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Foreign Ventures Come to Terms With China's Labor Unions

Wal-Mart's acquiescence is groundbreaking, and means other companies will be forced to follow.

By Jeremy Kahn

Listen to Joe Hatfield, the president of Wal-Mart's Asian operations, talk about the company's new stores in China and you'll hear him say something extraordinary: "I fully anticipate working collaboratively with...union organizations at all levels to create a model working relationship."

Can this really be a Wal-Mart executive speaking? After all, the retailing colossus has famously resisted union organization in its U.S. stores, going so far as to shutter operations when employees seemed close to successfully forming a union. In response, U.S. unions have been waging an all-out political assault on the

company for what they see as its low pay, poor working conditions and failure to provide workers with adequate healthcare.

So what is a Wal-Mart executive doing talking nice about unions in China? The answer is a tale that provides an important lesson for any company hoping to set up shop in the Middle Kingdom.

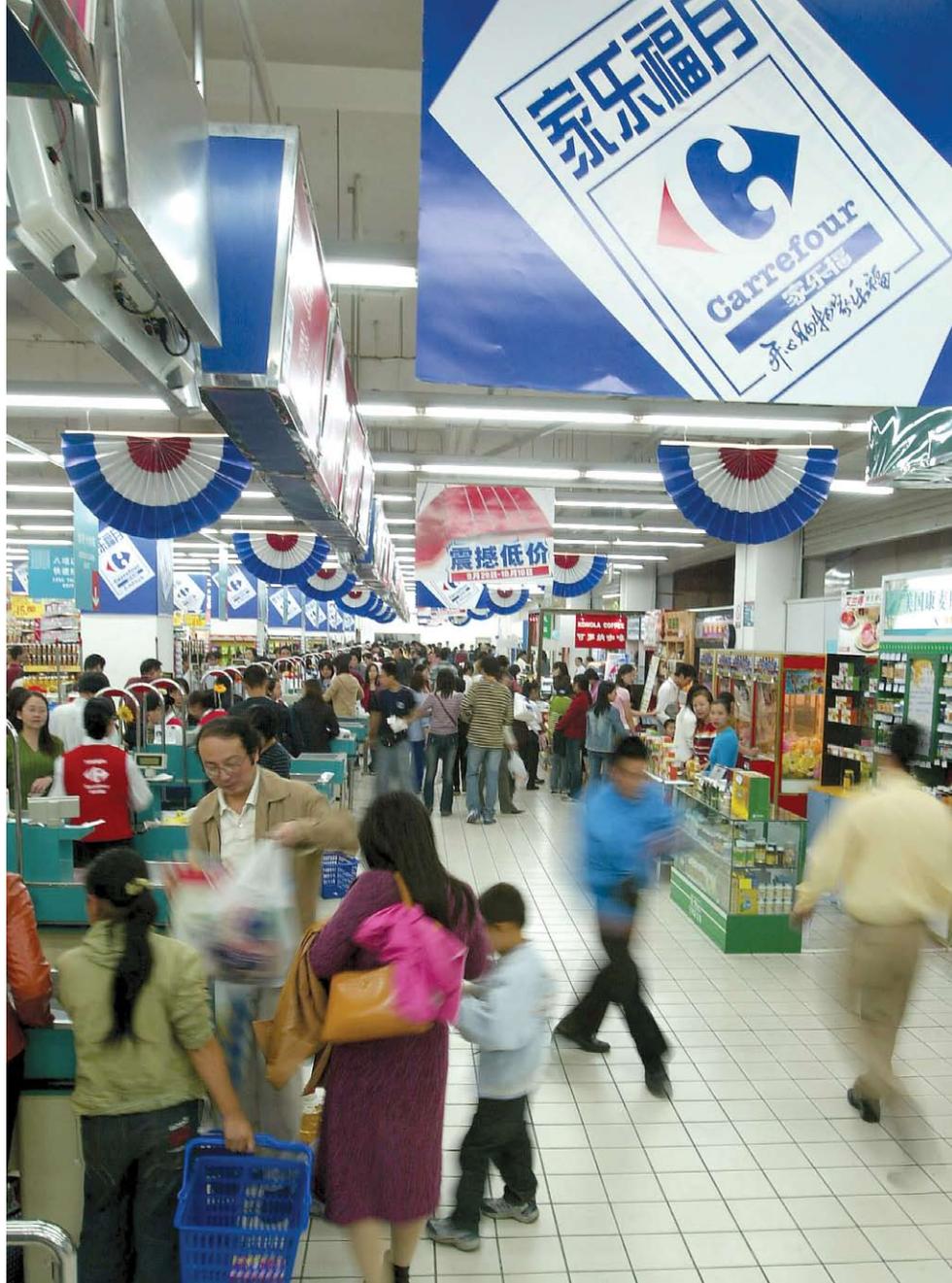
Doing business in China increasingly means doing business with an organization called the All-China Federation of Trade Unions (ACFTU). The ACFTU, which answers to China's Communist Party, is the only union organization allowed under Chinese law. Founded in

1925 and claiming a membership of 134 million workers, the union once mostly represented workers in China's vast state-owned enterprises. But as these dinosaurs have become a smaller share of China's overall economy, the ACFTU has belatedly branched out to the private sector, including foreign-owned companies.

ACFTU has had some success in setting up chapters in foreign-owned firms. According to numbers reported by the union, it has chapters in 26% of China's 150,000 foreign-financed companies, including such large multinationals as Motorola, McDonald's and Carrefour, the French retailer that is one of Wal-Mart's main global rivals. The ACFTU has reportedly set a goal of increasing the number of foreign-backed firms with union chapters to 50% by year's end and 80% by the end of 2007, although it's unclear how close the ACFTU is to achieving this goal. China is also considering a new law—pushed by Wang Zhaoguo, the head of the ACFTU, who also happens to be a key national legislator—that would mandate that all foreign-funded companies to establish ACFTU chapters.

As it has for U.S. unions, Wal-Mart has become an important symbol for the ACFTU, a way to show its power and send a message to other multinationals opening operations in China that it is a force to be respected. "The Wal-Mart story is an attempt by the leadership of the ACFTU—egged on by their affiliates in Shanghai—to show they get it, that they understand that private sector workers need to have unions and that their own survival depends in large measure on their ability to do so," says Sandra Polaski, a former U.S. trade official who now directs the Trade, Equity and Development Project at the Carnegie Endowment for International Peace in Washington, D.C. In 2004, ACFTU publicly named foreign-owned companies that had no union chapters and targeted them for unionization. Wal-Mart, which opened its first store in China in 1996, was at the top of the list.

At first, Wal-Mart struck a conciliatory tone, saying that it would allow its Chinese workers to form a union if they wanted. Wal-Mart did not want to do anything to upset its operations in China, where it directly sources some \$18 billion worth of merchandise each year (it receives billions more in Chinese goods through its suppliers) and where it now has almost 60 stores. And, in reality, Wal-Mart had very little choice. Chinese law says that if at least 25 workers in any one location want to form a chapter of the ACFTU, their employer has to let them. There is no majority vote of the workforce required as there is in U.S. (ACFTU chapters are formed in individual workplaces—not industry-wide or even company-wide.)



But the ACFTU soon began complaining that Wal-Mart was impeding its organizers from talking to workers in Wal-Mart's stores about forming union chapters. Wang Ying, the ACFTU division chief in charge of organizing foreign companies, told *The Wall Street Journal* as recently as May, that the company had warned workers not to talk to union officials during work hours. At the time, a Wal-Mart spokeswoman also told *The Journal* that the company could "not permit a situation where workers are free to engage in political discussion during the work day."

Wal-Mart refused to talk to *World Trade* magazine about any initial resistance to the ACFTU unionization drive. (In fact, most U.S. companies contacted for this story were reluctant to speak about their operations in China and their relationship with the ACFTU).

At first, any opposition to the ACFTU might seem baffling. So far, Wal-Mart and other foreign-companies have had little to fear from the ACFTU in terms of their bottom lines in China. The ACFTU is not like a U.S. union. Chinese workers have no right to collective bargaining. And, according to Polaski, Chinese law

Chinese customers make their way along the French distributor Carrefour's outlet in Chengdu.

China's Leaders Look to Collective Bargaining to Ease Social Inequities

U.S. companies doing business in China have recently raised alarms about a new Chinese labor law that the government is considering adopting this year. The law would make it more difficult to fire workers and would give the All China Federation of Trade Unions (ACFTU) the right to bargain collectively on behalf of employees, as well as more say in setting worker safety standards and other workplace rules.

World Trade recently talked to Michael Belzer, a professor of industrial relations at Wayne State University and an expert on China's labor market, about these developments.

Q: What are the Chinese trying to accomplish with this new labor law?

A: It is fair to say that they do want to increase workers' voices without having that result in a repeat of the out of control, Tianamen Square democracy period. They see that period as a time when a movement for workers' rights was in a sense hijacked by free speech and human rights people who were not necessarily representing the workers.

Q: Do you think the new law will pass?

A: I would say it is like Chicago politics: when you make the announcement you have already counted up the votes.

Q: Is ACFTU going to become more like a Western union?

A: Until now the ACFTU's role has been very limited, with much of it focused on enhancing efficiency rather than equity. But there is an awareness within the ACFTU of the need to change that role and they would like to change. The new labor law is a serious way to try to accomplish that. But even if it passes, it is just a first step. It is an enormously complex task to transform the organization for this new role.

Q: Do you think foreign firms will make good



Michael Belzer, professor of industrial relations at Wayne State University

on their threat to pull out of China if the law passes?

A: I think that's laughable actually. They are not going to walk away from a market this size. No way. That is ridiculous. And what's more, I don't think the Chinese care very much about the threat. This is still the Middle Kingdom. Outsiders are still considered barbarians. They won't be intimidated one way or another and they will about doing what they feel they need to do.

Q: Labor costs in China are already increasing. Won't a more active ACFTU and the new labor law hurt China by increasing these costs even further?

A: Well, we've all heard stories about 50% increases in compensation. But to expect that compensation will go up, that is natural. And it could be a real advantage because it is tied to

an inflationary currency. They have big problems with the undervaluation of their currency, but one way to deal with that is to raise compensation. I suspect that is part of what is happening. Rather than trying to rebalance their currency through monetary policy like we do, they are doing it by encouraging collective bargaining.

That is really a double win for them. Because the money that workers gain will be mostly spent within China on Chinese products, which will further help their currency situation. And at the same time workers will feel less exploited.

Q: How big is the risk of labor unrest in China?

A: The biggest risk they face is continuing to allow growing inequality between rich and poor. The China we see is mostly in big cities, and it is extremely successful. But countryside is where most people still live. The government is trying to push development out there.

Q: How effectively can China implement its new labor law across the country?

A: Well, there's an old Chinese saying: The mountains are high and the emperor is far, far away. So it will be tricky. It is a very large place and a lot can be done on the local level. Small moves locally can really change individual wealth and those may not be in the national interest. I think that is a concern they need to get a handle on.

They also need to do something about the growing number of what are called 'dispatching workers'—who are really temporary workers without any contract or rights. They tend to work through labor brokers, called dispatchers, who get paid a fee for each worker. This is exacerbating inequality too and the ACFTU can't necessarily organize these people.

The Chinese government doesn't want to stop development. They want balance—balance is the overriding word for the Chinese.

is unclear on whether ACFTU chapters have the right to strike (strikes by workers not-affiliated with ACFTU are illegal). All foreign-owned companies are required to set aside 2% of their payroll for the benefit of their employees—to be spent on work place improvements, additional training or morale-building social functions. If a union chapter is formed in the workplace, then the union gets control of the 2% to fund its operations (unlike U.S. unions, the ACFTU does not charge its members dues).

The union is not known for making demands on employers. "I have not heard of any instance where [an ACFTU chapter] has requested anything that would go above beyond the 2 percent," says Erin Ennis, spokes-

person for the U.S.-China Business Council, which represents 250 large U.S. companies doing business in China. Bruce Dickson, an East Asian expert at George Washington University, says that the ACFTU "is not there to negotiate for higher wages or shorter working hours. They are more there to keep workers in line and tell workers that cooperating with companies like Wal-Mart is in the nation's interest and therefore their own interest."

But one suspects that any resistance by Wal-Mart has less to do with China and more to do with politics back home in the U.S.

Faced with Wal-Mart's resistance, the ACFTU struck back. At the end of July, the ACFTU succeeded in



Wang Zhaoguo, the head of the All-China Federation of Trade Unions (ACFTU).

establishing its first union chapter in a Wal-Mart, in the southeastern city of Quanzhou. That was followed weeks later by a union chapter at a Wal-Mart in the city of Shenzhen, which is also in the southeast. Three others quickly followed.

Union officials also began making statements in the press implying that they would use their influence with the Chinese government to make trouble for Wal-Mart if it continued to resist its unionization efforts. They hinted that Wal-Mart might face increased sanitation and worker safety inspections. They said they might enforce a little-used regulation that can force foreign-owned companies without union chapters to hand over the 2% of its payroll that is set aside for workers directly to local government officials to help them fund union organizing. And Wang, the ACFTU head and top labor lawmaker, singled out Wal-Mart in proposing the new rule that would require foreign-owned companies to have unions.

Experts say the political power of the ACFTU has declined over the past decade as more of China's economy has privatized and local officials have become increasingly focused on economic development, but the union retains influence, particularly at the national level. Michael Belzer, a professor of industrial relations at Wayne State University in Detroit, Michigan, notes that China's national officials are desperately trying to ensure that the country's rapid economic growth does not lead to too much income inequality and that these leaders are sympathetic to the ACFTU's efforts. That may have been the reason that, with the ACFTU ratcheting up its rhetoric, Wal-Mart suddenly entered negotiations with the union late this past summer. It emerged with an agreement to have unions in all of its stores. The company announced that it intends "to collaborate with ACFTU and its local organizations reflects



Employees at Motorola GTSS Tianjin Operation office in Tianjin.

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our mutual aim is to establish grassroots unions within each Wal-Mart store throughout China," according to a statement the company provided *World Trade*.

Labor costs in China

For the moment, the expanding presence of the ACFTU should have little impact on foreign-owned firms operating in China. Labor costs in China are rising, and that in turn is making Chinese goods more expensive. Many foreign buyers have reported that Chinese suppliers have begun demanding 5% to 10% price increases to cover rising costs of both raw materials and labor. This past summer NTC Economics, a London-based firm that tracks the wholesale cost of Chinese goods, saw its Chinese Purchasing Managers Index (PMI) leap up some 12%, an unusually large surge. But the ACFTU has nothing to do with this trend. Instead, wages are rising because the supply of workers has become very tight in the key coastal areas—such as Guangdong province—where most manufacturing firms that service foreign companies have their operations. As a result, some companies have begun moving into China's interior in search of cheaper labor.

Ennis, the U.S.-China Business Council spokesperson, says none of its member firms with union chapters have reported any tension or disputes with union officials. "Generally, what we have found is that the union approaches the management and says they would like to have more training on certain things," Ennis says. "[The ACFTU chapters] tend to be organizations very focused



Andy Stern, the president of the Service Employees International Union (SEIU)

on labor welfare issues and not trying to in any way impede business.” And since the union typically doesn’t ask for anything that would cost more than the 2% of payroll costs already set aside for things like worker training and social functions, the financial impact of having unionized operations is minimal.

The bigger problem may be the way having union chapters in China impacts the operations of foreign-owned firms elsewhere in the world. As Wal-Mart may have feared, its organized labor foes in the U.S. have turned the company’s decision to accommodate Chinese union chapters against it. “It is an inherent double standard that shows Wal-Mart is willing to compromise with unions if they view it as a barrier to an important market,” says Nu Wexler, a spokesperson for Wal-Mart Watch, a union-funded organization that is leading the effort to turn Wal-Mart and its labor practices into a potent political issue in U.S. politics. “Why are they depriving American workers of the same thing they have allowed Chinese workers to have?”

Whether the ACFTU itself will eventually begin to echo the tactics and demands of Western organized labor is an open and hotly-debated question. Some Western unions see the Chinese labor organization as stunting the development of more effective labor movement in China. The AFL-CIO in particular has been a vigorous critic of the Chinese union. In a complaint it filed with the United States Trade Representative this past summer, the AFL-CIO wrote that, “where the ACFTU is present, its role is to discipline the workforce on behalf of [Communist Party] policies, local development strategies, and investor goals, not to assert worker

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interests and rights.” China expert Dickson concurs saying that the ACFTU’s “job is just to prevent the kind of demands that labor might otherwise make.”

But the Carnegie Endowment’s Polaski says the impediments to Western-style labor organizing in China have less to do with the ACFTU than with Chinese culture and history. “There’s no evidence that workers think having an independent union would be good,” she says. “If they are frustrated that no one is advocating for them, the idea that they would find someone outside the system to be their advocate is a big reach for them in their culture. There’s just no history or culture of that sort of action in China.”

Meanwhile, Andy Stern, the president of the Service Employees International Union (SEIU), has actually written sympathetically about the ACFTU on his own blog following visits to China this past summer during which he met with Chinese union leaders. The SEIU is one of the unions that have vigorously backed the campaign against Wal-Mart in the U.S. but it has also broken ranks with the AFL-CIO over a host of issues. Stern noted that there are elements in the Chinese government that would like to see the ACFTU become a

more effective force for better labor conditions and pay.

In one blog post, Stern quoted an editorial from China’s official English-language newspaper *China Daily* that appeared just after the ACFTU’s announcement that it had formed union chapters in Chinese Wal-Marts. The editorial said, according to Stern’s post, that a “number of enterprises, with or without trade unions, in this country used to make profits at the

expense of fair wages and working conditions. Such infringement on workers’ legitimate rights and interests should not be tolerated...trade unions should play a more active role in workers’ interests. For China’s union leaders, it is no time to celebrate. To build the country’s trade unions into an effective pro-worker force as powerful as their numbers suggest is a task more demanding than setting up more of them.”

For U.S. business executives then the lesson is clear: if you are going to China, be prepared to work with the Chinese union. Cross it at your peril. And, be prepared as well for the unexpected; China’s labor environment is changing rapidly. But, for now at least, it remains far less divisive than in many other countries, including the United States. After all, ACFTU officials talk incessantly about finding “harmony” with management. When’s the last time you heard a U.S. labor boss sound like that? **WR**

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