

## INSIGHT

## Gearing up

**Andrew Leung** says that we need only study the extraordinary changes at Foxconn over the past few years to see where China's manufacturing sector – and its economy – is heading

**F**oxconn, a Taiwanese "original equipment manufacturer" with 1.2 million workers in mainland China, is getting help from the US-based Fair Labour Association to train workers in voting for representatives on 18,000 union committees, according to a report this month. Up to now, all workers on the mainland have been represented by the All-China Federation of Trade Unions, a state-backed unelected organ more on the side of management.

This unprecedented move is rightly being held up as extraordinary. What is extraordinary is not so much that this is happening, but why it is being allowed or, rather, encouraged.

First, China aims to double its economy by 2020, to become a fully fledged middle-income nation by 2030. Many developing countries find themselves in the so-called middle-income trap, their economic growth stalling when per capita income reaches US\$3,000 to US\$8,000. To overcome this hurdle, China has to lift its labour productivity.

With eight million university and community college graduates added every year, China will have 195 million graduates by 2020, larger than America's entire workforce today. China's workers are thus becoming better educated and more aware of their rights, now enshrined in China's latest labour laws.

Second, the teeming millions of university graduates are China's rising middle class, with higher levels of knowledge and aspiration. Amid social, economic and political tension, the Foxconn union election augurs well as a first step towards a more inclusive and equitable society in response to changing aspirations.

The development follows on the heels of a watershed open-and-fair election in Wukan (烏坎) village last March. Guangdong's then party secretary Wang Yang (汪洋), one of China's reformist "young Turks", personally intervened to bring it about. These high-profile events are unlikely to be knee-jerk reactions, considering the Communist Party's record of cautious political management.

China is unlikely to import the West's form of democracy any time soon. However, while the country continues to study the latter's merits and fault lines, grass-root elections and civil society are by no means anathema to China's socialist ideals, according to Lin Chun in *The Transformation of China's Socialism*. Indeed, China is showing signs of "going back to the future" in retaking the "mass line" by promoting "people-based governance" and grass-roots "workplace democracy".



In the face of rising inequalities, the party needs to buttress its legitimacy in an enlightened "China 3.0", beyond sheer economic progress.

Foxconn has been moving its manpower-intensive operations from places like Shenzhen to Chengdu (成都), due to growing labour shortages in the coastal regions. This shortage is both a consequence of China's one-child policy, which is resulting in a fast-ageing population, and a manifestation of the "Lewisian turning point", when further economic development triggers rising wages as the pool of "cheap labour" is exhausted.

Foxconn has already raised workers' wages fivefold since 2010. The company is also embarking on automation, vaulting to put in 300,000 robots in the short term and a million in the medium term. In the words of Tim Worstall in *Forbes* online, this is a new industrial revolution.

Moreover, for the first time in a century,



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as a developing country, China has just become the world's top filer of patents. It has also become by far the world leader in filed trademarks and industrial designs.

In the nation's latest five-year plan, seven major strategic industries are being targeted: energy saving and environmental protection; next-generation IT; biotechnology industries; high-end assembly and manufacturing; new energy sources; new materials; and new-energy-powered cars.

Foxconn's manufacture in China adds little value to the final product. The lion's share of profits accrues to Apple, its proprietary brand owner. Meanwhile, Chinese manufacture is migrating "from brawn to brain", as *The Economist* highlighted last year. Labour-intensive operations are relocating to lower-cost regions in Asia, Latin America and Africa. The days of original equipment manufacturers in China are numbered.

There are now reports of a move among some US companies towards "reshoring", bringing outsourced production in China and elsewhere back home. This is a result as much of labour shortages and rising costs as of new technologies like robotics. Nevertheless, according to the *Financial Times*, there are five reasons why China will remain the world's factory – long-established skill sets, economy of scale, unrivalled infrastructure, globally integrated supply chains, and the world's largest market of potential customers.

Moreover, truly global companies nowadays do not differentiate "shores". Peter Löscher, chief executive of Siemens, has said that his company's home shore "is now as much China and India as it is Germany or America". The same should apply to Apple.

Foxconn's operations in China have been dogged by environmental, health and safety issues, leading to a series of worker protests, riots and suicides. China has been cracking down on polluting industries and is now a world leader in solar, wind and hydro power.

According to "Science and Technology in China: A Roadmap to 2050", a publication of the Chinese Academy of Sciences, between 2020 and 2050, new and renewable energies are planned to grow from 16 per cent to 45 per cent of China's total energy structure, nuclear energy to grow from 4 per cent to 10 per cent, and fossil fuel (coal, oil and gas) to reduce from 80 per cent to 45 per cent. However, judging from the recent smog in Beijing and continuing environmental degradation in various areas, China's road to a "low-carbon future" remains long and tortuous.

Meanwhile, it seems that for reading a China in rapid transition, there are no better tea leaves than Foxconn.

Andrew K. P. Leung is an international and independent China specialist based in Hong Kong

## Survival first

**Xun Zhou** says for people who for too long have had to live by their wits, without appeal to state largesse, a snake's cunning is a welcome quality

**T**he Dragon is gone; the year of upheaval is over. We are now celebrating the Year of the Snake. Chinese traditionally associate the snake with cunning and great wisdom. To have a snake in the house is good omen. It is believed that, in times of crisis, the snake, being resourceful, manipulative and deceptive, can keep the family from starvation.

When I was researching the Great Famine of 1958 and 1962, a villager I interviewed told me that in his home village in Shaanxi (陝西) province, every family used to keep a white snake in the hope that it would bring them food and save them from starvation. When things were desperate, his father would get food from the black market. He would bring it home at night, when no one was watching. The next day when he cooked it, he would say that the white snake had brought them the food. Those families who did not manage to secure any food from the black market sent their women out to beg. These women became the white snake.

More than 50 years later, life has not improved much in this village or much of the rest of rural China. Food is still an issue for a huge number of villagers. To survive, a number of them tried to make a living elsewhere. After nearly dying of cold and starvation, the man I interviewed fled to Beijing hoping for better fortune. On his arrival at the Beijing West railway station he was arrested, and his family had to borrow money to bail him out of the detention centre. As result, the family got into debt.

He said his story was not unique in his village. While the local officials got fat and rich with the post-Mao reform, villagers saw virtually no benefits. Instead of putting their trust in the authorities, the villagers continue to tell the story of the white snake.

In a time of traumatic social, political and economic change, popular beliefs and practices continue to play an important role in rural life. They provide villagers with a sense of certainty and hope. Villagers also learn to act like the snake to survive. As in the past, in today's China skilful cheats seem to go further than those who readily obey the law. As officials get rich and fat by abusing their power, ordinary people try to survive by engaging in theft, robbery, speculation, profiteering, and defrauding the system. People deal in the black market to survive.

According to the Chinese calendar, this is the Year of the Water Snake. They are known to be insightful, resourceful, determined and motivated. While they are affectionate with family and friends, they treat others differently. I have come across countless individuals throughout China who share these characteristics.

To enforce its control, the communist state has built an elaborate hierarchical system. Lack of transparency has permitted corruption at all levels. In a system where access to goods and services depends almost entirely on who one knows, as well as one's ability to flatter, bribe and cheat, people have quickly developed strategies to outwit the party and state. After 60 years of life under communism, these people have learned a hard lesson: the only way to keep going, to have access to goods and services, is to disobey, steal, cheat and, most importantly, always stay one step ahead of the system. In other words, to have snake-like qualities.

Xun Zhou is a lecturer in modern history at the University of Essex, Britain

## Let job planners watch, and learn, how local markets sustain millions

**Andrew Sheng** says understanding the ubiquitous informal economy will help create employment

**D**awn breaks early in Larantuka, at the eastern end of Flores, 1,600 kilometres east of Bali. The fishermen come early with their catch, the farmers are at the market displaying their vegetables, and the ubiquitous *ojek* drivers (local motorbike taxis) are already circling the market looking for passengers.

Going to the local market is a good way to assess how a country is doing. Indonesia is a country of 242 million people, with more than 40 per cent under the age of 25. You can see the vigour of the youth, and how globally interconnected they are as they chat on their mobile phones while balancing on their motorbikes. In the buses, women talk on their phones to their grandchildren. Internet use is widespread; Indonesia has the highest number of users on Facebook in Asia.

The market works wondrously even in the most remote regions. Going down a dirt road, we passed a local on a motorbike. Our guide told him we were looking for local textiles. Half an hour later, the local came back with news that someone in his village would sell us some. We stopped by an old woman's home and she showed us two pieces of hand-woven, beautifully dyed cotton cloth. With half the village watching, we clinched a deal at a fair price for all.

Markets thrive on information, and, today, the old lady in the remote village knows the fair price of her labour. But markets also have structure and hierarchy. The best pieces go to

Bali to be sold to collectors from Jakarta or Switzerland.

Markets concentrate in hubs, and it is often cheaper to buy direct in Bali than to try to hunt for the artefacts at their origin. Similarly, it is cheaper to buy better quality goods made in China in the US than in China itself.

Travelling in local markets is a better education about the functioning of markets than studying them in Chicago. Peruvian economist Hernando



**To ignore these activities and how these fringe markets work is to ignore reality**

de Soto keeps reminding everyone that theories of markets evolved from developed markets, where they have forgotten how primitive markets work in practice. The majority of the seven billion people on the planet live in the poorer, developing world. Indonesia is an excellent example of the pressure of population growth on employment. Over four million Indonesians are born every year, putting a huge strain on urban infrastructure and job-creation efforts.

The next war will not be about trade or currency, but jobs. Between 1979 and 2007, the

US shed nearly six million manufacturing jobs, replacing them with service industry jobs. Most of the manufacturing was outsourced to emerging markets with cheaper labour, principally China. But once the crash came in 2007, the US also began to look for manufacturing jobs, on top of retaining the high value added.

As we begin to move out of the Great Depression, the reality has struck home that, without basic structural reforms, there may be a jobless recovery. According to the latest World Bank's World Development Report on jobs, 200 million people are unemployed around the world, with pressure to create 600 million jobs in the next 15 years.

In addition, an excellent McKinsey Centre for Government study noted that while 75 million youth are estimated to be unemployed, 40 per cent of employers say that a lack of skills is the primary reason for vacancies. This is a serious problem. Countries like China pay huge attention to job creation, because that is the cornerstone of social stability. The Arab spring has reminded us that unemployed youth can be a tinderbox for revolution.

Looking at the number of young men and women who are looking for jobs in Indonesia made me realise that we need creative ways of generating jobs. De Soto is right to say that the economist's textbook is flawed on unemployment. In many emerging markets, jobless figures are low because there are no unemployment benefits and

therefore few report their lack of work. They are, as de Soto correctly pointed out, illegally employed in informal sectors and work in informal markets. The rise of shadow banking proves to economists that just monitoring "formal" markets isn't enough. We need to understand how the informal market works.

The young man working in an underground betting shop, selling pirated CDs or helping to collect passengers at a bus terminal for a friend is employed, but no official statistic captures these activities. To ignore these activities and how these fringe markets work is to ignore reality. Perhaps our universities should be teaching less about how the US Federal Reserve conducts (or misconducts) monetary policy and more on how these informal and vibrant markets create jobs and affect consumption.

There's no doubt we need to appreciate how most people live. Despite the prosperity and prospects of rising Asia, many people still struggle to meet basic needs. Helping people with basic opportunities, such as those brought about by mobile technology, will propel Asia to the next level.

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## Formula row a reminder of the value of an open society

**Stephen Vines** says doubt lingers on mainland after melamine cover-up

**T**he best way to understand the real lesson of the baby formula controversy is to go back to its origins, which explains why Hong Kong has to cling as tenaciously as possible to the "two systems" part of the "one country, two systems" arrangement.

In late 2007, the Sanlu baby formula producer started receiving reports that its products were causing serious problems for babies whose kidneys were being damaged. This was caused by the introduction of melamine into the formula as a way of bulking it out and reducing costs.

While parents were growing alarmed, China's official media was busy hailing the success of Sanlu.

The company had suspected for months that its products were tainted before it went public. Supervision was already lax. As a major brand, Sanlu was exempted from tests on its products by national inspection officers.

The company's own investigations confirmed the presence of the illegal chemical in July 2008. It notified the local Shijiazhuang (石家莊) government, as well as its New Zealand joint partner, Fonterra, on August 2.

All this was taking place, of course, in the run-up to the Beijing Olympics. And, instead of ordering a product recall, Shijiazhuang officials decided to cover it up and said measures should be delayed until after the Games. Fonterra, which pushed for a recall, was overruled. Meanwhile, as part of the

efforts to ensure that nothing would detract from the Games' success, propaganda bosses were tightening the screws on the media to eliminate all aspects of negative news.

Matters came to a head a month later, when Sanlu was forced to issue a product recall after Beijing intervened. The Chinese government had to: the New Zealand government had found out about the contamination and, through its embassy in Beijing, informed the Chinese foreign ministry that Sanlu's baby formula contained melamine.

What followed was mounting panic among parents and the start of class-action lawsuits against the company. An unprecedented 124 lawyers in 22 provinces volunteered their services for these cases. Most were soon put under pressure to withdraw. Meanwhile, the government moved in to sack the company's executives and shovelled them through a one-day trial. Local government officials were also dismissed.

Whether parents knew or cared about this trial is uncertain, but what is certain is that when it came to ensuring their baby's well-being, they were loath to take risks and most certainly did not believe any assurances given by the state.

The legacy of this disbelief lingers today so that when parents can get baby formula supplies from outside the mainland, they will do so. Many parents do not even trust foreign-made baby formula sold on the mainland because of a fear of fake products.

It may well be that the central authorities have done their very best to solve the problem, but in the absence of a fair and transparent legal process and in the face of a ruthlessly state-controlled media, who will believe them?

This is a rather dramatic example of what happens in nations that value state control over trust. They breed concern, even where it is not needed, because they are incapable of being honest with their citizens.

In Hong Kong, many people are sceptical about the government and not that sure about the veracity of the media, but they do trust the legal system. Such is the openness of society that information flows freely.

This freedom is what needs to be preserved in Hong Kong. Everyone pays lip service to this idea. But listen more carefully to what some of Beijing's more vociferous supporters say when they call for greater integration with the mainland, when they speak blithely of what should happen after the end of the 50-year "two systems" period and how, even today, they seek to curb the independence of the judiciary.

Some people like to pretend that all this talk about democracy and freedom is meaningless in the daily lives of Hong Kong people.

Maybe they should express these views to the parents of children poisoned by Sanlu baby formula.

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