this facility since the service time is too short, only from 8:00 to 12:00 so when someone is sick, the worker uses doctors outside the factory compound, which means s/he must pay for themselves. When workers demanded the company improve the health service and provide it for Ungaran and Bawen areas, the company quickly agreed, but in reality it is never provided.

The three other insurances are handled fully by Jamsostek. For the retirement plan, every worker pays Rp 8,600 per month. Every year, each worker receives a slip stating their retirement plan balance. When a worker dies, Jamsostek pays Rp. 3.5 million. Health treatment for working accidents is also fully covered.

c. Health and safety

Each building has three toilets, one praying room, and a locker room. When a worker needs to go to the toilet, s/he must bring a card. In one line, there are three cards used by 35 workers. Each worker can only use the toilet for a maximum of five minutes.

Each building houses sewing, cutting, and packaging with a storage room attached. Each building has enough ventilation.
Every worker must wear the uniform provided by the company. Every year, each worker receives one uniform.

There has never been an accident in the production process.

d. Welfare

The company does not provide workers with housing facilities. Workers who live far away from the company must rent a room or a boarding house at his/her own cost. The company only provides transport allowance. 50 workers are from areas outside Bawen. PT. KPI itself is located far away from residential areas. 150 workers live in their own houses. Most of them live in residential areas far away from large roads so they must take motorcycle taxi to reach the factory, costing at least US$0.60 (Rp. 5,000).

7. Female workers

Workers are from Bawen and surrounding areas and also from outside Bawen such as Demak, Pati, Solo, Klaten and Boyolali. Almost all female workers with average age of 16 to 20 years old. At present, the worker’s age range is from 26 to 34 years with average work term of 12 to 14 years. Educational background of the workers is Junior High School to Senior High School; mostly employed in sewing. Table 5 shows the composition of workers based on sex.

Female workers are about 80 percent of the total workers in this company. They are in Sewing. If sewing stops, the production process also stops.

To have more control over workers, in the recruitment process, the company selects candidates who are related to workers who have already worked for the company. Thus, the working relation becomes a family relation that tames most protests.

There are differences in positioning of female and male workers. Females are mostly in Sewing, while men are given other positions that are higher (or similar to sewing like mechanic and mounting). Consequently, wages earned by male workers are much higher than the females’. Male workers are considered professional, while females are not.

Wages accepted by female workers are not equal to the employers’
profits. By such working conditions and regulation, employers exploit workers that are mostly females. There is no transport facility to and from the factory, and overtime is done up to 9 p.m. The company only gives Rp.1,000,- for transport. Beside that, PT. KPI provides poor health facilities for female workers. The company pays Rp. 7500 (half of one day wage) in exchange for menstrual leave.

Many female workers do not take menstruation leave since they believe it is futile. They would rather have the money than deal with management red tape. It is obvious that PT. KPI employs female workers since they produce high quality products and are easy to control.

Thus, one of difficulties in organising female workers is that there is no space for them to communicate with each other. In general, the company discriminates against most of every aspect of female work. Company compensation for any disadvantages is the workers’ right that are not fully granted by company.

<table>
<thead>
<tr>
<th>Job</th>
<th>Male Korean</th>
<th>Female Indonesian</th>
<th>Male Indonesian</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>President</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Director</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>General affairs</td>
<td>2</td>
<td></td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Section head</td>
<td>3</td>
<td></td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Supervisor*</td>
<td>4</td>
<td></td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Sewing</td>
<td>140</td>
<td></td>
<td>140</td>
<td></td>
</tr>
<tr>
<td>Cutting</td>
<td>15</td>
<td></td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Monting**</td>
<td>6</td>
<td></td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Inveksi**</td>
<td>7</td>
<td></td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Storage</td>
<td>2</td>
<td></td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Spraying</td>
<td>2</td>
<td></td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Mechanic***</td>
<td>2</td>
<td></td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Security</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2</td>
<td>157</td>
<td>31</td>
<td>190</td>
</tr>
</tbody>
</table>

Notes: * One person per line  
** in one packing section  
*** two persons in a department
Trade union

A workers’ union, SPSI, was founded in PT. KPI in 1994. At that time SPSI was the only union that could be founded legally, and was founded by the company. Since its foundation, the union has only had one leader, Mr Joko Santoso. The union takes US$0.30 (Rp. 2,000) membership fee every month. Those who know the benefit of worker unions diligently pay their dues; those who do not, still pay their dues even though they do not understand what the membership fee is for.

The collection of the membership fee was once suggested to the company to be included in the COS, but was rejected by the company. The membership fee is has to be collected by workers who volunteer. Basically, the worker union has no roles at all since there has never been a meeting to formulate working policy. When a case appears, the worker union has many difficulties. Education and organisation can never be done since the worker union cannot move freely to conduct its duties.

When a worker has a case, the worker must request to be accompanied by a union official. If the company allows that, then the union can defend the worker. In reality, the union cannot optimally defend a worker because the company stops the union from defending the worker. The company usually forces a worker who breaks a rule to resign regardless of the mistake, since there are no standard rules and sanctions in place. Every decision depends on the factory manager.

V. Conclusion

Seeing the investment pattern and the case study of PT. KPI, it can be concluded that most Korean companies operating in Indonesia tend to conduct their industrial relationship repressively and neglect workers’ welfare. Many Korean companies have infringed workers’ rights and it is common to hear workers say that Koreans are the worst employers who mostly refuse to negotiate. To some extent, this is caused by the following reasons.

First, in doing business in Indonesia they were highly motivated by the country’s comparative advantage (cheap labour); so, second, they prefer labour-intensive industries like garment and textile. It seems that workers with low education and skills seem to be more easily exploited to the advantage of management; third, they depend highly on orders so that con-
tracting more workers and subcontracting some production to home-based workers with lower piece rate wages; fourth, they usually recruit female workers for low skill production since women are easy to control and able to produce good quality products.

Korean employers are mostly anti-union and have their own ‘one way-management’. Most workers think that labour law and government policies are disadvantageous to their interests, such as contracting and outsourcing systems in the last few years to attract foreign investments. Investment seems to be the government’s weapon for development and to combat mass unemployment. The implication is that government insists on prioritising the investors over the common people facing the prospect of unemployment. Meanwhile, labour rights’ violations by investors was far from a priority.

The study shows that infringement of labour rights including bad working conditions and union taming in PT. KPI also happens in many other companies, especially Korean. As both neo-liberal politics and economy through multinational corporations have spread all over the world through global supply chains, and their concept on investment, what occurred in PT. KPI in Indonesia might also come to pass in many other developing countries’ factories.

Notes
2 The government did not create this strategy alone. There were many advisors mainly from Japan and the US. For further information, see Hilmar Farid, Memahami Globalisasi, LBH Bandung, Bandung, 1997, p. 9-10.
3 In these years, together with the increase of income and growth, there was a paradoxical reality. At that time, there were many worker actions demanding increase in payment. Ibid.
4 Investment Co-ordinating Body, 2004
5 Kompas, 25 March 2002
7 Revrisond Baswir, Pengangguran dan Neoliberalisme (Unemployment and Neo-liberalism ), Bisnis Indonesia, 7 March 2004
8 See LIPS, Dinamika (Indonesia Labour Update), 1st Semester, 2004; or see “Sedane” (Journal of Indonesian Labour Study), Vol. II, No. 2, July-December 2004, p.106
9 Ibid. p.105-107
10 Ibid.
11 See The Jakarta Post, 20 August 2004
12 The Jakarta Post, 18 January 2005
13 SWA (Economics Magazine), 30 May – 19 June 1996, p.15
14 Kompas, 24 February 1994
15 The Jakarta Post, 14 April 2005
16 Lee Kang Hyun, a director of PT Samsung Electronics Indonesia, ensured that Korean chaebols even want to invest more: The Jakarta Post, 14 April 2005
CHAPTER 11

THE SITUATION OF BURMESE MIGRANT WORKERS IN MAE SOT, THAILAND

Dennis Arnold

A worker’s story

Cho Cho [not her real name] is a 24 year old woman from Buang City in Mon state. Her father is Karen and her mother Mon, so she speaks Mon, Karen and Burmese. She has nine siblings. In 1988 during the democracy uprising her father, a farmer, was a local leader of farmers in the uprising, along with her older siblings. Her father was later arrested for his activities and the family’s 12 acre rice paddy farm was confiscated by the SLORC (State Law and Order Reconciliation Council). The older brothers and sisters involved in the uprising fled the village at the time. After three years in prison her father was released and the family farm was given back to them.

While he was in prison her mother worked as a tenant farmer, the family also grew vegetables, which they sold in the market. During these years Cho Cho was forced to quit school to help the family, she studied up to level four (primary school). She left Burma in early 1999 due to continued economic hardship.

The reason behind the hardship for farmers like Cho Cho is the 40 some year old farming policy handed down to SLORC and the State Peace and Development Council (SPDC) from the Burma Socialist Program Party. The system requires farmers to sell a certain portion of their harvest to the military far below the market value (up until a year ago about one-tenth of market value), regardless of the year’s harvest. The system has been revised and now farmers must sell to traders due to their complete lack of
freedom of trading, transport, milling etc. The farmers are now enslaved by the military through registered traders, rather than directly by the military. Current export restrictions make it even harder for farmers.

When she left Mon state Cho Cho went to stay with her brother in Mywaddy, a town across the border from Mae Sot, Thailand. She travelled with a military backpack, which eased her travel through military checkpoints. After a short stay she found a middleman in Mywaddy who helped her find a job in Mae Sot. There was no fee but she agreed to buy 200 baht (US$4) worth of clothes from the middleman. The job was at a garment factory where she was paid 40 baht/day. She worked seven days per week with forced overtime (OT), four hours per day Mon-Sat, for which she was paid four baht per hour. She paid a 500 baht broker’s fee to the manager for job placement; it was deducted from her salary. She worked there for four months. For some time she didn’t know of other salaries in Mae Sot, so didn’t realise it was well below the norm. At the time, the minimum wage was 133 baht per day and 25 baht per hour for OT.

After she quit she worked at another factory for three days, then quit to take on domestic work. She quit after 20 days, claiming that a man in the family she was working had tried to rape her.

Her next (and current) job is in a Korean-owned garment factory where she works six or seven days a week, depending on orders, for 50 baht per day and eight baht per hour for OT. If workers don’t work OT they have to pay a 500 baht fine. The workers produce trousers, skirts, blouses, jackets etc. for export to Singapore and Malaysia (according to Cho Cho). 300 work in the factory, including 20 Thais who Cho Cho says receive minimum wage and are treated better than Burmese workers.

Cho Cho has a work permit, the original was returned to her in early 2004 when Thai authorities announced what has become a bi-annual mass deportation of undocumented workers. Normally she has a photocopy of her work permit, which authorities do not officially recognise, meaning she could be deported, or more likely subject to extortion by police if caught with it. During times of mass deportation many employers give the originals to employees. When things cool down, usually about a month after the crackdown begins, workers have to give the original permit back to management and are again stuck with a copy, which legally does nothing for them while outside of the factory.
In early 2003 there was a protest at the factory, involving 60 workers. The protest lasted two or three days. A line leader organised the strike over working hours. The Korean owner negotiated with the workers and said he would try to reduce hours, which Cho Cho says has never happened. Twenty of the disillusioned striking workers quit voluntarily, while the others returned to work.

Cho Cho is afraid to join a Thai labour union, even if it were possible, for fear of being sacked. After the 2003 protest, management said that if anyone strikes again they would be fired. Cho Cho said she has no idea about how to go about improving her situation and has never heard of ‘freedom of association’. Even though she knows the conditions are bad she said it’s better than going back to Burma because there are no jobs there.

Cho Cho’s home in Mae Sot is on a plot of land she and her husband rent for 100 baht a month plus utilities. Her husband, a construction worker who earns 110 baht per day, built a bungalow-style place for them. She doesn’t know how much longer they will stay in Thailand.

**Background**

Mae Sot is a small town in Tak Province in the north of Thailand. It is on the Moei River, across from Mywaddy, Karen State, Burma, which is due east of the capital Rangoon. For nearly ten years factories operating in Thailand have been opening in and relocating to Mae Sot, following the Thai government policy of ‘constructive engagement’ with Burma, which began under the Chatichai Choonhavan government (1988-91). With this policy came an increasingly porous border, in terms of capital, goods and labour. As the cost of labour increased during Thailand’s boom decade of 1986-96, particularly from 1991 as real wages grew at eight percent a year, a steadily increasing number of migrant workers have come to Thailand to take low-wage jobs often shunned by locals, primarily in fisheries and seafood processing, plantations and agriculture, domestic work and factories. Even during the Asian financial crisis a much lower number of migrant workers were deported than initially planned by the government because of the Thai economy’s reliance on them.

The low-skill end of Thailand’s labour supply has been unstable since the boom years due to the low wages and high turnover rates, particularly
as workers change jobs often in search of higher pay and better work conditions. Labour supply problems have for a decade been eased by the influx of both regular (legal) and irregular (illegal) migrant workers.

The Burmese in Mae Sot come from nearly every part of Burma, while those in Chiang Mai are primarily Shan, and Burmese in the south of Thailand working in fisheries and plantations come primarily from Burma’s south (Mon, Karen, and Tavoyan). Burmese in Bangkok mostly come from border states who have more established networks in Thailand, as they have a longer history in Thailand due to their flight from internal conflicts.

It is easy for Burmese to cross the bridge into Mae Sot. One-day passes are available at official checkpoints, and it is also possible to walk across the river during the dry season. Irregular migrants simply go to Thailand on a one-day pass and don’t return. Even those deported can cross back with relative ease. Mae Sot-Mywaddy is the busiest of the border crossings along the Thai-Burma border.

Burmese workers go to Thailand due to various push and pull factors. Push factors are the result of often interconnected social, economic and political factors in Burma, in many cases making the distinction between ‘economic migrants’ and refugees difficult and extremely blurred. Most Burmese migrant workers go to Thailand, many also go to India, Malaysia, Japan and South Korea, escaping forced labour, a lack of economic opportunities and low wages, fleeing a wide variety of human rights abuses and seeking better socio-economic opportunities. Pull factors include the relative ease of crossing the Thai-Burma border, Thailand’s fast economic development, word of jobs from relatives and contacts, the prospect of less political and social oppression in Thailand, and higher wages.

Over the past decade the severity of Burma’s poor socio-economic situation has resulted in an increasingly desperate situation for a majority of Burmese citizens, many of who now rely upon remittances from family members working in neighbouring countries. The 2001-2 minimum wage in Burma in the private sector (joint venture companies) is 3,000 Kyat (Kt.) per month, or slightly over US$3² (Htay, 2003). Unskilled daily rated workers earn about Kt. 400-500 per day. Workers in Mae Sot reported possible earnings in factories between Kt. 500-1,500 per day. Educated
professionals may earn around Kt. 2,000-3,000 per day. Workers reported that roughly half of this wage is taken by the local officials for ‘permission’ to work, leaving them with barely enough to cover the cost of basic living expenses, and for many not enough to survive.

While there is no reliable data available on migrant worker demographics in Mae Sot, non-governmental organisations (NGOs) estimate that 70 percent of migrant workers in Mae Sot are women, mostly in their teens to mid-twenties, though. Migrants are employed primarily in factories producing textile and garments, cement, food processing and ceramics. Migrants are also employed in agriculture, restaurants, construction, domestic work, sex work and in shops and small businesses.

According to a June 2004 report by the Federation of Trade Unions-Burma (FTUB), in the roughly 200 factories in Tak Province, Burmese workers constitute 95 percent of the workforce. There are many factors, which account for the increasing number of factories in Mae Sot, and Tak Province in general. Among these, the near endless supply of cheap, unregulated and easily exploitable pool of labour is primary.

In addition, Thailand’s Board of Investment (BOI) has long offered investment privileges to encourage the decentralisation of industrial development. The BOI offers two kinds of benefits: tax-based incentives, such as tax holidays or tariff exemptions, and non-tax privileges, such as guarantees, protections, permissions, and services. The non-tax privileges are available to all BOI-promoted projects, regardless of location, industry, or condition. Tax-based incentives, on the other hand, depend on several factors. While all projects receive certain benefits, additional incentives are available for locating in Special Investment Promotion Zones, producing for export, or engaging in industries identified as Priority Activities. In 1993 three investment promotion zones were created. Tak Province is in Zone 3, the most heavily promoted of the three zones, and in late 2003, 44 companies in Tak Province were receiving BOI privileges.

Zone 3 offers exemption of import duty on machinery, corporate income tax exemption for eight years (compared to three to five years for certain projects in Zones 1 and 2) provided that a project with capital investment of 10 million baht or more (excluding cost of land and working capital) and obtains ISO 9000 or similar international standard certification.
within two years from its start-up-date. Otherwise, the corporate income tax exemption will be reduced by one year. The total amount of corporate income tax holiday is capped at 100 percent of investment capital. Exemption of import duty on raw or essential materials used in the manufacturing of export products is for five years (see information on BOI promotion at: http://www.boi.go.th).

These incentives also respond to global capitalism’s downward drive for lower production costs. Labour is generally the primary victim in the pursuit of cost savings, despite the fact that labour is only a small portion of total production costs, particularly for medium- and large-scale enterprises. Additionally, due to economic sanctions targeting Burma, factories have relocated to the border to access low wage Burmese labour rather than establish in Burma itself.

The vulnerability of Burmese workers goes to the heart of issues such as poverty, trade, workers rights and globalisation. The expansion of international trade puts immense downward pressure on workers in both the large and small corporations that engage in freewheeling competition to sell more to consumers, expanding markets and enhancing profits. Burmese workers in Thailand are the easiest of prey as they have a high threshold of exploitation and are willing to work long hours in unsafe conditions for wages well below Thailand’s minimum wage. They live in cramped dormitories, and enjoy little to no rights according to Thai and international human and labour rights standards. Burmese workers in Thailand are also prohibited by law from forming their own trade unions or acting as union committee members, so rights such as the freedom of association and to form trade unions are systematically denied.

Quantitative data

Migrant workers in Mae Sot generally earn 50-70 baht per day. Overtime is paid at roughly seven baht per hour. The officially-set minimum wage in Tak Province is 135 baht per day (from January 2004, when it went up from 133 baht) and 25 baht per hour for overtime. Living conditions in factory dorms are crowded and unsanitary and the rice provided by employers is often of poor quality. Workers salary is deducted monthly for these expenses, at rates that are disproportionate with actual costs.

Estimates of the number of Burmese workers in Thailand vary; one
and a half million is the figure cited by many academics. In Mae Sot estimates of the number of Burmese workers vary between 70,000 and 100,000, with up to 200,000 total in Tak Province. The Ministry of Labour and Social Welfare (MOLSW)\(^4\) estimates of migrants in 1999-2001 is 71,096 in Tak Province, number two nationwide to Samut Sakhon Province at 100,000, with Ranong Province at number three with 43,700.

1996 was the first year a significant number of migrant workers – 304,000 – from Burma, Laos and Cambodia were registered with the Department of Employment in Thailand. They were able to work in 39 provinces in 11 industries. After 2001 migrant workers were allowed employment in all provinces and all jobs. Nationwide, in September-October 2001, 560,000 migrant workers registered for six months; 350,000 re-registered for another six months in February-March 2002 in different Provinces (see Martin, 2003). In 2003, some 290,000 foreign workers were registered, out of up to two million migrant workers from Burma, Cambodia and Laos.

According to the Provincial Management of Aliens Worker Bureau, Department of Employment, between 15 September 2002 and 15 January 2003, 41,526 Burmese workers registered with the Tak Employment Department, down from 47,489 in September-October 2001. In 2003 Tak Province had the highest number of registered migrants in Thailand (see FTUB, 2004).

The nationwide decline in registered workers is in large part due to the high cost of registration and the limited benefits it bestows. Workers pay 4,450 baht for a one-year permit, which includes medical benefits under the 30 baht health care scheme.\(^5\) Migrants are registered through a single employer and are not permitted to change employers unless they are re-registered with a new employer, paying another full registration fee. In addition, registration only takes place twice a year, leaving workers ‘illegal’ through much of the year.

Generally employers pay for the permit and deduct workers’ wages in monthly instalments. In most cases, small businesses and farms cannot afford to pay these permit fees, or simply do not want to pay, so workers are left irregular, meaning both employee and employer are potentially subject to harassment and extortion by the police. Those who pay for the
permit in many cases ‘control’ the workers for fear of losing them before the fee is repaid.

As the majority of employers hold the original permit, many workers are often not able to access health care, are subject to deportation as the photocopy given to them is not recognised by police and immigration, and are subsequently subject to extortion and harassment by these officials. Additionally, workers are generally unaware of the procedures and any possible benefits of a work permit as information is in Thai and there are insufficient NGOs and trade unions aiding and informing workers. Further, those that do operate have difficulty accessing workers. On the official side, Thai civil servants implementing and promoting registration schemes have no knowledge of necessary Burmese languages so information relating to workers rights and Thai labour law reaches few migrant workers.

In sum, the cost of registration outweighs the benefits as registered workers wages are generally the same as unregistered workers and benefits of a permit are few. Thus, in real terms for the workers, the difference between being registered and unregistered is often narrow, with a slightly greater sense of security with a work permit being a primary difference.

The Thai-Burma Friendship Bridge. Many Burmese cross on a one day pass to find work in Thailand.
Photo: Tineke D’Haese
Thai and international labour standards

According to the International Labour Organisation (ILO), Thailand has ratified 14 Conventions (http://www.ilo.org/ilolex/english/newratframeE.htm). Despite the fact that Thailand is a founding member of the ILO, it has yet to ratify three of the eight core Conventions, including C87, Freedom of Association and Protection of the Right to Organise Convention, 1948, and C98, Right to Organise and Collective Bargaining Convention, 1949 (see Brown, Thonachaisetavut and Hewison, 2002). In 2002, the Government of Thailand announced the intent to sign Conventions No. 98 and No. 138 on Minimum Age (another core Convention) by the end of the year. In May 2004 only Convention No. 138 was ratified. No. 111, on Discrimination, is the third ILO core convention Thailand has not ratified.

The basic democratic rights of workers regarding their rights to organise unions are severely restricted for the estimated two million migrant workers in Thailand. Rights of migrant labourers, particularly the Burmese, are systematically abused, leaving workers powerless and vulnerable. The NGOs operating in Thailand assist migrant workers in healthcare, education, advocacy, and in labour-specific assistance, including one Burmese trade union federation and several workers’ organisations. However it is not possible for them to assist and organise such a large number of migrant workers given the widespread and systematic nature of the human and labour rights abuses. Additionally, the Burmese-operated labour organisations are restricted in their ability to assist and organise due to their uncertain legal status in Thailand and pressure from employers and the authorities.

A wide variety of factors contribute to the vulnerable situation which migrant workers face on a daily basis, including: the constant threat of deportation, with and without work permits; extortion by police and immigration officials; heavy debts to recruiters/traffickers, often leading to bonded labour or similar conditions; restriction on freedom of movement imposed by employers; lack of health care; inability to speak the Thai language; and a lack of information or awareness of their basic human and labour rights. Many of these human and labour rights are denied them either in Thai law or in practice (e.g. the freedom of association, right to organise and collective bargaining).
International standards

Even though Thailand has not ratified ILO Conventions 87 and 98, it is still bound to protect and promote these rights due to its member status in the ILO. The ILO Fundamental Declaration of Rights and Principles binds ILO members to uphold the core ILO conventions even if they have not ratified each one, because the core conventions are considered to be part and parcel of being an ILO member state. Additionally, the right to freedom of association and the right to form and join trade unions are protected under Article 22 of the United Nations International Covenant on Civil and Political Rights to which Thailand is a party by ratification on 29 October 1996. Article 8 of the UN International Covenant on Economic, Social and Cultural Rights, ratified on 5 September 1999, states the right to form and join trade unions of choice for the promotion and protection of workers’ interests. Article 23 of the Universal Declaration of Human Rights also protects these rights.

National security concerns are typically cited as rationale for policy toward migrant workers in Thailand. Yet it is impossible to explain how or why adherence to one of the most fundamental universal human rights – the right to form and join trade unions – could jeopardise Thailand’s national security.

Thai standards

According to the US State Department (2003):

“The 1997 Constitution stipulates that all persons are entitled to equal protection by law. However, migrant workers, particularly those from Burma, faced significant hardships and physical danger during the year. Burmese factory workers, both illegal and properly registered, faced poor wage, safety and health conditions.... Community groups and NGOs alleged instances of physical intimidation and abuse by criminals employed by factory owners, and harassment and robbery by gangs of young men. There were several instances of sexual abuse of the primarily young and female Burmese migrants employed in textile production. Burmese labor activists alleged several incidents of Burmese commercial fishermen employed on Thai vessels who were killed at sea after disputes with their employers. Child domestic workers were at special risk of labor abuse.”
Section 30 of the Constitution, the so-called People’s Constitution, states: “All persons are equal before the law and shall enjoy equal protection under the law.... Unjust discrimination against a person on the grounds of the difference in origin, race, language, sex, age, physical or health condition, personal status, economic or social standing, religious belief, education or constitutionally political view, shall not be permitted.”

Section 45 states: “A person shall enjoy the liberty to unite and form an association, a union, league, co-operative, farmer group, private organization or any other group.” Yet the 1975 Labour Relations Act (LRA), Article 87, requires that the ten persons who apply to legally register a union, must be Thai nationals, and private sector unions in Thailand can only be formed legally in accordance with this law (Article 85, LRA 1975). A non-Thai can only be a member. Article 100 of the LRA states that all union committee members (who are the elected leadership of the union) must be Thai nationality from birth, and must be at least 20 years of age. These laws contradict the principles of the constitution, and violate several international labour and human rights standards to which Thailand is legally bound. There is yet to be a challenge to the apparent unconstitutionality of the 1975 law.

Legally, migrants can join Thai trade unions, but a number of factors make it difficult for unions to take on these members. Areas with high numbers of migrant workers, such as Samut Sakhon, Ranong, Mae Sot, and Surat Thani, have few or no unions, thus creating spatial constraints. A minority of migrant workers speak Thai or English, and few Thai union leaders speak English or a Burmese language well. In addition, there are cultural barriers between Thais and Burmese. Burmese workers are a high risk group given their shaky legal status (for the minority who have such a status), and constant threat of deportation. Thai unions are constrained in terms of resources and networking, and even if resources were available, migrant workers generally lack knowledge and information regarding the role of trade unions. This is a major impediment for unions and human rights activists in general as Burmese in Burma, and now Thailand, have been oppressed and denied access to rights education for several decades. Recently, positive steps have been made in bridging the gap between unions and migrant workers, but significant obstacles remain.
Future attempts by unions to take on Burmese members would surely be met with great resistance from employers, and, possibly, the government.

A major impediment to improved union membership for Burmese workers has to do with problematic benefits: if workers were to join a union what would be the benefit, from their perspective? They may see membership fees as simply another fee imposed by ‘the Thais’, this time a union that they are not familiar with. Work permit problems are also common once workers become members of unions. Currently work permits are only valid for one year; it is likely that a Burmese worker who is a union member would face difficulty in renewing registration with the same or any employer.

There remains a lack of knowledge about what a trade union is among the migrant workers. Most migrant workers are young, grew up under the military dictatorship in Burma, dating back to 1962, and have never seen, much less heard about, a trade union before, since all such organisations are illegal in Burma. For the older generation, unions are still largely identified with the Communist Party of Burma and their patriotic fronts – which also tends to discredit the unions in the eyes of these workers.

The draft Labour Relations Act proposed by the government and amended by Council of State was drafted to replace or supersede the 1975 LRA and was approved in principle by the Cabinet on 1 December 1998, and has only recently been ratified by the Council of State and the Cabinet. One article of the proposal aims for the ‘Revocation of legal qualification that any founding member of a labour union or any union official must be of Thai nationality,’ which is not congruent with ILO standards. There remains little political will to do anything for labour, Thai or migrant, by the current government led by Thaksin Shinawatra (see Brown and Hewison, 2004).

A worker’s story

Soe Htway [not his real name] is a 33 year old ethnic Burman from Rangoon. His education level is secondary, and before going to Thailand he was doing odd jobs in Rangoon, for which he earned Kt. 200-250 per day. He left Burma in 1999 and has stayed in Mae Sot since then. He is married to a 27 year old woman who currently works with him. They don’t have children.
His first year in Thailand he worked in a shoe factory, and his second year he worked in a Board of Investment promoted garment factory, where he earned 55 baht per day. He was sacked from that job for protesting with fellow workers for higher pay. Soe Htway stated that management said they would try to raise wages, depending on orders, but it never happened.

He has been working for the past 18 months at another garment factory, where he earns 63 baht per day. He lives in the factory compound for which he pays 100 baht per month including electricity, water and rice. This is a decent price compared to other living situations in Mae Sot. Compared to his last job, Soe Htway said he is content with this one.

He works six days a week, from 8 a.m. to 5 p.m., with compulsory OT of two to four hours per day. Soe Htway reports a safe workplace, but with poor ventilation. He was given one mask a long time ago and hasn’t had another. 18 months ago there were 250 workers in the factory; currently there are 150. The factory is owned by an ethnic Chinese-Thai.

Soe Htway is one of the key organisers in his factory. Based on his last organising experience, he is not organising for a confrontation or strike as he fears being fired and blacklisted. Soe Htway understands the concept of trade unions and that workers can be strong only if they are united. He is concerned that he’ll be reported by some fellow workers to management for his activities, but continues because he is confident most will support efforts to organise a union. Organising is done in different ways, from ‘whispering’ during work hours, to meetings and after work and on Sundays.

Soe Htway is grateful for being able to work in Thailand, but he wants a reasonable salary. He doesn’t expect to earn as much as Thais, and would be content with something higher even if it’s below the official minimum wage. He looks forward to returning to Burma after the political and economic situation improves.

Workers’ movements and support in Mae Sot

In Mae Sot there are a number of NGOs, international organisations (IOs) and Thai government offices dealing specifically with Burmese migrants. The orientation of NGOs includes health care, Burmese democracy organisations, and political prisoner advocacy to name a few. IOs
include UNHCR and the International Committee for the Red Cross. The FTUB staff work in Mae Sot, among other locations, but they are not a ‘legal’ trade union under Thai law.6

Key government agencies include Thailand’s Labour Protection Office in Tak Province (the Tak Labour Protection Officer is in Mae Sot only on Tuesdays), Immigration Police, and under supervision of the Ministry of Industry, the Federation of Thai Industries (FTI)-Tak Chapter. It should be pointed out that the Tak Labour Protection Office shares a building with and owned by FTI-Tak Chapter (in October 2003). In an interview with the Thai Labour Campaign (TLC) in December 2004 the Tak Labour Protection Officer reported that their office moved into this new location on the ‘suggestion’ of the Governor of Tak Province, and would move again sometime in 2004.

As already noted, migrant workers are protected by the labour law. Thus, on paper, Thais and Burmese are equal, but this is far from practice and reality. Minimum wage and overtime regulations have already been mentioned as have the deductions from the daily wage (for housing, food, etc) made by a majority of employers in Mae Sot, which contradicts the labour law. These deductions are the commonly cited reason why workers do not receive minimum wage.

Workers in Thailand are entitled to one day off in seven, a normal working day is not to exceed eight hours and a normal working week is not to exceed 48 hours. OT is not to exceed 36 hours per week, and employees must agree beforehand to work OT.

Under Thailand’s labour law, employees representing at least 15 percent of the total workforce, or a trade union with a combined membership of at least 20 percent of the workforce may apply to alter the conditions of their work. Applications must be submitted in writing to the employer, and employers and employees must enter into negotiations within three days of the demands being made. If the two cannot reach an agreement on employment conditions, a labour dispute will exist. Labour arbitration officials will attempt to resolve the dispute within five days; if agreement cannot be reached an unresolved labour dispute will be held to exist. In this case workers may strike with 24 hours advance notice to employer and labour officials; an arbitrator may be voluntarily agreed upon by both
parties, or labour arbitration officials may continue their discussion with employees and employer (for a detailed account see Brown, Thonachaisetavut, and Hewison, 2002).

In cases of dispute, Ministry of Labour Orders can be issued to employees and employers. In Mae Sot, the Labour Protection Department ordered two factory owners to pay compensation to workers. In this situation employers can agree to pay compensation and settle the case, or appeal to the Labour Court. If employers refuse to comply with the order workers can also appeal to the Labour Court. These courts can become involved when a dispute is unresolved, as is the case for disputes in Mae Sot (as of May 2004), which are described in following case studies.

The following information is a summary of select events relating to specific factories and is not comprehensive in terms of organisational activities, workers attempts to improve work conditions, or labour problems in Mae Sot. This information is based on information releases from Yaung Chi Oo Workers Association (YCOWA) and, from the end of 2003, the Action Network for Migrants (of which YCOWA is a member). These sources have been supplemented by discussions and interviews with members of the organisations and workers.

Migrants attempt to organise

Despite migrants’ inability to form registered trade unions, many still seek to informally organise unilaterally within workplaces, and/or with the assistance of unions and labour support organisations; in nearly every case these organisations are Burmese. But organising migrant workers is difficult. Migrant workers often have only one day off a month, and are not always permitted to leave the factory compound on Saturday or Sunday night, making it difficult to contact workers. In addition, employers regularly take advantage of the vulnerability of these workers, and dismissal is often arbitrary, meaning that workers are unwilling to take any actions that may be perceived as risky. Following dismissal and in many cases preceding it, immigration officials are routinely called in by employers to deport both regular and irregular migrant workers. Time and again, when Burmese migrant workers representing a minimum 15 percent of workers in their workplace have applied to alter their conditions of work, have demanded their rights through informal collective bargaining agreements,
organised walk-outs and wildcat strikes or have simply attempted to engage in dialogue over working conditions, they have been sacked and usually find themselves deported.

YCOWA worker support

YCOWA has been working with migrant workers to assist them in taking their complaints through the legal system, both in the arbitration and Labour Court processes. In 2003-4, YCOWA assisted many workers from factories to contact the Labour Protection office to alter employment conditions. Workers seeking to alter their conditions of employment usually refer to adherence to payment of wages, working hours and overtime as defined by Thai labour laws.

In 2003, YCOWA reported a number of strikes and disputes, including those at Thai Sun in May involving about 1,000 workers, at Lian Tong in May, involving about 800 workers, at M.D. Heritage in May involving 200 workers, and Japan Knitting in August with 120 workers involved.

The following cases are presented as indicative of these events and the unwillingness of employers to bargain or negotiate with Burmese workers.

**Nut Knitting Partnership Co Ltd**

On 4 October 2002 newspapers reported that Nut Knitting workers called for a strike in support of 19 undocumented workers arrested by Thai police (*The Irrawaddy*, 23 July 2003). Prior to this, workers claimed that management had reassured them that undocumented workers would be assisted in the event they were taken into custody by police or immigration authorities. Following the arrest, the workers felt that management hadn’t lived up to this promise, so 60 workers protested. In the ensuing days management dismissed all the striking workers, and the workers were beaten by hired thugs outside of the factory. One worker was hospitalised after being seriously beaten.

With assistance from the Law Society of Thailand, YCOWA and MAP Foundation these workers attempted to use legal channels to recoup the wages due to them (which were well below the legal minimum wage). In early 2003 the Tak Labour Protection and Welfare Department ordered the employer to pay the 34 workers a landmark 4.6 million baht in compensation (US$115,000). The case was then appealed to the Labour Tribunal Court. The first hearing was set for 23 January 2004, and was post-
poned as the employer’s claimed illness. The next court date on 11 February was used to pressure the workers into settling the case out of court, as negotiations between workers and the factory owner were called by the judge and held outside of the courtroom.

The court proceedings have been subject to numerous delays. In the meantime, the Nut Knitting factory was closed, although the owner reportedly has other factories in Thailand. For two years the workers pursued the case, fifteen of whom stay in a safe house in Mae Sot, while the rest cross the border for court hearings. The workers in Thailand were in an extremely difficult situation as their family’s pressure them to find work or to settle out of court, as they depend on remittances from the (primarily) young women and men. Initially the workers were hoping to receive about 100,000 baht each in a settlement. 15 workers settled out of court for a combined total of US$10,000 (410,000 baht) during the court proceedings.

Finally, on 24 August 2004 the 18 remaining workers were awarded 1,170,000 baht (US$29,250), in what is considered a landmark case for migrant workers in Thailand (for details on the award and the case, see Macan-Markar, 2004). Although the final settlement falls short of the original order to pay 4.5 million baht, the workers persevered in legal proceedings, which are difficult for Thai workers to sustain. The case is proof and inspiration to workers in Thailand that it is possible for labour standards to be upheld.

King Body Concept

King Body Concept is a garments factory operating in Mae Sot. A website advertising the company claims that the factory produces major brands including Carter’s, Disney, Harley Davidson, and Absorba. It also claims to ‘currently supply importers with products for Sears, Wal-mart, and K-mart.’ On 23 June 2003 420 Burmese workers were sacked, soon after submitting a complaint about their working conditions to the Tak Labour Protection Office (see Asian Human Rights Commission, 2003a). Prior to this the workers had submitted their demands to management; the workers felt that their demands were ignored. Soon after the submission of the demands to the Labour Protection Office, the Mae Sot police were called and the workers deported, despite the fact that the law permitted workers seven days from the day of termination of work to find new jobs.
Siriwat Garments

In late 2003 there were about 78 Burmese migrant workers, mostly women, at the Siriwat Garments factory, all held work permits. From September that year, workers reported that they had to work an average 15 hours a day, receiving just 90-100 baht per day, including overtime. They stated that on 19 September they had to work over 24 hours, alleging that management warned that anyone who disobeyed would be dismissed. After 28 hours of work, workers again had to work 13 more hours from 20 September to midday the next day. On the 22nd workers refused overtime and called on the Labour Protection Office to intervene. Despite intervention of this office and the Thailand Human Rights Committee, the management dismissed the workers who claim that the compensation received was well below that to which they were legally entitled.

Export Garment (EG)

In October 2003 roughly 200 workers from EG negotiated a minimum wage payment with management. In late 2003 the President of the Federation of Thai Industries, Tak Chapter, took over management of the factory and also became a shareholder. In an interview with Thai Labour Campaign on 29 December 2003 he insisted that Burmese workers do not deserve the minimum wage because they have no skills, and that he intended to fire all the Burmese workers at EG and hire Thais to take their place. Reports in 2004 indicate that rather than sack Burmese workers, management attempted to re-negotiate the pay scale in March, moving from the minimum wage to a piece-rate system. Management’s efforts failed and, in August 2004, workers were still receiving the minimum wage. EG was the only Mae Sot factory paying workers the minimum wage at this time.

Value Trend Co Ltd

Value Trend is a Taiwanese-owned ceramics factory. On 19 November 2003, 119 young women workers filed a claim with the Tak Labour Protection Office for compensation for unpaid overtime. Workers claimed that they often worked 16 hours a day, below minimum wage, with only seven baht per hour for OT. After workers prepared legal action negotiations were held with the Tak Labour Protection Officer, the factory owner and workers. Workers were given 5,000 baht compensation for back wages; they were seeking 50,000 baht each. After returning to work, the
workers were given both the full minimum wage and the legal overtime wage. However, the factory shut down in January 2004, initially for three months, though the factory did not reopen. Workers complain that management continues to hold the workers’ work permits, preventing them from finding legal work with another employer.

**Nasawat Apparel Co Ltd**

Nasawat is a garments factory in Mae Sot, employing 285 workers (16 Thai, 269 Burmese, 70 percent women and all registered). In late 2003, 269 workers, most of them women, were arrested by police at a Mae Sot temple and, on 16 December 2003, were deported. This followed their walkout from their workplace on 11 December. The workers claimed that they had negotiated a contract with management for the legal minimum wage and overtime pay on 26 November. On the first payday following the agreement (10 December), the workers said that the employer had broken the agreement and did not pay workers as agreed. The following day, the employer held a meeting with a Labour Protection officer, a local lawyer and other local employers from the Federation of Thai Industries – Tak Chapter. After this meeting management then called 25 leaders from amongst the workers for a meeting and, say the workers, attempted to negotiate an agreement whereby only the leaders would be paid the minimum wage. The workers’ leaders refused this, and the remaining Burmese workers walked out with the leaders and took refuge at the temple prior to their deportation.

Following this, assistance from the Law Society of Thailand, the workers began action to seek owed wages. The Tak Province Labour Protection Department ordered the factory owner to pay 16,136,076 baht (US$425,000) compensation to the workers. The employer appealed the compensation order to the Labour Court. In August 2004, the case remained stalled in the courts.

Throughout January 2004, there were reports that those assisting migrant workers by calling for the enforcement of labour laws in Mae Sot were harassed and threatened (Moe, 2004). These threats reportedly included:

- On 14 January an officer in the Tak Labour Protection Office relayed a message to the NGOs involved. The message was to stop trying to utilise the labour protection mechanism and to stop calling for the enforcement
of the legal minimum wage which, he reportedly said, is not enforced even for Thai workers. He warned NGOs that using these methods was biased in the workers’ favour. He thought a better process was negotiations between only the employer and the employees.

• Interviews with workers in factories in Mae Sot suggested that some managers posted photographs of four of the NGO support people. Workers are reportedly asked, one by one, whether they know these people. Workers claim that some who answer positively have been dismissed while some have been harassed. Some workers claim that certain factory managers have made death threats against those calling for the enforcement of the labour laws.

Issues and implications

It seems clear that sacking Burmese migrant workers who demand their rights has become a management strategy adopted by Mae Sot-based companies. It is also evident that even when workers are sacked for reasons other than this, such as factory closure, production slowdown, relocation and the like, accessing their legal entitlements such as severance pay or other compensation is problematic.

As previously mentioned, migrant workers were legally permitted seven days to find new employment after terminating their work contract. Under the new arrangements, noted above, since June 2003 this has been reduced. Since then migrants workers can find themselves subject to deportation in less than three days. Legally registered migrants are not permitted to change employers as permits are issued through and are valid with a single employer. If they quit or if they are fired, they are almost immediately liable to be deported. The ability of workers to change employers without re-registering is essential both in making work permits practical for workers, and in protecting migrant workers’ freedom of association. Employers thus use these provisions to impede migrant workers’ freedom of association. Those who dare raise a complaint or request changes in their work conditions are usually fired by the employer and handed over to the Immigration Department.

The agreement between the Thai and Burmese governments requires that the latter begin to replace ‘illegal’ workers from Burma with ‘legitimate’ ones by exporting ‘legal labour’ to Thailand (Human Rights Watch,
2004). In this way, the military government in Rangoon stands to profit – politically and financially – by facilitating and controlling the flow of migrants to Thailand (Human Rights Watch, 2004). Workers not approved by the government, especially exiled political dissidents, are unlikely to receive authorisation from either government to work in Thailand. Under this policy, they will be returned either directly to the Burmese government, or simply deported.

Registered migrant workers are able to access the Thai legal system, but this system is difficult even for Thai workers who wish to protect their rights; migrant workers thus have even less opportunity for success in resolving workplace disputes if they go through courts, and to do so requires great courage. Employers also make use of the courts, but it is seen that this is often an attempt to buy time and thus to pressure their workers – Thai or migrant – to give up their fight and to accept out of court settlements often to the financial benefit of the companies.
In Mae Sot, Burmese workers have not legally registered any strike, though wildcat strikes are common. This is because workers feel that employers do not always negotiate in good faith or according to the labour law; even where strikes are legal, workers are often fired before the arbitration process has been exhausted. That Thai nationals face major obstacles in organising strikes – there were only 14 official strikes in Thailand between 1998 to June 2001\textsuperscript{13}, it is difficult to imagine migrant workers regularly utilising the legal system and legal strikes to successfully advance their claims. Thus, the legal labour relations system is not currently the most pressing issue for migrant workers in Thailand.

**Registration of migrant workers**

On 1 July 2004 Thailand began a process to register all migrant workers from Burma, Cambodia and the Lao PDR. The process aimed at implementing the Memoranda of Understanding (MOU) between Thailand and each of the governments of these three countries. These MOUs are intended to eventually organise and legalise the recruitment of migrant workers. This phase is likely to be full of complications and difficult to fully implement, particularly in the case of Burma. This bilateral channel for migrant labour is based on the model set up at the end of World War II and codified in ILO Convention 9 (Migration for Employment Convention), which Thailand, Burma, Laos and Cambodia have not ratified.

Of the roughly two million migrant workers in Thailand, the government expected to register about 800,000. Registered workers are covered by Thai labour law, except that migrant workers cannot form trade unions or act as union committee members and they can only join Thai unions. Those outside of the registration process will be left in a vulnerable position, and a majority of those who do register are likely to remain largely unaware of their rights under the labour law. Registration and work permits should be a tool for workers to promote their basic rights, but the reality is that registration will do little more than allow employers to use migrant labour on a regularised basis and provide government with a tool to better regulate migrant labour.

How registration works\textsuperscript{14}

The government required that from 1-31 July 2004 workers were to accompany their landlord to register the house or room where they are
staying. From 21 July to 15 October 2004 workers are to have their fingerprints and photo taken by the police at the district office. During this period, workers will also be issued with an ID card and a registration book. The ID card is free, and workers with an ID card cannot be arrested by police for illegal entry. From 22 July to 31 October 2004 workers were required to undertake a health check and to apply for health insurance at the provincial public hospital. The check up costs 600 baht and 1,300 baht for health insurance. Between 1 August and 30 November 2004 workers who have completed the preceding steps can apply for work. Migrants are permitted to work in fisheries and related industries, manufacturing, domestic work, farming, plantations, rice mills, labouring for shipping businesses and construction works, if no Thais fill the positions. A Department of Employment official has explained that decisions regarding the kinds of work deemed unskilled and therefore open to migrant workers.

The total paid in fees is 2,450 baht for a three-month registration, 2,900 baht for six months, and 3,800 baht for a full year; under the old registration scheme the yearly fee was 4,450 baht. In a 15 June 2004 conference in Chiang Mai, organised by the Action Network for Migrants, a Department of Employment official stated that workers would be permitted to change employers under the new registration scheme; under the previous scheme, workers had to re-register with a new employer and pay additional fees.

To begin implementing the MOUs, workers records (including name, address, etc.) will be sent to their nominated home country, with the Thai government asking that the home country verify each worker’s citizenship. If confirmed the home country will then be responsible for issuing travel documents or a passport. This process may require many years to be fully implemented, and there will be numerous problems facing workers. Registration hurdles

Perhaps the greatest obstacle preventing workers from taking advantage of this registration system and of Thailand’s labour laws is a lack of information. The government has made little effort to distribute registration information, in any language, to the workers. It has been left to NGOs to translate information into Khmer, Burmese, Lao, Shan, and other languages and to distribute relevant information to workers. But, NGOs simply do not have the capacity to reach two million workers. This means that
a majority of workers have been left uninformed. The consequence of this is that they remain relatively easy to control and subject to exploitation.

In general terms, the registration process should be welcomed by workers and activists, as registered workers and those with work permits have a chance to promote and protect their rights according to the law. The difficulty lies in how to make the process as useful as possible for workers, and how to ensure that workers are fully aware of the process and their rights. To date, workers have expressed a number of concerns, including:

- A lack of information about what will happen after the initial registration; many fear that they will be sent home.
- Workers remain uncertain regarding their rights after registration.
- Workers do not know what will happen following the first year of registration; will they be able to stay in Thailand?
- The citizenship confirmation process is problematic.
- If a migrant worker registers, does this have implications for their families at home? Could they become the targets of extortion?

Does the registration process offer the possibility of people becoming stateless if their home citizenship is not confirmed?

Past work permit schemes organised by the Thai government have failed to attract a significant number of registrants for a number of reasons. Among them are the high cost and low benefit of having a permit. In the past, nearly all workers with a permit still have not been paid the minimum wage, and remain subject to deportation and extortion, especially as employers often retain the original permit, giving workers a photocopy, which has no legal status. There is little reason for workers to believe that their employment conditions will change with a new registration scheme.

By August 2004, 1.2 million Burmese, Lao, and Cambodian workers and their families had registered for the one year residence permit (The Nation, 1 August 2004). Tak province is second to Bangkok in the number of registered migrants, and Burmese account for 70 percent of the total registered. Those who have found work and registered for a work permit will, apparently, be allowed to stay in Thailand after the residence permit expires. Those who do not have a work permit must leave Thailand by 31
July 2005. Thus the registration process is granting a kind of amnesty to migrant workers for one year. If registered workers are able to change employers and maintain their work permit, and if a high number of workers are issued work permits, then the registration process will have been a step forward. For those left out of the process, the risks and vulnerabilities will increase. Risks and vulnerabilities will continue to include trafficking, human rights abuses and extortion in the deportation process.

A worker’s story

Htan Kyaw [not his real name] is from Rangoon and is 28 years old. He studied through the 7th standard in secondary school. He is married and has a newborn baby.

In Burma, his father is a truck driver who earns roughly Kt. 500 a day, and his mother is a housewife. He has five siblings. In Burma he was earning Kt. 500 per day when he heard from his sister in Mae Sot about work there. At that time, in January 1996, a cheap meal cost about Kr. 120, a T-shirt went for about Kt. 500 and eight tins of rice (a Burmese measurement – about the size of a soup can) cost Kt. 100-200, depending on the quality. At the time a cup of tea cost about Kt. 15, now it’s about Kt. 75, and rice prices start at Kt. 230 instead of 100. Wages have not gone up with inflation.

Htan Kyaw and his sister are Christians and his sister was in Mae Sot to teach Burmese to a preacher’s children. When he went to Mae Sot he stayed with her and the preacher helped him find a job, free of charge. In that position, he earned about 800 baht a month after deductions.

For eight months in 1997 and 1998, during the financial crisis, he studied the bible at a church where he was given food and lodging. In late 1998 he began work at Champion Knitting Factory (Thailand) Inc., which is one of the biggest knitting factories in Mae Sot, employing up to 5,000 workers. It was later re-named New Product.

In this factory, Htan Kyaw’s story is of 18 months of exploitation. Workers at the factory claim that there was no compliance with the labour law or with the corporate codes of conduct that were meant to be in place when producing goods for international and profitable brands such as Tommy Hilfiger. During the training period at Champion Htan Kyaw received just 30 baht a day, although he later earned about 3,000 baht per month,
including overtime (often onerous), but before deductions for accommodation, food, electricity, and water etc.

After quitting Champion, Htan Kyaw worked for a year in a church office. In 2001, a friend of his told him about work in Bangkok so, after paying a trafficker 1,500 baht, he set out through the jungle for Bangkok. Five days into the journey he and his companions were caught by police and deported to Mywaddy.

Later, Htan Kyaw worked in a restaurant as an assistant chef for six months before going back to Burma for 10 days. Upon his return, he got a job at Chow Knitting Industries (CKI), another of the massive knitting factories producing for major western labels, and receiving BOI privileges. He worked there for one year and made 3,500 baht a month after overtime and before deductions. He lived in a dormitory room with 30-40 people. At CKI he worked from 8 a.m.-5 p.m. and 6 p.m.-11 p.m., with a lunch break from 12 to 1 p.m. and dinner from 5 p.m. to 6 p.m. The factory provided rice, charged at a relatively high fee, deducted monthly, and 3-5,000 workers lined up six or seven days a week within an hour to collect their rice. Any curry to go along with the rice had to be prepared by workers during their break time.

In 2002 there was a protest in CKI, which became violent. The protest began because there was a slowdown in work and management continued to make monthly deductions for work permits, even though the workers said they were earning next to nothing. The dispute led to a protest, the protest led to violence and 41 workers were sacked, including Htan Kyaw.

Currently Htan Kyaw is working in a garment factory making children’s clothes where he earns 55 baht a day, and works overtime from 6-11 p.m. at six baht per hour. Overtime is not mandatory on Sunday only. Work hours here and in nearly every factory in Mae Sot depend upon orders.

In peak order times workers may work all night; during seasonal slowdowns there may be no work, and no pay. This perpetual cycle means that meagre savings are kept for and spent during times with no work. Through a year, from the workers’ perspective, there may be no work for months, and too much work for too little pay at other times, leaving workers dependent on peak production as they know it’s necessary for yearly survival.
Htan Kyaw, who has the experience of many jobs, explained that generally Burmese people interview new job candidates, and these Burmese, who speak Thai, work with management in recruitment. To get a job Htan Kyaw said he submitted a passport photo, gave bio-data, but did not sign anything.

Htan Kyaw is an active advocate of the necessity for workers to organise and ultimately unionise, but he is concerned about his baby. He said it’s the only way for workers to improve their work conditions, and he may some day join a union if his baby is able to go to Burma.

**Mae Sot in the global textile and garment supply chain**

Globalisation has brought insecurity for the many and unprecedented wealth for the few the world over. In the textile and garment industry, among others, manufacturers are increasingly driven to exploit workers. The business model in the industry is one that is based on intense downward pressure on prices, a demand for fast and flexible delivery and a constant shifting in production location, searching for ever cheaper and more productive labour. Supply chain management mapping, which begins in corporate headquarters in the global financial centres, based on consumer demand, is surprisingly complex, even for something as simple as a T-shirt. The power of global capitalism dictates that manufacturers comply with corporate and inevitably consumer demand for cheaper products. In the end it is workers who end up paying the highest price through low wages, long work hours, lack of social or employment security, and a general lack of implementation of basic labour standards.

In the highly competitive production process, manufacturers and trading companies seek low wage workers. With the minimum wage, in places where it actually exists, at roughly US$45 per month or less in countries such as Cambodia, Vietnam, China, Bangladesh, and the like, wages in Thailand are relatively high at roughly $100 a month in the Bangkok area and $80 in the provinces. This is why, over the past 10 years, Mae Sot, with wages a fraction of the legal standard and little attention to national labour laws, has become a centre for garment production.

Workers in Mae Sot are generally not aware of brands popular among consumers throughout the world, but when shown logos (for example a
‘swoosh’ or a Puma) they are often able to identify the garment brands they are producing. However, identifying where orders are coming from and going to is difficult as management tends to maintain tight control over shipping and receiving. While major brand labels are no longer commonly seen in Mae Sot factories, it is believed that some orders from major brands are subcontracted from factories in and around Bangkok (where factories have export quotas), and labelling is likely done in those factories so that production in Mae Sot factories, which do not meet corporate standards, can lower costs.

In 2002 and 2003 Norwegian Church Aid (NCA) and the Burma Labor Solidarity Organisation (BLSO) conducted research and mapping of the alleged production of Tommy Hilfiger products in Mae Sot, and the links of the Mae Sot factory within the supply chain. Based on shipping documents, labels and purchase orders collected from inside the New Product Knitwear Co. Ltd. (a BOI-promoted company), the NCA claimed to have proof that Tommy Hilfiger labelled goods were being produced in Mae Sot through the first quarter of 2003.

The Tommy Hilfiger Corporation claims that this production was either unauthorised or involved fake goods (see the company’s explanations and documents at http://www.tommy.com/info/values.jhtml).

Regardless of whether the production was fake and destined for Bangkok’s street vendors (where counterfeit goods, including fake Tommy Hilfiger items, are in plentiful supply) or somehow authentic Tommy Hilfiger goods, the fact remains that workers at the New Product factory reported significant changes shortly after NCA released its findings in Norway in May 2003. These factory workers reported that in July 2003 all child workers were sacked and around the same time labels, sensitive documents, and patterns from past orders were destroyed and burned. The following month, workers say the labelling and packing sections were closed and workers were moved to other sections. In October work slowed, and in November 200 workers were fired and sent back to Burma. On 9 December 2003 the factory was closed and 800 sacked workers reported that they were pressured to sign a voluntary leave statement (in fact a letter of resignation) and received 900 baht for transportation back to Burma. At the time no compensation was provided, but management promised to rehire the workers in March 2004, a promise it kept.
New Product, Sunrise Knitting, and the BOI

Investigations by the NCA and BLSO found that New Product is linked to Sunrise Knitting in Nakhon Sawan (a factory outside of Bangkok, also BOI-promoted), and that they were sub-contracting orders for Tommy Hilfiger branded goods at the Champion/New Product factory in Mae Sot in 2002-3. Sunrise Knitting and New Product are linked to the Hong Kong-based South Ocean Group (discussed below).

New Products Knitwear Company Limited, formerly New Products Promoted Company Limited, was established in 1990, at the height of a period of rapid expansion for the industry. It had a registered capital of 10 million baht, and was a joint venture between Thai and Hong Kong investors (according to the law at the time, Thai investors held the majority of shares). Following the 1997 economic crisis, the company changed its name to New Products Knitwear Company Limited in March 1998 and increased its registered capital to 20 million baht in order to garner BOI privileges. The major shareholder was then Long Dragon Limited, a company registered in the British Virgin Islands (with 75 percent of shares). Both New Products and Sunrise Knitting changed the nominated ‘authorised person’, to Mr Woo Ping Tung and Mr Ying Wa See, both executives of Long Dragon. The company has two factories: in Samut Prakarn province and in Mae Sot in Tak province.

Sunrise Knitting Company Limited was established in 1999. Its founders, major shareholders and the company committee were all Thais but essentially the same people. This group of founders are also some of the shareholders and committee members for New Product Knitting. Soon after, the company increased the registered capital from five million baht to 15 million baht to qualify for BOI privileges. The authorised persons of Sunrise were then Mr Woo Ping Tung and Mr Ying Wa See of Long Dragon, which is now the principal shareholder. The head office for both companies is at the same place. New Products also has a branch office is in Nakorn Sawan province.

The company’s business is to produce knitted sweaters and blouses and shirts for men, women and children. From the documents collected, no export quota was found. Even so, companies without export quotas can ‘buy’ them from other companies or can make goods for companies with quota. Alternatively, companies can produce lower quality garments for
the domestic market. According to data from the Garment Institute of Thailand 2000-2001, New Products main markets are:

<table>
<thead>
<tr>
<th>Market</th>
<th>Customer Lists</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>90% Sears, DKNY, Kohl’s,</td>
</tr>
<tr>
<td>Japan</td>
<td>4% LL. Bean, Gap,</td>
</tr>
<tr>
<td>Europe</td>
<td>2% Walmart, Tommy</td>
</tr>
<tr>
<td>Other</td>
<td>4% Hilfiger, Donna</td>
</tr>
</tbody>
</table>

New Product, Sunrise: The Hong Kong and Tommy Hilfiger connection

As noted above, the NCA, along with Erling Borgen of Borgen Production A/S, and BLSO investigation found a number of invoices, purchase orders, shipping receipts, and packing lists that indicated a business relationship involving Sunrise Knitting, New Product, Champion Knitwear International Ltd. (Hong Kong) and Gracedon Knitters Ltd. (also based in Hong Kong).

Gracedon and Champion Knitwear share the same mailing address (3/F, Novel Industrial Building, Hong Kong), and the same building as South Ocean Group, Tommy Hilfiger and Novel Enterprises Ltd. (one of the world’s largest producers of garment products).

Silas Chou and Lester M Y Ma two of the top managers in Novel, have been managers or members of the Hilfiger Board. Silas Chou, a textile tycoon from Hong Kong and one of the owners of the Novel group. According to the Tommy Hilfiger Corporation’s web site, in 1989 an “affiliate of Novel Enterprises, owned by Silas Chou and Laurence Stroll, acquire[d] majority ownership of Tommy Hilfiger, Inc”. (http://www.tommy.com/info/history.jhtml?year=1989). Silas Chou is Chairman of the Board of Novel Denim Holdings Ltd., which is NASDAQ-listed (see information on the company at: http://yahoo.investor.reuters.com). He was, from 1992 until October 2002, Chairman of the Board of Directors of Tommy Hilfiger (see http://yahoo.investor.reuters.com).

According to Borgen, through an ordered and paid report in September 2003, the International Bureau of Credit information in London reported the following on South Ocean:

“Main share holder: South Ocean Knitters (South Ocean Group)
is owned by a holding company in the tax haven British Virgin Island [the same location as the primary shareholders of Sunrise and New Product].

“Novel Enterprises Ltd and Gracedon Knitters are two of the subsidiaries of South Ocean Knitters.”

The purpose of highlighting some of the links between Tommy Hilfiger, South Ocean, Novel, Gracedon, Champion, and the factories in Mae Sot is simply to highlight the remarkable complexity of the textile and garment supply chain, and the management of this chain. It also highlights the difficulties posed in enforcing corporate codes of conduct, which major labels such as Tommy Hilfiger regularly cite as their way of ensuring protection of labour standards in the production of their products (see Tommy Hilfiger’s Corporate Code of Conduct at: http://www.tommy.com/info/code-of-conduct.jhtml).

Implications for Mae Sot

The economic development of late developing economies like Thailand owed much to the expansion in labour intensive industries. Thailand’s boom, from the mid-1980s to the mid-1990s, saw textile and garment manufacturing established in the 1960s, play a significant role in the expansion of export-oriented industrialisation. Over the past two decades the BOI has promoted Thailand as a secure place for investment, with abundant cheap labour. There is also the reality that investors realise that there is a lack of adherence to labour laws, and this ‘ease of doing business’ is often attractive, especially in textile and garment production, where there is often a desire for an easily controlled workforce.22

In one of its responses to NCA’s report and questions, Tommy Hilfiger wrote a letter to Thailand’s Minister of Labour. In that letter, the company states that their products were being made in Mae Sot, although unauthorised and in contradiction to their corporate code of conduct (see http://www.tommy.com/info/values.jhtml). Interestingly, the letter urges the Thai government to ensure that no counterfeit production goes on in Thailand. The company’s letter, written in terms that does not specify particular companies or particular problems, can thus be seen as an effort to shift the responsibility to the government.23

The operation of global supply chains poses dilemmas for some international companies. Through years of consumer campaigning some
of the major textile and garment corporations have begun to respond positively to demands for better regulated factories. This fact also raises a dilemma for those who publicise the production of branded products in places like Mae Sot. These corporations make much of their codes of conduct and there is always the possibility that criticism on labour standards will cause the publicity conscious international corporations to cut and run, causing workers to lose their jobs, even if they these jobs result in poor pay and conditions.\(^\text{24}\)

In addition, international campaigns sometimes draw criticism from the Thai government and some labour organisations as it is claimed that international pressure causes orders and jobs to be sent to countries where factory-level monitoring is less effective or absent.

The Mae Sot case presents a challenge for trade unions and labour rights organisations; this is the need to focus on the entire supply chain rather than only the ends of it; that is, consumer demands based on factory level conditions (see AMRC, 2004). Clearly, it is unacceptable to allow corporations to continue to exploit workers for fear that they will relocate. Likewise, it is unacceptable that international brands can use suppliers who themselves exploit workers. At the same time, it is important to consider the situation that faces workers, especially migrant workers, within these supply chains, where they are often amongst the most exploited, but are also keen to have work opportunities.

*Burmese workers line up outside a factory to re-apply for work, months after they were sacked without compensation*

*Photo: Dennis Arnold*
The Mae Sot authorities

Thai police are known for their corruption and it is also reported that they engage in a widespread abuse of migrant workers (see Phongpaichit and Piriyarangsan, 1996; Human Rights Watch, 2004). Migrants avoid the police at all costs, and migrant workers simply don’t contact police for assistance unless the situation is forced upon them. Workers – Thais and migrants – say that the Provincial Labour Protection Offices are generally ineffective for them, and migrant support organisations have often found them ineffective and unsympathetic. In addition to this, employer organisations such as the chamber of commerce or the Federation of Thai Industries (FTI) actively seek to limit the actions of workers, particularly by limiting freedom of association and by colluding to keep wages low. Labour leaders report that, if their activities are discovered by these organisations, then they are often blacklisted, and find it difficult to work in the area again. Employer organisations are influential both in public relations in communities with high proportions of migrants, and in the case of Mae Sot appear to be influential with the Tak Labour Protection Office. As mentioned, FTI and the Labour Protection Office have shared the same building in Mae Sot, a building owned by FTI-Tak.

These factors contribute to the vulnerability of Burmese migrant workers in Thailand. In addition, the desperate political and socio-economic conditions in Burma mean that migrant workers have little choice but to stay in Thailand. The inability of workers, both in legal and practical terms, to freely associate and join and form trade unions for the promotion and protection of their interests is a severe handicap for all efforts to improve the dismal situation facing workers.

Federation of Thai Industries, Tak Chapter

According to the Federation of Thai Industries web site, FTI is an “upgraded body of the Association of Thai Industries which was created on November 13, 1967. The transformation took place on December 29, 1987 by the enactment of the Federation of Thai Industries Act, 1987 which requires the body to be under the supervision of the Minister of Industry.

“The FTI Act aims at strengthening the private sector institution which will help make industrialization in Thailand more sustainable
and synchronizing with other ongoing national economic development processes as well as ensuring a proper protection of the national interest in the world economic environment.” (from: http://www.fti.or.th/Fti%20Project/ex_orgintro_eng.aspx, downloaded on 6 September 2004).

The FTI in Tak is a highly influential organisation in Mae Sot in terms of co-ordinating employers’ efforts to ‘manage’ workers, by keeping wages low, and blacklisting strike leaders. In addition, NGOs report that their ability to work is constrained by FTI activities. Because its member businesses are major contributors to the local economy in Tak Province, the FTI has considerable local media support.²⁵

The FTI promotes itself as having ‘... gained ... countrywide recognition as the only voice of the industrial community in Thailand in addressing the issues and in co-ordinating with the Government both internally and on the international sphere” (cited at http://www.fti.or.th/Fti%20Project/ex_orgintro_eng.aspx, downloaded 6 September 2004). FTI is a part of the Joint Public-Private Sectors Consultative Committee headed by the Prime Minister, as one of the active members from the private sector to address economic issues.

In an interview with TLC staff on 29 December 2003 the President of FTI Tak Chapter gave several reasons why he thought Burmese workers should not be paid minimum wage. He claimed that:

• Burmese workers are poor quality workers when compared to Thai and international workers.

• Migrant workers are paid below the minimum wage in various countries, particularly Taiwan, Hong Kong and the USA, thus justifying wages below minimum wage in Thailand.²⁶

• Employers in Tak have the right to make deductions for food, shelter, etc. so workers do not receive the minimum wage.

• Employers prefer the target/piece rate system to a daily wage.

In the several hours of the meeting the FTI President did not speak of legal standards, only the desire of employers to keep wages low and his justifications for this.

On 29 December, when TLC attempted to meet the Labour Protection Officer, the staff at the Labour Protection Office referred TLC to FTI to
speak about the situation for the Nasawat workers. The following day, in a meeting with Mr Kwuang Saijem, the Tak Labour Protection Officer and office neighbour of FTI, many of the comments made were reminiscent of those by the FTI President. He stated that wages were low because of deductions for food, lodging, and the like, reiterated that other countries pay migrants below the minimum wage, and added that employers are not able to pay the minimum wage because of their economic hardships. When asked why workers only receive about seven baht an hour for overtime, the officer stated that, as a recent appointment, he hadn’t had time to look into this matter, adding that his time had been consumed in dealing with the numerous strikes in Tak since his October 2003 arrival.

When questioned as to why workers were not able to hold the original work permit, which Thai law requires of Burmese workers, he said workers tend to lose the permit so it’s better for employers to hold them. He also stated that if workers have the original they would be subject to blackmail, so the employer is therefore protecting the workers.27

In a document dated 21 December 2003, FTI Tak requested that the Tak governor investigate the operations of NGOs in the area. YCOWA and the MAP Foundation for the Health and Knowledge of Ethnic Labour, as FTI claimed that NGOs were inciting workers to strike and causing damage in Mae Sot. It is reported that the management of Value Trend initiated the request. The governor ordered an investigation. A few days afterwards men identified by workers and NGOs as local thugs and holding photographs of Moe Swe and A Salam of YCOWA, questioned workers in several factories regarding their whereabouts. Shortly afterwards the two leaders of YCOWA went into hiding, fearing for their safety. On 27 January 2004, Human Rights Commissioner Professor Jaran Ditapichai and his team conducted a fact-finding mission to Mae Sot regarding the situation facing workers and NGOs. Meanwhile, the Tak Labour Protection Officer acknowledged the threat to Moe Swe and A Salam, but claimed that their plight was public, so many people were watching the situation.

This harassment of NGOs affects many in Mae Sot. In interviews with TLC, the FTI in Tak complained about a range of organisations including the Mae Tao clinic (known as Dr Cynthia’s), which merely provides free medical assistance to migrants.
Mae Sot police – Abuses of migrant workers

NGOs and workers in Tak and Mae Sot report considerable reluctance to go to the police for assistance. One of the reasons for this is that they often consider the police to be complicit in human rights violations. In fact, workers regularly report that police and immigration officials are the main source of violations and extortion against them, claiming that police and immigration officials take bribes from employers and extort money from workers whenever the possibility arises. Allegations that the police are involved in trafficking drugs and women into prostitution, among a range of other serious human rights violations are not uncommon.28

On 29 January 2004 the United Nations Secretary-General received a written statement (E/CN.4/2004/NGO/22) by the Asian Legal Resource Centre (ALRC) which calls upon the Thai government to ‘ensure that domestic law is upheld with regards to migrant workers, legal or illegal, as it is to Thai citizens’, among other demands. The statement identifies many of the day to day problems migrant workers face in Thailand, and identifies their lack of basic rights and the violence to which they are subjected. Following are excerpts from the statement:29

“Murders, rapes, abductions, torture, and other abuses of Burmese migrant workers in Thailand have occurred with alarming regularity for many years, particularly in the Mae Sot district of Tak province, but for a long time only cases of extreme brutality were ever made public. In January 2002, for instance, the bodies of at least 21 persons were found in the Mae Lamao stream. No one has ever been brought to account for that atrocity…In the past year, abuses have increased, as impunity has spread in Thailand with new government policies favouring extra-judicial killing [in the war on drugs..], and because migrant worker’s rights have been further curtailed...

“...In 2003, the Asian Legal Resource Centre brought its concerns to the attention of the Special Rapporteur on the human rights of migrants, noting that immigration officials, police, and other officials in Thailand abuse illegal migrants at time of arrest, in detention centers, and during deportation. These abuses include extortion, physical and sexual assault, and murder. These activities by the police lead others to commit the same offences without fear of the consequences...
“...In early April 2003, police in Phop Phra district, Tak Province, detained an unnamed Burmese man they found working illegally. They put him in a cage at a village checkpoint that was used to keep dogs. During the day he managed to get out and tried to run away. The police soon caught up with him, and called him to come back; he turned and began to walk back towards the police, at which point one shot him in the chest. A local man who witnessed the killing informed other Burmese workers; the murdered man’s body was found in a field the next day.”

Conclusion

As briefly outlined, the situation in Mae Sot makes it difficult for Burmese worker support organisations to operate effectively. As late as mid-2004 there were no Thailand-based labour organisations or trade unions working specifically on labour or trade union rights in Tak with an office and staff located there on a full time basis. The workers themselves are in an extremely vulnerable situation and greater organisational and protection efforts are needed. This organisational and political weakness is in stark contrast to that of the authorities, police and employers. This imbalance makes it difficult for workers to organise to protect and promote their rights. The handful of Burmese organisations attempting to assist workers is limited because of their problematic legal status in Thailand and the intense pressure preventing them from operating without fear of reprisal.

Structural factors promote the gross exploitation and human rights violations of Burmese migrant labourers in Mae Sot. Burmese leave Burma due to political oppression and socio-economic hardship, and subsequently have a high threshold for difficulties they endure in Thailand. Thai authorities and employers, regardless of nationality, are eager to exploit this vulnerability for windfall profits. A lack of corporate social responsibility and adherence to corporate codes of conduct means workers at the bottom of the supply chain, in places such as Mae Sot, produce textiles and garments and other products for Northern markets in a state of acute vulnerability.

It’s obvious that migrant workers in Thailand, particularly the Burmese, bear a lot of pressure from nearly every direction, both in Burma and Thailand. A myriad of human rights are abused in both systematic and random ways. Denying the right to freedom of association and right to
organise effectively pulls out any attempts by migrant workers to improve their situation at the roots.

The policy of the Thai government towards Burmese refugees and migrants is in the process of changing, for better or worse remains to be seen. Prime Minister Thaksin Shinawatra’s forging of closer economic and political ties with the Burmese government has resulted in an increasingly hard-line stance by Thailand towards Burmese migrant workers and refugees, many of the latter have become migrant workers. Some million and a half Burmese migrant workers in Thailand are now stuck between one the most brutal military dictatorship in the world, and a Thai government intent on good relations with them, with an eye on increased revenue for businessmen operating in Thailand, and for Thai business operating in Burma.

It is worth noting that the traditional gap between migrant support organisations and workers, and Thai unions and labour organisations has been reduced over the last year or so. This, in combination with greater advocacy for migrant rights – by Thailand’s Human Rights Commission, international and global trade unions, academics in Thailand and the region, governments and human and labour rights organisations both in the region and internationally – is creating space and the potential for greater transparency and respect for labour rights and adherence to labour laws and standards. It also enhances the ability of migrant workers to organise and improve work conditions.

Notes
1 For further information, details or clarifications regarding this report contact the Thai Labour Campaign: dennis@thailabour.org or campaign@thailabour.org. The Thai Labour Campaign maintains a web site at: http://www.thailabour.org. The author gratefully acknowledges the extensive comments, editing and additional information provided by Kevin Hewison. He also thanks Professor Lae Dilokvidhyarat and Philip S Robertson Jr for comments. The writing of this paper was made possible with their help, and importantly, by discussions and interviews with workers and organisers in Mae Sot. The responsibility for any factual mistakes or mis-interpretation is completely the author’s. A version of this paper has been published by the South East Asian Research Centre at the City University of Hong Kong.
2 1 baht = 22 kyat, US$1 = 855 kyat, US$1 = 40 baht.
3 The minimum wage is set by a central committee that takes recommendations from the provincial level, and varies from 137-170 baht per day (in August 2004).

4 Effective 3 October 2002, the MOLSW was split into two ministries, the Ministry of Labour and the Ministry of Social Development and Human Security.

5 For the first six months the payment is 3,250 baht, and 1,200 baht for the second six month period.

6 For details, see www.tradeunions-burma.org

7 The Labour Protection Officer who made the order was later transferred to a different province.


9 Subsequently, in 2003, the seven day clause was phased out under the terms of the Thailand-Myanmar Memorandum of Understanding (MOU) on Labour.

10 For information on this case see Asian Human Rights Commission (2003b).

11 The information in this section is drawn from a series of Information Releases provided by Action Network for Migrants, the first on 14 December 2003. These releases are available from: http://www.thailabour.org/news/archive.html. Other information on this case can be found at: http://www.december18.net/web/docpapers/doc1027.doc


14 Details of the registration process are available at http://www.thailabour.org/past/wnews-index.html, prepared by the Action Network for Migrants.

15 Given the human rights problems in Burma, and the nature of the State Peace and Development Council, many Burmese workers will have little trust that their citizenship will be easily determined. With a lack of democracy in Burma an MOU with the junta is unlikely to be effective. Currently the International Organisation for Migration (IOM) is conducting research to produce policy recommendations for the Lao PDR and Cambodia for implementing the MOUs. According to a representative of IOM, this research and recommendations would be used as a learning experience when Burma begins implementing its MOU with the Thai government.

16 In 1998 licensed Tommy Hilfiger products were produced at Champion Knitting Factory. For details of the company’s responses to complaints regarding activities in Mae Sot, see the company’s web site (http://www.tommy.com/info/values.jhtml), which includes responses to critical reports by Norwegian Church Aid.

17 The information used in this section is based on NCA and Erling Borgen’s


20 Lester Ma is listed as a Director in 2002 (Tommy Hilfiger Corporation, n.d.: 16).

21 Reuters (http://yahoo.investor.reuters.com) provides this description of the company: “Novel Denim Holdings Ltd., incorporated in 1989, is a vertically integrated supplier of denim and chino garments and fabric and printed and dyed fabrics to the European Community ... and the United States. The Company offers an array of basic and value-added garments and fabric in accordance with customer specifications. Novel Denim produces a wide variation of garments, including jeans, chinos, shirts, skirts, shorts and jackets in a variety of styles, colors and finishes, such as overdyed, stonewashed, sandblasted and stretch. Novel also produces a range of different kinds of denim and chino fabrics, including lighter-weight fabrics, fabrics made with alternative weaves and treatments and specialty colors and finishes. Novel’s customers include major manufacturers, retailers and licensees that market under proprietary labels and trademarks.” Listing Novel customers, the same Reuters web site states: “Novel sells its garments to over 50 customers and its fabric to approximately 180 customers. Its major garment customers include The Burton Group plc (Burton), The Gap, Mi-Temps and Tommy Hilfiger. The Company’s major fabric customers are VF Corporation and Jordache International and fabric converters such as Cogimex (France) and China Point (Asia) Limited. For fiscal 2003, its top three customers, Tommy Hilfiger, The Gap and Mi-Temps, accounted for approximately 26.2% of its total sales. During the past two fiscal years (fiscal 2003 and 2002), The Gap and Tommy Hilfiger each accounted for more than 10% of Novel’s total sales. The Gap accounted for approximately 7.7% and 31% of the Company’s total sales in fiscal 2003 and fiscal 2002, respectively, and Tommy Hilfiger accounted for approximately 11.4% of its total sales in fiscal 2003, compared to approximately 15% in fiscal 2002.”

22 Officially, the monitoring of labour standards is not BOI’s role, but the Ministry of Labour’s. However, at a 31 August 2003 conference, questions were raised about this and BOI’s claim that it promotes adherence to labour laws. Chokdee Sangkaew, Director of BOI, stated that when BOI promoted companies violate the law, they will be ‘punished’ (see ACILS, 2003).
23 In fact, the Ministry of Labour is not responsible for the control of counterfeit goods.
24 At the same time, there remain many – perhaps a majority – of firms, particularly the ‘generic’ brands and East Asian transnational manufacturers, where there is little consumer awareness, concern or pressure.
25 Indeed, when Thai Labour Campaign staff visited the FTI office in late December 2003 a local TV reporter was in the FTI office and aggressively defended the actions of employers in Mae Sot.
26 In fact, there is no minimum wage in Hong Kong (see Chiu, 2002), except for foreign domestic workers.
27 This makes no sense. As previously mentioned, workers are subject to deportation, arrest, and extortion when they hold only a photocopy of the work permit.
28 There are numerous press reports on these matters. For details see reports by GlobalSecurity.org (http://www.globalsecurity.org/military/world-war/thai-drug-war.htm), Human Rights Watch (http://www.hrw.org/doc?t=asia&c=thaila), and Amnesty International (http://www.amnesty.org/aibl/aireport/index.html).
29 The full ALRC statement to the UN Commission on Human Rights 60th Session is available at: http://www.alrc.net/pr/mainfile.php/2004pr/61/

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CHAPTER 12

RESPONSE OF THE KOREAN GOVERNMENT TO KOREAN COMPANIES ABROAD

Serapina Cha Mi-kyung

1. Introduction

“The nation-state is already being disintegrated. Borders are not functioning as barriers. From capitals to human beings, there are ‘migrations’ happening worldwide.”

In the last two decades Asian transnational corporations’ (TNC) domination over world politics and economics has grown faster and faster. TNCs govern over all aspects of our lives, from the foods we eat to our genes. Corporations are gradually taking control from governments and largely influencing the future of all human beings.

The fundamental question of this report is on what role the government should take in this reality of TNC domination over land and factories, from basic necessities to culture? In particular this report will focus on the problems produced in the Korean Companies Abroad (KCA) during the last 20 years and the government’s policy response to the issue.

Activists, researchers, and interested citizens have traveled around foreign lands in order to investigate problems created by KCA. Corporations didn’t really welcome them trying to gather information for this report, and even the government was indifferent.

We met many entrepreneurs working hard to get over the difficult management situation in Korea. Small- and medium-sized Korean enterprises went abroad because of pressure from international competition, and although working hard, they still had some difficulties. Still under the
difficult situation of an unstable relationship between workers and companies, they are searching in the Third World. In the process, we have seen a lot of KCA treating Asians and Latin Americans as cheap labour and heard disheartening testimonies from the workers. A corporation going abroad basically means that it sets the basis of profit making in a foreign country. However, when a corporation goes abroad, some conditions of preparation are required to accomplish the realistic purpose of making profits, due to its need of facing the new employment and cultural realities. No matter how accomplished as profit-making corporations in the foreign countries they settle in, KCA all over the world including Asia and Latin America, among TNCs from other countries, have been counted as having the most problems in the relationship with the workers. As a result, international human right organisations have paid great attention towards the KCA.

Workers who have suffered under KCA were exposed to the Korean corporate culture that is aggressive, venturesome, and anti-women. Asia’s young female workers, who initially were poor but never been beaten by others, were slapped with a shoe by a female Korean manager, and trembling with rage were hit on the head, an action that is regarded as most serious in Muslim culture. Consequently, “Korean corporations are the most notorious example of labour suppression.”¹

However, despite this kind of humiliating criticism, for generations the Korean government has never enacted a single additional policy to solve this serious situation. In the chronic economic depression that has continued for a long time, the government early this year announced that the foreign investment of KCA would exceed over 60 percent of the manufacturing sector starting from 2006.

This report is the examination of the nature and problems of the government response towards these KCA problems such as human rights, labour rights, and environmental problems.

It is worth mentioning that this report is based on problems at work sites over the past decade. Thus it could be a mere representation of personal opinions, and citations are given at the bottom of relevant pages. In particular this report will take a specific look at the problems of current Korean government through attitudes of dispatched public officers in various cases.
Between July and August 2003, research was conducted in the Philippines, Indonesia, and Thailand. Before introducing several cases that appeared during the research period, it is worth first going over the history of KCA investing overseas and examining the relationship between the workers and KCA in the light of international labour.

2. Government’s primary policies towards foreign investment.

In early 1980s when the basis of opening policy for capitalisation and liberalisation was specified, investment of KCA was mainly concentrated in the Northeast region, including, especially, ASEAN 4 countries—Malaysia, Indonesia, Philippines, and Thailand. By the 1990s, the range of foreign investments extended into electronics, heavy industry, and the automobile industry and its maintenance industry, primarily due to increased unit production costs within the domestic market. As a result, KCA such as Hyundai, Samsung, and Daewoo under the flag of neo-managerialism became interested in Asia, Latin America, and centralised economies such as China and Vietnam. In this process, investment in North America increased because investment increased in heavy industries, such as auto and steel sectors, under strict import regulations; it was also because investment in trade increased in an attempt to secure an overseas sales network.

In their early foreign investment periods, KCA were severely criticised for management that did not consider labour conditions, local cultures, and the native workers’ emotions. In the process of transferring the domestic ways of capital accumulation and labour management customs abroad, they managed labour forces in a way that infringed upon the human rights of the workers. There were serious problems between the company and the native workers, who basically had different social and cultural customs and their own ways of labour management. In the end, KCO contributed to Korea’s image in foreign countries as ‘Vulgar Korea’ or ‘Vulgar Imperialism’.

However, in the 1980s the government led changes in policies of FDI; instead of alleviating conditions for investors and abolishing the prior approval system, the government established the ‘Inquiry Committee for Overseas Investment’ in July 1981. Setting this as a cornerstone, the government also relieved the conditions for joint venture rate in July 1982, allow-
ing joint ventures abroad if only the right of management is required, even when the Korean joint venture rate did not reach 50 percent. At the start of 1990, conditions for investment were temporarily strengthened, but President Kim Yong Sam government’s ‘Neointernationalist Strategy’ advocated a systematic amendment to guarantee unregulated capital movements by mitigating regulations for Foreign Direct Investment (FDI), increasing government support for FDI and decreasing the number of regulated industry types of FDI. Furthermore, the Kim government groped for ways to strengthen the support for foreign investment through the ‘Foreign Currency Reform Bill’ (8 September 1994), which allowed almost complete liberalisation of FDI.

2. Joining the OECD and its Guidelines

‘OECD Guidelines for Transnational Corporations’: international standards applied to the actions of companies overseas

Korea joined the OECD as its 29th member in December 1996. Thereby, Korea was obliged to follow the ‘Code of Liberalisation of Current Invisible Operation’ and the ‘Code of Liberalisation on Capital Movement’. It also started to follow the OECD Guidelines for Transnational Corporations.

Passed in 1976, the guidelines are composed of ethical major principles, especially putting an emphasis on the social responsibilities of TNC. Because the guidelines for business ethics is basically a charter of suggestions only, the emphasis was on preventing corruption but not on upholding human and labour rights. Therefore in the beginning it didn’t receive much attention from civil societies in their activities to supervise business actions. The main point for the Guidelines as outlined in the next few pages is on regulating TNCs.

However, non-governmental organisations (NGO) and civil society in the OECD’s member countries are looking for the ways to solve the problems of human and labour rights violations by TNCs through surveillance and litigation based on the guidelines. After all, there is no specific international organisation that focuses on the actions and problems of overseas companies. As a result, the number of TNCs that are sued for violating the guidelines in the Trade Union Advisory Committee is increasing annually. There have been several KCA among them, sued by labour institutions abroad.
Contact centres situated in all the countries for effective execution of the guidelines are reporting the circumstances at an annual conference. According to statistics of 2003 provided by a Korean centre, since 2001, there were 13 cases where KCA were reported as conducting unfair labour management.

The regional distribution is as follows:

<table>
<thead>
<tr>
<th>Country</th>
<th>No. of cases</th>
<th>Report Time</th>
<th>Result</th>
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<tr>
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</tr>
<tr>
<td>Sri Lanka</td>
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<td>June 2002</td>
<td>Completed</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3</td>
<td>June 2002</td>
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<tr>
<td>Mexico</td>
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<tr>
<td>Malaysia</td>
<td>1</td>
<td>May 2003</td>
<td>Ongoing</td>
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Among the information submitted to the annual meeting of TUAC-OECD on 16 April 2003, cases of KCA are as follows.

First case: Sees Corporation (a Korean TNC) in Sri Lanka

Sees Lanka Limited, which belongs to the Sees Corporation of Korea, manufactures sports-related products. The company stopped manufacturing the bags and stopped paying workers’ wages, disregarding Sri Lankan law; laws in Sri Lanka clearly state that the company should pay the wages for the workers until the government has investigated the closing of the business. Thus in November 2002, a Sri Lankan union (FTZWU) sued Sees Lanka Limited in the Korean National Contact Point (NCP), which conducts promotions with regard to regulations of the OECD Guidelines.

Result: In December 2002 the company agreed to pay compensation to all workers.

Second case: Cosmos Mack Industries in a Free Trade Zone of Sri Lanka

Cosmos Mack Industries in 2001 refused to recognise the labour union, threatened the major union activists, and underwent firing them. Thus in November of the same year, FTZWU sued the company for its activities against the labour union.
Result: The Korean NCP explained in the 2002 annual report that it could not verify the information about this case and that it could not contact the FTZWU until late June.

However, the fact that there are many more cases of KCA violating OECD guidelines or arguing with labour unions than the number of registered cases is well known through site investigations and the ‘Seminar on the Guidelines and the Social Responsibilities of Corporations’ that was held in May 2003 by the Korean Labor Society Research Institute. The main reason for this, according to the site investigation in 2003, is that the labour institutes related to the native workers are not actively using the OECD guidelines as the standards. Thus, KCA also are not recognising OECD guidelines as a guide for business morals.


Among these, the documents announced by the international organisations have declarations, guidelines, or codes that do not have legal force. However, all of these can be seen as the common standard for actions of overseas corporations, since they are based on the agreement among workers, companies, and government.

The Guidelines for Multinational Enterprises was enacted and announced by OECD as a part of the later Declaration on International Investment and Multinational Enterprises (1997). In the process of writing the Guidelines, the OECD succeeded in getting concord from the Business and Industry Advisory Committee (BIAC) and the TUAC that are responsible for reflecting the interests of the company and workers. Currently, the Committee on International Investment and MNEs (CIME) is
working to manage all the circumstances related to the declaration. This guideline is applied to the TNCs in member countries only; voluntary actions are expected but not compulsory. However, according to the decision from the council held in 1991, all the member countries have the responsibility to establish NCPs that will promote, educate, revise, and discuss the guidelines and make NCPs available to all related people from corporations, labour unions, and other fields. This decision is based on the need of large-scale promotion and education in order to let the member countries voluntarily accept and practice the guidelines. NCP in Korea is established under the Department of Labour.

The guidelines are composed of eight clauses related to general principles, opening information, competition, finance, tax payment, employment/labour, and management, environmental protection and scientific technology. The ‘general principles’ state that the corporation should consider the prior purposes of general governmental policies related to social and economic development, especially regional and industrial development, environmental, and consumer protection, creation of employment, and innovation and proliferation of technology. The general principles also state that the corporation should not be related to corruption or illegal political funds. The ‘opening information’ clause states that the corporation should share information about relationships with other corporations, management results, investment plans, sources and uses of the fund, research funds, and rules of accounting.

‘Employment/labour and management’ is quite detailed. According to this clause, corporations should practice matters following the laws and customs of the host country:

a. Respect the human rights of employees: Respect their right to form labour unions or other labour organisations and trustfully look out for group negotiations.

b. Provide facilities and information needed for effective group negotiations to the labour union or employee representatives.

c. If required by the labour law, provide the union or employee representatives with the trustful and fair information about the accomplishment of the corporation.

d. Provide non-discriminating employment policies and training for promo-
tion of the regional labour force: Standards related to employment and employer-employee relationship should not be overridden by businessmen.

e. Provide native workers with the maximum training possible, with the co-operation of the union, other employee representatives, and the government.

f. Provide timely advance notice before withdrawal or change in corporate structure, which accompanies mass redundancies, and try to minimise the shock.

g. Practice non-discriminating employment policies related to the employment, discharge, wages, promotion, and training.

h. When a labour union is being formed or under negotiation, do not threaten with withdrawal, partial transfer, or closure, or transfer employees.

i. Unions have the right of collective bargaining.

United Nations Code of Conduct on Transnational Corporations (UNCCTC)

The UN has urged the enacting, adopting, and practicing the UNCCTC, along with the adoption of ‘Declaration and the Programme of Action on the Establishment of a New International Economic Order’ in 1974. As a result, the UN Committee on Transnational Corporations (UNCTC) and UN Centre on Transnational Corporations (UNCTC) were established and started to work on enacting the UNCCTC, but this still remains as a draft.

The draft is composed of five chapters based on specifics and purposes, activities of TNCs, treatment towards TNCs, cooperation between governments, and execution of the code. In particular, the chapter related to the activities of TNCs is divided into general/political principles, economical/financial and social principles, and opening information principles. General/political principles about the activities of TNCs are as follows.

a. Respect sovereignty of the nation, domestic law and administrative customs.

b. Support the national priority of economic and developmental aims.

c. Support the national priority of social and cultural aims and values.

d. Respect human rights and basic freedom.

e. Non-intervention in the problems on domestic politic.

f. Non-intervention in the relationship between governments.

g. Refrain from corruption.
‘Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy’ by the ILO

This was adopted by the ILO in 1977. It comprises total 58 clauses divided into five parts related to general policies, employment, training, working and living conditions, and relationship between the company and the labour. Unlike codes of UN or OECD, this is limited to the parts related to the society and the labour among the actions of TNCs. Following are the conditions especially required by TNCs.

a. Labour intensification, promotion of better employment opportunities, and improvements on the employment standard in developing nations.
b. Priority on the native workers in terms of employment, professional development and promotion.
c. Use of technologies that create employment.
d. Equal treatments and opportunities for employment.
e. Minimisation of the harm caused by plant transfers.
f. Advance notice a considerable time before redundancies, avoiding voluntary firing process, and guarantee for regular income.

3. OECD Guidelines’ violations appeared in 2003 field research

“All we have left with from the Korean people is a feeling of desperation. We would like to see the Korean manager who has run away standing in the court, as long as we can. Sambo labour union applied an ‘inter-call’ to the Korean government for us, but we have no idea if the Korean government has really carried out what we asked them to do.” (Sambo Indonesia labour union chief executive, Rahman)

An outline of the incident

It was on the morning of 3 July when two months had almost past since the company owner, Mr Bang Koo ho, at the Kawasan Special Economic Zone in Jakarta left the international airport on 8 May, to “attend his child’s marriage ceremony”. All 800 workers who had arrived after walking more than 500 metres raised their voices as it was made known that the entrances to the factory were closed.

Even after waiting a long time Korean managers were nowhere to be seen. The workers began to sense that something had gone wrong with
the firm. Most of the female workers, nervous and terrified, had forced their way into the factory. After a fair amount of time passed the workers heard terrifying news. The same thing that had happened to some nearby factories had happened to them; Mr Bang had run away to Korea, leaving only several dozen mixing machines inside the factory.

Starting from this day onwards, with the executive of the trade union Rahman (25, a woman) in the lead, approximately 400 Indonesian workers went on strike against the factory owners requesting that they be paid overtime wages, allowances, and holiday bonuses from the year before. As Mr Bang the factory owner fled to Korea by night, just like all the other managers, the people in charge of exports completely stopped the water and electricity supplies inside the factory four days after the bankruptcy. However, the workers were determined to continue the strike.

When I visited the place for information, more than 300 female workers with ages ranging from 20s to 40s plus about 50 men were eating only one meal per day, dozing off on top of factory machines in the dark factory, clearly not knowing what they should be doing with their lives. Every single person in the factory was in a situation where they could not go anywhere other than the factory. Most of them were from the countryside, and without wages they could not afford to live in their rented rooms any more. The total amount of wages each of these workers had earned was more than 50 million won.

Sania (30, a woman), one of the workers on strike, had worked in the Sambo factory for four years as a sewing worker. She used to send most of the money she earned to look after her two children in the countryside. However, after what happened on 3 July, she fell into despair and decided to continue her strike. She said, “I am very confused about what is happening right now. There is no money in my pocket. A few days ago, I even got kicked out of my rented room because I am not able to pay the rent. For the past four years until 2 July I always worked hard. Often my hand was blistered from working so hard on a sewing machine. All we have left from the Korean people is a feeling of desperation.”

Once we came to know about this desperate situation, our research team went to the Korean Embassy in Indonesia to meet the person from the Ministry of Commerce, Industry and Energy who is in charge
of the labour and management relations. Although we had expected that the new Korean government would constructively solve the matter of KCA, this simply did not happen. The embassy spokesman only stated that his main duty was to encourage enterprise in the firms, and that he was unaware of what was going on with the Indonesian workers going on strike. He seemed unconcerned about the condition of the Indonesian workers, who had clearly been cheated by the Korean factory owners. When we questioned him in disbelief, reminding him that as a government officer in charge of running enterprises, he should dutifully be willing to listen to find out the needs of the workers on strike and try his best to come up with a solution, but he said it was too small a matter for him to be working on. This kind of passive and easy-going attitude of the government, which clearly refused to take responsibility for the bankruptcy of private firms, had no doubt been encouraging the ‘flight by night after bankruptcy’ of its firms in foreign countries.

Since 2001, there have been more than just a few private firms that were restricted from leaving Indonesia because of their owners’ flight by night after going out of business. The workers also say that Trendol, Indonin, and Jaya Tomsen etc. factories recently caused similar troubles as Sambo Indonesia.

The OECD, of which Korea is a member, states in its guidelines for TNCs that if a foreign private firm were to have decided to move factories or to go out of business, it would have to consult with the labour union first. However, many of the private Korean firms are apparently ignoring this guideline, and amazingly the Korean government is doing nothing about this. The government officers are still caught back in the time when they still believe their lives are dependent on taxes.

But who in fact is helping these Korean firms build in foreign districts to make profits anyway? It is of course the workers there. Even though an increasing number of foreign workers shed tears because of these firms, the workers are going to be nothing but a group of strangers and peasant workers forever to Korean owners and government officers. What would the Korean people be remembered as in the foreign workers’ minds? Who could ever heal the pain in their hearts?
By looking at a Chinese newspaper review that talks about the Korean firms’ arrogance in China’s Special Economic Zones, where similar things have happened, we can see how Koreans and Korean private firms are generally viewed in Asian countries: ‘Korean people know too little about China. The reason why Korean people are looking down at China and its workers all the time is probably closely related to the fact that there was a popular belief among Korean people against democracy, especially after the partition of the Korean peninsula in 1950. Korean people seem to be only interested in the cheap labour for the exports goods, and not very much so in the aspect of labour in democracy. Although there have been a lot of intimate relations between the two countries for a long time, Korean people are generally even more discourteous and bad mannered than most of the Western people who have settled here.’

The following is an interview with the leader of the Labour Union of Sambo, Indonesia.

Q The strike has been going on for more than one month. How are the workers?

A At first, we made a living using the money earned from selling low quality goods in the streets. Now even that is gone, which means each of us can only afford one meal per day. We are surviving, thanks to the money that ex-workmates kindly donated after finding new jobs in nearby factories.

Q Who is currently left inside the factory to carry on the strike?

A The workers here are people who do not have anywhere else to go because they cannot pay house rents any more. They cannot even go back to the countryside because they can’t afford the tickets. There is no hope apart from carrying on the strike.

Q Do you have any idea where the owner might be?

A He must be in Korea, but it is extremely hard to get in touch with him by any means.

Q What would you do if the owner were to promise you now to pay the wages that have been unpaid for months?

A We would be happy with that. However if that does not happen we
plan to fight till the end. Similar things have been happening to workers in nearby factories. Most of the firms were Korean. The workers ended up being kicked out of the factories with nothing. We have to fight till the end to make sure this doesn’t happen ever again. I really hope this time is the last time.

Q How many Korean firms are still here?
A I think there are about 30 to 40 of them left.

Q This strike is being carried out under unlawful occupation of the factory. It is a possibility that the government may become involved at any moment…

A I am aware of that, too. We have already prepared ourselves for possible imprisonment. Every morning when I open my eyes and happen to catch a sight of my workmates, I worry whether or not it is true that I am only making them suffer by carrying on the strike. So far, they have mentally embraced me. There are about 350 people in the demonstration site even in early afternoons.

Q Is there anything you would like to say to those Koreans who are worried about the workers?
A There was one Korean officer working in Sambo Indonesia who used to help us a lot of times. This man also ended up not getting the right payment, just like us. However he tried his best until the last moment to help us get our wages. We know there are good Korean people as well, but there are so many workers, including us, who are suffering very much because of some Korean private firms. We especially hope the Korean labourers’ union can help us through this with a responsibility.

Q Our research team is leaving Indonesia very soon. Anything you wish to say to us for the last time?
A I ask you to please tell a lot of Korean people about us. We have worked so hard until now. There were even times when the firm didn’t make enough profit. Now, we are here inside this filthy factory full of dirty rats and cockroaches, fighting for our lives. Why we should suffer so much because of the Korean people is something all Korean people should think about as well. There should be no victims any more.
Philippines’ incident 1

“The Korean people are beyond one’s comprehension. If you are going to earn dirty money, we’d rather have you leave our country.” (Arnell, director of the Workers Assistance Center in Cavite)

The Cavite Free Trade Zone is visible from the highway after a two-hour drive from Manila. Most of the Korean private firms are located at the end of the road. Half of the overseas firms in the Cavite Free Trade Zone are run by Korean private firms.

The Philippines is a country that was wealthier than Korea just 30 years ago. Nowadays, there is nothing at all that can even hint of the fact that it used to be one of the rich countries that would help Korea out economically. If you go deeper into the countryside, everywhere you see small children suffering from hunger and poverty, women who are wearing rags, and men who are trying to make a living by selling things that are hardly worth anything.

Can the people from the third world be rescued from poverty, simply by creating jobs in the market? What hope is there for an environment that is being destroyed by companies every moment, for the lives of factory workers who could be kicked out at any moment, and for the gruelling lives of immigrant workers who had to leave their home, family, and everything behind? Our research team spent three days in the Workers’ Assistance Centre.

The Workers’ Assistance Centre, built in Cavite in November 1995 by Father John, a Philippine priest, is crowded with workers day and night. Activists there have taken care of the workers, living in a community lifestyle in this building since 1997. As there are a large number of workers who are enjoying times of rest and leisure after being kicked out of factories, the activists have to prepare a huge amount of meals. This is the only place the workers can ever relax in.

Most of the workers in the Workers’ Assistance Centre talk about difficulties they are faced with, due to delayed wages, bad working conditions, and frequent overtime. Since there are many clothes manufacturing factories in Cavite, most of the workers here are women. For the last few years since Korean firms were allowed to settle here, they have been the Workers’ Assistance Centre’s major concern. Firms are exempt from paying
taxes for a maximum of the first three years or over the tax allowance period, and they may declare bankruptcy and leave the place after firing all the workers. Although it is not only Korean firms that abuse the tax allowance policy, they are the most common ones in Cavite, so it is not surprising that they are blamed the most. Korean firms especially tend to declare bankruptcy very easily, and this is because, “They do not want to permit any labour union activities at all”, says the general secretary of the Workers’ Assistance Centre, Cecile (35, woman).

Another common complaint about the Korean firms located in the Philippines is that they often make rude or disrespectful remarks towards the Philippine workers’ culture and habits, more so than any other countries’ firms. Arnell, the head person of the Workers’ Assistance Centre, has been aware of such disrespectful behaviour that has continued for too long, and decided to speak out and argue against it.

“Philippine workers generally have high intellects. Despite our poor education environment, the quality of our education may be as high as any other country in Asia. Most people start speaking English fluently once they graduate high school here. What’s more, we are optimistic about everything. No matter how frustrated we are, we would always act lively, and we appreciate the joy of smiling and chatting to our friends. However, Korean firms are being very arrogant about our culture. Whenever we come across the materialistic behaviour of the Korean entrepreneurs, we want to say to them to leave this place and go back to their country. We do not want to live in the same place as them.”

Philippines’ incident 2

We cannot announce the name of this firm, since it is currently under investigation to find out whether it has violated the OECD guidelines, by the Korean House for International Solidarity (KHIS).

XX Firm: Rapino (the interviewee) and 75 other workers losing jobs from Korean firms.

In the Workers’ Assistance Centre, our research team came across several workers who had experienced losing jobs, even when the firm had not gone out of business. Concerning this, Cecile, the general secretary of the Workers’ Assistance Centre, asked the Korean government for fur-
ther investigation, arguing that the firm is only trying to be clever over the law system, in order to avoid having to pay taxes in the Free Trade Zone.

**Team (T):** When did you lose your job?

**Rapino (R):** Five or six times a year they told us to go home because they didn’t need any labour. But they would then employ a temporary worker to do the jobs we were supposed to be doing.

**T:** Are you saying that you were fired?

**R:** No, it is not even that. The firm is trying to get us to quit ourselves, because they know that if we are employed for a long time, they will have to pay us retirement allowances, and that we will be able to set up our own labour union.

**T:** Did you petition the Department of Labour?

**Cecile (C):** Yes, we did. However, they cannot do anything for us either because the firm always hides behind the excuse of ‘management difficulties’. But the truth is, there are a lot of Korean firms that use this method because they want tax privileges, not because they have ‘management difficulties’. The regulation is that for the first five years they do not have to pay taxes in the Free Trade Zone. Korean firms are abusing this, by constantly declaring bankruptcy and opening new firms under a new name, to get away from having to pay taxes in Cavite. In this process, they either kick the workers out or make them quit themselves so the firm can employ new workers. By doing this, they are even saving a little bit from workers’ wages.

**T:** Then why would the workers want to continue to work in firms like this?

**R:** It is certainly not because we are nicely treated in factories. We even have to buy our own drinking water. We have to work for more than 12 hours a day. We do not even qualify to get allowances when we retire. Still, the reason why we are trying to get in touch with Korean factory owners all the time is because we don’t have many jobs here. Earlier this year, we set up a labour union to try and sort this out. The problem is, other firms don’t want us, especially some of the Korean firms.

**C:** 30 to 50 per cent of factories here in Cavite belong to Korean firms. I do not think they should prefer employing young rural migrants to employing us, the experienced ones. Actually, there is a
long queue of people looking for jobs in the park every morning, which is yet another advantage to the people who run the firms.

R: I made several phone calls this month as well, because my family members have to wander around asking for food from neighbours. Women from the neighbourhood are kindly breast-feeding our baby. I feel like I am abandoned by the Korean people, despite the fact that I have worked here for more than five years now.

T: What are you going to do now?

R: Although we have a financial difficulty at the moment, we are not completely sacked or anything, so we are going to demand our right to continue working in the factories. I am in hardship, having to rely on my part-time job on a construction site, but I know that there are people who are in a worse situation than I am.

Many private firms that decided to leave Korea say that they did this because it is hard to gain profit from a business in Korea nowadays. Managers would spill out their sufferings and explain the difficulty of having to keep up with paying high wages to the workers even when business is declining. However, a lot of these managers are still looking to make profits for their firms the entire time, even if this means having to act in an uncivilised manner. They do not feel bad about letting young female workers labour until midnight, or even all the way until the next morning. Then they fire these hard-workers whenever they decide that the firms don’t need them. To these managers, workers are nothing but things they can consume. They supply unhygienic water that is not thoroughly checked out to save a few dollars and end up going out of business. They are also blamed for not giving workers overtime, and send them home without giving them extra money for transportation back home. Despite the popular belief that the KCA have improved since the mid-1990s, it turns out that they are in fact going downhill.

The Korean Government’s standpoint on Indonesia

Although the people from the Embassy had kept saying they were busy, we went there anyway. In order to find out more about the counter plan of the Korean government about this matter of Sambo Indonesia, a representative from our research team interviewed an officer in the Korean Embassy in Indonesia as follows.
Officer (O): Why are you here?

Team (T): During the research we found that the Sambo workers were not able to get in touch with the Korean Embassy. We want to know the Korean Embassy’s opinion on this, and to confirm your standpoint.

O: We have never actually heard of any incident to do with the Sambo Company.

T: We heard that the Labour Union of Sambo had already sent the Embassy a document asking for an intercall. Why wouldn’t you know about this?

O: Well, there might have been something like that.

T: Aren’t you supposed to resolve this conflict as an officer, in charge of all the research and investigation concerning things in Indonesia? According to the OECD guidelines, it is one of your responsibilities to have a profound influence over firms from Korea.

O: That’s right, but our main responsibility is to take care of the enterprise situation. There can be endless problems between workers and firms. How is there a point in trying to get in between the two sides?

T: Right now the workers from Sambo have been on strike for over a month. What does the Korean government plan to do about this?

O: Not an awful lot. Even if we went to stop the strike, what would we be able to do? This is the kind of thing the person in charge of the whole thing should try to resolve. Besides, Indonesian law can take care of this kind of thing.

T: A lot of the people who are on strike told us that they’re being mentally stressed by people in Korean firms fleeing back to Korea. How can the Korean government be so ‘calm’ about this?

O: The situation is not as serious as you say. There were lots of similar cases in 2001, but they were easy to take care of. We are aware that there have been cases like this in several Korean firms this year. I am busy now, so could you please do this quickly please?

T: Do you have any intention whatsoever of talking to the workers on strike?

O: No.
Although there is a printed report concerning the guidelines of OECD and the relationship between the workers and the firm in Korea, nobody really seemed to see the severity of this situation between the Sambo firm and the workers there, even though this threatens the lives of the workers. Why is the Korean government policy so feeble in Indonesia? As an investing country, what kind of view does the Korean government actually have on this matter?

Our research team concluded that this passive and unconcerned attitude of the Korean government hasn’t changed much in the last 10 years. We also had to accept the truth that for the time being, there was nothing we could do but to remind them again of their responsibilities and restrictions under the guidelines, as an OECD member country.


Up until the 1990s when Korea was not yet a member of the OECD, the Korean government was uncaring and not alarmed by reports concerning Korean firms’ problems in other countries. On the other hand, they seemed to react quite sensitively to problems between firms and workers in Korea; thus, they would enthusiastically go about resolving any problems in this area. The main reason for this significant difference in the government’s attitude is the fact that the Korean government only concentrated on ‘encouraging the enterprise spirit’ abroad, rather than working hard to respect cultural aspects of the country or the labour law. Consequently, although problems occurred frequently in other countries because of the conflict between workers and Korean managers that often led to the extreme situation of using armed force to settle disputes, any involvement by the Korean government was not to be seen anywhere.

However, after Korea became a member of the OECD, the government was in a situation where it was supposed to follow the guidelines concerning investment in foreign countries. Therefore, the government had several responsibilities such as 1) setting up a NCP in the country to carry out the rules of OECD; 2) spreading the news of a newly constructed NCP and its tasks to the Labour Union, business world, and other important organisations; and 3) making sure that the NCP holds an annual meeting, responsible for reporting all of its actions to the OECD.
The purposes of these guidelines are as follows.\textsuperscript{10}

- To respect human rights of everyone who may be affected by the actions of the government and TNC.
- To enhance the quality of the workforce through opening up more jobs and providing better opportunities for workers.
- To strive to get other business partners such as the suppliers and subcontractors to participate in following the guidelines and regulations of the OECD.

On 16 June 2003, the investment policy of the Industrial Resource Department presented data aiming to resolve some problems concerning KCA, as they became aware of the increasing FDI in South America now, followed by that in Asia,\textsuperscript{11} which is as follows:

- We, the Ministry of Commerce, Industry, and Energy of Korea, are going to establish and support an ethical management system, in order to help the overseas Korean firms efficiently adapt to the foreign environment and to remind them of their social responsibilities.

- These resolutions come from our conscientious efforts of seeking a smooth running of the KCA and a good impression of our country to the foreign workers, as we agreed to the OECD Trans-National Corporation Guidelines.

- As OECD Trans-National Corporation Guidelines were established, as a reminder of Trans-National Corporation’s social responsibilities, to create harmony between business firms and society, (established in 1976, overviewed in 2001)

- Korea chose the foreign investment committee to be an organisation that should work on the propaganda aspects of this.

- The establishment of the support was based on a purpose of helping out Korean firms in South America and Southeast Asia to resolve employment problems and significant difficulties of management.

- These firms—most of which are small or medium—are clearly not used to the cultural and legal aspects of the country, and therefore need profound help from the Korean government.

- Last year we received from the OECD, a report concerning the unrighteous behaviour of Korean firms in countries such as Guatemala and Sri Lanka.
5. Schemes for utilising the guidelines

The guidelines have the purpose of making native people have positive impressions of foreign companies, countries, and globalisation by making the OECD member companies, when they’re working overseas, follow the rules and standards confirmed and recognised in the native country.

However the reality is that the guidelines don’t have the legal force that would help to accomplish their goal; NGOs and government policies alone have great limitations in regulating infringements of labour rights in companies.

Therefore, a watchdog organisation is needed for TNCs, with a critical independent attitude towards TNC actions, an official stand, and broad participation by the government and the public.

Already in some of the developed nations, such as Belgium, Sweden, and Norway, a tripartite structure of labour, enterprise, and government was formed and works actively. This organisation has specialised in enforcing, intensifying, and discussing the general rules about the TNCs of OECD member countries. It chiefly refers to ideal yet realistic ways to report and solve the problems of labour rights violations, environmental protection, company transparency, and fair competition.

In Korea, the activities of contact offices under the Ministry of Commerce, Industry, and Energy have been limited to looking at the worst human rights evasions. In order to work out the problems with systematic participation from related NGOs and labour organisations, it is highly recommended that the function of contact offices in other countries be studied and accepted in Korea.

When the government actively organises the structure, content, and the actual organisation reflecting this purpose, social recognition about the possibilities of the guidelines will also spread.

After that, the Korean government should look for new publicity to follow the guidelines to regulate large corporations’ activities that are unfair and anti-labour.

Contact offices in countries such as Italy and Australia have organised tours around cities introducing the social responsibilities of corporations and the spirit of the guidelines.
In Finland and Austria, they send handbooks about the guidelines to all the corporations overseas.

Sweden is known to be discussing with auditors the ways to include the guidelines into the auditing activities.

Looking at the cases of most KCA nowadays, it is obvious that social recognition about the guidelines is under average, and the primary responsibility for this lies with the government. In response to this, it is mandatory for KCA to strengthen the training for dispatched (agency) workers. This is one of the ways to increase the possibility of implementing the guidelines.

Our overseas embassy has a primary obligation to inform Korean managers who are responsible for the enterprises and the relationship. However, even in the case of Indonesia where incidence of corporations’ flights by night has been high, there wasn’t any information about the OECD guidelines in the section ‘information related to labour’.

6. Conclusion

“Corporations and leaders of the government have uniformly claimed that in order to keep up with the competition around the world economy, government regulations have to be reduced and such optimum atmosphere for the foreign investment should be created. In the process, they have paid the cost of damaging human right for the workers and the environment. The result of this is the birth of corporation countries by the borderless corporations.”

As research has shown, many KCA on one hand have a light view of moving the plant to another country when sales are down, while on the other hand they recognise that its cost is high. Blind with the culture of capitalism that focuses on minimum input and maximum output, they have prioritised strict ways of production management and labour control to minimise investments, abandoning aspects of technology, facilities, and welfare. Consequently, they have tried to increase productivity via illegal and violent actions such as forced extra work, punishment, physical abuse, and low pay. Likewise, KCA have left many wounds on the native workers.

The international image of Korea has a characteristic of the ‘public goods’, which are goods that benefit everyone, like clean air and seawater.
However, since the benefits of public goods can’t be exempted from those people who don’t pay for them, there are ‘free riders’ who enjoy the benefits of the system without paying for it. Thus public goods are exploited by the selfishness of each society member.

The selfishness of the corporations is generated by the ideology of globalisation. Unilateral domination of capitals and the rules of increasing overseas trade and investment have caused worries that the standards of human health, labour, and environment have fallen. People with dominant power haven’t worried much about it though. In the 21st century conversation of symbiosis they don’t have much guilt over excluding or secluding the poor.

People who are worried about the costs of globalisation are understood as Utopians or daydreamers, since the dominant class claims that it is themselves who are contributing to solving poverty problems by investing in poor countries. On the other hand, extreme objectors to neoliberalism complain that there’s no way to control the big-scale capital movements through their own borders and try to solve the problem only by demonstrations and actions.

As the two forces oppose each other, the waves of globalisation are continuously spreading, and the people who are most harmed by this are the native people who powerlessly gaze at the destruction of their cherished land and the workers employed by exploitive corporations overseas.

District communities that have long been naturally cultivated by townpeople are quickly dissolving under globalisation. Townspeople have degraded into crowds that are unable to make their opinions heard, oppressed by the new forces from the outside that push ahead ‘development’ through investment. These new sinister forces are destroying the environment and disregarding the rights of workers. Those who have to withstand all the suffering are deeply concerned about the education of the next generations and the conservation of their towns, along with their long-preserved history.

Their small hopes for decent life call for another type of globalisation. Although the current globalisation draws in all the disasters and thus people are excluded from the high-profit table of the dominators, they can’t be part of the group that only focuses on the profits from the capitals. Current
globalisation, thus, is being challenged by them. And this hope will be the stimulation for recovery and revival. There are many NGOs and activists from various countries around them.

Now enterprises and politicians should realise that a healthy and durable society can only be achieved when the authority goes to the organisations advocating the long-term welfare of human beings, communities, and nature. This means that the authority should be distributed fairly between all the interest groups within the society. When each and every single member of the society makes efforts to satisfy basic needs including food, homes, clean water, energy, education, health, political participation, and culture and thus they will be aware of the meaning of their existence and self-realisation. Then the true meaning of democracy will come alive.

In this context, the codes of conduct of 1998 still have a social significance as a guideline for the responsibilities and duties that every corporation should follow.

**Note**

1 Neil Kearney, General Secretary of the ITGLWF, revealed cases of human rights violations by KCA in Latin America during the International Workers Conference in 2001, spreading information to the press all over the world. The ITGLWF under the ICFTU (International Confederation of Free Trade Union) is located in Belgium.
CHAPTER 13

INTERNATIONAL SOLIDARITY AGAINST RUNAWAY FACTORIES VIA LABOUR’S TRI-CONTINENTAL LINKAGE IN THE TAINAN ENTERPRISES CAMPAIGN

Ching-Jen Labor Health & Safety Service Center

It seems that in Central America, many labour campaigns come after earthquakes or volcano eruptions. What we are going to tell you is not an exception.

During January and February 2001, severe earthquakes rocked the land of El Salvador. Many buildings collapsed and 1,168 people died. But workers in Taiwanese-invested Tainan Enterprises (TE) were not allowed to go home to see how their families had fared, because the management kept the plant operating and refused the workers emergency leave. Instead they had to stay on the shop floors where facilities had been affected by the earthquakes and posed dangers. Furthermore, the company’s administration collected donations from TE labourers, but contributed it towards the relief of the earthquake victims in the name of the company only. Workers felt very angry due to the employers’ pretentiousness.

At that time, two union representatives openly expressed labour’s disagreement with the abuses by the management. This opened the workers’ struggle in Tainan Enterprises’ campaign.

1. The background

Tainan Enterprises: a typical Taiwanese company

Tainan Enterprises (TE) is a Taiwanese-owned garment factory, manufacturing for the big brands and retailers like Gap Inc., Ann Taylor, Target, Kohl’s and so on. It has other plants in Taiwan, Cambodia, China, and Indonesia. TE began to invest in El Salvador in 2000. Tainan Enterprises in
El Salvador (TE/ES) was located in the San Bartolo Free Trade Zone (FTZ) at Ilopango, a suburb of state capital, San Salvador. It had two plants called TS1 and TS2 inside the free trade zone. Before a dispute between the union and the management, it hired about 1,500 workers in total.

The textile and garment industry was once Taiwan’s most important sector. It employed the most workers and earned the most foreign exchange for Taiwan. But after the 1980s, more and more countries opted for an export-oriented economy. Huge amounts of workers poured into FTZs (or export promotion zones - EPZ; maquilas or maquiladoras in Central America, especially Mexico) to work on the production lines. Taiwan businessmen began to move out seeking cheaper labour and more (Multifibre Arrangement) quotas that had already been filled in Taiwan, whose ‘outward’ capitals aimed firstly at China, secondly South East Asia, and a few went to Central America and Southern Africa.

Although TE is a public shareholding company, the company board and management is controlled by the Taiwanese Yang family, meaning that TE is run like a family business. TE factories in Taiwan are located in the countryside and EPZs far away from the influence of the labour movement. Nowadays the workers are middle-aged women. Despite some labour disputes, they never formed a union. Thus the management of TE never had to negotiate with organised labour. Later this revealed a shortcoming of TE when the El Salvador campaign had been launched; TE management had little idea about labour’s right to freedom of association and collective bargaining.

Taiwan’s government

Besides TE, other Taiwanese companies have investments in El Salvador’s FTZs, mostly garment factories. They went to Central America to take advantage of the Caribbean Basin Initiatives (CBI\(^1\)) and other schemes that followed, to sell their products on the US market. Taiwan’s government also encourages them to go there, with incentives such as preferential loans and government subsidies.

Due to political isolation in international society, Taiwan only has formal diplomatic relations with few countries, most of them in Central America. Taiwan’s government uses many methods to establish and maintain
formal relationships with other countries, like economic aid and the encouragement of Taiwanese business people to invest in Central America. Ever since 1992, there have been numerous Taiwan governmental missions to Central America, including every year at least two led by Taiwan’s President, Vice President, or Prime Minister, accompanied by Taiwanese capitalists. The Taiwan government facilitates outward investment to Central America to consolidate diplomatic relations there, and significantly, to reduce Taiwan’s capital outflow into China.

The first priority of Taiwan’s diplomatic policy is to compete against the Chinese government. To this end Taiwan’s diplomats foster friendships with the dominant blocs in Central America to keep the status quo. Unfortunately those blocs are controlled by guys who are usually right-wing conservatives with vested interests, and are unwilling to take care of the welfare of the peasants and workers. So it is not strange that Taiwan’s embassies there dislike listening to labour demands and stand by their capitalists.

Taiwanese labour groups

In year 2000, a labour dispute broke out in Nicaragua. Workers in a Taiwanese-owned company, Nien-Hsing Textile, organised a union and tried to collectively bargain with the employers. In response the management fired the union’s leaders and other selected members. Some concerned Taiwan labour groups and individuals established a temporary coalition called Taiwan Solidarity with Nicaraguan Workers (TSNW)\(^2\) to take part in an international campaign about the dispute.

After that it was felt necessary to establish more permanent cooperation. So TSNW transformed into the Focus on Globalization (FoG), whose main components are the Ching-Jen Labor Health and Safety Service Center, Coollouder Web, Asia-Pacific Labor Update (APLU), Linkage, Green Citizens Action Alliance, and individual activists such as Professor Chen Hsin-Hsing. FoG’s focus was on cross-border campaigns and globalisation issues.

The unions

Due to advice from a lawyer introduced by Taiwan’s Embassy, TE originally set up factories in El Salvador, and immediately contacted a labour federation, Federación Nacional Sindical de Trabajadores
Salvadoreños (FENASTRAS), to establish a local branch inside the factories. FENASTRAS is a union formed to protect the company, taking money from the employer to form a fake union that can legally prevent workers from organising themselves. After two union representatives, Joaquin Alas Salguero and Ruben Ulises Orellana, made demands for rank-and-file workers, they received no support from the union. But the interesting thing is that they founded another federation, Sindicato de Trabajadores de la Industria Textiles/Industrial Union of Textile Workers (STIT). After El Salvador’s 12-year civil war, STIT was destroyed although it is still registered in the Ministry of Labor. Because it is very difficult to register a new union in El Salvador, they adopted the name STIT to set up a new local inside the factories, transforming the fake local into a genuine union.

2. The fight began

On 26 February 2001, Joaquin and Ruben were fired by TE/ES. In response they made a complaint to Gap Inc. TE/ES recognised them as employees on 19 March but still refused them to enter the factories, only paying their salaries at the main gate. In July the Ministry of Labor recognised the STIT local in TE/ES. In order to press for the two leaders to enter the factories, STIT launched its first strike on 26 August. On 17 October, TE/ES announced worker suspensions in some sectors organised by STIT as a warning.

As a result of interventions with the Salvadoran government by the US labour centre, The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), labour NGO US/Labor Education in the Americas Project (US/LEAP), and other organisations, TE/ES signed an agreement with STIT to readmit the two union leaders on 30 November. After a short peace, more worker suspensions were imposed in March 2001. In the same month, STIT had recruited enough members in TS2 (more than 50 percent plus one) and was qualified to demand collective bargaining. On 5 April Donald Wu the Vice Chairman of TE announced more suspensions in TS2, arguing that the buyers had not placed enough orders and TE could not make profits in El Salvador. On 22 April the suspensions extended to TS1.
STIT filed a request with the Ministry of Labor to negotiate a collective bargaining agreement on 18 April. The union had enrolled 250 members out of a total 400 workers in TS2. The next day the AFL-CIO together with FoG talked with representatives from TE Taiwan headquarters. TE representatives alleged that the suspensions were due to insufficient orders and the labour performance of Salvadoran workers could not meet management expectations, and TE/ES could not make profits. TE told the delegates that the factories would only be closed temporarily and would rehire the workers once production resumed. But the business news sections of Taiwanese newspapers showed that the shutdown in El Salvador was forever and TE had prepared to ship all the machinery back to Taiwan.

It is most important to note that the main customers of TE denied that they had stopped placing orders with TE. And STIT found evidence to prove that the orders originally intended for El Salvador plants had been out-sourced. Taiwan groups also indicated some questionable items in TE’s financial balance sheets, showing that TE/ES was not unable to make profits. Indicating that TE intended to avoid collective bargaining with Salvadoran workers.

Rank-and-file struggles in El Salvador

After management’s total stoppage at the two plants, TE/ES workers all lost their jobs; union members were blacklisted. They could not find any work in that FTZ. It was a hardship for the union organisation and a setback for the struggles. But STIT leaders refused to accept severance pay from the company. They confronted the difficult situation with iron backbones to consolidate the union members. Members also succeeded in preventing the company from shipping the machinery out with complaints to the labour court. Supporting groups like Centro de Estudios y Apoyo Laboral/Center for Labour Studies and Support (CEAL) tried their best to look for any possible resources to keep the struggles going and maintain a national alliance of concerned organisations.

On May Day 2002, STIT launched a rally in downtown San Salvador, seeking support from the general public. On 13 June, the international day of action, STIT organised a protest in front of Taiwan Embassy and TE/ES office to express the workers’ demand for the freedom of association.
Pressuring the brand names in the US

From the beginning of TE campaign, groups from labour side kept close contacts with the main customers of TE, especially Gap, Ann Taylor, and the Limited Brands. The Solidarity Center (AFL-CIO international body) and US/LEAP urged the brand names to correct the labour rights violations of TE. Campaigners do not want the buyers to cut the orders and run, but to demand their supplier, TE, to respect the right to freedom of association. Most of the brand names agreed with the principle and told TE that they were concerned about the labour dispute in El Salvador. Only Ann Taylor was not bothered. On the international day of action, the NGO, Campaign for Labor Rights (CLR), proposed a joint campaign to conduct protests at Ann Taylor stores all over the US.

Solidarity campaign in Taiwan

The duty of the Taiwanese groups was to look into the background and find the weaknesses of the company. We learned that TE chairman Tony Yang is a prestigious member of the Presbyterian Church in Taiwan. We petitioned the church requesting an investigation into TE’s labour rights violations, endangering Yang’s position in the church.

Through the Internet, we launched an endorsement campaign to pressurise the company, at the same time raising the awareness of the general public. We distributed material about the labour dispute in El Salvador to the media, trying to influence the values of TE on the stock market, and asking TE to negotiate with the union. On the international day of action (Taiwan date: 12 June), FoG together with Taiwan labour unions and student activists protested in front of TE’s Taipei office, forcing TE management to immediately come out and talk to FoG delegates.

The decisive hit on Tainan Enterprises

After the international day of action, TE management showed willingness to negotiate with the union. But they also said that they did not know what to do, because they never had such an experience before.

The situation didn’t give TE much time to rest. Workers in TE’s other production sites around the world began to join the solidarity line by Salvadoran workers’ side. The first shoot was from Free Trade Union of Workers of the Kingdom of Cambodia (FTUWKC), an independent Cambodian union federation that has a federated local branch at TE’s Cambo-
The president of the union issued a solidarity letter on 28 June:

“We want to make it clear that Tai Yang El Salvador’s abuses are not seen as an isolated incident, but a reflection of your company’s overall attitude towards workers. The FTUWKC is committed to defending Cambodian workers in a global context and we will not allow Tainan to use us as scabs. As members of the worldwide union movement that we are co-operating with on this matter, the FTUWKC demands that Tainan reopen its El Salvador factory.”

Then four Indonesian union federations including The Federation of Garment, Textile and Leather Trade Unions (FSPTSK), National Front for Indonesian Workers Struggle (FNPBI), The Federation of Independent Unions (GSBI), and The Indonesian Prosperity Trade Union – Garment and Textile (SBSI GARTEKS) organised the ‘Indonesian Unionists in Solidarity with Tainan Enterprises Workers’ and demanded the same of the company on 10 July.

TE management in these two countries explained to workers that the closing of El Salvador plant would mean more orders for their own countries and more jobs for the workers. But the response of the unions was that they “will not allow Tainan to use [them] as scabs”. The situation developed so far that TE had troubles with the church, the customers, the labour groups, and its own workers all over the world at the same time. All the pressuring finalised the first negotiation between Sindicato de Trabajadores de la Industria Textiles/Industrial Union of Textile Workers (STIT) and TE in San Salvador, which took place on 11 and 12 July.

3. The empire struck back. The tense atmosphere in San Salvador

Supporting the labour array in the negotiations, representatives from the International Textile, Garment and Leather Workers’ Federation (ITGLWF), the AFL-CIO, the Union of Needletrades, Industrial and Textile Employees (UNITE - now merged with hotel and catering workers’ union to form UNITE HERE) and supporting NGOs including CEAL, US/LEAP, and FoG gathered together in San Salvador during that week. Opposing them, the right-wing ruling classes of El Salvador also looked for chances to break the negotiation.

On 5 July, a maquila reported chemical smells and some initial symptoms of toxic contamination. The source was the Singaporean-owned Hoon’s Apparel in Olocuilta Free Trade Zone half way between San Sal-
vador and the international airport. More than seven hours later, when the complaints had increased, Hoon’s management ordered evacuation of the plant. In total 288 women workers were admitted to hospitals for treatment of poisoning. Red Cross staff found a chlorine leak in one of the tanks in Hoon’s factory. Chlorine is a toxic gas that could have caused the symptoms of stomach pain, irritation of the nose and throat, vomiting, dizziness, and loss of consciousness. The following Monday 8 July, a similar thing happened and 244 workers were sent to hospitals. Investigators from the Ministry of Environment attempted to investigate but were illegally denied access by the maquila’s private security forces.

The governmental National Emergency Committee (COEN) cited lack of evidence of the presence of toxins and declared that this was a case of ‘collective hysteria’ (a frequent response by companies the world over when many people, especially women and children, become sick en masse) on the part of the maquila workers, while the Ministry of Labor refused to rule out the possibility that the workers were boycotting the factory. The executive director of the maquila owners’ organisation, Salvadoran Clothing Industry Association (ASIC), in support of the sabotage theory, called it an “attack against the health of Salvadoran workers, against investment, and against the country”. This insult to the Salvadoran workers was soon backed up by El Salvador’s President Francisco Flores, who proceeded to spread rash allegations of ‘terrorism’ and a ‘criminal act’ by union groups who ‘want to attack the maquila sector’.

The two local major newspapers preferred to give weight to the claims of sabotage and terrorism in their coverage of the event. La Prensa Grafica newspaper published a photograph of a letter written by Joaquin Alas Salguero the Secretary General of STIT on 5 July requesting an audience with the Ministry of Labor. This photo insert was placed under the headline “Maquila Owners Denounce Sabotage”, strongly suggesting a connection between his request and the toxic poisoning. Both daily papers published inaccurate and inflammatory statements regarding the presence of international union and solidarity organisers who came to support STIT. Neil Kearney the General Secretary of ITGLWF arrived in El Salvador on 9 July to accompany the union in their dialogue with TE. He was mentioned several times in the papers in overt suggestions that his presence was related to the alleged acts of sabotage.
In the whole Salvadoran garment sector, there is no collective bargain agreement between labour and management at all. The union organising of STIT in TE/ES is a historic milestone that met the legal qualification to collectively bargain with the company. But the shutdown of TE/ES gave the pro-capitals an excuse to counter the labour movement’s success with the pull out of foreign investments and the loss of job opportunities. However if international labour solidarity can force TE to reopen its plant in El Salvador, this is excellent evidence that union organisation can both take care of workers’ welfare and job security at the same time. For this reason the ruling classes do not want to recognise a successfully negotiated collective bargaining agreement and are very eager to break it.6

Negotiation moderator, Neil Kearney, and US unionists strongly protested to the El Salvador government for portraying workers as ‘terrorists’. The labour side successfully resisted the reactive pressures from the ruling classes and made the negotiation succeed. TE management expressed their apology for the abuse and closure, but were still unsympathetic to the workers’ demands. They did not want to go back to El Salvador to invest anymore and tended to spend money on workers’ compensations. They did not know that what workers want are jobs and the union.

4. Return of the workers

Eventually the first negotiation did not reach any concrete deal. But it started communications between both sides. After five months, the second negotiation took place on 21 November. STIT Secretary General Joaquin Alas Salguero and TE Vice Chairman Donald Wu signed an agreement in San Francisco, US. TE promised to set up a new plant for ex-TE/ES workers and provide a compensation fund for the blacklisted union members. STIT and TE would jointly compose the board of the new plant. Meanwhile the union would handle the day-to-day operations. The new plant would begin with 100 workers and then see operations expand. TE committed to pay the first six months of salaries.

The new plant was named ‘Just Garments’,7 where ‘just’ means ‘justice for labour’. It is the first ever factory in Central America owned and managed by the union. Besides, in order to ensure the new plant keeps operating, supporting labour groups also persuaded the labels like Gap to provide continuous orders for Just Garments.
The reactive ruling classes of El Salvador did not give up the harassment about the agreement for the new plant. The maquila owners boycotted Just Garments so TE could not rent a suitable site inside the FTZ. After TE found a vacant factory outside the free trade zone, the Ministry of Trade postponed the permit to ship out the necessary equipment from the former TE/ES factory in the FTZ to the new plant until August 2003.

Another eight months were spent on the technical problems of production and the communication with the brand name companies. On 19 April 2004, UNITE together with Gap Inc. held a press conference in San Francisco, US to announce formally the establishment of Just Garments. The TE campaign was totally settled by that time. From the shutdown of TE/ES, two years already passed.

5. Lessons from the Tainan Enterprises campaign

Not just another story of workers’ misery

Most anti-sweatshop campaigns talk of the misery resulting from child labour, low wages, long working hours, forced overtime, sexual harassment, and occupational accidents etc. We believe these stories all happen in El Salvador, and are very likely the background for why TE/ES workers organised a union. But the TE case is not just another misery story. When TE offered money instead of reopening the plant, workers refused, and instead launched the union to protect jobs, raise welfare, and respect freedom of association.

The triangle co-operation of labour’s international solidarity

Global supply chains are typically composed of manufacturing plants in developing countries, the Original Equipment Manufacturer (OEM) suppliers from newly industrialised countries, and the brand names in the industrialised capitalist states. To confront the chain, labour groups should organise rank-and-file workers in manufacturing countries, find the weakness of the OEM suppliers in the middle to hit it with, and pressure the buyers with a consumer campaign in the West. Co-ordinating these three aspects may increase the power to defeat exploitative sweatshops; the TE campaign is a good example of such.

Linking TE workers all over the world

The most important part in the campaign is still grassroots organisations of workers. Since a labour force is necessary for production to make
profits, what scares the employers most is a total stoppage by workers. Without positive organising of grassroots workers, consumer campaigns cannot possibly attain the goal. Additionally, in the TE case labour groups successfully linked TE/ES workers with TE counterparts in Cambodia and Indonesia. We believe the support from Cambodian and Indonesian TE workers was the key issue that made TE owners compromise. Workers’ international solidarity is more practical than consumer-oriented campaigns to achieve workers’ goals.

Targeting strategy

When launching an anti-sweatshop campaign, what is the best target? The factory under the most miserable working conditions? Certain brand names? The biggest supplier? All these are possible. But in terms of labour organising, the best target is where the workers have already a consolidated organisation, enough support locally and abroad to win the struggle, and the potential to extend the organisation. Just like TE case, international labour solidarity forced TE to re-open the plant. Thus not only can the union survive, but workers in Just Garments are also the major force of STIT, extending the organisation by unionising more garment factories around the FTZ.

6. What is to be done next?

Organising the unorganised/joint collective bargaining in a TNC?

Even though STIT has international links with TE workers in Cambodia and Indonesia, the linkage is made through the international network of supporting labour groups but not the union confederations themselves, partly because of the language problem. If the campaign continues, could we mobilise union confederations in Cambodia and Indonesia to take more actions to support the struggle in El Salvador? Were the rank-and-file TE workers in Cambodia and Indonesia aware of the international campaign and involved in the solidarity actions? We are not sure about the answer but we believe it should be an important part of the campaigning goals.

In addition, TE workers in Taiwan and China were absent in the campaign because they are not organised. If they could join the international labour campaign, then the strength of TE workers would double. Targeting the next anti-sweatshop campaign is a similar situation. It would be much more effective if labour groups try to mobilise workers in different
factories owned by the target company, then the demands of the workers are more likely to be realised. Much forward planning behind the scenes is necessary before the campaign is launched.

If workers are not already organised, then the campaign could be a good opportunity to organise them. It is a great pity that Taiwan’s labour groups did not prepare well by taking the opportunity of the campaign to organise Taiwan’s TE workers. If we manage to organise all the workers in a TNC, the next step could be synchronised demands for bargaining across the board in factories and countries, with workers cooperating instead of competing, to defeat the ‘race to the bottom’ of labour wages and conditions.

Notes
1 The CBI was passed in 1983 by the US parliaments. The legislation, which sought to promote economic revitalisation and to expand private sector opportunities in the Caribbean region, designated certain Caribbean and Central American countries eligible for duty-free exports to the US.
2 For the Nien-Hsing Nicaragua campaign, see http://www.catholic.org.tw/cicm/cicm_works/Chingjen/E5-01.htm
3 From the 2001 Annual Financial Report of TE, we found the ‘profit’ of the TE Indonesian Plant was MINUS NT$9,792,000 (US$1 = NT$34 to NT$35 in 2001), and TE/ES was also MINUS NT$101,073,000 in that year. But at the same time TE in Virgin Islands made an actual profit of NT$378,136,000. (Other plants are indirect investments.) The manufacturing plants lost money but the holding company made a lot of profit! We can reasonably assume that the manufacturing plants had not lost money but the actual profit had been transferred to the Virgin Islands for the tax breaks. The data were obtained from the Market Observation Post System of Taiwan Stock Exchange: http://newmops.tse.com.tw/
5 Tai Yang is the name of TE in Cambodia.
7 The web site of Just Garments http://www.justgarments.net/INGLES/TODO_INGHTM

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Ching-Jen Labor Health and Safety Center is a Catholic-based NGO originally engaged in promoting active workers’ participation in labour health and safety issues. Under the global economy Taiwanese companies go abroad a lot to invest in other Third World countries. In this sense, Ching-Jen has taken part in Taiwan TNC monitoring issues in recent years. We joined some international campaigns to strengthen workers’ solidarity across boundaries, like the Nien-Hsing (Chentex) dispute in Nicaragua and the Tainan Enterprise dispute in El Salvador.

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LIPS is a labour research and networking institute, based at Bogor, Indonesia. It provides information about educational models, organising patterns, and information for advocacy by labour unions. It aims to serve as a site of communications for unionists, labour NGO activists, intellectuals, and academics to bring forth innovative concepts for more effective unions in a changing context.

The Workers Assistance Center is a non-stock, non-profit, non-governmental organisation formed in 1995. Its work is focused on promoting workers organising in export processing zones in Cavite and Batangas, two provinces just south of Manila. WAC formed the Solidarity of Cavite Workers, an alliance of independent unions and workers’ organisations in factories and communities. WAC also provides labour education and training; research, documentation, information, publications, legal education and assistance programmes, and local and international solidarity networking.
Currently, WAC is campaigning for wage increases and against the ‘no union, no strike’ policy of the Office of the Provincial Governor.

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