



**LABOUR IN GLOBALISING  
ASIAN CORPORATIONS**

**A PORTRAIT OF STRUGGLE**

## **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.

### **Labour in Globalising Asian Corporations: A Portrait of Struggle**

Published by Asia Monitor Resource Centre 2006

Editor: Dae-oup Chang

Layout by Ed Shepherd

Cover Design by Jeeyun Lee

Cover photo by Chung Sung-Jun/Getty Images

Copyright Asia Monitor Resource Centre Ltd, 2006

All rights reserved

Articles may be reproduced in non-profit publications; credit is requested

ISBN-13: 978-962-7145-30-1

ISBN-10: 962-7145-30-0

For more information contact

Asia Monitor Resource Centre

Unit 4, Floor 18

Hollywood Centre

233 Hollywood Road

Sheung Wan

Hong Kong

Tel (852) 2332 1346

Fax (852) 2385 5319

URL <http://www.amrc.org.hk>

*Cover photo: a South Korean student ties a protest bandana  
around her head in a show of solidarity with striking auto workers*

## TABLE OF CONTENTS

<b>Preface</b> - Dae-oup Chang .....	v
<b>Part 1: Samsung</b>	
1. Samsung Moves: A Portrait of Struggles - Dae-oup Chang .....	3
2. Samsungisation or Becoming China? The Making of the Labour Relations of Samsung Electronics in China - Monina Wong .....	65
3. Labour Practices and Working Conditions in TNCs: The Case of Samsung in India - Sobin George .....	107
4. Samsung-Thailand: Avoiding Direct Capital-Labour Relations - Dennis Arnold .....	131
5. Workers in Samsung Malaysia: Under the State-TNCs Alliance - Labour Resource Centre .....	153
<b>Part 2: Toyota</b>	
6. Toyota and Asian Automobile Workers - Kaneko Fumio .....	181
7. Toyota in Thailand: Capital and Labour in 'Harmonious' Globalised Production - Dennis Arnold .....	215
8. Toyota in the Philippines: Drive our Dreams or Drive to the Bottom? - Tono Haruhi .....	247
9. Labour Practices and Working Conditions in TNCs: The Case of Toyota Kirloskar in India - Krishna Shekhar Lal Das and Sobin George .....	273
<b>Part 3: Tatung</b>	
10. Tatung: From Taiwan Number One National Brand To Moving Out - Tsai, Chih-Chieh.....	305
<b>About the Authors</b> .....	343



## PREFACE

*DAE-OUN CHANG*

For the last two decades, there have been significant developments in the way in which labour is organised in Asia and therefore the basis of the labour movement in Asia. In industrialised economies, such as Japan, Korea and Taiwan, 'tertiary' labour continually expands, representing growth of the service sector particularly with increasing women's participation. Formerly non-profit-making activities or so-called unproductive labour, e.g. caring and healing, is a new domain of business; work involving these activities is waged while industries considered as 'public' are increasingly privatised. The distinction between productive labour, which was a focal area of traditional organising, and un(re)productive labour (largely of women), which was largely regarded not as an important area of organising, has been dismantled due to the neatly woven relations between them.

On the other hand, massive populations in developing countries, formerly mainly involved in self-subsistence activities, have become wage labourers. The integration of people into global value chains is a coercive process, aimed to prevent all elements of non-capitalist social relations from remaining. Its logic dictates that each aspect of human life should not be organised, even partially, through non-market mechanisms; peasants and farmers whose livelihoods are partially subjected to the rule of the market cannot be exempt. The final moment of enclosure, through which the people are forcefully deprived of the 'common', comes with the massive privatisation of the 'public' and the large-scale industrialisation of agriculture that completely marginalises small-scale farming in many developing countries. As capitalist labour becomes truly expanded with increasing mobility of capital, labour everywhere becomes *the* common substance.

While labour becomes the common factor in the livelihood of the Asian population, it is at the same time given a particular nature. It becomes commonly informal as particular historical forms, conditions, and definitions of 'labour' have been eroded worldwide. In developing countries, the lack of institutional labour protection, the immaturity of industrialisation, and the integration of the population

into capitalist social relations produces a particular form: an increasing informal economy where workers are truly treated as a factor of production without any institutional protection either from unions or from the state. As informal areas grow, traditional self-subsistence and reproductive labour of women in developing countries are now mixed up with survival forms of commercial and productive activities. For workers in developed countries, the growing informality mostly (not exclusively though) means dissolving formal employment. Increasing numbers of workers, previously in standard forms of employment with institutional protections, become disposable as part of irregular workforces, due to either short-term contracts or uncertain legal relations of employment. It is this population that lacks protection, is exploited at low cost, and therefore needs to be fed cheap products from Asia's developing countries. In addition, many functions and services previously handled directly by large-scale corporations have been transferred to the self-employed – without lessening corporate control over those functions and services. In both developed and developing countries, formal workers, who are entitled to the protection offered by the labour standard laws, but, however have no 'power' to enjoy the rights, are becoming increasingly vulnerable to the escalating introduction of informal elements of employment. As the distinction between formal and informal labour gets blurred, the size of the population under formal capitalist employment, i.e. the so-called 'traditional' working class, is decreasing and labour has been recaptured with new forms and colours.

Consequently, the traditional union movement that was based on a particular historical development of labour within national economic development and institutionalised balance of power between labour and capital, has been facing increasing difficulties. While the traditional workers' movement could not deal with the difficulties, there was a fast growing industry around the theme of Corporate Social Responsibility (CSR). Although this rightly asks the corporations to do more and take initiative in improving labour conditions, CSR cannot be free from the risk of privatising labour rights by relying on multinational companies and their CSR businesses, such as social auditing firms, whose business focuses more on finding a market equilibrium between the cost of CSR and the effect of image building. While CSR as a business is proliferating, CSR as a movement has been losing its sharpness, rendering very few improvements at the workplaces. The labour movement needs to recognise and is increasingly learning that all these challenges cannot possibly be overcome by quantitative changes in its organising efforts, and is calling for qualitative changes in the way in which the labour movement organises and represents the working population.

At the heart of all these new trends of the way in which labour is socially organised in Asia, lies the increasing mobility of transnational corporations (TNC). During the last two decades, the global movement of capital has shown an unprecedented increase in the form of financial as well as productive investment. As a consequence, almost all industries in Asia have been integrated into global market relations. New development focuses on removing all 'unnecessary' barriers to the movement of

capital in pursuit of better profitability from one to another production or industrial sector, and country. Regulation over labour practices and markets, either on the basis of state intervention or trade union power, has been regarded as an obvious barrier for capital to move internally as well as externally, and therefore came under severe attack in every Asian country even before regulations had been established with an empowered labour movement. Capital is now moving into other spaces, times, and aspects of our social life. It turns all things concerning human life into commodities and the whole of society into a commodity producing and consuming sphere.

The ATNC Monitoring Network has been addressing this issue of capital mobility and informalising labour for the last three years in a continuous attempt to grasp the basis of a new labour movement. A series of our collective research aims to understand the current transformation of work in Asia's developing countries, including China, in relation to the expansion of TNCs the region. In particular, it focuses on the role of TNCs from Asia's capital exporting countries, such as Japan, Korea, Hong Kong, and Taiwan, in integrating labour in Asia's developing countries into globalised production and establishing a particular regime of foreign direct investment (FDI) and international flows of capital, and thereby a peculiar form of social development. Whereas the ATNC Network's first outlook published in 2005 showed a general picture of capital movement by looking into FDI trends and different forms of the reaction of labour, this new volume examines the way in which 'work' is recomposed by mobile capital in Asia, tracing the interaction between TNCs and local labour. We do so here by presenting three stories of interactions between labour and capital. Drawing on the examples of the evolution of emerging multinational giant Samsung Electronics, the world's most profitable automaker Toyota, and the survival strategies of the Taiwanese national brand Tatung, this book shows how the world of labour and living for the workers in TNCs has changed through their involvement in the multinational operation and expansion of capital in Japan, Korea, Indonesia, Philippines, Thailand, Malaysia, India, and China. We hope that this volume contributes to an understanding of the particular labour problems in Asian developing countries as moments of a bigger global transformation of social relations, in which labour becomes informal and purely capitalist in the face of growing mobility of capital in and beyond Asia. We also hope that this book can further discussions about new ways of organising along the subcontract chains of TNCs, which we believe workers are already developing in many countries.

The second annual research of the network was more difficult and challenging than the first one. It was more properly collective in the sense that the research process has been designed, implemented, and reviewed together. Although we reached more or less what we aimed for, there are shortcomings as well. This book is being published almost six months behind schedule. A few research articles that were originally parts of comparative studies have unfortunately failed to be included in this volume for many different reasons. I would like to deliver my sincere apology to my fellow researchers in Cambodia and Indonesia and hope that the collective

research process has helped all the organisations involved at least to develop their ideas and initiatives further. I hope that the network, on the basis of the experiences and lessons from the previous research, will overcome this shortcoming in the next annual research. There are many who contributed to the completion of this book, which could happen only with great commitment from activist researchers of the ATNC Network. Especially I want to thank Kaneko Fumio, Monina Wong, Dennis Arnold, Tono Haruhi, Sobin George, Krishina Shekhar Lal Das, Iman Rahmana, Sim Soucheata, Tsai Chi-Chieh, K Shan, Sangah Lee, and many others involved in field research. We are indebted also to Guillermo Rogel of War on Want and Hilde van Regenmortel of Oxfam Solidarity for their continual support for our research programme. Last, but not the least, I would like to thank my colleagues in AMRC, Apo Leung, Sanjiv Pandita, Omana George, May Wong, Doris Lee, Ah King, Winnie Wong, and Muriel Yeung for their support and encouragement. Special thanks goes to Ed Shepherd who took care of proofreading and laying out the articles.

**PART 1**

**SAMSUNG**



## CHAPTER 1

### SAMSUNG MOVES: A PORTRAIT OF STRUGGLES

*DAE-OUN CHANG*

#### INTRODUCTION

The corporation ‘Samsung’ has been engaged in continuous struggles with the market, labour, the state, and society as a whole within which it develops. This article is a portrait of the struggles: the struggles that were made by every step of the movement of Samsung and made Samsung move again. It captures the way in which an individual capital, a very progressive one in many senses of modern management and corporate strategy, absorbs all possible social resources, including human sweat, soul, and lives, and turns them into corporate energy on which a miraculous capital accumulation has been made possible. Each part of its history will describe Samsung’s efforts to move out of old challenges, and new challenges created by its own moves.

While it is written as a short corporate history, it is a corporate history written in labour’s language. In other words, it is a corporate history in relation to labour. This article particularly emphasises the other side of a multinational corporation’s history, namely the way in which ‘work’ is recomposed by mobile capital in Asia, tracing the interaction between multinational companies and local labour. The history of Samsung therefore starts with Korean labour in 1938 and ends with Asian labour in 2006. The analysis will show how Samsung gradually grasps its own workers’ soul both by helping the workers to realise their own small dreams with superior economic compensation and by threatening them not to take their soul back. In addition, drawing on the evolution of Samsung Electronics and its cohorts within the Samsung conglomerates, in Korea, Indonesia, Thailand, Malaysia, India and China, this article shows how Samsung organises its labour globally and locally along the hierarchical ladder of the production chain to maximise its profit and realise its own corporate dream.

I want to reiterate, to prevent misunderstanding, that this article does not aim merely to show miserable, dramatic, and sensational physical exploitation stories that most readers might expect from literature on Asian labour. Focusing on miserable stories is often a consequence of lazy and 'sitting-back' research ethics in the labour movement since it gives us not much to analyse. Therefore, the usual tactics used by incapable and short-sighted corporations are not at the centre of our stories. However, this article will show how Samsung divides workers who, at the core, take themselves as labour aristocracy and are ready to be the soul of Samsung, and who at the periphery are struggling for daily life. Indeed, it shows that even advanced capital does not hesitate to utilise brutal methods to tighten control over workers when they try to reclaim the soul. To this end, this case of Samsung will help us to understand how the world of living and labour for the Asian people has changed ever since their involvement in multinational operation and expansion of capital. By doing so, it will enlighten the impact of the increasing mobility of capital on the pathway of the national development that is increasingly subsumed to the logic of the reproduction of the social conditions of capital accumulation.

## **1. RISING FROM THE ASHES**

### **The Colonial Context of the Establishment of Samsung**

It may seem a little odd to start the story of Samsung with the crisis of Japanese capitalist development in the early twentieth century. However, at least the earlier accumulation of capital for Samsung has relation to it. Indeed, it does not mean that Samsung earned money at the expense of the crisis of Japan. The relation is rather more complicated and contextual. However, it is worth knowing in what context the history of the modern corporation Samsung started.

While the Western European countries were heavily involved in World War I, Japan enjoyed a sudden boom in international trade. This boom during the 1910s led to a rapid expansion of Japanese capital. During the war, the production capacity in the West was reduced, offering non-competitive markets, especially in Asia, which had depended on Western products. Consequently, Japanese capital enjoyed massive export growth both in heavy industry and the textile industry<sup>1</sup>. However, the world war boom left another task for Japanese capital. In order to keep the growth, Japan must keep the expanded volume of industry, on the one hand, and introduce new methods of production to face the re-emerging competition with Western capital after the war, on the other. This task needed a huge capital investment. It was possible only through massive expansion of credit, in other words, increasingly borrowing money from the banks for further investment.

By 1919 Japan already faced inflationary symptoms, i.e., too much money in the market during World War I. While the credit expansion could keep the expansion of production and give individual capitalists the growing optimism for further accumulation of capital, it also made capital overly accumulated, i.e., too much productive force created. Once this problem appears in the form of overproduction

of commodities in a particular branch of production and falling prices of the commodities, capital needs more expansion of credit, competing for availability of credit with each other. Japan began to suffer from financial instability that was worsened by the liberal lending policy of the central bank and the state in the early 1920s. Finally, Japanese capitalist development faced financial crisis in 1923 and 1927 and things were worsening with the Great Depression of 1929. Furthermore, the dramatically increased production capacity during the boom was also accompanied by the emergence of class struggle with a wave of strikes and emerging trade unions in Japan in the 1920s.

The financial instability and further development of class struggle brought a crisis of the early social relations of economic development in Japan, which relied on sheer exploitation with extended working days and intensified labour that drove the boom during World War I. This exploitation based on brutal control of labour by the imperialist state and violence by individual capitals in the work place seemed no longer effective. Japan had to introduce the first Factory Law legislation in 1911. Japanese capital increasingly sought to overcome this obstacle by introducing new means of production, on the one hand, and cheap subsistence of the working class, on the other.

The attempts of Japanese capital to overcome the crises were reflected also in its colonial policies from the 1920s. Japanese colonial policy in Korea during the 1920s and afterwards was focused on cultivating commodity markets for Japanese capital, promoting industrial investment in Korea, particularly by Japanese *zaibatsu* (conglomerates), and promoting production of cheap rice, which could reduce housekeeping expenses of Japanese workers and therefore the cost of labour power. Facing the influx of commodities produced or traded by Japanese capital, petty commodity production in Korea collapsed rapidly through the 1910s and 1920s. In order to facilitate this process, the Japanese colonial government confiscated means of production for self-sufficiency to discourage it. As self-production for subsistence in the household was discouraged and often prohibited and money-based taxes were introduced, households now had to rely on exchanges in the market through money in order to sustain their lives and pay taxes. On the other hand, as the colonial government pushed the increase in rice export to Japan as a main colonial policy, farming products were also increasingly commodified. While small-scale farmers sold surplus products in order to buy other necessities, the massive amount of rice that landlords took from tenant farmers as rents was almost fully commodified. As a result, 70% of rice products were for sale in 1937, showing the significant commodification of the farming industry (Kim, Y H 1983, p. 87).

Indeed, the export of rice to Japan was possible only at the expense of tenant farmers who were the majority of the Korean population. The colonial state did not remove the social power of the landlord class. Rather the government took advantage of existing social control of the landlord class in controlling the Korean agrarian sectors, and thereby the majority of the Korean population (Kohli 1994, p. 1277). The state secured land ownership, albeit with the disappearance of the traditional basis

of land ownership, by force and, moreover, incorporated them into local governance and let them play a significant role in maintaining control over rural villages (Kohli 1994, p. 1277). During the 1920s, landlords kept increasing rents and expanding their land by taking over the land of half-tenant farmers, who could not manage to pay for their tenancies. Consequently, living conditions of the peasant class, who got their living from small tenant lands and suffered from the double burden of forced sale of their rice products to the colonial state and increasing rents, swiftly deteriorated. Many peasants, to avoid starvation, left their hometowns to become wage labourers in urban areas or coal fields and emigrate to Manchuria, Japan, and the northern part of the Korean peninsula.

While Japan suffered from increasing labour costs and financial instability, investment of Japanese capital, an early form of foreign direct investment, in Korea also began to accelerate. Between 1920 and 1929, industrial capital investment in Korea tripled. In particular, in the attempts to make Korea into a military supply base for the invasion of China, capital investment in heavy industry rose rapidly. After the popular uprising against the imperial regime in 1919, the Japanese colonial regime sought to make Korea 'gradually' into a part of Japan by encouraging a certain degree of capitalist development, which resembled the Japanese development strategy, on the one hand, and permitting and even selectively supporting the establishment of Korean firms. The governor-general implanted a Japanese style institutional economic foundation with state-owned banks, such as the Bank of Joseon and the Korean Industrial Bank, offering loans to firms in line with the state's economic development policy. 'With minimal business taxes' and most of all cheap labour and the governor-general's unlimited support for labour control, Japanese zaibatsu such as Mitsui, Nissan, and Sumitomo had 75% of total capital investment by 1940 (Cumings 1997, p. 168). Meanwhile, the embryonic form of the Korean capitalist class also emerged from the traditional landlord class, supported by credit from the state-owned bank, the Korean Industrial Bank.

#### **A Lucky Guy, Dried Fishes, and the Korean War**

Lee Byung Chull, the founder of Samsung, started his early business in this context. He was born in Kyeongsang province (on the Southeast coast of the Korean peninsula) in 1910, the second son of one of those landlords who could sustain their social domination under colonial rule. His family was rich enough to send him to Japan to study politics and economics in Waseda University, still a prominent university in Japan. His first business, starting from 1936, the Hyeopdong rice mill, was set up in Masan where rice produced in Kyeongsang province, at the expense of millions of starving peasants, was stored to be exported to Japan. It is said that most of the initial investment for Lee's business was offered by the Korean Industrial Bank branch in Masan. Of course, this does not mean he started his business with his bare hands like many other founders of big business in Korea who started as lower managers or even skilled workers in Japanese-owned companies. It was not the case for Samsung. The fact that Lee could secure the loan from the Korean Industrial Bank shows his already established status as a young entrepreneur or

more likely a son of a rich and well-known landlord. He started expanding his business by investing in the transportation industry, which was necessary to transport the rice. Later, he started land speculation by taking a mortgage from the same bank. For him, 'it was very rare to have this easy way of making money'. His 'land business' was 'so smooth' that he 'felt as if the vault of the Korean Industrial Bank' was his own. Thanks to the land business, he became, after only one year, a big landlord with a million pyong of land (one pyong equals 3.058 sq. metres).

In 1938, the name Samsung first appeared in his business. Lee established the Samsung Trading Company in Daegu in the North Kyeongsang province. What he noticed was that, as the Japanese army was marching to China, there was expectation of market trade in China (Lee 1997). So, Samsung moved following the business. Samsung Trading exported dried fish and fruit to Manchuria and Beijing. At the same time, Lee also invested in noodle manufacturing as well as Chosun Brewery, producing rice wines and cider that were particularly profitable. As the export business went well thanks to 'his prominent managerial ability' (Hoam Foundation 1997), Lee moved office to Seoul and established the Samsung Corporation, the first international trading company in Korea in the real sense. Samsung Corporation traded with Hong Kong, Macao, and Singapore, exporting dried seafood and importing sugar, cotton thread, sewing machines, medicines, steel plates, and fertiliser (Hoam Foundation 1997). Samsung was able to monopolise the market for these 'rare' products soon after and started making a fortune. However, the Korean War in 1950 forced Samsung to give up its operation in Seoul.

Although Samsung was forced to move operations as the North Korean army advanced south, its business never slowed down. Samsung Corporation, now based in Busan where millions of refugees settled, exported recycled steel to Japan and imported sugar, fertilisers, and other necessities that were in absolute short supply. As Korea suffered heavily in the war from shortages of basic consumer goods, prices therefore were set up almost unilaterally by the traders; trading consumer goods guaranteed Samsung would be a significant corporation as early as 1953.

### **Samsung's Opportunity in Post War Development**

During the post-liberation period, the US military government and the subsequent Rhee Syng-man Korean government played the most significant role in starting capitalist development in the south. A new development started by the governments crushed the highly politicised movement of workers and peasants that had developed against colonial exploitation on the basis of feudalistic capital relations and tenant-landlord relations. The state founded further development by redistributing state property (left by the Japanese) to selected Korean entrepreneurs and overpowering the labour and peasant movements. However, it was during and in the aftermath of the Korean War that capitalist development in Korea took shape. The Korean War produced a particular power composition of classes, which consisted of the decomposed working class (with the labour movement completely destroyed), the critically declining landlord class (due to challenges from the peasants, capitalist, and working class as well as the redistribution of land), and an immediate alliance

between the state and a few capitalists. Again, it was the state that had the ability to reconstruct capitalist development with absolute authority to allocate means of production and raw materials. Economic development was politically negotiated and the state played an important role of regulating individual capitals and the working class. The early form of politicised development appeared in the form of an *immediate alliance* through which a few capitalists funded Rhee Syng-man's Liberal Party and in return enjoyed highly exclusive allocation of raw materials from the US aid that accounted for more than 20% of total GNP of Korea.

During this period, capital accumulation in Korea depended on the development of domestic firms that could 'purchase raw materials supplied as a part of the US aid program at an overvalued official exchange rate' and succeeded in realising the produced value in non-competitive domestic markets (Haggard 1990, p. 57). Reflecting raw materials provided by foreign aid, capital accumulated mostly in light industries such as sugar manufacturing, milling, and cotton. In order to secure exclusive allocation of raw materials and loans, it was necessary for the capitalists to attract Rhee Syng-man's government, which exclusively controlled aid and imported grain, by providing kickbacks to the Liberal Party (Haggard 1990, p. 57). Those domestic firms, which had mutually beneficial relations with the state, also had an opportunity to purchase the means of production and land owned by the state at discounted rates.

Many Korean *chaebols* laid the basis for accumulation in this period. Samsung and Hyundai, the largest individual capitals in Korea at present, managed to purchase the means of production and real estate from the state while LG and other *chaebols* were founded through acquiring a certain portion of foreign aid from the state. In addition, Samsung managed to expand its control over financial capital by buying state-vested shares of commercial banks, such as Heungoo Bank (83% of total share), Choheung Bank (50%), Korea Commercial Bank (50%). The fact that these were three banks out of the four commercial banks listed on the Korean stock market when it first opened in 1957 showed the significance of Samsung in early stage of Korea's capitalist development.

Samsung's did not miss the opportunity for US aid-based industrialisation by investment in sugar manufacturing. It was again Rhee's government that guaranteed US\$180,000 for the construction of a new factory. The initial capital for operations was offered by the Commerce and Industrial Bank (Lee 1979). With full support from Rhee's government, *Cheil Sugar Manufacturing* started operations producing 25 tons of sugar a day. It was the first Korean sugar manufacturing company. On the basis of its significant market domination of the sugar industry, Cheil Sugar Manufacturing expanded to flour milling in 1957, again taking advantage of the abundant wheat supply from US aid. It is not difficult to see that the mutually beneficial relationship between the founder of Samsung and President Rhee Syng-man played an important role again in Samsung's further expansion of the woollen textile industry in 1954. Cheil Industries Co. was founded in 1956. Rhee's government responded to Samsung by allocating US\$1 million from US Foreign Operation Aid and later even securing a non-competitive market for Samsung by restricting imports

of woollen textiles (Lee 1997). By the end of the 1950s, Samsung had become the biggest *chaebol* in Korea with 16 subsidiaries.

Meanwhile, however, early capitalist development based on the foreign aid and its distribution by the state to a few domestic enterprises that financed Rhee Syng-man's Liberal party could not go far. Since capital investment was concentrated intensively on specific goods that could be produced with raw materials from the US, the domestic market could no longer absorb the commodities and, therefore, a massive slowdown in those industries was unavoidable. Also, the US began to decrease foreign aid to Korea, imposing increasing pressure on the Rhee Syng-man government that took advantage of anti-Japanese sentiment in sustaining its legitimacy and thereby did not satisfy US policy pursuing more stable hegemony in Asia by establishing normal relations between Japan and other Asian economies. Companies felt more and more difficulties to secure resources. With increasing difficulty in making profit out of productive investment, a large portion of money was invested in speculation, which precipitated inflation. Worse still, employers attempted to overcome this depression at the expense of workers by intensifying labour and extending working hours, increasing discontent among the workers.

#### **End of Alliance Between the Rhee Government and Business**

Growing poverty and inequality also raised questions about the immediate alliance between business and government. Students started hitting the streets in the late 1950s. The Liberal Party suppressed the protests with crude force and benign political rhetoric, merely inspiring people further to demand more democracy. By the end of the 1950s, the regime could not be legitimated either by economic achievements or by formal democratic reforms, which were postponed by the government using the excuse of confrontation with 'communist' North Korea. The state, which led the reconstruction of capitalist social relations, now became the target of people's struggle. Eventually, the student movement, which struggled for formal democratic reforms against the corrupt government, finished the regime in April 1960.

Although workers in 1950s suffered from low wages, extremely long working days, and capitalist violence, the working class movement could not re-emerge during the 1950s. It could be understood in terms of the total destruction of the labour movement through the war. In the 1950s, the trade union leadership of the government-founded Korean Labour Federation for Independence Promotion (KLFIP) played an important role as an institutional basis to confine working class struggle to the individual or at best workplace level. The leaders of KLFIP in turn enjoyed political power as well as economic privileges. Therefore, although there were an increasing number of conflicts at shop floor level throughout the 1950s, there were few significant struggles organised by trade unions. However, this does not mean that workers did not attempt to overcome the suppressive labour control by the state and capitalists, on the one hand, and by the pro-capitalist trade unions, on the other. The struggles in the 1950s were focused mainly on wages, especially wage arrears and mass dismissal. Despite the pro-capitalist leadership of the labour movement, some struggles succeeded in forcing the trade unions to confront the

capitalists and the state and showed the possibility of the revitalisation of the working class movement. The workers' struggle in Joseon Textile Company in Busan during the war is one of the cases. The struggle succeeded in provoking the issues of working conditions and workers' rights, developing workers' struggle in a firm, which demanded the resolution of the wage arrears problem, the freedom of union activity and stopping dismissals, into nationwide social and political issues amid the Korean War. As workers' struggles continued for a few months, this struggle forced the pro-capitalist federation of trade unions to confront the state and capitalists, making the National Assembly investigate the struggle and later enact laws regarding labour relations, such as the Labour Union Law, Labour Standard Law, Labour Committee Law, and Labour Dispute Regulation Law.

In the late 1950s, the KLFIP's legitimacy as a representative of the working class was again seriously undermined by the struggle in the Daehan Textile Company in Daegu, which clearly revealed the pro-capitalist character of the federation. The struggle indicated a new form of trade union movement, called the 'democratic trade union movement' (*Minjunojo Undong*), in defying the leadership of the pro-capitalist trade union leaders and the federation in the process of struggles. During the struggle, rank and file workers distrusted and changed the president and executive of the union, who followed the policy of the KLFIP, playing an important role to set a basis for the anti-KLFIP trade union movement. However, although the early form of a democratic trade union movement had emerged, it was clear that the working class movement as a whole remained undeveloped. Workers attempted to solve labour disputes through making a plea to the state for generous state intervention and turning the issues of exploitation into issues of morality and humanity. Also, it was far from the reality of the working class movement to be able to organise themselves at national or industrial level in order to change the brutal nature of early capitalist development.

It was not until demise of political power of Rhee's government that the working class movement re-emerged from the workplaces in the early form of a democratic trade union movement. Those struggles against the pro-capitalist KLFIP culminated in the attempt to organise an alternative union federation, i.e. the National Confederation of Trade Unions (NCTU) in 1959. The establishment of the NCTU, which included 311 trade unions and 140,000 members (CKTU 1997, p. 6), resulted from the struggle that showed the existing labour federation was nothing but a state apparatus, which guaranteed the subordination of the working class to capital by sheer force. Samsung, contrary to its own expectation, was not free from the inspiration of workers for better lives. The first strike visited Samsung in 1960.

### **Samsung Faced Women Workers in Cheil Industries**

Although Samsung was a very important part of the immediate alliance between business and the state that put millions of workers into miserable working and living conditions, there is no evidence that workers in Samsung were worse off than workers in other companies at that time. Rather, it seems that Samsung treated workers a bit better than other companies or at least as good as other companies did. As it appears

in Samsung's company promotion very often, Samsung's Cheil Industries Co had a newly built women workers' accommodation, surrounded by a modern style garden and equipped with laundry room, reading room, and bathrooms. It was indeed rare for workers on production lines to have these facilities in the 1950s so that people called it 'Cheil University' (Hoam Foundation 1997). According to Lee Byung Chull, 'woollens are products of high price. Workers who produce woollens must be highly-qualified and must have a strong pride in their job. (Hoam Foundation 1997). To be so, 'the company must provide them with the utmost labor conditions' (Hoam Foundation 1997). According to the Hoam (Lee's other title) Foundation, wages in Cheil Industries were also much higher than others companies so that it was very competitive to get the job (Hoam Foundation 1997). As the condition of Samsung workers at present are, Samsung workers' condition in the 1950s would have been relatively better than others particularly in small- and medium-sized firms (SME)<sup>2</sup>. However, workers in large-scale firms worked as long as their counterparts in SMEs. It would be too much to expect that Samsung's workers worked less and paid so much more that they no longer suffered from the general living and working conditions of workers in the 1950s. Samsung workers were most of all factory workers in the 1950s. The general working conditions in the 1950s was horrendous. Women workers, mostly daughters of farmers or new migrants in urban areas with middle school or lower educational backgrounds, worked more than 10 hours without much break. It was not rare to work until the morning of the next day if simply required. It was natural for the young workers, in an extremely repetitive work process, not to have any other prospective than working like machines till they found someone to marry. At the end of a long day, workers followed the same steps toward a same tomorrow.

It must have been the nature of this work, together with the increasing aspirations of the working class and the nationwide re-emerging labour movement, that inspired the young workers in Cheil Industries to protest against the company that even offered them a 'university-like accommodation'. When a trade union was established in Cheil Industries, Samsung could not allow the well-treated workers to have their own trade union. Instead, they tried to make it sure that a union was pro-company and would possibly disappear soon. As the political aspirations of the workers grew in and out of the factory, Samsung finally took extreme measures, suspending 152 vocal workers and stopping operations. It was at that moment that Samsung's 400 'family' workers went on hunger strike against their self-styled 'benevolent' father. On 14 June 1960, they demanded 1) stop illegal labour practices, 2) withdraw the illegal suspension of 152 workers, and 3) stop the illegal lockout of the factory. As Samsung did not move, workers occupied the factory building and started a sit-in strike from 4 July. On that day, the Cheil Industries management required the police to intervene. To no one's surprise, police quickly stormed the factory. On 10 August, a resolution was announced: 1) old and new unions to be united into a single union, 2) three days after the unions were dissolved, the company reopen the factory, 3) within 40 days of the factory reopening, workers organised a single unified union

(FKTU 1979). The final resolution was based on political negotiations between the new NCTU, the government, and Samsung. Without much support from NCTU later on, the trade union of Cheil Industries was disbanded in December 1960 as Samsung management intended.

It is not difficult to guess that Samsung must have felt betrayed by the workers whom Samsung believed regarded as ‘masters’ or at least as ‘family’. Workers’ struggle in Cheil Industries ended without a success and Samsung remained union free. However, Samsung’s first experience with the labour movement was intense enough to impress Samsung’s management. This earlier experience seems to have contributed to creating the simplistic basis of Samsung’s complicated labour management: no-union policy. The strike action in Cheil Industries was a political strike, focusing on freedom of association, rather than wage or working conditions. This strike seems to have alerted Samsung that workers’ devotion to company, which had been built up on the basis of offering more economic compensation and welfare, could be undermined by political aspiration that again could undermine its business. Pursuing this policy consistently, Samsung removed permanently the room for ‘political’ negotiation with represented workers and thereby removed the possible integration of union into its management process. Instead, Samsung developed a complicated labour management system on the basis of no-union policy, welfare, division, polarisation, and competition. However, Samsung’s no-union policy in the earlier period of capitalist development in Korea was not peculiar among the *chaebols*. *Chaebols*, on the basis of the relative economic superiority taken from the monopolistic markets, were most of all relying on higher economic compensation for the workers for silent workplaces and, as *chaebols*’ domination over the Korean economy was increasing, the gap of economic compensation between workers in *chaebols* and ordinary workplaces was also getting bigger and bigger. However, it was the 1980s when this economic compensation-based industrial peace could no longer stabilise the growing political aspiration among the workers in Korea.

## 2. RIDING ON DEVELOPMENTALISM

### **Samsung Facing the Military**

When Samsung decided not to risk political compensation to the workers and succeeded in stabilising the political strike in Cheil Industries, it instead faced an external political blow. This time, Samsung could not pacify the political pressure either with its force or with help from the police. This time the enemy was the army. After Park Chung-hee’s military coup in 1961, the politicised economic development took a new form, that is, a domination of the state over individual capitals, distinguished from the immediate alliance between the corporations and government. One of the most effective methods of the state to strengthen its power in political negotiation with capital was through nationalised banks and financial institutions. First of all, the military government put the domestic commercial banks under the state’s control by confiscating the privately held shares of domestic banks from individual shareholders in the aftermath of the military coup (Haggard 1990, p. 65).

While the state was now a primary shareholder, holding about one third of the total shares of all commercial banks, it also dominated the management of the commercial banks by preventing major private shareholders from exercising their voting rights in managerial boards, appointing presidents of the commercial banks and establishing new state-owned banks. In addition, the military government subordinated the Bank of Korea to the Ministry of Finance, monopolising the authority to regulate foreign exchange and domestic financial flows. In addition, the Economic Planning Board (EPB) was set up and given the responsibility for planning and budgeting. The authority to approve foreign loans was also monopolised by the EPB after the amendment of the Foreign Capital Inducement Law in 1961. By putting financial flows under its strict control and thereby forcing individual capitals to invest in those preferred sectors, which had been argued as delivering a better national interest for all, the state appeared to be at the centre of the economic development. Individual capitals, particularly the early *chaebols*, were excluded from the area of politics by force. The political state now went into a significant transition by the military government in that the members of the state (military officers) did not belong to the dominant class and individual capitals could not be directly involved in political matters.

Samsung, as one of the leading *chaebols* by the early 1960s, could not avoid the discipline of the state. Park Chung-hee, the self-claimed successor of the April student revolution, in an attempt to legitimate this military coup by satisfying the sentiment of people who found it necessary to punish the corporations involved in the immediate alliance of Rhee's government, confiscated all the properties of *chaebols* and arrested leaders of *chaebols*. This was a part of 'a great reform movement to materialise... national ideals as demonstrated by the April 19 and May 16 Revolutions' said Park Chung-hee (Park 1970, p. 286). Lee Byung Chull, a leading figure in the alliance fled to Japan to avoid arrest. However, he decided to negotiate with Park and finally turned himself in to the military. Investigation by the military revealed Samsung illegally offered an astronomical amount of money to Rhee's Liberal Party while the government was blind to Samsung's again astronomical tax evasion. However, in further negotiations, the military decided to make use of the leading *chaebols* to realise 'economic modernisation', rather than punishing them. Lee Byung Chull recollected the dialogue with Park:

Lee: 'The reason why our society is chaotic is basically due to the poverty of the nation. To overcome the poverty, we need to revitalise the economy. To do so, we need to take advantage of business people by offering them an opportunity to contribute to rebuilding the national economy. You arrested 13 most representing businessmen, including myself, with the accusation of the illegal accumulation of wealth. Are we the only ones who did this then? Not others? It was the rules such as tax laws and politics that made it impossible for us not to illegally evade taxes...it is so unfair if successful businessmen who made great efforts become illegal and corrupted criminals while unsuccessful

businessmen go unpunished. From now on, we need to build up factories etc. to rebuild our national economy. We need to use capable businessmen'

Park: 'What you said just now cleared my mind. I asked academics to provide plans to rebuild the economy. They are discussing all day, but no result yet...What should be done with these arrested businessmen then?'

Lee: 'It's better to release them and make use of them'

Park: 'Would people accept it?'

Lee: 'What is politics about?' (Suh 1991, pp. 216-7).

Although the content of this negotiation was based on a personal recollection of Lee, the following move of the military government showed that this was not much exaggerated.

The released capitalists organised the Korean Association of Businessmen, headed by Lee Byung Chull of Samsung, and further negotiated with the military government regarding the methods to pay fines that the military government charged in corruption cases. Fines against them were reduced significantly. Later negotiation concluded with a plan for these accused capitalists to build factories in Ulsan, a new industrial area, and surrender their shares to the state. In the end, the capitalists managed to own the factories with small payments to the government (Suh 1991, p. 218). The final result of negotiation between the military government and the top leaders of *chaebols* reflected the nature of economic development that Park's government would pursue. In spite of its image of a defender of general interest on the basis of its 'institutionalised' leadership over individual capitals, the state was not independent of classes at all. Although individual capitals had to accept the leadership of the state, the state protected the interest of those individual capitals as far as they respected the leadership of the state. But on the contrary, the state mobilised all means to suppress the workers.

### **Workers in Politicised Development**

The state suppressed the collective power of the working class, which suffered from violent discipline and patriarchal hierarchy on the shop floor, by various methods legitimated by the anti-communist agenda and then enabled individual capitals to exploit the working class in the labour process without resistance. Park's regime banned the labour movement in the aftermath of the military coup and later established the FKTU (Federation of Korean Trade Unions), which was, in fact, not a trade union but a government organisation. The new trade union federation provided the way in which the state effectively controlled workers from national to workplace levels through government approval of leaderships, subsidy, and surveillance (Haggard 1990, p. 64). Also, the state tried to secure the control of the state over labour at workplace level through establishing 'joint labour-management conferences' in individual firms in the 1970s. However, most of all, the working class's struggles were still dealt with directly by the national security agency and police.

In addition, the state's agricultural policies also contributed to establishing the

basis of early capital accumulation in Korea by guaranteeing the smooth supply of labour from rural areas. Park's government kept lowering the grain price through imports and strong regulation in order to prevent wage increases. Less investment in rural areas and agricultural sectors also contributed to supplying cheap labour. As a result, a massive rural population, particularly of the young generation, whose families earned livings from small land holdings, migrated to urban areas looking for jobs, causing a massive increase in the number both of wage workers and manufacturing workers in the 1960s<sup>3</sup>. Workers who came from the areas where the average income of a household was merely one third of that of urban households in 1960 endured low wages and extremely long working hours<sup>4</sup>. The unlimited supply and abundant reserve of labour became the primary basis of the unilateral labour relations based on paternalistic discipline and hierarchy, together with continual surveillance by police forces and intelligence agencies.

At the workplace, firms lacked a specific department of labour control or management, leaving labour control on the shop floor to the traditionally structured workplace hierarchy based on seniority as well as discrimination between manual and non-manual workers in accordance with their educational background, and on pro-capitalist trade unions. On the contrary, the Bureau of Labour Affairs, which was formally and legally supposed to be a prime state apparatus with regard to labour regulation, had a relatively small role in regulating labour, limiting itself as a supplement to regulation by police and national security agencies<sup>5</sup>. The state's control over labour worked well till the late 1960s.

#### **Politicised Economic Development and Korea's Export Drive**

During the 1960s, Korean economic development based on fast growth in exports was momentous. At the beginning, Park's government emphasised construction of a self-reliant economy, rather than export-driven economic development. As almost the sole supplier of financial resources to Korea, the US's response to the initial development plan designed by Park's government was highly sceptical. The US was pursuing a Japan-centred developmental strategy in East Asia, which aimed at releasing the US from the heavy financial burden of foreign aid without, however, harming either further capitalist development or US influence in Korea and East Asia. As the US decreased its foreign aid to Korea, Park's government desperately sought an alternative source of capital investment. It was in this context that Korea switched from the pursuit of self-reliant economic development to an export-oriented development strategy and normalised its economic relations with Japan, which also benefited greatly from this relation by obtaining a secure regional market, particularly for Japanese means of production. In turn, Japan guaranteed over \$800 million financial support in the form of public, commercial loans and grants (Hart-Landsberg 1993, p. 145).

Some crucial reforms designed to promote export-oriented development were subsequently introduced after negotiation with the US authorities. These reforms included the dramatic devaluation of the currency in 1964, which improved Korea's export competitiveness, the interest rate reform in 1965, which promoted domestic

saving and attracted foreign capital for investment, and tax reform for increasing government expenditure. These reforms, together with the allocation of foreign loans for capital investment mediated by the government, enabled the state to establish the so-called Korean way of politicised economic development. Through screening and allocating foreign borrowing, the EPB now functioned as the institutional basis of the 'selective promotion of industrial investment by the state' in which the state arranged foreign loans to specific individual capitals that could satisfy the government-planned developmental strategy. Domestic funds mobilised by deposit monetary banks were also allocated to specific sectors or firms through so-called policy-based lending, the interest rate of which was significantly lower than usual and therefore functioned as a major measure to attract individual capitals to preferential sectors, mainly exporting. Capital investment was concentrated most of all on infrastructure and manufacturing sectors. The state-led industrialisation gave rise to a structural switch of national industry from Import Substituting Industrialisation (ISI) to Export Oriented Industrialisation (EOI) (Cummings 1987, p. 69), showing both a remarkable 8.45% average annual GDP growth rate and 35.5% export growth rate for the 1961-1970 period. Garments and textiles were major export products, accounting for about 40% of total exports by the end of 1960s.

#### **Samsung's Diversification of Business for Extra Profit**

In the 1960s, Samsung's business strategy showed no significant difference from the 1950. In fact, although it is difficult to see whether it was actually designed or taken for short-term interest, the strategy was quite successful. Diversification without much interrelation between the new and old businesses was the major movement of Samsung. In fact, this practice was prevalent among the big *chaebols*. Expansion into new products and industries was offering Samsung semi-monopolistic markets in particular industries. For Samsung, the establishment of Cheil Sugar Manufacturing and the following success of Cheil Industries are cases in point. In response to Samsung's initiative, the state offered various supports including preferred treatment in allocating loans and raw material, and institutional protection of the domestic market against external competitors. Samsung again secured its business strategy by buying shares of commercial banks that would again secure Samsung's financial flow for a new business exploration. In the 1960s, Samsung was again moving to new sectors by acquiring profitable firms and exploring new businesses by diversification. Samsung continued to expand in the financial sector by buying up *Ankuk Fire and Marine Insurance* in 1958 (Samsung Fire and Marine Insurance from 1993) and *Dong Bang Life Insurance* in 1963 (Samsung Life Insurance from 1989). Again, Samsung expanded its business into completely new areas, such as the media industry, by acquiring *Joong-Ang Daily Newspaper* in 1965, and the theme park industry by investing in *Joong-Ang Development* (Samsung Ever-land) in 1966. In terms of manufacturing industry, Samsung's investment was not very active until the mid 1960s, except for acquiring *Saehan Paper Manufacturing* in 1965. This new investment was made possible on the basis of 1) smooth accumulation of capital in the business for which Samsung enjoyed dominance in protected local markets and 2) preferred loan allocation from now state-owned banks.

The successful implementation of this early diversification strategy was indeed the basis of Samsung's labour relations and no-union policy. Samsung, along with other *chaebols*, enjoyed the fact that 'the early starters were in a position to finance more generous and stable labour-capital accord because they were the beneficiaries of the monopolistic windfall profits that accrued to the cycle's innovators' (Silver 2003, p. 79). Although there was no democratic accord between workers and Samsung, it seems to have allowed Samsung (and other *chaebols* too) to flexibly compensate its workers so that the mystification of partnership could be built without being seriously undermined by the absence of political power of the workers; perhaps it was because of the financial ability that Samsung and other *chaebols* appearing to exploit workers less than ordinary capital in Korea in the 1960s and 1970s. The semi-monopolistic condition that Samsung and other *chaebols* enjoyed by diversification, together with continual support from the military government, made it possible. However, the lives of other workers were somewhat different from those of workers in *chaebols*, who would realise that they were also exploited, far later than ordinary workers.

#### **Ordinary Workers in the 1970s and Class Struggle**

Although the early reforms contributed to remarkable capital accumulation by the end of 1960s, they soon came up against the barrier of their defects. It is important to notice that this early development, the reproduction of which relied on the politicised regulation of labour and individual capitals, also provoked the increasing *politicisation of class struggle*, the further development of which eventually led to a crisis of the state in the late 1970s. In the late 1960s, Korea witnessed urban poor uprisings attacking police stations and government offices. On the other hand, workers' struggles for independent unions re-emerged as industrialisation deepened and the military government had to tighten suppressive control over labour. Most of the struggles were ignited by impromptu resistance against intolerable working conditions, delayed payment, and extremely long working hours, which were usually more than 12 hours a day during the 1960s. While the Labour Standard Law was completely ignored at most of the workplace, trade unions, if existing, were largely understood as a sub-department of managerial authority. It was common that union activities were largely unknown by their own members. In many cases, those who attempted to organise trade unions or confront the existing hierarchical authority of the unions had to risk confinement, beating, and even assassination (KNCC 1984, pp. 86-91).

Although these 'promptly organised' resistances often ended up bitterly with capitalist violence, lockout, and subsequent mass dismissal, workers' struggle developed continuously. In particular, struggles of the textile and garment workers, called 'export warriors' in the 1960s, were at the centre of this development. A daily newspaper described the horrendous working and living condition of the young workers:

Young girls are working in a small room as long as 16 hours a day, with extremely low wages and even industrial disease, getting the labour

standard law to be shamed... there are four hundred garment manufacturers in Peace Market. The workplaces, which are smaller than eight square metres, are so packed with 15 workers, sewing machines and other machinery that people can hardly move. Indeed, the room is vertically divided in the middle, so the ceiling is just 1.5 meters high, making the workers not able to stretch their waists... According to Peace Market workers - *ChunTa-il and his colleagues* - they are working 13 to 16 hours a day in this environment... with two days off only on the first and third Sunday (*Gyunghyang Daily News*, 27 October 1970, italics by author).

It was this reality, which a young tailor Chun Ta-il still known as the founding father of the Korean labour movement, confronted with self immolation that shocked Korea. Chun worked at the Pyunghwa market, one of the epic centres of Korea's export boom, where small-size textile firms were heavily concentrated. Chun and his colleagues called for state intervention in the working conditions, submitting a 'petition for the improvement of the working conditions of clothing workers in Pyunghwa Market' to the Minister of the Bureau of Labour Affairs. This rare event provoked discussions and was covered by major newspapers. However, those attempts ended merely with the deception of the state, which instead strengthened surveillance by the police. After several attempts to organise demonstrations against the employers and the state failed, Chun Ta-il set himself on fire in a demonstration organised with his fellow workers on 13 November 1970 (Koo 1993, p. 139). Following Chun's death, the Chong-gye Clothing Trade Union became the first 'recognised' democratic trade union through a vehement struggle by his family and fellow workers in Pyunghwa Market. His protest revealed and publicised the intolerable working conditions, which were the backbone of Korea's export boom. Chun's death inspired the intellectual and student movement as well as the trade union movement, followed by a re-emerging democratic trade union (*Minjunojo*). Also, the student movement began to support the labour movement through organising demonstrations in universities. Student-worker solidarity later contributed to radicalising workers' struggle in the 1980s.

### **Crisis and Heavy Industrialisation**

While state-led development faced increasing protests, the changes of the conditions of capital accumulation at global level also appeared to threaten smooth capital accumulation in Korea. The export-drive based on the expansion of foreign borrowing left an extremely high level of foreign debt in Korea, increasing more than tenfold, from \$200 million in 1964 to \$2.922 billion in 1971 (Hart-Landsberg 1993, pp. 174-5). On the other hand, to support increasing export demand, Korean companies needed to buy the means of production from abroad. Indeed, these machines were expensive. The result was the growing deficit of trade that reached \$1.045 billion in 1971. Soon, Korea was suffocated by foreign debt. Worse still, protectionism re-emerged in the advanced economies as the global economy went into a slowdown period. In particular, after the trade balance of the US went into deficit in 1971, light-industry-based export appeared to reach an impasse especially due to increasing protectionism

in the US market that ‘forced South Korea to sign a bilateral trade-restraint agreement on textile’ (Hart-Landsberg 1993, p. 175), which marked 38% of total exports. With gloomy prospects on the global market, Korea’s export growth also slowed, after the peak of 42% growth in 1967, 37% in 1969, 34% in 1970, and 28% in 1971. Park’s government attempted to encourage exports and discourage imports, by a 12.9% devaluation of the currency in June 1971. However, devaluation appeared rather to result in increasing repayment pressure on Korean firms that raised almost half their external funds from foreign borrowing. Banks started holding money back, so as to slow inflation, resulting in more repayment pressure. Corporations rushed into the informal curb market for short-term loans and now suffered from the re-payment of high interest corporate debt to the informal credit market. Firms started collapsing.

So as to overcome these problems, the state directly intervened in the economy by liquidating less efficient individual capitals from May 1969. On the other hand, a gigantic bailout project was implemented by the state in 1972, by ‘placing an immediate moratorium on all loans in the informal credit markets and reduced the bank loan rate from 23% to 15.5% annually’ (Cho 1998, p. 15). However, it was in the push for heavy industrialisation that the particularly developed role of the state in revitalising capitalist development by controlling labour and financial flows showed its culmination. The state, beginning with President Park’s public announcement of the Heavy and Chemical Industry Plan in 1973, attempted to push heavy industrialisation through direct funding, allocating foreign loans, lowering interest rates, and offering incentives and tax cuts. Foreign and domestic loans were highly selectively allocated to heavy and chemical industries throughout the mid and late 1970s. Also the state established a massive National Investment Fund that ‘mobilised public employee pensions and a fixed portion of all bank deposit’ and ‘channelled them into designated projects and sectors at highly preferential rates’ (Haggard 1990, p. 132). About 67% of investment from this fund was allocated to heavy industries in the same period. In addition, 14 important industries enjoyed more than 50% of domestic tax cuts as well as more than 70% tariff cuts. It was at this time that Korean *chaebols*, benefiting from these favourable conditions, rushed into heavy industries, such as shipbuilding, automobiles, machinery, refinery, steel, and petrochemicals etc, and found a new basis of capital accumulation.

### **Samsung’s Ride on Heavy Industrialisation**

Samsung’s move to heavy industry was no surprise, given its track record that found its goldmines of extra profits in the industrial sectors promoted and protected by the state. However, investment in heavy industry was something new for Samsung that had relied on the service, financial, and light goods manufacturing industries. Starting with Samsung Petrochemical and Samsung Heavy Industries established in 1974, Samsung increased its subsidiaries from 16 in 1972 to 33 in 1978, now covering almost all heavy industrial sectors including shipbuilding (re-establishing Samsung Shipbuilding in 1977) and aerospace (Samsung Precision in 1977, renamed Samsung Aerospace in 1987 and again as Samsung Techwin). Samsung’s three-year plan, announced in 1973, targeted the heavy, chemical, and petrochemical industries.

In fact, Samsung's investment in heavy industries was in line with the diversification strategy that had made Samsung a prominent *chaebol* since the 1950s. However, it was not always successful. Samsung's diversification also brought many failures as Samsung often either moved into an already heated market without benefits for 'innovators' or failed to attract much support from the state. The latter was the case in the fertiliser industry and the former in the process of heavy industrialisation in which Samsung's performance was not outstanding in comparison with rival *chaebols* such as Hyundai (and later in the automobile industry in the late 1990s). One good example was Samsung's initial failure in shipbuilding in 1974. It was not until the success in the electronics industry that Samsung found the way to go. For the first time in its corporate history, Samsung achieved a success in a competitive market. However, it was also heavily supported by the state at the beginning. The electronics industry later became the basis of Samsung becoming a 'distinguished' and extraordinary *chaebol*.

Samsung Electronics, established in 1968, was a latecomer in electronics. Korea's electronics industry began in the 1950s with simple radio manufacturing. In the 1960s, Korean corporations, such as Goldstar (now LG), commenced OEM production for foreign-branded (RCA, Sharp, and Philips etc.) black and white TVs, with technological support from foreign, mostly Japanese, alliances. By the end of the 1960s, Korea's electronics industry managed to export a million TV sets. In response to the potential, Park's government was preparing a promotional plan for electronics in the mid-1960s. It was at that time Samsung, jointly venturing with Japanese Sanyo, entered the electronics industry. Samsung's entry into electronics precipitated a strong objection from the first runners in the electronics industry, which was, with an exception of LG, dominated by medium-sized firms. However, it was Samsung and the government would not stop Samsung entering.

Instead, Park's government introduced the Electronics Industry Promotion Law and launched an eight-year campaign in 1969, to promote electronics as a major export industry (Huh 2004, p. 268). Samsung was a major partner indeed. Samsung's entry was stormy enough to threaten small competitors, encompassing all related industries (electro-electric components to final product) and thereby forming a vertically integrated industrial structure. Samsung Electronics Manufacturing Incorporated (renamed Samsung Electronics in 1984) and Samsung-Sanyo Electronics were established in 1969. In 1971, Park's government declared Electronics and Shipbuilding as the strategic industries for export. This was followed by the establishment of Samsung-NEC (later Samsung SDI) in 1970, and both Samsung Sanyo Parts (later Samsung Electronics Parts and Samsung Electro-Mechanics) and Samsung Corning in 1973. With the sizable investment that overwhelmed medium-sized electronics makers, Samsung soon enjoyed a large share of the domestic market, while its OEM products with Japanese brand names started being exported to the US market. In the late 1970s, shortly after Samsung began an export campaign for the US market, its cheap colour TV quickly made inroads into America's low-end TV market. Meanwhile, Samsung was gradually localising major parts in colour TVs. Samsung

achieved US\$100 million in exports by 1978. By that time, Samsung's electronics subsidiaries could take initiatives against counterparts in joint ventures, securing Samsung's ownership and managerial rights over the firms. Samsung also advanced to the semi-conductor industry, considered too high-tech for Korea at that time, by securing a 50% share in Hanguk Semi-conductor. Later in the 1980s, this semi-conductor industry became the foundation of Samsung's high-tech drive that gave Samsung a basis for a new start.

Given the economic development of the mid-70s, it seems true that heavy industrialisation, which had been conceived as far too speculative, was successful at least in offering a further basis of accumulation for Korean capital. Through the 1970s, despite a slight slowdown during the mid 1970s caused by the first oil shock, economic growth was impressive. After the first oil shock, economic growth soon recovered, showing a remarkable average 12.33% growth from 1976 to 1978. In spite of massive foreign loans for new investment, which were accompanied by inflation, capital investment concentrated on heavy industries appeared profitable. Electronics, steel, shipbuilding, and other assembling-manufacturing industries enjoyed price competitiveness in the global market, leading to export growth of heavy industrial products. Heavy industrialisation also could substitute the production of small-scale industrial machinery that had almost wholly relied on imports. Indeed, relatively successful labour control in heavy industrial sectors throughout the 1970s was enough to take advantage of cheap labour. In large-scale firms in heavy industrial sectors, there were only four labour conflicts between 1974 and 1979. The boom made the workers keep moving. In addition, the Vietnam War and the construction boom in the Middle East contributed to the growth, providing foreign currency to compensate for increasing oil prices.

### **Growing Discontent and the Crisis of Developmentalism**

While the big *chaebols* including Samsung appeared to benefit most by heavy industrialisation in the 1970s<sup>6</sup>, this development was accompanied by more repressive policies against labour. While people were still suffering low wages and harsh daily lives, big businesses were growing massively with full support from the state. For example, between 1972 and 1978, the number of Samsung's subsidiaries increased from 16 to 33. It is no wonder that this politicised economic development provoked a further politicisation of class struggle. The tensions between the growing working class and the state's labour controls were developing in labour intensive industries becoming now less and less competitive in the export market and therefore less and less generous to its export warriors. The symptoms of the pre-crisis of politicised development appeared in increasing discontent. In a presidential election in April 1971, President Park only narrowly defeated the opposition candidate, Kim Dae Jung, in spite of massive manipulation. Park's government could control this growing discontent only by supra-constitutional legislation such as, enactment of the Law Concerning Special Measures for Safeguarding National Security following the garrison decree of October 1971, the *Yushin* (revitalisation) Constitution in 1972, and subsequent National Emergency Measures in 1974 and 1975.

Growing discontent indicated a serious flaw in the early political arrangement of development. These emergency measures were effective enough to enforce a short-term mobilisation of capital and labour and, therefore, resulted in a massive transformation of the industrial structure in the 1970s. Nonetheless, these measures appeared to critically undermine the very basis of the social arrangement of capitalist development. By removing the political rights of its citizens and ignoring formal democratic procedures, these measures revealed the class character of the state far beyond the extent that it could possibly be presented as an autonomous regulator. The result was clear. The democratisation movement (*jeyaundong* or *minjungundong*) began to gather massive support from all around the country, while workers began no longer to tolerate suppression at the workplace.

The second oil shock was the final blow. The export drive based on massive foreign loan and massive export was vulnerable to the skyrocketing oil price. It quickly worsened the trade deficit, particularly in heavy industrial sectors, while the export drive slowed down with the emergence of the depression and growing protectionism in Europe and the US imposing quotas on Korean electronics consumer goods (e.g., colour TV quota in the US from 1978). The state faced uncontrollable nationwide anti-government struggles after the YH workers' struggle in 1979 during which the riot police attacked workers occupying the headquarters of the first opposition party, the New Korean Democratic Party, with 1,000 riot police, beating workers and MPs of the opposition party and eventually killing a 21-year old woman worker in the attack. The violence against the YH workers in Seoul incited riots as far away as Masan and Busan (Ogle 1990, p. 92). President Park was finally killed by his closest and most loyal fellow, Kim Jae-kyu.

With the dramatic collapse of the Park regime, which exercised brutal force to sustain the no longer effective formula for development Korea faced its first general crisis. After the assassination of Park, mass demonstrations demanding political democratisation were held nationwide, while over 700 strikes against violent labour control were organised by workers in a few months by the spring of 1980, providing an expectation of political democratisation as well as of the demise of the repressive labour relations. The state, which again fell under military control by General Chun Doo-hwan after another military coup in May, and the political aspirations of the people against the existing forms of capitalist domination eventually came into collision in Kwang-Ju, a southern city of Cholla province, in the form of the first armed struggle after liberation in 1945, organised by workers, students, housewives, and others. This uprising ended with the massacre of thousands of people in May 1980. However, even though the new military regime grasped political power, the previous way of organising capitalist production, under which the state enjoyed unfettered regulative power against the mass of the working population, could no longer be reproduced in the way it had been, but was now increasingly subject to continual struggle, on the one hand, and to the crisis-ridden development of global capitalism, on the other.

### 3. BECOMING EXPORT WARRIORS & SURVIVING THE WARRIOR WORKERS

#### **Liberalisation and Demising Developmentalism**

During the crisis, the state played an important role in saving businesses by introducing debt-relief policies for business. However, its control over financial flow that had been a major method of sustaining its leadership against individual capitals and thereby conducting economic development seemed to be gradually waning. In the crises of the 1970s, doubt about the efficiency and capacity of the financial markets based on state-regulated commercial banks spread widely among individual capitals. Accordingly, capitalists continued to argue the necessity of financial liberalisation in order to enhance the efficiency of financial markets (Suh 1991, pp. 132-41), or more frankly in order to expand their influence into the financial sectors.

The state finally introduced partial liberalisation of the financial market by loosening direct control over commercial banks and entry restriction on financial industries, although overall credit control by the state remained strong. Consequently, commercial banks were privatised by the end of 1983 with a ceiling of 8% of total shares for individual shareholders. The amendment of the Bank Act in 1982 also allowed large private shareholders to exercise voting rights in managerial boards. In addition, the interest rate of loans by commercial banks was partially deregulated. Most of all, it was the development of the capital market and non-bank financial institutions (NBFI) that allowed corporations gradually to be free from the state's financial control. NBFIs, which had first appeared in 1974 as a method of attracting funds from the informal curb market, were again significantly liberalised in the early 1980s, providing individual firms, particularly big *chaebols* which practically owned those institutions, with more than 20% of total external funds in 1985, while their dependency on commercial banks quickly decreased. Direct fundraising through issuing corporate paper, bonds and stocks also increased fast, from a mere 15.1% to 30.3% of total external funds between 1970 and 1985 (Lee 1998, p. 16). On the other hand, foreign loans guaranteed by the government also decreased quickly enough to make them almost meaningless to individual capitals. With this 'privatisation' of financial flows, the state seemed no longer to be able to impose an absolute guideline on individual capitals through the regulation of financial flows and sustain the methods Park's regime had used for capitalist development. Furthermore, restrictions on the operation of foreign banks were also relaxed and the closed commodity market, which had been attacked by the US since the late 1960s, was gradually undermined by import liberalisation, the development of which became more and more salient after repeated trade friction between US and Korea and the Uruguay Round in 1985.

#### **Gathering Storm**

Throughout the 1980s, the labour movement undermined the power of the state as the protector of individual capitals from workers' collective actions. Whereas the number of unions and overall union density decreased during the early 1980s due to suppressive labour policies, thousands of college students, who were inspired by the workers' struggle in the 1970s and studied radical ideas in student movement groups, disguised themselves as ordinary workers and entered factories, beginning

to radicalise unorganised workers, while making a specific tradition of the workers' movement called '*no-hak yondae*' (workers-students alliance) (See Koo 1993, pp. 148-151). Also, the democratisation movement began to develop more seriously, forming a nationwide alliance. Facing this increasing tension, the state attempted to resolve it by introducing political relaxation, including relaxed control over workers' collective actions from the mid-1980s. However, this relaxation could not stop the growing aspirations of the workers, allowing instead workers to organise 200 independent trade unions (Koo 1993, p. 150) and to develop regional solidarity between the unions. Two strikes in the mid-1980s in Daewoo Motors and Kuro Industrial Park, represent a new development of the workers' struggle.

The former struggle in the automobile subsidiary of Daewoo, which was now the third biggest *chaebol*, showed the newly emerging pattern of trade unionism in big *chaebols*, which were the most heavily invested during the 1970s and 1980s, however, relatively less organised, indicating the extremely militant struggle by male workers in heavy industries which came to lead the workers' struggle after 1987. These male workers in heavy industries, a growing exporting sector, had to go through the same intense work experiences as the woman workers in garment and textile industries in the 1960s and 1970s. In spite of relatively better economic compensation in comparison to workers in traditional SMEs in light industries, they could not get what they believed they deserved in the *chaebols*' debt-ridden expansion. These *chaebol* workers indeed owed the basis of the labour movement to workers in light industries, mostly women, who started from a minority movement and confronted the sheer violence of the state and capital in the 1960s and 1970s. The so-called disguised workers' attempts to radicalise trade unions also played an important role in organising strikes with elaborate preparation. Meanwhile, the strikes in the Kuro Industrial Park, the traditional export hub in the 1970s, supported by student and dissident organisations (Koo 1993, p. 151), showed the possibility of an alternative current by developing regional solidarity between grass roots independent unions. The continual development of working class struggles and gradual liberalisation of financial and commodity markets showed that the early foundation of Korea's capitalist development had now reached an impasse of its reproduction.

### **The Great Workers' Struggle and Emerging Crisis**

In January 1987, struggles against the military government accelerated after a student, Park Jong-chul, was tortured to death by security police. In June 1987, over five million citizens occupied streets, attacked city and town halls and disarmed riot police in all major cities and towns. Finally, on 29 June, the leader of the ruling party, the Democratic Justice Party, Roh Tae-woo, announced that the government had decided to allow a direct presidential election in 1987, liberalisation of political activities and media, independence of universities, and amnesties for those arrested and imprisoned during the democratisation struggles. Although a formal democratic reform could stabilise the nationwide democratisation movement by the end of June 1987, the crisis deepened by the subsequent workers' struggles in the summer of 1987, during which the whole basis of unilateral labour relations at the workplace was

dismantled. The Great Workers' Struggle in 1987 began in the southern city of Ulsan, the most intensive heavy industry town in Korea. From the mid-1980s, workers' attempts to establish democratic trade unions had already begun with organising small reading groups and fraternal circles in heavy industrial firms, such as Hyundai's heavy industry firms in Ulsan and Daewoo Ship-building on Geoje Island (CKTU 1997). While the democratisation movement reached its peak in the second half of June 1987, resulting in weakening the overall effectiveness of the state's role in regulating labour relations, workers in Hyundai's heavy industry firms began to accelerate their attempt to organise democratic trade unions.

Facing those attempts that were initiated in the Hyundai Engine Industry, Hyundai management shut down factories, established paper unions in Hyundai Heavy Industry and Hyundai Motors Car, employed save-the-company squads and utilised other attacks on union leaders. However, the more the Hyundai management deployed extreme methods to stabilise the situation, the more explosive the struggles became. The city of Ulsan was overwhelmed by Hyundai workers mobilising mass demonstrations and occupying the factories and city hall during one month from mid-July. Through the intense struggle against the management, workers in all Hyundai's firms succeeded in establishing democratic unions with dramatic support from rank and file workers, in less than two months, after more than 30 years of non-union history at Hyundai.

Workers' struggles quickly spread into other industrial areas all over Korea. A total of 3,311 labour disputes occurred during the three-month period from July to September 1987 and over 1.2 million workers were reported taking part in the struggles. While the primary demand of workers in the struggles of the summer of 1987 was for pay rises, there were a number of other issues of workplace labour relations raised by the workers during the summer, including inhumane treatment and discrimination between manual and non-manual workers (CKTU 1997, p. 162). Those issues reflected the nature of workplace labour control that prevailed in heavy industry sectors, including reduction of working hours, liberalisation of dress codes and hairstyles, elimination of compulsory morning exercise and termination of arbitrary job evaluation by foremen (Koo 2001, p. 160). In many cases, workers did not negotiate before calling for collective actions. It was very usual that a labour dispute took the form of strike-first-talk-later during the summer of 1987, when only 5.9% of all labour disputes were 'legal' (CKTU 1997, p. 164). Many unions were established, therefore, not before but in the middle of the development of labour disputes, often accompanying rank and file distrust of union leaders. Neither individual capital's control nor state power seemed to be able to stop workers' aspiration for democratic trade unions in the summer of 1987.

### **Samsung in the Summer**

While big *chaebols* and SMEs were having trouble, Samsung was not free from the nationwide waves of strikes. In the Second Factory of Samsung Heavy Industries, Co. in Changwon, a city of South Kyeongsang Province, Samsung workers started responding to the nationwide labour disputes. The workers who had initiated organising in Samsung Heavy Industries at the beginning of August 1987 faced an

immediate reaction from Samsung. Those involved in unionising were transferred to other departments or Samsung subsidiaries in other provinces. In protest, workers organised a sit-in strike in the playground of the Changwon factory. The demands were 'not to block democratic unionising, increase wages 20%, and remove the promotion policy based on merit evaluation' (Kim and Lee 2002, p. 21). To stop the unionising, Samsung utilised peculiar methods, which have become Samsung's usual response to unionising attempt ever since.

Samsung organised a save-the-company squad who beat up and kidnapped organisers and workers on the one hand, and more effectively, registered a paper union by taking advantage of the legal ban on multiple trade unions, on the other. Union registration submitted by workers in Samsung Heavy Industries was rejected by the city authority of Changwon. The excuse was that 'your company already has a union registered a day ago' (Kim and Lee 2002, p. 22). Workers protested by occupying the factory and working tools such as fork-lift trucks now turned into weapon against the save-the-company squad. Most workers' demands were achieved as negotiations went on. However, final negotiations could not render the establishment of a workers' union, instead Samsung promised to democratise the employee-employer council. A year later, workers in Changwon factory tried again to form a union. This time, management filed a criminal case against the organisers who then faced imprisonment. The first attempt to organise finished in vain. Meanwhile, workers in Samsung's heartland, an electronic subsidiary Samsung SDI, also tried to organise a union in the summer of 1987. However, the result was the same. Repeated attempts in Suwon factory were repressed while a 10-day strike in Busan factory rendered no union.

The second attempt of workers in Samsung Heavy Industries was in the shipyard on Geogae Island where workers in Daewoo Shipbuilding led waves of strikes. In 1988, 1,500 workers in Samsung's shipyard went on strike demanding wages increase and a union. Having managed to have 700 workers endorsed in a day, workers proudly marched to the provincial government office to register a union. Again, workers found that a union had been registered, this time, 10 minutes before they arrived. In spite of mediation by the provincial government, Samsung did not allow workers a union. It looked to the workers inevitable to again occupy the shipyard. For days, clashes between save-the-company squad and the workers were repeated, leaving a number of workers seriously injured. Finally, an agreement was reached with a sizable wage increase that was even higher than neighbouring Daewoo Shipbuilding with a newly established union. However, as in Changwon, Samsung did not recognise a workers union, pledging instead an active employee-employers council. Samsung's no-union policy was formidable. It survived third, fourth, and fifth attempts of now united workers from different workplaces of Samsung Heavy Industries, such as Changwon, Geogae and Jeju Island. In Seoul, workers occupied FKTU's headquarters, demanding a democratic union. However, Samsung's response was the same: more pay, but no union. Samsung could do better in giving generous compensation to individualised workers while not allowing 'collective' labour relations to be established. After the labour disputes in Samsung Heavy Industries, Samsung offered 16 to 19% wage

increases (Song 2006, p. 19). The organisers of Samsung Heavy Industries had to run a union outside the factory, outlawed and unregistered. This union continued to exist until it was repressed by a national security law a few years later.

This period marked the second phase of unionising in Samsung after the struggle in the Cheil Industries. Co in 1960. The wave of strikes and subsequent unionisation of workers in big businesses showed that the relative superiority that *chaebols* had enjoyed in heavy industrialisation no longer satisfied their workers. As *chaebols'* heavy industries became the major booster of exports and national economic development, they were, equipped with more negotiating power, also requiring political compensation such as their rights to be democratically represented, as well as more economic compensation. In face of the increasing aspiration of the workers in heavy industries, *chaebols* were no longer free from the emerging labour movement. Now it seems that *chaebols* reached an impasse: simply being a *chaebol* with extra profits from the diversified and semi-monopolised businesses and sharing small part of the extra profits with their workers could not guarantee no union. The state could no longer guarantee union free either. Samsung was not an exception, although in comparison to other *chaebols* such as Hyundai and Daewoo that finally had to negotiate with the workers, Samsung managed to stop unionising in the summer of 1987. Now, Samsung needed to do *more* in order to stabilise labour relations in Samsung without negotiating with workers in unions like other *chaebols*.

The Great Workers' Struggle changed the basis of capitalist development in Korea significantly. The number of trade unions and union members increased respectively from 2,658 to 7,883 and 1,036,000 to 1,932,000 between 1986 and 1989 (Koo 2000, p. 231). The annual average number of industrial disputes for a decade since 1987 was five times as many as for the decade before 1987, from 174 between 1977 and 1986 to 846 between 1987 and 1996 (Koo 2000, p. 231). More importantly, workplace labour relations showed 'a significant shift in the balance of power on the shop floor' (Koo 2000, p. 232). Collective bargaining now became a necessary procedure that capitalists had to go through in order to implement managerial decisions. In so doing, trade unions began to penetrate the managerial decision-making process through increasing 'union involvement in various type of personnel management policies', including 'discharge, discipline, and transfer' (Jeong 1997, p. 60). As many unions succeeded in achieving record-breaking wage increases as well as favourable working conditions, the *social cost of exploitation* also sharply increased. As it was the case in the summer of 1987, Samsung could not avoid the increasing cost of exploitation either. One difference was that Samsung increased workers' wages and welfare without union negotiations, while other *chaebols* did that through continual political negotiation with the represented workers. Samsung's no-union policy had become a peculiar one in the development of militant unionism in Korea. Samsung needed to do even more since in Samsung workers could not enjoy political rights. As workers' wages increased in the battles and negotiations between now militant unions and the authoritarian management of corporations in Korea, Samsung workers were enjoying higher payment without collective actions.

Bluntly speaking, Samsung workers could enjoy a free ride on emerging democratic trade unionism, the activist for which had to go through lay-offs, arrest, and imprisonment. However, it was not the workers' own intention of course. It was the result of sheer union busting during the summer of 1987.

More economic compensation and corporate welfare, which was now becoming Samsung's trade mark, could be the basis of workers' loyalty to the company. Through these, workers tended to see themselves as company partners rather than mere employees. This helps a particular capital to present the capitalist ideal as real. In the capitalist ideal, exchange relations between workers and capitalists appear to be equivalent and free contract relations between capital and commodity labour as two different sources of revenue or two different individuals who own the functionally differentiated sources of income, namely commodity labour power and money-commodity. However, in reality, the exchange relations are highly unequal since decisions around working conditions, hours and intensity are often, if not always, unilaterally decided by the management. Most of all, after repeated exchanges between them, workers are still workers and capitalists are still capitalists. Therefore, employment relations need to be reproduced rather ultimately by the attempt of capital to repeatedly present the ideal as if it were the reality. Indeed, the existence of trade unions is a symbol of the unreal nature of this ideal, the recognition of the fact that workers and capitalists are not in equal positions. However, Samsung shows an extraordinarily strong belief in this ideal.

'What Samsung does not recognise is not the trade union itself, but the need to have a trade union. In other words, Samsung has a principle of management that does not need trade unions. Since establishment in 1938, Samsung has been developing a unique management practice on the basis of a principled management philosophy that was rare in Korea...In particular, we have been emphasising the principle of 'coexistence and co-prosperity', taking it as a principle of the relation of company to employees as well as consumers. I think that the employer-employee relation needs to be an arena of dialogue and harmony, not conflict and confrontation. Hence, after the student revolution in 1960, we have been researching model cases of corporate development without trade unions in Japan and the US and running institutions that suits us, such as fraternal club, employer-employee council, complaint handling system, and public conference for company reports.' (Lee Gun Hee, the President of Samsung, quoted from Kang 2005, pp. 293-4, author's translation)

In this sense, Samsung's no-union policy is somewhat different from simple union busting that breaks unions to avoid giving more to workers. Samsung's labour policy does not simply target reducing 'what' workers earn from their jobs. Rather, Samsung's union policy focuses on 'how' workers earn their share from their jobs. In other words, Samsung could provide workers with a million dollars voluntarily whereas it would not offer one dollar if it were due to 'collective' demands by workers.

Samsung seems to have understood the significant consequence of earning \$1 collectively since the early days.

However, Samsung seems not to realise that trade unions can also be a tool of strengthening the corporate ideal by providing an apparently democratic political process of decision-making that effectively complements economic compensation. Toyota in Japan is a good example. It is known that Samsung learnt lessons from the labour movement in Japan in the 1950s. Unfortunately, Samsung did not learn at all from the Japanese labour movement from the 1960s onwards when Japanese trade unions started being neatly integrated into management. Therefore, Samsung's mystifying employment relations relies only on economic compensation rather than political compensation and in that sense Samsung's mystification of labour relations is *inferior* to that of Toyota that relies on both economic and political mystification. Instead, Samsung often needs violent methods to keep the company union free, not only against peripheral workforces but also core workers in its heartland, and this harsh labour practice is likely to threaten Samsung's myth based on economic compensation to the workers. Samsung's no-union policy has become the basis of what distinguishes Samsung's workforce from others. Not to allow collective labour relations building up, Samsung developed a complicated internal labour policy that resulted in a particular nature of its workforce who feel 'collective superiority' to workers in other firms and compete with each other individually within the Samsung. No-union policy, intended or not, proved effective, not because of no-union itself, but because of the dynamics that following labour management brought to the workers to compensate for the absence of political negotiation. It was indeed impossible for the workers to be well paid if Samsung's business was not doing well. While 'warrior' workers of the militant unions were being formed nationwide, Samsung was emerging as the best export warrior ever.

### **Surviving Warrior Workers, Becoming Export Warriors**

In spite of the swift decline of unilateral labour relations at the workplaces after 1987 and increasing labour cost, Korea faced a rather unexpected export boom largely due to Korea's so-called 'three lows' opportunity (low oil price, low value for the South Korean won particularly against the Japanese yen, and low international interest rate). This created a massive profit in exports bringing a record-breaking current account surplus, \$4.709 billion in 1986, \$10.058 billion in 1987, \$14.505 billion in 1988, and \$5.360 billion in 1989. This export boom enabled individual capitals to afford the increasing investment in fixed capital, which grew 341% between 1984 and 1987 (Lim 1998, p. 47), on the one hand, and to cover the massive increase in wages, on the other.

This boom was led most of all by the electronics industry, the major cash maker for Samsung. In 1989, Korea's electronics industry exported about US\$18 billion worth. While the share of heavy industries against total exports increased to more than half, electronics increased its share to 26.5% of total exports by 1990. In 1990, the electronics industry alone employed about 15% of the total manufacturing workforce in Korea (Kim and Park 1999, p. 27). Samsung's export drive, often with its own brand name, included a wide range of home appliances such as wide flat TVs,

microwaves, refrigerators, and washing machines as well as electronic parts like large colour picture tubes (CPT). While Korea's electronics industry was increasing market share in the home appliance market in the US and Europe, *chaebols*, such as Samsung, LG, and Hyundai also expanded into semi-conductor industries. Semi-conductors soon became major exports, shipping US\$4 billion in 1989. Amongst many, Samsung's entry into semi-conductors was the most vigorous. Following the announcement of its expansion into the semi-conductor business in February 1983, Samsung established Samsung Semi-conductor and Telecommunication. To everyone's surprise, Samsung announced that it succeeded in developing 64K DRAM (Dynamic Random Access Memory) after only 10 months in the business. Having started mass production in 1984, Samsung's semi-conductor business developed fast, putting 256K DRAM on the market in only a couple of years. Concomitantly, the world semi-conductor market suffered from overproduction and sharply dropping unit prices. DRAM producers, including Intel and major Japanese firms, had to reduce production or withdraw from the industry. However, Samsung confronted the shrinking market by aggressively increasing capacity. As the DRAM market stabilised from 1987, Samsung's expanded production capacity needed to operate 24 hours a day to meet demand. Now Samsung's semi-conductor-drive began. Samsung electronics (acquiring Samsung Semi-conductor and Telecommunication in 1988) produced 5.6% of memory chips in the global market in 1988 with ever increasing production of DRAMs and market share reached more than 10% of the world market by 1993 (Kim 1996). Semi-conductors became the first major export product for Korea by 1992, taking over automobile, textile, and steel industries.

Even if Korean capitals could afford the increasing social cost of labour thanks to the boom, the expansion of Korean capital in this boom was marked mostly by a massive increase in the volume of production through investing a large part of the surplus in the quantitative expansion of production facilities, which occupied almost 70% of total investment in plant and equipment, rather than by introducing new means of production for improving productivity and decreasing employment (Lee and Ryu 1993, p. 64). At the end of 1989 the limit of this expansion appeared. To sustain the enlarged scale of the production of commodities and cover the increasing cost of exploitation, individual capitals continually needed capital to invest in their reproduction. This continual reproduction also presupposes the continual growth of sales in competitive markets. However, what Korean capitals faced from late 1989 was increasing competitive pressure in global markets as well as growing pressure from increased wages and welfare costs, both of which functioned as barriers to the export growth necessary to sustain enlarged production.

This increasing competitive pressure in the market was accelerated by the newly industrialised nations (NICs) and subsequently China, and growing protectionism in developed countries, particularly in the US, which, after suffering from a massive trade deficit with Korea during the boom, pointed to Korea as 'unfair traders' (Burkett and Hart-Landsberg 2000, p. 157). The challenges from NICs pressured Korea's export sectors including the electronics industry. After the Plaza Accord in which Japan agreed to upward evaluation of the yen against US dollar, Korea's electronics

industry enjoyed price competitiveness. However, as high yen pushed Japanese electronics makers to invest in low cost countries, noticeably those in Southeast Asia, Japanese firms soon recovered price competitiveness. In addition, increasing protectionism by Europe and the US also threatened to undermine Korea's electronics exports by subjecting colour picture tubes, TVs, VCRs, and microwave ovens to anti-dumping duties, quota restrictions and voluntary export restraints (Lee 1993). Worse still, 'the upward revaluation of the South Korean won by almost 16% in 1988' again harassed Korean capitals (Hart-Landsberg 1993, pp. 237-8).

During the slowdown from 1989, individual capitals attempted to overcome the barrier of exports aggressively by investing in new means of production, developing new products and research and development (R&D). However, those attempts appeared far from successful. While the import of capital goods for new investment continued, export growth continually slowed, showing merely 2.8% growth in 1989 and 4.2% in 1990. Although the growing domestic market, in accordance with the increasing income of the working class, contributed to sustaining economic growth, it also caused an increase in the import of consumer goods, which more than doubled between 1988 and 1991. As a consequence, the current account returned to deficit from 1990 and reached a \$8.317 billion deficit in 1991, which was the worst in decades. After a short retreat between 1992 and 1993, during which overall economic growth was the lowest after the second oil shock, Korean capitals again aggressively attempted to overcome the already far developed crisis from 1993. During and in the aftermath of the boom in the mid-1980s, corporations managed to increase capital investment to sustain the enlarged mass of production in the traditional industries and launch new industries such as semi-conductors, on the basis of the massive surplus in the boom. However, further aggressive investment by Korean capitals after 1993, the total of which grew 56.2% in 1994 and 43.5% in 1995, was possible *only through massive credit expansion* based primarily on foreign private loans, which grew 78.6% in the same period, through various financial institutions over which big businesses had strong influence. Samsung was doing quite well during this period, largely thanks to its aggressive investment in semi-conductors. However, Samsung could not be an exception from credit-based expansion drive during the late 1980s when Samsung's debt-equity rate reached more than 400%. Although it decreased throughout the early 1990s, it was still more than 300% at the end of 1992.

#### **4. GLOBALISING SAMSUNG & MARKETISING LABOUR**

##### **Toward a New Samsung and Introduction of a New Soul-attracting HRM**

In the seeming prelude of the bigger crisis, Samsung still enjoyed the growth of its semi-conductor business. However, Samsung started full scale restructuring of the company, emphasising the 'forthcoming' crisis. As the new chairman Lee Gunhee declared 'a New Management' which focused on 'qualitative' rather than 'quantitative' expansion, with a rather blunt slogan of 'changing everything except wife and children'. Samsung went into the next phase of development through which it became a distinguished TNC, not to mention a distinguished Korean *chaebol*. Firstly, Samsung Electronics started diversifying products and maximising the interface between

products. Samsung Electronics was now organised into different 'business divisions'. In the early 1990s, Samsung added wireless telecommunications and LCD-TFT business divisions onto the traditional home appliance and semi-conductor production divisions. In 1994, it succeeded in developing 'Anycall' and soon took over Motorola in Korea's market. Samsung's mobile phone also challenged major international brand names in the mobile phone market of the US and EU from 1997, for which Samsung later became the third largest player. Samsung's subsequent success in the CDMA mobile made the telecommunication business another cash maker for Samsung. In addition to business restructuring, Samsung also started reforming labour management from a typical *chaebols*' personnel management based on permanent employment and service year wage system to a system based more on internal competition between divisions, individuals, and merit, in other words, more market-oriented human resources management (HRM).

After the labour crisis in 1987, Korean capitals competitively attempted to recover their managerial authority on the shop floor by introducing new labour regulations. Firstly, individual capitals began to either establish or strengthen human resource handling departments. In 1989, more than 69% of firms had a department specialised in labour regulation, in contrast to a mere 53% in 1987, while its influence on managerial decisions was also substantially enhanced (Kim, H G 1997, p. 163). Furthermore, employers began to introduce a 'new personnel management strategy', which aimed at isolating newly established trade unions by promoting cooperative employment relations. The new personnel management emphasised 'human relations' and 'corporate culture', which are designed to promote a common identity based on the company as a community, among the workers. Regular consultation meetings between personnel managers and workers became common while small-group discussions for workplace welfare as well as productivity enhancement were also encouraged. In addition, various educational programmes, with particular emphasis on the nationalist agenda, anti-communism, national economic hardships, and the relative superiority of the firm to other companies, were competitively introduced in firms. Likewise, it was at this time that the *chaebols*, in an attempt to replace the seniority-based wage and promotion system with a merit-based wage and promotion system, experimented with an ability-based wage and promotion scheme in which, although pay rises and promotion were firstly based on seniority, the result of the evaluation of individual job ability determined a significant portion of the pay rise as well as eligibility for promotion.

Samsung was at the front line in introducing market-oriented labour management that could promote more 'commitment' of the worker to the company, promoting more individualised labour relations rather than collective labour relations (Lee 2006, p. 74 *New Management and Human Resource Development and Management*). Samsung introduced 'Productive Incentive' (PI) in 1992. Before, the pay system was based on fixed monthly salary corresponding to service years. With the introduction of PI, the portion of merit-based payment dramatically increased, causing competition between subsidiaries, business

divisions, teams, and individual workers. PI was based on a complicated evaluation system in which personal merit was calculated on the basis of the achievements of 1) particular subsidiaries, 2) business divisions, and 3) individual teams in the division. Each of the categories were marked A to C. Therefore, there were 27 different grades for workers at Samsung (*Korea Economy Daily* 2002, p. 115). With an increasing portion of PI in individual workers' wages, working for Samsung does not automatically mean better wages than workers in competing companies. However, if one gets a high mark, PI makes her or him a real high-paid worker, indeed, at the expense of other Samsung workers.

In addition, promotion has also been changed by the introduction of points-promotion. Now promotion was based not only on service years but also on accumulated evaluation scores. As a consequence, there was increasing competition between different Samsung subsidiaries, again different divisions (for example between semi-conductor division and home appliance division's in Samsung Electronics), and teams within the same business division. Workers' commitment to their work was also encouraged by the best corporate welfare system. Samsung introduced 'Samsung Health Insurance' in the mid 1990s, by which Samsung workers and their spouses could benefit from free medical services. In addition, Samsung started supporting full education costs from nursery to university for the children of Samsung workers with more than seven years service (Choi 2006, p. 29). Also introduced was 'self-development allowance', which was spent by most workers to increase their own value as Samsung employees<sup>7</sup>. Facilities for recreation and refreshment for manual workers on production lines have significantly improved with well equipped resting places and gymnasias in factory complexes.

While differentiated economic compensation and corporate welfare allured Samsung workers, it was Samsung's systematic education system that finally made each worker a 'new' person, known as 'Samsung-man', with seemingly bottomless commitment and pride. Samsung's education system is reputed as best among the *chaebols*, providing a month of initiatory training when new recruits in the same place learn 'Samsung Values', as well as seasonal off-job trainings to encourage team spirit among co-workers. Manual workers have 10 days' training including learning Samsung's corporate ideal. During this so-called 'Samsung Shared Value Programme' (called SVP), Samsung workers are accustomed to a peculiar perspective to view the world: Samsung versus the outer world. Intensive education plays an important role in making Samsung's employees identify with the brand 'Samsung' that they are so much into the view that they are reckoned to make no complaint about Samsung even to family and friends. Hardworking, loyal, and obedient, aggressive in business, enjoying high payment corresponding to effort made, and most of all the ultra capable image of 'Samsung-man' was firmly created by the mid-1990s. Indeed, the no-union policy is an integral part of the education, emphasising the welfare, better working conditions, and company's prosperity are largely thanks to no union in Samsung.

### Globalising Asia and Globalising Samsung

With the increasing social cost of labour and competitive pressure from newly emerging economies like the countries in Southeast Asia and China, Korean corporations attempted to go beyond the national boundaries in order to move their capital to somewhere with cheaper social cost of exploitation. Therefore, Korean capitals' overseas foreign direct investment (OFDI) began to increase massively, mainly toward other parts of Asia, in the mid-1990s, far superseding inward foreign direct investment. As a result, Korea's OFDI toward Asian countries almost doubled between 1994 and 1996, reaching \$6.2 billion in stock in 1996 (Kim, EM 2000, p. 113). In 1996 alone, there have been 1,080 investments with US\$1.8 billion in Asia. On the other hand, money capital also was speculatively invested in Southeast Asia through the newly liberalised merchant banks and financial companies.

**Table 1. Korea's FDI Outward stock and flow (US\$ millions)**

Year	1980	1985	1990	1992	1994	1996	1998	2000	2002	2004
<b>Outflows</b>	26	591	1052	1162	2461	4670	4740	4999	2617	4792
<b>Outward Stock</b>	127	461	2301	4425	7471	13828	20293	26833	31102	39319

Source: UNCTAD

Samsung's globalisation of production started as early as 1982 when Samsung set up its production subsidiary in Portugal. Samsung subsequently established its production facilities in developed countries, such as the US (1984) and UK (1987), in an attempt to avoid import restrictions such as quotas and anti-dumping duties, for the large markets. However, Samsung's early investment targeting the large markets was not very successful. For example, the US colour TV factory could not overcome relatively high costs and limited local suppliers for parts for cheap low-end TVs. Later, Samsung had to relocate this factory to Mexico. More serious foreign direct investment (FDI) in the developing countries in Asia occurred after Samsung witnessed Japanese firms' recovery on the basis of successful relocation in Southeast Asian countries. As Japanese firms produced in Asian developing countries in the attempts to overcome high Japanese currency that contributed to the fast development of Korea's electronics export since 1985, those newly developing countries expanded their production capacities and electronics soon became a major foreign currency earner, in particular in Malaysia. Having been pressured by the fast development of newly industrialising countries, Korean electronics makers followed the steps of Japanese firms. FDI of electronics firms started increasing slowly from 1988. Between 1991 and 1995, there were 373 investment cases with average US\$3,993,000 capital investment per case (Seo et al. 2004, p. 76). Most investment headed to Asia. In 1993, Korean electronics makers had 56 subsidiaries in Asia, out of total 83 subsidiaries over the world (Lee 1993, p. 11). Later 1990s, the major investment destination became China, attracting US\$804.68 million, almost twice the US\$481.147 million investment in ASEAN countries between 1996 and 2000<sup>8</sup>.

The reason why Korea's electronics investment was concentrated in Southeast Asian countries and China was because they offered extremely favourable conditions for Korean electronics makers. In the early and mid-1980s these latecomers in export-

driven economic development shifted from ISI to EOI. By the 1980s, development plans backed by official loans and government guaranteed bank loans became increasingly unrealisable as the international financial flows were 'privatised'. Most Southeast Asian countries faced the lack of financial resources and increasing pressure on their balance of payments. Indeed, their authoritarian regimes desperately needed to pursue rapid capitalist development to enhance their legitimacy. In desperate attempts to boost development, countries started opening widely their markets and industries to foreign investors. Expansion of transnational corporations (TNC) into Asian developing countries increased pressure on tariff barriers and other trade regulations, furthering the opening of the investment market.

The Malaysian economy faced serious challenges from the mid-1980s due to the steep deterioration of the prices of major export commodities, including oil, tin, rubber, cocoa, and palm oil (Jomo and Gomez 1997, p. 77). The immediate response of the state was large-scale privatisation, which was concretised later in the Master Plan for Privatisation in 1991. On the other hand, the Malaysian government initiated its FDI-ridden development by introducing the Investment Promotion Act of 1986 that promoted foreign investment by offering foreign capital tax holidays and renewable pioneer status for export-oriented investment. In addition, Malaysia set up export processing zones (EPZ) in 1990 that enjoyed full or partial exemption from regulations, tax, and duty, backed particularly by the Industrial Relations Act protecting employers' interests with a *five-year freeze on collective bargaining*. In Thailand, because of the declining price of agricultural goods, high value currency, and balance of payments problems, FDI promotion schemes of the Board of Investment began in the mid 1980s by implementing currency devaluation and offering tax exemptions and tariff cuts to export industries. Thailand targeted export sectors, such as electronics and garments, which could boost national economy primarily by earning foreign currency. The Thai government subsequently introduced policies favouring FDI in export sectors, allowing land ownership of foreign companies and offering full tax-exemption and rebates. In addition, the liberalisation of interest rates and foreign exchange transactions in the early 1990s attracted foreign investment. For Indonesia, deteriorating oil prices led Indonesia to shift to EOI. The mid-1980s witnessed massive devaluation of the Indonesian rupiah, reaching a peak of 45% at the end of 1986. Large-scale deregulation in trade and investment as well as export promotion policies followed, liberalising foreign investment in export sectors and offering unrestricted duty-free access to imports to major exporters.

China's FDI-ridden development was initiated by labour-intensive industries and small-scale capital intensive industries such as electronics parts making firms, whose investments still dominate China's FDI inflow. The relocation of export-oriented labour-intensive industries presupposes 1) cheap labour available to productive capital operating in the country, 2) little social cost of labour in the form of taxation and labour protection 3) deregulation of investment so that foreign productive capital can operate freely in developing countries, not to mention many incentives, 4) deregulation of trade so that importing raw materials and exporting products do not

cost much, and 5) easy access to international markets. 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. The rush of manufacturing capital from Asia's first generation of developing countries, including Korea, apart from geographical and ethnic reasons, is related to the *specific advantage* that China's capitalist development can offer ATNCs. Most of all, the vast consuming power of the humongous Chinese population provided the largest domestic market ever for these foreign firms operating in China. This is particularly important for increasing investment in China's domestic markets such as electronics and 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' whose proportion of the population is small but whose number is well beyond that of sizable countries in Europe offered a great market in absolute terms.

In addition, the successful social control over the process of the formation of 'export warriors' through '*communist*' *social engineering* also needs to be focused. Although most countries that shifted to EOI went through more or less same process, China did it most effectively, *thousands of times larger and with great timing*. The fast growing movement of capital in the late 1980s and early 1990s did not mean that individual capitals moved from one place to another and settled in the latter. Rather, it meant that they were ready to move 'anywhere, any time', obtaining extreme mobility. As the fear of relocation became an everyday threat to workers by employers, 'investor confidence' became the rule above constitutions and domestic laws. This market norm firmly established itself in the late 1980s and early 1990s. Now, capital was literally free to move. In fact, to impose logic, it *had* to move continually. And it was in this context that China was accelerating a particular process of transformation and thereby offering a huge *alternative* place of investment to global capital. The new development of global capital movement coincided with China's transformation, which was the largest and fastest transition of its kind.

This process of transformation began with the desperate attempt of the Chinese Communist Party to resolve the problems of stagnation of the forces of production that China's 'socialism' faced after the ravages of the Cultural Revolution; the socialist dream was ridiculed by reality. The worst moment came with increasing urban unemployment and, with it social unrest. To overcome this problem, the party-state initiated partially marketised control of production in retaining a 'socialist' economy. In spite of the rhetoric of 'retaining socialism in China', once the process started, the initial strategy of partial marketising developed into a more systematic strategy that transformed China once for all into a capitalist economy. Changes in relations between the state and enterprises were initiated by separating management from ownership of SOEs through the 'contractual management system'. SOEs whose production was directed by the state now could have its own planning and autonomy in personnel management and profit allocation, changing *SOE-state relations into capital-state relations*. They were also allowed to access commercial banks loans. Instead of

direct control, the state tried to control SOEs through state-controlled commercial banks. While SOEs were becoming 'capital', private enterprises were encouraged after the 1987 Thirteenth Party Congress. The state pushed privatising SOEs further. By the end of 1995, SOEs and urban collective enterprises together employed less than half the total workforce in manufacturing, more than a 20% decrease from 1980. A more full scale privatisation followed after the policy of 'grasping the big one and letting the small one go'. Now 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).

Meanwhile, traditional *labour-enterprise relations* were changing into labour-capital relations. The capitalist-like '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. By 1990, 17 million workers had contracts. In the first Labour Law of China, enacted in 1995, contracted employment finally appeared as the primary form of employment. Employers were then more or less capitalists who could set working conditions and, importantly, terminate employment relations at will. Consequently, 'overstaffed' SOEs started downsizing. Most downsizing proceeded through a particular process of laying off so-called surplus workers in SOEs, officially named *xiagang* from 1997<sup>9</sup> (Zhang 2003). By the end of 2002, 27 million workers were sacked through the *xiagang* project (Zhang 2002). Indeed, laying off workers through *xiagang* changed employment relations since firms now employed non-permanent workers. After the restructuring, SOEs' employed only 14.8% of total workforce in the manufacturing sector by 2001. That was only about one third of its contribution to employment in 1980. Worse still, employment in urban collective enterprises, which had employed about 23% of manufacturing workers in 1980, accounted for about 5% of manufacturing employment in 2001 (Chinese Bureau of National Statistics 2002).

On the other hand, there was a huge flow of young, particularly women, internal migrant workers into industrialising provinces and cities when China's household registration system (*hukou*), which had controlled geographical mobility of the labouring population in order to allocate labour forces according to central planning, relaxed after 1984. These internal migrant workers were from rural areas where working people were hit by worse living conditions than their urban counterparts. Whereas the loosening of the *hukou* system allows the migrants to work in big industrial towns, it does not give them the right to be permanent residents or to claim social benefits from the town. Thus, they were vulnerable to extreme forms of exploitation. Worse still, millions of workers are ready to migrate to cities largely because of the ever diverging living standards between urban and rural areas. Altogether, these migrant workers, estimated at 94 million in 2004 (China Labour Bulletin 2004), offer favourable conditions for new investment. In relating massive FDI inflow with unregulated labour, a large-scale inflow of migrant workers plays a particularly important role. Throughout the 1990s, labour in China was almost fully commodified to provide extremely cheap and disposable capitalist labour to private enterprises.

During the process, workers' protests against the unequal nature of capitalist development occurred but were kept in remarkably low profile by sheer state suppression<sup>10</sup>. The nature of the initial development of capitalist social relations shows us that there was a socio-political necessity for the party-state to attract foreign capital aggressively. Otherwise, it 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 EPZs and devising many benefits for foreign investment. After two decades of attempting to attract foreign investment, China virtually changed the whole territory into more than 2,000 EPZs in different forms where foreign capital enjoys tax breaks, tariff cuts, and other privileges<sup>11</sup>. While internal migrant workers flowed into newly emerging industrial hubs in China, it was most of all capitals from Asian countries that employed migrant workers in those EPZs.

In the early 1990s, many late Asian developing countries, such as Thailand, Malaysia, Indonesia, and subsequently China relied on FDI as a main financial resource for development, offering extremely favourable conditions for investors. This was an opportunity for Korean electronics makers including Samsung. Beginning with its Thailand subsidiary producing colour TVs for both export and domestic markets, Samsung moved aggressively into Asia's developing countries, integrating Indonesia, Malaysia, Singapore, China, Vietnam, and India into its global network in the first half of the 1990s.

**Table 2. Samsung's early investment in Asia**

	1989	1990	1991	1992	1993	1994	1995
<b>Thailand</b>	Colour TV (51% JV)				VCR Tuner, Home appliance parts (100%)		Washing Machine production and sales
<b>Indonesia</b>		Fridge (50% JV)	VCR, Audio (80% JV)				Colour TV production and sales
<b>Malaysia</b>			Microwave Oven (100%)		CRT Glass (JV)		Monitor (100%)
<b>Singapore</b>			International Procurement				Regional HQ
<b>China</b>				Audio products, Keyboard, VCR Parts	VCR, VCR Parts (50% JV) (80% JV)	Tuner, VCR Head and Motor Exchanger	Colour TV (50% JV) Electronics (50% JV)
<b>Vietnam</b>							Colour TV (100%)
<b>India</b>							Colour TV (51% JV)

Source: Seo et al. 2004, p. 165

By doing so, Samsung was able to produce cheaper products and increase its price competitiveness in the world market. This was also helping Samsung to be effective in supplying its products to Japanese companies that had already been relocated in the region. In the mid-1990s, Samsung succeeded in building a vertically integrated industrial structure of its own in Malaysia and China by combining the capacities of its electronics subsidiaries, such as Samsung Electronics, Samsung SDI, Samsung Corning, and Samsung Electro-Mechanics. This vertical integration was finished by building an industrial complex in major invested countries, such as Salembang in Malaysia, Tianjin in China, Tijuana in Mexico, Bellingham in UK, and Manaus in Brazil. As Samsung's subsidiaries moves into these locations, Samsung's small and medium size suppliers, producing transistors, speakers, tuners, colour picture tubes, etc. also followed, completing the vertical integration. This combined and concentrated investment of Samsung's electronics subsidiaries and its suppliers enabled Samsung to exercise stronger negotiation power with the local and central government of the host countries, getting more compromises and incentives from them. In Asia, all the subsidiaries in Asia were now 'networked' through the logistics centre set up in Singapore in 1995 so that, for example, parts produced in Thailand factory could be shipped to China's TV assembling factory in time. Samsung also opened regional headquarters in Singapore, US, China, and Europe in 1995 to enhance the networks within the regions.

In addition to the expansion of its production facilities, Samsung also devoutly explored new technology by investing in high-tech businesses in developed countries. It bought up 20% share of Array Microsystems of the US in 1993 to obtain digital process chip technology. In 1994, Samsung take control over Integrated Telecom Technology in the US, LUX (audio technology) in Japan, and Control Automation of the US (CAD/CAM technology) by acquiring 100%, 51% and 51 percent of shares respectively. In following year, Samsung acquired Harris Microwave Semiconductor in the US (Seo et al. p161). Samsung made a leap forward in terms of its global network building as well as high-tech-driven development. However, contrary to this seemingly glorious picture of the expansion of a Korean multinational, Korean economy itself was doing not at all great. In the midst of growing cost at home and increasing competitive pressure abroad, credit was expanding massively, making it possible for capitals to keep investing speculatively in a vain attempt to overcome the increasing cost and competitive pressure. It was in 1996 that these problems of debt-based expansion began to explode.

### **Labour Movement**

While the new management strategies were focusing on individualising labour relations, more harsh and direct attacks on newly established trade unions continued. In order to stop the expansion of unionism, 'no work, no pay' became a principle of labour-management in large-scale firms. Employers often boycotted collective bargaining and hiring substitute workers during the labour disputes. However, corporations could no longer completely ignore the existence of unions. Rather, they encouraged more cooperative workers to take over the union leadership by offering them financial and organisational support. Therefore, those cooperative

workers could enjoy privileges and mobilise anti-union organisation while democratic union leaders were suffering from surveillance and discipline. The state began to confront the labour movement more aggressively after the stormy period of 1987-1988. On the one hand, Roh's government (1988 – 1993) hunted down union activists, using national security as an excuse. More importantly, the government vetoed against the proposed bill of 1989 by opposition party-dominated parliament for a new labour law, which was likely to reflect the developments after the summer of 1987. Thanks to that, notorious elements of Korean labour law, including the prohibition of third party intervention, prohibition of political activity of unions and ban on the unionisation of public servants, remained intact. The reactionary move was strengthened by the establishment of the Democratic Liberal Party through a three-party merger, which finished the opposition parties-dominated parliament.

However, turning back to pre-1987 labour relations by utilising authoritarian measures was simply not possible. The resumed authoritarian control over collective labour rather provoked more militancy from democratic unions that were now establishing and developing regional and national-scale solidarity. By the end of 1989, a total of 11 regional trade union councils were organised (CKTU 1997, pp. 347-86), including a quarter of a million workers. At the same time, workers in the health service, media, banks, schools, utilities, construction, publication and universities established 13 occupational leagues, comprising 173,000 members (Yu 2001, p. 174). In January 1990, 14 regional councils and two manufacturing occupational leagues (publication and construction) finally established the Council of Korean Trade Unions. While the CKTU represented the development of democratic trade unions in SMEs, workers in *chaebols* established umbrella unions, e.g., the General Federation of Hyundai Company Trade Unions and the Council of Large Companies Trade Unions. Also, non-manufacturing occupational leagues organised the National Conference of Occupational Trade Unions (NCOTU). In this period, in spite of the decreasing number of labour disputes, the struggles of militant unions developed strategically in a way in which the individual capitals found themselves in increasing difficulty to reorganise labour in accordance with newly introduced personnel management strategies. In spite of the state's forceful control, the CKTU finally succeeded in establishing a confederation of democratic trade unions, the KCTU (Korean Confederation of Trade Unions), merging with the NCOTU and integrating the unions in *chaebols*. Democratic unions have finally been unified under a single leadership of the KCTU, for the first time in the history of the Korean labour movement.

In the meantime, real wages increased, showing annual 6.4% increases between 1994 and 1996. Indeed, the flexibility of labour also seems not to have increased enough to overcome the pre-crisis symptoms at the expense of the working class. Although lay-offs and other flexible measures had already implicitly been used by capital to reformulate the employment structure, it was still not easy for individual capitals to impose officially a great degree of flexibility on organised labour. Legal reform to bring the individual capital a substantial reduction of labour costs and full recovery of its managerial power through institutionalising flexibility kept being

suspended by the power of organised labour in the mid 1990s. The desperate attempt of the state to flexibilise labour and disempower trade unions by passing a new labour bill to strengthen control over unions and enhance flexibility of labour in December 1996 precipitated the first ever nationwide general strike since 1948. On 26 December 1996, 143,695 workers from the KCTU and 70,000 workers of the GHFTU and affiliated unions joined the strike. Thousands of unionists, citizens, and students held rallies in Seoul. Meanwhile, workers from public transportation, hospitals, carmakers, shipyards, and textile factories subsequently joined the strike. Even the usually conservative FKTU organised a walkout by 156,000 workers at 486 work sites.

From 3 January 1997, 230,000 workers joined the second stage of the nationwide strike. In the third stage from 15 to 19 January, a total 350,000 workers joined the protest. This strike continued until 10 March. As a result, the labour law was returned to the National Assembly and amended in March. Lawmakers removed the anti-trade union elements within the collective labour law, allowing multiple trade unions at national and industrial level but with a five-year moratorium at company level, and allowing political activity by unions. However, the general strike could not stop more flexibility of labour through legalising flexible working hour arrangements, redundancy dismissals (although this was not to be enacted until two years after passing the act) and allowing capital to substitute workers during labour disputes. It seemed that the threat to the reproduction of capital relations had been finally treated properly, satisfying capital as well as labour, at least partially. However, having failed to renew its basis of accumulation either at the expense of competitors in international markets or at the expense of the workers, Korean capital was already in a serious trouble.

### **Economic Crisis**

In order to meet massive demands for external funds in debt-based investment, financial liberalisation was even accelerated in the mid-1990s by Kim Young-sam's civilian government, in the pursuit of *segehwa* (globalisation) policies. The government allowed a further relaxation of control on foreign borrowing, through liberalising private merchant banks and finance companies, and practically abandoned control over exchange rate and investment coordination. Moreover, Kim's government pursued deregulation of interest rates between 1993 and 1997. These liberalisation policies finally allowed a steep increase in foreign loans, which more than doubled between 1993 and 1996, showing particular dependence on short-term loans which reached 58.3% of total external borrowing in 1996 (Cho 1999, p. 15).

However, in spite of the aggressive investment on the basis of massive credit expansion, it was not likely that Korean capitals could recover from the recession. Although economic growth recovered slightly with the help of credit expansion, showing 8.6% of GDP growth in 1994 and 8.9% in 1995, the deficit on current account reached \$8.5 billion in 1995 and \$23 billion in 1996, following devaluation of the yen which followed the agreement between the US and Japan in 1995 (Lee, B. C. 1999, p. 123). Now, the rate of net income to sales in manufacturing fell to a record-breaking low 0.53% in 1996 largely due to the increasing pressure of repayment (Korean National Statistics Office 2002). It was at this time that the dependence of capital

investment on foreign loans reached a critical point, growing from \$31.7 billion in 1990 to \$104.7 billion in 1996 with a high dependence on short-term loans.

Worse still, cheap memory price went down steeply in 1995, to occupy 17.7% of total exports in 1995. Well before the emergence of the Asian crisis, Korean capitals began to collapse. Large *chaebols*, such as Hanbo Steel Sami, Jinro, Daenong, and Hansin had collapsed by June 1997. Soon after, Kia, the eighth largest *chaebol*, was bankrupt. The breakdown of big businesses caused a chain reaction in the financial system forcing banks to ask corporations to repay credit in order to compensate their losses in the collapsed branches and firms. At last, a general crisis emerged. The stock price, which had reached its highest level, 1,027.4 in the Korean Composite Stock Price Index in late 1994, fell to 350.68 in late 1997. On top of this, financial turmoil in Asia made the general crisis more dramatic. While Korean banks attempted to recover their losses to collapsed firms by withdrawing further loans, foreign financial institutions began refusing to roll over short-term loans in Asia. With the massive increase in demand for the dollar in the foreign currency market, a foreign currency crisis followed, precipitating a massive liquidation of capital. Now the Central Bank attempted to meet the increasing demands of foreign currency by financial institutions, foreign currency reserves reached near exhaustion by the end of November. Under this external pressure, domestic financial institutions also began to increase pressure on individual capitals, accelerating the subsequent collapses of firms. The Korean government, having lost its control over the foreign currency market, on 21 November 1997, finally asked the IMF to help out by injecting funds to relieve the immediate pressure on the foreign currency and financial markets.

## 5. THE MAKING OF THE GLOBAL SAMSUNG

### Aftermath of the Crisis

Beginning with an immediate \$5.5 billion financial aid from the IMF, a total of \$58.3 billion financial aid (\$21 billion from the IMF, \$10 billion from the International Bank for Reconstruction and Development, \$4 billion from the Asian Development Bank, and \$23.3 billion from the US and other countries) was announced to stabilise financial turmoil. As a condition of the financial aid, the Korean government pledged first of all to tighten monetary policy in order to restore and sustain stability in the financial markets. Accordingly, the interest rate was to be kept much higher during the stabilisation period and money growth limited by less than 5% inflation. Also a tight fiscal policy was pledged. The interest rate was more than doubled reaching a peak of around 30% in January 1998. Commercial banks were also forced to keep a high level of deposit rate with the Bank for International Settlement (BIS) and therefore became reluctant to provide corporations with new funds. By the end of 1998, the immediate economic problems that required the IMF's bail-out appeared to a large extent to have been resolved with recovered foreign currency reserves, from merely \$3.9 billion at the end of 1997 to \$48.5 billion at the end of 1998, and the stabilised exchange rate stabilised at around 1,204 won/US\$ at the end of 1998 (Republic of Korea 1999). However, this 'recovery' was very costly.

Given the fact that Korean firms relied on external debts for capital investment and virtually short-term circulation of capital, further collapses of firms, particularly SMEs, whose ability to survive under financial pressure was weaker than large-scale firms, was not at all a surprise but rather regarded as a necessary remedy to affirm the rule by markets. A total 22,828 firms, mostly SMEs, went bankrupt during 1998. Firms that survived financial pressure still had to hold their investment and downsize. Unemployment soared to 13% in a year. As a consequence, overall GDP growth recorded minus 5.8% in 1998. It was not until the massive liquidation of the financially troubled capitals and financial institutions that the tight monetary policies were relaxed by lowering the interest rate to the level prior to the crisis.

The newly elected Kim Dae-jung government, which came into power in the middle of the crisis, pushed forward further the restructuring, including that of *chaebols*. In the pursuit of financial sector reforms, the government shut down five banks with a total of 10,260 employees while five other banks merged with other financially 'healthier' banks during 1998. 16 out of 30 merchant banking companies were closed by the end of 1998 (Republic of Korea 1999). With regard to corporate sector reforms, a mandatory issuance of consolidated financial statements was introduced in 1998. Also, cross-debt guarantees between subsidiaries within *chaebols* were banned. FDI regulations were to be relaxed by scrapping restrictions on FDIs, the purchase of real estate, and mergers and acquisitions by foreign investors. Further attempts to secure the 'rule of the market' and replace 'the heavy hand of government intervention' with the 'invisible hand of the market' can be found with the establishment and empowerment of governmental offices, such as Fair Trade Commission and Financial Supervisory Commission, inspecting the financial soundness and transparency of individual capitals and financial institutions, thereby ensuring that the market disciplines troubled businesses.

The most devastating impact of the crisis was obviously on the working class. Employers were increasingly deploying voluntary retirement, lay-offs, and outsourcing as the crisis unfolded. About a million lost their jobs during the first half of 1998, so that the unemployment rate skyrocketed from 2.8% in 1997 to about 8% at the end of the first half of 1998. Accordingly, real wages also decreased more than 9% during 1998. Numerical employment adjustment, in other words, cutting heads off, became a routine business rather than an emergency measure, maintaining a certain degree of unemployment as a whole.

After the massive lay-offs wiped out permanent jobs, most of the newly recruited were temporary, daily-contracted and other 'informal' forms of employment. This resulted firstly from a widespread employment strategy that sacked full-time permanent workers and re-employed them as temporary or part-time workers performing almost the same job they did before dismissal. During a one-year period from June 1998, 80% of those who escaped unemployment were re-employed as temporary and daily workers (Lee and Hwang 2000, p. 289). In the banking and financial sectors, about 15% of the total workforce was made up of those re-employed in this way after being sacked during mass lay-offs in 1998 (KILSP et al. 2000, p. 118).

4,640 out of 6,612 new jobs in 1998 were informal and 4,671 out of 5,501 in 1999 (Kwon 2001, p. 91), mostly on temporary contracts. In the public sector, about two thirds of the laid off full-time permanent job holders had been re-employed as informal workers, including part-timers, temporarily contracted, dispatched, and subcontracted workers, which increased 46.1% during the four years after the crisis (KFTPSU 2002, p. 9).

In the manufacturing sector, dispatched and in-house subcontract workers, whose employment contracts were mostly temporary, increased as temporary work agencies were allowed by the labour law reform in 1998. Among the in-house subcontract workers, many were employed by user companies before the crisis. They became workers in subcontracting firms as their work was separated from their parent company and become separate companies during the crisis. However, in many cases, the user of the workers in separated companies was still the same parent company that once employed them directly. Firms utilise indirect forms of employment by having numbers of small subcontract firms and work agencies, the survival of which is entirely subjected to yearly or monthly contracts with the parent companies. In many cases, large-scale enterprises establish subcontract firms and work agencies under their direct control (Ahn et al. 2001, pp. 182-6). By making the employment relations more indirect and untraceable, management can avoid and ignore legal obligation as direct and large-scale employers and therefore adjust the number of workers at will. Also, by putting together irregular and regular workers on the production line, management precipitate more competition between formal and informal employees and thereby make it easier to control formal employees, showing them that they are replaceable. This insecure basis of the informal forms of employment results directly in less pay, worse working conditions and no union protection. While the average wage of informal jobs reached a mere 52.6% of that of the regular workers in 2001, workers in informal forms of employment worked longer than regular workers, averaging 46.5 hours per week, in comparison to 45.9 hours of regular workers (Kim, Y S 2001). Due to the temporary and mobile nature of these forms of employment, union density of informal workers was less than 1% in 2002 (KCTU 2002, p.6).

The serious crisis of the reproduction of capital relations that Korean capitalist development faced in the late 1990s seems to have been overcome. More or less, market-based reforms succeeded in overcoming the crisis and creating a new social basis for capital accumulation however with increasing polarisation of society. After 6.7% minus growth in 1998, the economic growth rate again began to rise, showing 10.9% in 1999 and 8.8% in 2000. Foreign exchange reserves, a shortage of which triggered the acceleration of the crisis, now reached a record-breaking level \$97.76 billion and all IMF loans were already repaid. Although accompanying a massive liquidation of capital at first, stabilisation measures seem to have achieved a lower debt/equity ratio in the private sector, recovering so called 'creditors' confidence'. Most of all, during a four-year period, capital has succeeded in taking the best advantage of the reformulation process, re-establishing capital-labour relations in favour of capital through the systematic decomposition of the working class by marketising labour control.

### **Samsung in Turmoil**

In this context Samsung, which was still one of the corporations doing better, went into heavy structural adjustment. Internally, the collapse of the memory market in the mid 1990s was worsening its finance. Externally, the frozen financial market as well as shrinking international market for consumer goods after the Asian crisis made it more difficult. Worse still, overly aggressive new investment in the auto industry was becoming increasingly problematic. Samsung ambitiously entered this industry by mobilising initial capital from its own subsidiaries, including Samsung Electronics, Samsung SDI, Samsung Electro-mechanics and Samsung Everland, in 1995. In spite of vehement opposition from existing car makers, Kim Young-sam's government allowed Samsung's entry, to create huge employment in its own party's stronghold, Busan in south Kyeongsang province. Samsung Automobile started producing passenger cars in its Busan factory with the production capacity of a half-million a year from May 1997. However, things were different from the late 1960s when Samsung Electronics entered into the highly competitive electronics market with government backing. Rather, it was indeed the worst time to enter the market since Korea's economy was going into its biggest ever crisis. After only a few months operation, there was increasing doubt about the profitability of Samsung Automobile particularly by commercial banks, including Hanil Bank, which was the major creditor of Samsung Automobile and now going through hard times for its own survival. Soon after the emergence of the economic crisis, Samsung Automobile was subject to the national structural adjustment programme. Without capital injection from Samsung's richer subsidiaries that now faced their own problems and tighter regulations, Samsung Automobile seemed unsustainable. Even before its full operation, Samsung's Busan factory stopped production. The millions of investment poured into the risky automobile exploration became debt for Samsung. Facing the crisis, Samsung accelerated a full scale structural adjustment from 1998. There were no celebrations in the sixtieth anniversary year. Rather Samsung was in the biggest crisis in its history.

Samsung decided to focus on electronics, finance, trade, and service industries. Accordingly, it began to sort out subsidiaries in other areas by merging and selling out. However, the adjustment was not limited to targeted industries. Even in the focused areas of business, Samsung pushed a harsh workout by 'slimlining' its businesses. Samsung did it by concentrating and keeping the strategic and most profitable parts, and cutting less strategic and unprofitable parts. In doing so, Samsung did not have to take responsibility for the firms producing parts or dealing with particular aspects of business, while still exercising control over relations to the separated and now 'independent' companies. After two years of restructuring, led by the special 'Centre for Structural Adjustment' that became a permanent think-tank for chairman Lee Gunheon, Samsung reduced the number of subsidiaries from 61 in 1998 to 45 in 2000 (Song 2006, p. 5). A lot of business parts become independent units by 'separating-out'. A total 231 businesses were separated from Samsung this way and became 'independent' companies that are still firmly under Samsung's

control, without Samsung's responsibility for them (Song 2006, p. 6). Samsung Electronics, the most profitable subsidiary, was also subjected to further restructuring. Its 34 businesses and 52 low value added products such as home appliance were either transferred to foreign subsidiaries or separated from Samsung. Deficit-making foreign subsidiaries faced even harsher adjustment. In 1997, Samsung's expanded network of production appeared not to do well, making US\$670 million losses in a price-cut competition (*The Korea Economic Daily* 2002, p.191). These subsidiaries also relied heavily on external debt with only 12% of its own capital against total assets (*The Korea Economic Daily* 2002, p. 191). Samsung responded by liquidating its 12 non-profitable subsidiaries while injecting about US\$1.3 billion into healthier and more competitive subsidiaries during two years from 1998.

### Broken Pride of Samsung-man

For the worker, HRM schemes continued to be introduced. The pay system was again revised to be more merit-based, encouraging competition between workers, subsidiaries, and business divisions. An annual salary system was introduced for office workers with university graduation in Samsung Electronics in 1998. Now office workers' salary was 60% fixed and 40% performance-based. For workers in non-managerial posts and manual workers on production lines, Samsung encouraged competition by controlling up to 500% (of monthly salary) bonus. On top of this, profit sharing (PS) was introduced in 2000 for both manual and managerial posts. Through this, workers in the business divisions that make profits beyond the annual target are entitled to share 20% of the extra profit, up to half of annual salary (*The Korea Economic Daily* 2002, p. 114). Combining PS with the PI introduced in the mid-1990s, a worker can be paid five times more (or less) than other workers in the same grade. For workers on production lines there was also a 'special incentive' of up to US\$300,000 for those who made extraordinary contributions to the company.

However, not all Samsung workers could 'enjoy' the earn-as-you-work system or benefits from PS and PI. Between 1996 and 1999, Samsung conglomerates' 167,000 workforce decreased to 113,000; about one third of workers were either laid off on retirement pay or became workers in Samsung's 'cooperative companies' that had

**Table 3. Wage structure for office and managerial jobs**

Annual Salary	Monthly Salary	Basic Wage – 60%
		Performance-based – 40%
Bonus 200%		
PS + PI		

Source: Samsung Electronics Korea web site

**Table 4. Wage structure for production and non managerial jobs**

Monthly Salary	Basic Wage
	Self-development allowance
	Other Allowances
Additional payment	500% bonus
	PI + PS

Source: Samsung Electronics Korea web site

been separated from Samsung during structural adjustment. Workers dispatched by labour agencies for a particular process of production were removed first. Then regular Samsung workers took the jobs. Finally the particular process of work was separated from Samsung by creating a new independent company often headed by former Samsung managers. Many of them were still working on same production lines, however, with less payment and without welfare and most of all the pride of being the Samsung-man. They now had to work for Samsung, but *not* as Samsung employees. Samsung Electronics has also done the largest scale of ‘human resource restructuring’, reducing its number of workers in Korea from 59,000 in 1996 to less than 40,000 in early 1999 (Kim and Park 1999, p. 57) while its foreign subsidiaries also joined the downsizing drive by firing more than 10,000 workers across the world, about 40% of their workforce between 1996 and 1998.

**Table 5. Samsung Electronics workforce change**

1996 (end of year)			1997 (end of year)			1998 (end of year)			1999 (first half)		
Manual	Office	Total	Manual	Office	Total	Manual	Office	Total	Manual	Office	Total
25,436	33,650	59,086	22,097	35,720	57,817	13,546	28,608	42,154	21,126	18,353	39,479

Source Kim and Park 1999

### The Making of the Global Samsung

Behind the tears of its former ‘masters’, slimline Samsung, which had been pursuing structural adjustment since the introduction of new management in 1993 and finalised it through the economic crisis, afterwards showed an explosive performance. During the 10 years after 1993, Samsung’s sales increased 3.4 times and more surprisingly its profit increased 28 times. Contrary to the self-evaluation foreseeing a minus growth in the middle of the economic crisis, thanks to sheer cost-cutting primarily by the massive ‘human resource adjustment’ and overwork by desperate workers who tried to avoid lay-off, Samsung electronics made a profit in 1997 and again 1998, with US\$87.26 million and US\$259.31 million net profit respectively. Indeed, it was a distinguished performance in the middle of economic crisis while thousands of enterprises, including many owned by big *chaebols*, collapsed hopelessly. However, this was just a beginning of Samsung’s record-breaking drive. In 2000, Samsung Electronics achieved a record-breaking net profit of US\$4.76 billion. Although there was a big drop of DRAM’s unit price in 2001, by which most of the major chip makers, including Japanese giant Hitachi, Matsushita, Toshiba, and NEC, ended up with huge deficits, Samsung made US\$2.186 billion net profit, catching the eyes of business journalists. One of the reasons why Samsung could survive the DRAM price crisis in 2001 was internal diversification. In 2001, Samsung’s DRAM sales were only 15% of total sales whereas telecommunication and digital divisions made almost 60% and home appliances made 10% of sales. It was the result of Samsung’s systematic diversification, now with two more business divisions including digital media and technology divisions, which enabled Samsung to be invulnerable to the cyclical ups and downs of the markets. In 2004 Samsung achieved US\$10.3 billion net profit. Thanks to this extraordinary performance, debt to equity rate decreased from 296% in 1997 to a mere 43% in 2001 and minus 21.3% in

2002 (Samsung Electronics 2005). Not only Samsung Electronics showed an extraordinary performance, other subsidiaries also made development leaps so that Samsung conglomerates in 2003 dominated the whole Korean domestic market with 23 subsidiaries, including Samsung SDI and Samsung Corning, as market leaders in their businesses (Song 2006, p. 11). In 2004, Samsung's subsidiaries produced 17.4 percent of Korea's GDP (*Sisa-Journal*, 20 September 2005, p.113).

Samsung's export drive was also remarkable. Samsung's exports occupied US\$31.2 billion of Korea's total exports of US\$172.2 billion in 2000, or 18.1% of exports. In 2004, it shipped US\$52.7 billion, accounting for 20.7% of US\$253.8 billion exports. Samsung Electronics alone exported US\$41.6 billion in 2004 accounting for 16.3% of total Korean exports. Samsung's DRAM, one of its major export products, topped world markets in 1992 and never lost its position while SRAM and LCD began to dominate the world markets since 1995 and 1998 respectively. Now Samsung electronics has nine items dominating world markets, including DRAM (31% of the world market), SRAM (28%), TFT-LCD (22.1%), colour monitor (21%), CDMA mobile phone (20.6%), colour TV (9.9%), Flash Memory (27%), LVDS Display Interface (19%), Multi Chip Package (29%) (*Sisa-Journal*, 20 September 2005, p.114). This extraordinary performance was backed by aggressive 'human resource development'. Samsung Electronics appears to have invested US\$4.6 billion in R&D in 2004, with 17 R&D centres across the world. At the same time, Samsung has been absorbing the talented technologists from all over the world. In 2004, Samsung Electronics had 12,000 MA and PhD holders that are about 20% of its workforce.

Abroad, Samsung's aggressive globalisation continued. Samsung had 24 production and sales subsidiaries, 40 sales subsidiaries, 15 branches, and 13 R&D centres in 48 countries, employing about 50,000 workers in 2005. It has regional headquarters in North America, Latin America, Europe, Southwest Asia, China, Commonwealth of Independent States, the Middle East, and Africa. Apart from DRAM, which is produced only in its US and China subsidiaries as well as Korea, almost all the products are produced in globally and regionally networked factories. Between the factories, vertical and horizontal networks bring different parts to different production processes, not only within Samsung Electronics, but also between other electronics subsidiaries of Samsung. Samsung is in *constant motion*. In Europe, Samsung is moving toward the East, reducing production capacity in Western Europe where the cost of production is higher than the East. Countries with transitional economies have been major targets for Samsung in the last decade. In Asia, massive increase in investment in China is noticeable with altogether 12 production subsidiaries established after 1992. Samsung made a concentrated investment in Tianjin and subsequently Suzhou where Samsung Electronics, other Samsung's electronics subsidiaries, and thousands of suppliers produce all the products of Samsung and accomplished vertical and horizontal integration. Samsung has recently completed transferring its laptop computer division to China. In Asia, the trend is that Samsung is increasingly moving its low value added products, mostly white goods, TVs, and monitors to production lines in Southeast Asia and China while

high-tech or high value added products and core technology are kept in Korea and partially China only.

Samsung Electronics now plans to massively expand production capacity in India, targeting to increase its scale of US\$950 million to US\$5.5 billion in five years. As Samsung moves, produces, and employs, its social recognition is also increasing in Asia's developing countries. The government of Thailand awarded Samsung the 'Best Quality Award' in 1998. In Philippines, Samsung won the 'Outstanding Exporter Award' as well as the 'Best Social Contribution Award' in 2006 by the Aroyo

**Table 6. Samsung electronics production subsidiaries in the world**

Region	Country	Subsidiary	Major Product
Asia	China	Tianjin Tongguang Samsung Electronics Co., Ltd.	CTV PJTV
		Tianjin Samsung Electronics Display Co., Ltd.	C/M
		Tianjin Samsung Telecommunications Co., Ltd.	HHP (GSM)
		Tianjin Samsung Electronics Co., Ltd.	VCR DVDP CAM
		Huizhou Samsung Electronics Co., Ltd.	AUDIO
		Shandong Samsung Telecommunications Co., Ltd.	FAX PRT
		Shenzhen Samsung Kejian Mobile Telecommunication Technology Co., Ltd.	HHP
		ShanghaiBell Samsung Mobile Telecommunications Co., Ltd.	CDMA BSS Sys
		Suzhou Samsung Electronics Co., Ltd.	REF W/M RAC R/comp MWO
		Samsung Electronics Suzhou Semi-conductor Co., Ltd.	LSI Assembling and processing
		Samsung Electronics Suzhou Computer Co., Ltd.	NPC
		Samsung Electronics Suzhou LCD Co., Ltd.	LCD
		Indonesia	P.T. Samsung Electronics Indonesia
	Thailand	Thai Samsung Electronics Co., Ltd.	CTV C/M REF A/C MWO W/M
	Malaysia	Samsung Electronics Malaysia SDN. BHD	MWO MGT
		Samsung Electronics Display (M) SDN. BHD.	CTV C/M
	India	Samsung Electronics India Information & Telecommunication Ltd.	C/M
		Samsung India Electronics LTD.	CTV C/M REF A/C W/M MWO
	Vietnam	Samsung Vina Electronics Co., Ltd.	CTV C/M
	Philippine	Samsung Electronics Philippine Manufacturing Corporation	ODD
North America	Mexico	Samsung Telecommunications Mexicana SA De CV	CTV C/M HHP DTPC
		Samsung Electronics Mexico SA De CV	W/M MWO REF RAC
US	Samsung Austin Semi-conductor	DRAM	
South America	Brasil	Samsung Electronica Da Amazonia LTDA	C/M HDD HHP
Europe	UK	Samsung Electronics Manufacturing (U K) Ltd.	C/M MWO
	Spain	Samsung Electronics Iberia SA	HHP PJTV DVDP TVCR
		Samsung Electronics Hungarian Co., Ltd.	CTV
	Slovakia	Samsung Electronics Slovakia Co., Ltd.	CTV C/M

Source: Samsung Electronics web site

government. Samsung SDI, producing micro LCD for mobile phones and PDA, plasma display panels, organic light-emitting diodes (OLED), and CPTs, also has 12 production subsidiaries in six countries: China, Germany, Malaysia, Hungary, Brazil, and Mexico. SDI is also transferring outdated CPT production to foreign subsidiaries whereas Samsung SDI in Korea is concentrating on high-tech OLED and PSP. Another electronics subsidiary, Samsung Electro-Mechanics, has production subsidiaries in Thailand, Philippines, China (three subsidiaries), and Hungary. Based on the extraordinary performance after structural adjustment, Samsung resumed its typical expansionism, increasing its subsidiaries from 45 in 1999 to 63 in 2004. Its number of employees also increased from 113,000 to 135,000 in Korea in 2004. Samsung Electronics alone now employs 69,000 in Korea and 50,000 abroad, becoming the *world's No. 15 employer*.

With its increasing competitiveness in the global market and overwhelming significance in Korea's economic development, Samsung is now a unique corporation in Korea. Samsung's influence is outreaching to the economic, political and cultural dimension of Korean people, creating a new phrase, 'Samsung Republic'. Its outstanding performance in the aftermath of the disastrous Asian economic crisis built a myth of Samsung. It is now not merely a well-managed *chaebol*, but rather a symbol of modern Korea whose buzzwords are high-tech, efficiency, and of course flexibility. Samsung has been selected every year as the favourite company of Korean university students since 1997. Thousands of highly talented young people are queuing up to be a Samsung citizen, dreaming of being a hard-working and highly rewarded Samsung-man. In what follows, we will look at the material as well as mythical basis of the Samsung and its 'citizen', Samsung-man.

## **6. TEARS AND JOYS OF ITS MASTERS (AND/OR SLAVES)**

### **Samsung's Workers and Work Organisations**

There were 135,000 Samsung workers globally in 2004. Samsung Electronics alone employed about 120,000 globally including 66,586 in Korea (by the end of the first quarter of 2005). Amongst them, 10,042 were office and managerial employees and 16,787 were production line workers while 39,757 work in R&D, marketing, and other professional areas. At a glance, as always in such myths, Samsung is a 'dream workplace for all'. Samsung Electronics employees' annual salary reached about US\$70,000 in 2004 while average workers in manufacturing earned around US\$27,000 in Korea (*Sisa-Journal* 20 September 2005). Reportedly Samsung Electronics spent more than US\$50 million on corporate welfare a year in the early 1990s. In spite of Samsung's sheer restructuring, the welfare system remained the best in the sector even after the economic crisis. While laid off workers sought survival jobs and outsourced workers lamented with broken pride, survivors were granted a load of welfare benefits. There are 11 special benefits that Samsung employees can enjoy, including medical allowance, private pension allowance, and heart surgery allowance.

**Table 7. Benefits for Samsung Employees**

<b>Allowances and Benefits</b>	<b>What supports?</b>
Medical Cost Allowance	Support Samsung employees and spouses' extra-medical cost that cannot be covered by national insurance
Heart Surgery Allowance	Full support to heart surgery cost for employees' children
Leukaemia Allowance	Support to leukaemia treatment cost for employees' children, up to US\$20,000 per person
House Fire Allowance	Compensate damage from home fire for employee's and their parent's houses
Private Pension Allowance	Share half of pension payment, support up to 3% of annual income in the previous year
Holiday Resort Benefit	Use Samsung owned holiday facilities for free or discounted rate
Workplace Food Allowance	
Education Allowance	Support education cost for employees' children, home and abroad, up to university, need to have more than 7 years of service in Samsung
Relocation allowance	Moving cost support for transferred staffs
Wedding hall benefit	For the employees, employees' children, sisters and brothers
Funeral, Wedding, other important family matters support	Leaves and financial support

*Source: Samsung Electronics web site*

There are also well managed welfare facilities particularly for women workers who account for about one third of Samsung Electronics workers. In-house nurseries, women consultation centres, designated resting areas, and breast feeding rooms are the major distinguishing features of Samsung Electronics, quoted by Korea's mass media as a model case, together with its 600 high ranking women managers and professionals in R&D. Most women workers however work on production lines. In fact, the majority of Samsung Electronics' production line workers are women, accounting for 86% of a total 16,787 production line workers while most office and managerial jobs are reserved for man, accounting for 79% of a total 10,042 managerial/office workers.

Therefore, the usual picture of electronics production lines full of young women workers exactly reflect Samsung's production line in Korea. In Samsung Electronics' Kumi factory producing mobile phones, for example, about half of its 6,600 workers are women whose average age is 21.5 years old and average service of 2.8 years (*The Korea Economic Daily* 2002, pp. 174-6). On production lines, the majority are young women. Although most do not have 'temporary' contracts, their average service years are only about four years, or shorter if considering only production line workers, meaning a large turnover. Apart from competitive HRM and pay systems, there is very limited information regarding how Samsung workers are actually organised in production lines or offices. However, it is known that Samsung utilises various working teams to encourage productivity growth and better quality control. In the mobile division alone, there are 210 work teams all uniquely named by the workers (*The Korea Economic Daily* 2002, pp. 174-6). Table 8 shows various suggestions and activities by the teams that won national awards in quality improvement.

**Table 8. Samsung's 'Teams' in national quality award competition**

Company	Name of team	Achievement
<b>Samsung Electronics: Wireless division</b>	Didimdol	Enhance quality by reducing defects rate in slide phone production
	BOA	Increase productivity by reducing stoppage in mobile phone production process
	Sinhwa (myth)	Increase production after 7 Line Aging
	Young Power	Self-motivated effort made to reduce stoppage time due to malfunction
	Jjang (the best)	Reduced stoppage time by voluntary Pro-3M activity
	Bisang (Flying up)	SCH-A850 part improvement - reducing defects rate
	Point	Improve Mail Board in SGH-E350 - enhance quality

Source [http://q-korea.net/quailtyguide/devsujguide/national/news/20060707/1\\_9106.jsp](http://q-korea.net/quailtyguide/devsujguide/national/news/20060707/1_9106.jsp)

A team of journalists in love with Samsung's no-union policy praised these teams:

These teams are cell organisations that are making the team members work together toward a unified direction and solve dissatisfaction at the work place and even problems in house holds. It is digging in and solving the problems, a lot more delicately than a union can (*The Korea Economic Daily* 2002, p. 176).

However, what the enamoured journalists could not see was the sheer competition between the teams since it is the 'basic' unit in the battle for higher and bigger PI and PS that determines more than 50% of their pay at year end. In this condition, it is natural for teams to compete vehemently. Competition is not only between different teams, individuals within the team have to compete with each other to get higher evaluation points, which again affects their 500% bonus, and to be a supervisor. To be a supervisor, one needs to be well beyond the average level of performance as well as getting nominations from colleagues. In the Kumi factory, there are total 55 'fame' supervisors proudly wearing golden badges on their chests.

In Samsung, 'work units' are neatly and multiplicity related to the economic compensation for individuals. PI and PS are based on the performance of a particular team, division, and subsidiary. One needs to go together with their colleague to get the fortune of PI or PS Plus, there is a final assessment: individual merit. It is now rated mainly in terms of performance, recorded participation in education programmes and the acceptance of specific behavioural norms. Those standards are further divided into several sub-terms such as rates of diligence and indolence, the quality of goods produced individually and in teams, the quality of suggestions by workers to enhance production, the speed at which an operator works and the extent to which they maintain public order. With multiply linked work units and compensation, every aspect of performance as an individual as well as a member of team, division, and particular subsidiary, including attitude and even friendship for the team work, are subjected to evaluation and corresponding payment and promotion. This well designed competition-based work and compensation system make the workers

*actually* identify the interest of the individual workers with the interest of the company. Workers devotion to work turns out to be no longer individual sacrifice for Samsung. Rather, it is for their own sake, which later indeed benefits the company.

This economic compensation system based on the performance of multiple work-units and of individuals results in *deep division between 'winners' and 'losers'*, the basic form of division between the core and the peripheral that rules the workers. In Samsung, the rule is that 'winners get everything'. After one year of work with the same background and experiences, a new office worker can earn US\$10,000 more than another, thanks to the highly performance-based pay system. The wage system for office workers is designed in a way that the annual payments increase geometrically along the hierarchical chain of commands. Naturally, there are heated competitions for promotions among office workers. Once a worker reaches a higher managerial post, annual salary increases to a level that cannot be compared with competing firms. Samsung supports the winners the best and turn its back on the losers. The top 5% by evaluation are offered heavy investment for human resource development while the lowest 5% are encouraged or even forced to take voluntary retirement (Choi 2006, p. 34). Apart from the division between winners and losers, there are many different kinds of internal divisions that in fact sustain Samsung's competitive edge. There are divisions between blue and white-collar workers, formal and informal, Samsung and suppliers, Samsung Korea and foreign subsidiaries, foreign subsidiaries and their suppliers, etc. On each step of the ladder, the peripheral functions as the core to workers one step down the ladder. These divisions combined with multiple linkages between work units and compensation, appear to be at the centre of Samsung's success story.

### **The Core and Peripheral**

While the division between losers and winners rules both production and office workers, there is a *division between white- and blue-collar workers* that is something almost impossible for an individual worker to overcome. The division started at the very beginning of recruitment. Samsung, known for the most competitive jobs for university graduates in Korea, employs almost exclusively the top five to 10 university graduates. Although some of the high managers and even CEOs with degrees from mid-range universities have been the focus of a rumour-mongering media, it is close to a myth. Samsung's office workers are the elite with a strong corporate mindset from the beginning of their careers.

There is a big discrepancy of workers identity between white- and blue-collar workers (Choi, 2006, p. 32). White-collar workers are educated as masters of Samsung and repeatedly encouraged to identify themselves with the brand image through various ways. During the process, they become Samsung-men, with body and soul subjugated to Samsung capital. The major motivation for the dedication of white-collar workers is most of all promotion and corresponding economic compensation. Although there is sheer competition waiting for them, there is no intrinsic constraint for a worker to be a high ranking manager earning an astronomical salary. For the purpose, workers need to conform and loyalty is the most important norm. On the

contrary, blue-collar workers seem to show limited identification of themselves with the company. Samsung's blue-collar workers are filled with high-school, vocational schools, and technical college graduates. University graduates are not accepted for production-line jobs. Younger workers are favoured by Samsung and attendance is the most important school record in getting production line jobs. It is altogether a completely different standard of recruitment, compared with white-collar workers. Blue-collar workers seem well aware that there is a big division between themselves and office workers and there is a certain limit in promotion (Choi 2006). Therefore, although Samsung's blue-collar workers are still proud to be Samsung-men on the basis of better payment and corporate welfare, they realise that there will be not much to get even with fast-track promotion. So, rather than promotion or other long-term perspectives, they tend to be more interested in short-term benefits of extra income. This division between white- and blue-collar is also a *highly gendered division* and again strengthened by gender relations. Whereas Samsung's factory workers in Korea are young women (14,417 out of 16,787 in 2005), Samsung's managers are predominantly men (7,966 out of 10,042 in 2005). There are big differences in pay for men and women. While men earn about US\$79,000 a year, woman workers attain only US\$52,000 a year. Without long-term perspective for a future as 'Samsung-Woman', turnover is higher among women blue-collar workers with four years average service whereas male workers average 7.5 years.

The other division is between core Samsung workers and workers in Samsung's in-house subcontractors or suppliers called 'cooperative firms'. As we saw above, there were increasing numbers of informal workers on the production line during and after the economic crisis, as a result of the separation of peripheral businesses from Samsung. The separation of peripheral businesses became an important basis of Samsung's extraordinary performance during and in the aftermath of the crisis. In the meantime, witnessing their fellow workers becoming SME employees in a day, survivors had to work harder. Thanks to the hard work of its own workers as well as its former employees now working for Samsung's low value added peripheral business (which now means cheaper supplies of service and parts for Samsung) without being Samsung workers (i.e., as subcontract workers) and benefits from Samsung, Samsung could save enormous amounts of money and sustain the high profit drive in its highly profitable core businesses without worrying about profitability and cost in low value added peripheral businesses. In the meantime, the share of wages against total produced added value in Samsung continued to decrease (Song 2006, p, 20). While the media compare Samsung workers' wages with other firms, in fact they increased slower than the increase in added value, meaning workers' shares of profits were not as great as appears in absolute terms.

Indeed, it is the workers in Samsung's cooperative firms that pay the highest cost for Samsung's profit-drive. The relations between Samsung, which dominates the domestic as well as export market, and Samsung's cooperative firms, which rely largely on Samsung for sales, are highly *unequal*. Targeted growth can be achieved

by cost cutting against the suppliers. For example, if a subsidiary targets 10% growth at the beginning of the year, it can require cost cut to suppliers, which are possibly headed by former Samsung-managers and employ former Samsung workers. Those former managers, realising the absolute power Samsung can exercise, accept the deal and try to compensate for loss by using cheaper labour or suppressing labour costs. At the end of the year, the Samsung subsidiary ends up with, for example, 16% growth thanks to cost cutting against suppliers. It is even 6% overachieved. Workers in that Samsung subsidiary can now share the extra profit through PI, possibly feeling more pride as a Samsung-man, while workers in a cooperative firm end up with nothing and again cannot but envy the Samsung workers who might once have been their fellow workers.

There is another big division that supports Samsung's increasing profit: between core Samsung workers in Korea and the local workers in Samsung's foreign subsidiaries in developing countries. Most of the welfare benefits that Samsung-man in Korea enjoys do not exist in Samsung's subsidiaries in developing countries. At best, they have relatively better factory canteen and wages slightly above the minimum levels of their countries. Of course, Samsung does not miss the cultural treatment, as in the case in Samsung Malaysia, to make workers think themselves as masters of the company. Indeed, this division sustains not only Samsung but also most TNCs in the cost cutting competition in overly-invested markets. In these countries, Samsung treats the workers exactly the way they treated Cheil Industries workers in the 1960s in Korea. Mostly migrating from remote areas, as we see in the country reports in this volume, these workers would be satisfied with what Samsung offers even if it is nothing special. Just slightly better: shaming its self-promotion as the distinguished global leader.

Samsung's different forms of division between core and peripheral are often copied in countries where it invests. Samsung's method to create division between core Samsung workers and workers in a cooperative firm was used in Thailand in an exactly same way, when Samsung Electro-mechanics established a separated company headed by a former Samsung manager. Now the workers in the new independent company have to work for Samsung without getting any benefits from Samsung. At the bottom of the ladder of core-peripheral division, there is not much difference between Samsung and non-Samsung. For the home-based workers producing electrical parts for Samsung, there is virtually no difference from others making any product for any other companies. The extra-profit Samsung earns from devoted workers by utilising multiple divisions between the core and peripheral and building multiple linkages between work units and compensation, thereby making them longer and harder with perspective to reach higher steps on the ladder, gradually *exhausted* along the way down the hierarchical chain of production. In terms of products, it is the same that workers in developing countries, with a very few exceptions where big local markets are available, work on rusting products with decade old production lines shipped from Korea. Not a single worker in Samsung seems to be free from this multiple division of the core and peripheral.

### The Tough Way of Refusing to Be a Part

It is true that Samsung-men get paid more, compared with other corporations at the same or lower level. However, this seemingly perfect self-reproduction system has also its limit. Samsung-man works long hours particularly at the upper level of the hierarchical chains of command where there is more possibility of upgrading her or himself. However, many soon realise that there is something missing. To survive, you have to win over others and play the role of the core against the peripheral while you are exploited by other workers at the core against you. Naturally, many cannot handle this and refuse to be part of it. In repeated overwork, evaluation and under the pressure of a number of to-do and not-to-do, many step off the ladder by looking for alternative jobs. In particular, failing in the competition for promotion, workers with long service years face gradual demystification of being a Samsung-man. This is why in the 'dream work place' Samsung has high turnover rates. However, for many, it is obviously difficult to get better jobs after spending their whole youth surviving in Samsung. They cannot but stay until asked to step out. Often by getting a managerial job in a cooperative company of Samsung, they rejoin the Samsung Republic, but this time with a different role in the core-peripheral relations.

There is increasing recognition within Samsung that being a Samsung-man is not a sustainable way of living. In particular, continual restructuring and growing job insecurity contributes to faster demystification. Workers learnt it as fast as Samsung grew based on the very mystification. The truth is that Samsung's workers are treated as Samsung's masters only as far as they subject themselves to the corporate system while a slight sign of insubordination can be subjected to heavy punishment. Indeed, unionisation is the worst risk way of expressing doubt in Samsung-men. Regarding unions, Samsung faces a dilemma. Thanks to its outdated no-union policy that it skilfully kept during the militant union movement in Korea,

**Table 9. Unionising attempts in Samsung in Korea after 1998**

<b>Subsidiary</b>	<b>Year</b>	<b>Development</b>
Samsung SDI	1998	Violent Union busting, kidnapping, beating and surveillance
Shinseage	1998	Union formed (no longer belong to Samsung)
Samsung Corning	2000	Union busting (incompany subcontractor)
Eswin	2001	Union busting by sompany registering paper union first
Samsung Group (general)	2001	Disbanded by the government
Samsung Capital	2001	Union busting
Arne Samsung	2002	Union busting, lay-off
Hotel Shila	2003	Leaders disappeared, company union registered
Samsung General Union	2003	Union formed, later disbanded by the government due to union unemployed members
Samsung Plaza	2003	Union formed, later busted
Samsung Electroncis	2004	Union registered, few days later unregistered
Korea Metal Workers Federation	2004	6 workers from Samsung Electroncis and SDI, later all quitted by force and intimidation

*Source: Cho 2006, p. 60*

Samsung did not face much trouble in structural adjustment in the aftermath of the economic crisis. The no-union policy looked ever more valuable. Watched by jealous eyes of other corporations that had to handle vehement protest against structural adjustment, Samsung had no major labour dispute in cutting a third of its workforce. However, the successful structural adjustment *severely undermined* the Samsung myth among its workers. Samsung-men gradually refused to be Samsung-men. Starting in Samsung SDI, Korean workers began to organise unions after structural adjustment while workers in Thailand also attempted to organise union during structural adjustment.

It was Samsung SDI where Samsung's primitive and brutal way of handling those who refuse to be part of Samsung value was revealed clearly. In 1998, Samsung SDI pushed forward structural adjustment and laid off 700 to 800 workers through voluntary retirement. Song Soo-geun, a representative of SDI's employee-employer council, together with 14 other council members, visited the HQ of SDI and protested against further structural adjustment. In response, Samsung SDI laid him off after several attempts to persuade and intimidate him, kidnapping him on his way to a protest demonstration with KCTU. His colleagues were either transferred to Tianjin (China) and Malaysia or beaten by the management (Cho 2006, p. 63). The kidnapped Song was dragged to the east coast of Korea and threatened with being buried alive by managers and staff. He was released only after swearing to be involved no longer in unionising. After a couple of years, other organisers sued Samsung SDI after they found that the company tracked their mobile phones using the 'friends finding service'. According to the organisers, Samsung illegally copied the inbuilt information of their mobile phones and subscribed to the 'friends finding service' with local wireless communication service providers. Even more surprising, the service subscribers were all dead, i.e., SDI are suspected of using the information of dead peoples' mobile phones trying to avoid evidence of surveillance (Cho 2006). In almost all the unionising attempts, Samsung management did not hesitate to use violence, intimidation, buying off, and other illegal and inhumane methods.

The victims of Samsung's union busting testify that Samsung has a systematic way of handling unionising attempts, coordinated by the HQ of Samsung conglomerates through 'regional task forces' set up in every province where Samsung subsidiaries exist. This task force's primary purpose is to follow suspected organisers everywhere they go. Once identified by a task force, managers shadow organisers in and out of workplaces. Eventually, most organisers have to either take voluntary retirement with compensation or go to foreign subsidiaries.

While there are increasing attempts to unionise Samsung despite sheer union busting, workers laid off during structural adjustment have been organised to reclaim their rights, establishing a nationwide Committee for Samsung Workers Reinstatement in 2000. Structural adjustment, according to the committee, awoke Samsung workers who had been trapped by the myth of Samsung.

Samsung must know that citizens and Samsung workers would no longer be possibly manipulated by Samsung's dirty tricks that pretend to respect human beings

with their bloodied hands and face of a beast hidden behind:

We Samsung workers realised, during the structural adjustment in the economic crisis and IMF bail-out, that Samsung is not permanent workplace and we can be removed whenever necessary for sake of the Lee Royal family. (*Committee for Samsung Workers' Reinstatement, 9 February 2000, quoted from Kim and Lee 2002*)

It is increasingly clear that Samsung's mythical world has been undermined by its own success on the basis of full-scale marketisation of labour relations. It seems that there is not much room for Samsung to constrain Samsung workers who began to see the reality behind its myth of being a global leader for workers. Multiple divisions among the Samsung workers are likely to continue as long as there is a fresh workforce pursuing the dream of Samsung. However, it is also clear that the sheer competition and dehumanisation that the new workers experience will push many of them to refuse to be part of it.

## CONCLUSION

We have followed Samsung from its establishment as a dried fish trader and noodle maker to a well-recognised TNC equipped with modern technology and business management as well as large global market domination. The history of a corporate Samsung has been addressed, contrary to numerous books and articles on Samsung in which Samsung's success is described as if it is solely because of the mighty, multitalented, and ultra-open-minded chairman, in the context of its relation to labour, domestic and global markets, and politics. By doing so, we tried to look at Samsung as amalgamated relations between employer and workers, between competitors in the market, between the political and economic, and between national economies. As to Samsung as a corporation, it seems that Samsung has been managing all aspects of its relations to the surroundings from which Samsung's success story cannot be separated. Samsung managed to quickly learn from its experiences in these relations and turn them into a corporate energy and strategy by which it develops to another stage. It achieved its initial accumulation on the basis of the old landlord-dominated social structure, colonialism, war and aid-based reconstruction. It took advantage of the old structure and quickly became part of the new structure by moving faster than others. Later, it took advantage of monopolistic market guaranteed by direct political alliance and unlimited supply of labour in the urbanisation of Korea.

Samsung faced the first serious challenge from labour in the late 1950s but overcome it by utilising union busting tactics and strong control over collective labour by the new military government later. In the 1960s and 1970s, and partially in 1980s, Samsung was riding the developmentalism of politicised development with the military government at the centre, moving toward heavy industry and electronics, founding the basis of modern Samsung. Taking maximum advantage of its monopolistic status in the protected domestic market, Samsung became an

export-driven corporation by the end of the 1980s. Regarding the challenge of labour in the 1980s, Samsung exercised sheer union busting tactics more successfully than other big corporations on one hand, but had to pay more economic compensation than others by excluding the option of political compensation. Although Samsung needed to pay its workers more and spent more money on corporate welfare, they could have, thanks to increasing economic compensation, the most dedicated hard working workers. On the other hand, Samsung started globalising itself, taking advantage of cheap production costs, including labour, in developing countries and avoiding the pressure from competition in the global market. It also diversified products and business areas with a technology drive. In response to a labour-costly Korea, Samsung developed a complicated HRM system of its own, making close links between different working units' performance and economic compensation. By doing so, Samsung created a number of divisions between the core and peripheral among its workforces that founded the identity of Samsung-man. Grasping the core and exploiting the peripheral became the way of running business since the 1990s. However, Samsung workers seemed less satisfied than before. The sheer restructuring of all time made workers recognise the way in which their labour created value at the expense of their body and soul. More and more labour disputes occurred and Samsung seems not to have many different options than costly union busting. But things could have been worse since Samsung could not increase economic compensation for peripheral workers and this stopped Samsung creating the mystification that Samsung enjoyed with the core groups of workers. As restructuring becomes common and more sort of daily life both at the core and peripheral, Samsung's no-union policy is increasingly under pressure.

Samsung moves. It moved from one industry to others by diversifying its businesses. It moved from Korea to Asia, America, and China, from low-tech to high-tech, and transistor radio to semi-conductor. Every move, as we saw above, was caused by the old challenges and created new challenges. It developed in the space created by itself, labour, the state and competitors. Indeed, it is in a constant struggle with labour, the political, as well as markets. One might say that Samsung's moves were largely successful. In these movements, Samsung figured out successfully how to mobilise labour in a way that workers are dedicated to their work. They learnt how to link individual and collective work units to individual and collective compensation. However, it is too early to say that Samsung will manage to overcome future challenges in the way it did. It seems that Samsung will have more and more difficulty in handling labour, which started reclaiming its soul and collectiveness in the last few years, unless it gives up the exclusion of political compensation and recognises that the capitalist ideal is a mere ideal and Samsung, as a capital, cannot resolve the intrinsic contradiction of capital. Most of all it was exploitation of workers that made today's Samsung.

## REFERENCES

- Ahn, Joo-yup, Jun-mo Cho and Jae-ryang Nam 2001, *Bijeongyugeunroui Siltaewa Jeongchaekwaje* (The Reality of Irregular Work and Policy Imperatives), Unpublished working paper, Seoul: Korea Labor Institute.
- Burkett, Paul and Martin Hart-Landsberg 2000, *Development, Crisis, and Class Struggle: Learning From Japan and East Asia*, New York: St Martin's Press.
- China Labour Bulletin 2004, 'Dagongmei - Female Migrant Labourers', [http://www.china-labour.org.hk/iso/article.adp?article\\_id=5282&category\\_name=Economic%20Reform](http://www.china-labour.org.hk/iso/article.adp?article_id=5282&category_name=Economic%20Reform)
- Chinese Bureau of National Statistics 2002, *Chinese Statistical Yearbook*, Beijing: Chinese Statistics Press.
- Cho, Don-moon 2006, 'Inganjonjung Samsung Chaebol Munjojeonryakui Siljae: Samsungnodongjadeului Nodongjohap Gyeolseongsidoui Eoyksa' (The Reality of the No-Union Policy of the Human-Respecting Samsung Chaebol: The history of attempted unionising by Samsung workers), a paper presented at *the 1st Seminar on the Light and Shadow of Samsung*, Alternative Alliance Committee, Seoul Korea, 31 March 2006.
- Cho, Yoon-je 1998, 'Financial Reform Experience of Korea', *Working Paper No 98-04*, Graduate School of International Studies, Sogang University, Seoul: Sogang University.
- Cho, Yoon-je 1999, 'The Political Economy of the Financial Liberalization and Crisis in Korea', *Working Paper No.99-06*, Graduate School of International Studies, Seoul: Sogang University.
- Choi, Ihn-hee 2006, 'Samsung Nodongjau Sam: Gwaliui Munhwawa Nodongjau Daeug' (The Life of Samsung Workers: the Culture of Control and Workers Response), a paper presented at *the 3rd Seminar on the Light and Shadow of Samsung*, Alternative Alliance Committee, Seoul Korea, 16 May 2006.
- Clarke, Simon 1988, *Keynesianism, Monetarism and the Crisis of the State*, Cambridge: Edward Elgar.
- Council of Korean Trade Union 1997, *Jeomohyeopbaekseo Vol. 1* (Council of Korean Trade Union White Paper Vol. 1), Seoul: CKTU.
- Cumings, Bruce 1987, 'The Origins and Development of the Northeast Asian Political Economy: Industrial Sectors, Product Cycle, and Political Consequences', in Frederic C. Deyo (ed.) *The Political Economy of the New Asian Industrialisation*, Ithaca: Cornell University Press.
- Cumings, Bruce 1997, *Korea's Place in the Sun: A modern History*, New York: Norton.
- Federation of Korean Trade Union 1979, *Hanguknodongjohapundongsa* (The History of Korean Trade Union Movement), Seoul: FKTU.
- Gomez, E. T. and Jomo K. S. 1997, *Malaysia's Political Economy: Politics, Patronage and Profits*, Cambridge: Cambridge University Press.
- Gyunghyang Daily News, 27 October 1970.
- Haggard, Stephan 1990, *Pathways from the Periphery: The Politics of Growth in the Newly Industrialising Countries*, Ithaca: Cornell University Press.
- Haggard, Stephan and Chung-In Moon 1991, 'Institutional and Economic Policy: Theory and a Korean Case Study', *World Politics*, Vol. 42, No. 2, pp. 210-37.
- Haggard, Stephan and Chung-In Moon 1993, 'The State, Politics, and Economic Development in Postwar South Korea', in Hagen Koo (ed.) *State and Society in Contemporary Korea*, New York: Cornell University Press.
- Hart-Landsberg, Martin 1993, *The Rush to Development: Economic Change and Political*

- Struggle in South Korea*, New York: Monthly Review Press.
- Hart-Lansberg, M and P. Burkett 2004, 'China and Socialism: Market reforms and Class struggle', *Monthly Review*, 56, 3:7-123.
- Hoam Foundation 1997, 'Ho-am, Byung Chull Lee', <http://www.hoamprize.org/english/hoam/frame1.htm>
- Huh, Sang-su 2004, 'Saneop Nodongjoui Chogi Hyeongseongwa Jeokeung: 1970nyeondae Jeonjahoesareul Jungsimeuro' (The Early Formation and Adaptation of Industrial Workers: Focusing on Electronics Enterprises in 1970s), in Jong-gu Lee at all. (eds.) *1960-1970 Nyeondae Hangukui Sanoephwawa Nodongja Jeongchaeseong* (Industrialisation of Korea and Workers' Identity in 1960s and 1970s), Seoul: Hanul Publishing House.
- Ihn, Jeong-sik 1946, *Chosonui Tojimunje* (Land Problem in Joseon), Seoul: Cheongsusa.
- Jeong, Joo-yeon 1997, 'The Recent Evolution of Korean Enterprise Bargaining: A Neglected Face of Korean Industrial Relations', *The Journal of Labour Studies*, No. 14, pp. 52-69.
- Kang, Jun-man 2005, *Lee Gun-hee Era*, Seoul: Inmulgwa Sasang Publisher.
- Kim, Dong-wook 1988, *Cheongubaekchilsimnyndae Nodongjeongchaekgwahan Bunseokyeongu* (An Analytical Research on Korean Labour Policy in the 1970s), MA dissertation, Department of Sociology, Sogang University, Korea.
- Kim, Eun Mee 1997, *Big Business, Strong State: Collusion and Conflict in South Korean Development, 1960-1990*, New York, State University of New York Press.
- Kim, Eun-Mee 2000, 'Globalisation of the South Korean *Chaebol*', in Samuel Kim (ed.) *Korea's Globalisation*, Cambridge: Cambridge University Press.
- Kim, Hyung-gi 1988, *Hangukui Dokjeomjabongwa Imnodong: Dokjeomjabonjuuiha Imnodongui Irongwa Hyeonsangbunseok* (Monopoly Capital and Wage Labour in Korea: An Analysis of the Theory and Phenomena of Wage Labour under the Subordinate Monopoly Capitalism), Seoul: Ggachi.
- Kim, Hyun-gi 1997, *Hanguk Nosagwangyeui Jeongchigyeongjehak* (The Political Economy of Korean Labour Relation), Seoul: Hanul.
- Kim, Min Jeong 2006, 'Samsungeseo Bijeongyunodongjadoegi, Salagagi, Guerigo Haegodanghagi' (Becoming Irregular Worker, Surviving and Being Laid-off in Samsung), a paper presented at the *3rd Seminar on the Light and Shadow of Samsung*, Alternative Alliance Committee, Seoul Korea, 16 May 2006.
- Kim, S. Ran 1996, 'The Korean System of Innovation and the Semiconductor Industry: a Governance Perspective', *Working Paper for the Science Policy Research Unit/Sussex European Institute*, University of Sussex, U.K.
- Kim, Seong-hee and Park Hyeon-my 1999, *Jeonjasaneop Dagieopui Nosagwangaewa Jakoepjangcheje* (Labour Relations and Workplace Regime in Big corporations in Electronics Industry), Seoul: FKTU.
- Kim, Seong-hwan and Lee Jeong-my 2002, *Byeorangggeutaeseo Huimangeul Umkyeojogeo* (Holding the Hope at the Edge of a Cliff: A Whitebook of Samsung's Suppression of Workers), Seoul.
- Kim, Yun-hwan 1983, 'Geundaejeok Imgeumnodongui Hyungseongwajeong' (The Process of the Formation of Modern Wage Labour), in Kim et al. (eds.) *Hanguk Nodongmunjeui Insik* (Understanding Korean Labour Problems), Seoul: Dongnyeok.
- Kim, Yu-Seon 2001, *Bijeonggyujikui gymowasiltae* (The Scale and Reality of Irregular Workers), [http://klsi.org/pds/downadd.asp?wp\\_id=123](http://klsi.org/pds/downadd.asp?wp_id=123), Korea Labour & Society Institute.
- Kohil, Atul 1994, 'Where Do High Growth Political Economies Come From? The Japanese

Lineage of Korea's "Developmental State", *World Development*, Vol. 22, No. 9, pp. 1269-93.

Koo, Hagen 1993, 'The State, *Minjung*, and the Working Class in South Korea', in Hagen Koo (ed.) *State and Society in Contemporary Korea*, New York: Cornell University Press.

Koo, Hagen 2000, 'The Dilemmas of Empowered Labour in Korea', *Asian Survey*, Vol. 40, No. 2, pp. 227-50.

Koo, Hagen 2001, *Korean Workers: The Culture and Politics of Class Formation*, Ithaca: Cornell University Press.

Korean Confederation of Trade Unions (ed.) 2002, *A Collection of the Analyses of Cases of the Struggle of Irregular Workers* (Bijeongyujik Tujengsarey Bunseok Toronheo Jaryojip), Seoul: KCTU.

Korean Federation of Transportation, Public and Social Service Union (KFTPSU) 2002, *Gonggongyunmaeng BijeongyuNodongja Siltaejosagyulgwa* (A Report on Irregular Workers in KFTPSU Affiliated Firms), Seoul: KETPSU.

Korean Institute for Labor Studies & Policy (KLISP) et al. (eds.) 2000, *Gujojojeongwa Hyunjangtongje Deungjeonryak* (Structural Adjustment and Counter-Strategy to Workplace Control), Seoul: Nodongjeonseon.

Korean National Council of Churches (KNCC) 1984, *Nodonghyeonjangwa Jeungeon* (Workplace and Testimony), Seoul: Pulbit.

Korean National Statistics Office 2002, 'The Ratio of Net Income to Sales in Manufacturing', [http://kosis.nso.go.kr/cgi-bin/html\\_out.cgi?F=X2c1da\\_r503e.html](http://kosis.nso.go.kr/cgi-bin/html_out.cgi?F=X2c1da_r503e.html)

Kwon, Hye-ja 2001, 'Kim Dae-jung Jeongbuui Goyongjeongchaekpyeonga' (An Evaluation of the Employment Policy of the Kim Dae-jung Government)', in Hye-ja Kwon et al. (ed.) *Kim Dae-Jung Jeongbuui Nodongwanryeonjeongchaekpyeonga* (An Evaluation of Labour Policy of the Kim Dae-jung Government), Seoul: FKTU.

Lee, Byungchon 1999, 'Hangukui Gyeongjeweigiwa IMF Cheje: Jongsokjeok Sinjayujuuiui Moheom' (Korean Economic Crisis and IMF Regime: An Adventure of Dependent Neo-liberalism), in the Korean Social Economics Society (ed.) *Sinjayujuuiwa Gukgaui Jaedojeon* (Neo-liberalism and the Re-challenge of the State), Seoul: Pulbit.

Lee, Byung-hee and Deok-soon Hwang 2000, 'Gyeongjeweigiuihu Nodongsijanggujoui Byeonhwa' (The Change in the Labour Market Structure after the Economic Crisis), in Jin-ho Yun and Choel-gyu Yu (eds.) *Gujojojeongui Jeonchigyeongjehak* (The Political Economy of Structural Adjustment), Seoul: Pulbit.

Lee, Han-gu 1997, 'Ho-ameul Dasi Bonda' (Rethinking Ho-am), <http://www.hoamprize.org/korean/hoam/frame1.htm>

Lee, Honggue 1993, *Globalization of the Korean Electronics Industry*, working paper, Seoul: Korean Development Institute.

Lee, Kang-kook 1998, 'Change of the Financial System and Developmental State in Korea', a paper presented in *World Institute for Development Economics*, <http://www-unix.oit.umass.edu/~kklee/study/change-e.doc>

Lee, Sang-chul and Jae-heon Ryu 1993, 'Gujojojeongui Baljeon' (The Development of the Structural Adjustment), in Korean Association for Industrial Society Studies (ed.) *Hangukgyeongje Gujojojeongwa Nodongjagyeyeup* (The Structural Adjustment of the Korean Economy and the Working Class), Seoul: Nokdu.

Lee, Seung Hyeop 2006, 'Samsung Injeokgwalisystemgwa Heonsinui Dongwon' (Samsung's Human Resource Management and the Mobilisation of Dedication), a paper presented at *the 2nd Seminar on the Light and Shadow of Samsung*, Alternative Alliance Committee, Seoul

Korea, 2 May 2006.

Lee, Young-youn and Hyun-hoon Lee 2000, 'Korea: Financial Crisis, Structural Reform and Social Consequences', in Tran Van Hoa (ed.) *The Social Impact of the Asia Crisis*, Basingstoke: Palgrave.

Lim, Hwi-cheol 1998, 'Sanoepgyeonje' (Industrial Economy), in Korean Social Science Institute (ed.) *Diagram Hangukgyeongje* (Diagram Korean Economy), Seoul: Uiam Publishing.

Lockwood, William 1968, *The Economic Development of Japan: growth and structural change*, Princeton: Princeton University Press.

Ogle, George E. 1990, *South Korea: Dissent within the Economic Miracle*, London: Zed Books.

Park, Chung-hee 1970, 'The Dawn of a New Era: Inaugural address on 17th December 1963', in Shin Bum-shik (ed.) *Major Speeches By Korea's Park Chung Hee*, Seoul: Hollym Corporation Publishers.

Republic of Korea 1999, 'Overcoming a National Crisis, The Republic of Korea Rises Up Again', <http://www.ced.go.kr/english/library/reference/text/1year2.php>

Samsung Electronics 2005, Annual Report, [http://www.samsung.com/AboutSAMSUNG/ELECTRONICSGLOBAL/CompanyProfile/AnnualReport/pdf/2005/Samsung\\_AR2005\\_e.pdf](http://www.samsung.com/AboutSAMSUNG/ELECTRONICSGLOBAL/CompanyProfile/AnnualReport/pdf/2005/Samsung_AR2005_e.pdf)

Seo, Dong-hyuk, Lee Gyeong-sook and Kim Jong-gi 2004, *Hanguk Jeonjasanoepui Globalhwa Yoenhyangbunseoekgwa Daeungjeonryak* (An Analysis of the Effect of the Global Strategy of the Korean Electronics Industry and Its Strategy to Respond), Korea Institute for Industrial Economics and Trade.

Silver, Beverly J. 2003, *Forces of Labor: Worker's Movements and Globalization since 1870*, Cambridge: Cambridge University Press.

Sisa-Journal 20 September 2005, No. 830-1.

Song, Won-geun 2006, 'Samsung Chaebol Gyeongjaengryeokgwa Seonjangui Geuneul', (The Shadow of the competitiveness and growth of Samsung Chaebol), a paper presented at *the 2nd Seminar on the Light and Shadow of Samsung*, Alternative Alliance Committee, Seoul Korea, 2 May 2006.

Suh, Jae-jin 1991, *Hangukui Jabonga Gyeguep* (The Korean Capitalist Class), Seoul: Nanam.

The Korea Economic Daily 2002, *Samsung Rising: Why Samsung IS Strong?*, Seoul: The Korea Economic Daily.

Yu, Bum-sang 2001, 'Cheongubaekpalsipcilnyeon Nodongja Daetujenggwa Saeroun Nodongundongjihyeongui Hyeongseong' (The Great Workers' Struggle in 1987 and the Establishment of a New Configuration of Labour Movement), in in Choi et al. (eds.) *Cheongubaekpalsipchilnyeon Ihu Hangukui Nodongundong* (Korean Labour Movement After 1987), Seoul: KLI.

Zhang, J. 2003, 'Urban Xiagang, Unemployment and Social Support Policies', a paper presented in *China Labor Market Policies Workshop*, World Bank Institute, Beijing.

#### WEB SITE REFERENCES

Korea Export-Import Bank 2005 web data base, <http://www.koreaexim.go.kr/kr/oeis/m03/s01.jsp>

Samsung Electronics Korea Website, <http://www.sec.oc.kr>

Samsung Electronics Website, <http://www.samsung.com/>

## NOTES

1 In particular, export of cotton cloth marked a 185% increase from 1913 to 1918 (Lockwood 1968, p. 38).

2 In 1960, large-scale corporations paid more than SMEs. However, this also reflects the difference between white-collar workers in large-scale enterprises and blue-collar workers in SMEs. In the 1960s, there was not yet a big differentiation between workers in the large-scale factories and those in SMEs since there was not hierarchically integrated subcontracted chains yet. It was the case particularly in the textile industry (Kim, H G 1988, p. 200). Therefore, it would be inappropriate to say that there was a big gap of working condition and pay between large-scale enterprises and SMEs.

3 The total number of wage workers increased from 2,414,000 in 1960 to 3,787,000 in 1970. Particularly, manufacturing workers appeared to lead this by doubling its size between 1960 and 1970 (417,622 in 1960 to 995,981 in 1970) (Koo 1990, p. 673).

4 Those migrated workers from rural areas in labour intensive industries, particularly textiles, were predominantly young women workers, who were regarded by and large as a surplus labour force in rural families.

5 The fact that seven of the first 10 directors of the Labour Administration had been from important positions in the police department since its establishment in 1963 (Kim, DW 1988, p. 40) shows that labour regulation relied on direct intervention based on force and surveillance.

6 The number of subsidiaries owned by the largest 30 *chaebols* increased from 126 in 1970 to 348 in 1979, due to new investment in heavy industries.

7 For many, after work hours become another work time to commodify themselves by learning new skills, for example, English.

8 Korea Export-Import Bank 2006 web data base <http://www.koreaexim.go.kr/kr/oeis/m03/s01.jsp>

9 Workers with *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 work within this time become officially unemployed. Contrary to theory, many *xiagang* workers do not enjoy protection as the firms often ignore entitlements and local government, which is supposed to supplement the cost, has no budget for it. Many of them end up in informal employment.

10 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 functions as a transmission belt from state to workers by endorsing the state's restructuring programme.

11 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.

## CHAPTER 2

### **SAMUNGISATION OR BECOMING CHINA? THE MAKING OF THE LABOUR RELATIONS OF SAMSUNG ELECTRONICS IN CHINA**

*MONINA WONG*

#### **INTRODUCTION**

This article uses the example of the electronics industry and Samsung Electronics in China to show how the Chinese state has used marketisation to solve the contradictions of the socialist economy. The case study also demonstrates exactly how foreign investment is capitalising on such contradictions to achieve globalisation strategies. The article begins by following the evolution of China's economic reform from 1979 to the present drawing particular reference from the electronics industry to illustrate how, in different stages, marketisation achieves recapitalisation for economic reform; and that the state's market protection policy strengthens the reforming Chinese capital in the 1980s and early 1990s. Yet the state-led capital strategy resulted in financial crisis as fundamental contradictions within Chinese state-capital relations unfolded in the late 1990s. With China's accession to the World Trade Organisation (WTO), globalised marketisation is the path that China cannot avoid and yet that aggravates existing problems. The illustration is followed by tracking the corporate development of Samsung Electronics in China, which demonstrates how foreign capital accomplishes the globalisation strategy by mediating with these internal contradictions of China in three particular aspects namely foreign acquisition of the domestic market, the restructuring and liquidation of state-owned capital, and the de-collectivisation and informalisation of labour used increasingly by the state to resolve the unemployment problem that inevitably arises. Yet the success of Samsung in China is not just the success of the corporate strategy of an individual capital. The article argues that the capital accumulation of Samsung in Korea was based on the particular Korean state-*chaebol* politics and its

suppression of labour in the mother country. By analysing the particular labour practices of Samsung Electronics in China, the article further argues that the absence of reciprocal social relations in China determines the particular ‘Samsungisation’ of shop floor labour relations in its Chinese subsidiaries as both a reduced version of the Korean company’s labour strategy and an adaptation to the particular labour relations system in China. The future of labour relations in Samsung Electronics in China is therefore related to the development of the social contradictions and corresponding labour struggles in general, not particular, capital-labour relations in the country.

### **1. ECONOMIC REFORM AND THE DEVELOPMENT OF THE ELECTRONICS INDUSTRY IN CHINA**

#### **Separating State, Enterprise and Capital - the Sixth and Seventh Five-Year Plans, 1981 - 1990**

Under the socialist economy, the electronics industry in China was state-owned, operating under the Bureau of National Defence that served the needs of national security and the military. Production of consumer electronics goods was considered a sign of capitalist individualism and before the implementation of the open door policy in 1979, civilian electronics products shared only 27 percent of the production of all the electronics state-owned enterprises (SOE) (Lu 2002). On the eve of the economic reform, the industry, as with other industrial sectors, was suffering from low technology, low economic output, and low labour productivity due to isolation from the world economy. In the Third Plenum of the Eleventh Central Committee of the Chinese Communist Party in 1978, the state decided to use marketisation to separate the state, capital and labour to resolve the political-economic legacy of the socialist economy. The breakthrough in the electronics industry came first of all in a meeting of all the major electronics SOEs in 1980 in which the policy shift to developing a civilian and consumption oriented electronics industry was adopted. Development of the industry was prioritised in the Sixth Five-Year Plan (1981-1985) and the Seventh Five-Year Plan (1986-1990), which targeted the growth of the electronics sector in the share of national industrial output value from 1.4 percent in 1980 to three percent in 2000 (Lu 2002). The central state took the lead to withdraw officially from the sector with the establishment of the Ministry of Electronics Industry (MEI) and 64 percent of the budget on the promotion of the electronics industry was allocated to reorganise low-efficiency state capital. Thereby in 1986, a total of 187 electronics SOEs directly under the defence bureau were merged or put under the administration of provincial and municipal governments that would be in better position to seek private means of recapitalisation (Lu 2002). At enterprise level, further withdrawal of the state in the management of production and labour signified the beginning of the transformation of Chinese capital to one modelled on the capitalist system<sup>1</sup>. On the one hand, state and administrative subsidies to underperforming electronics SOEs was cut. Under the two administrative orders passed in 1979, namely *Provisional Methods for Expanding the Autonomy of Enterprises* and *Provisional Methods*

*about Submission of a Fixed Profit Amount of the Electronics Enterprises*, SOEs were given a three-year holiday on profit submission. Enterprises were expected to finance their operations through retained earnings and loans from state banks on an interest-payment basis. On the other hand, the power of management over production and use of labour was enhanced to stimulate productivity under the *Implementation Methods on the Provisional Rules of the State Council about Further Expansion of the Autonomy of State-Owned Enterprises* issued in 1984. The planned economy was replaced step by step by market operation and the role of the state was further reduced to general policy regulation except in a few strategic areas. The management had full rights to retain profits, procure materials, fix prices and sell products above regulated prices after meeting state targets, and to reallocate resources through mergers with other SOEs for increased efficiency and better utilisation of resources. The introduction of the labour contract system in 1984 gave a final blow to the tenure employment of SOE workers, allowing SOE management to recruit, dismiss and use flexible labour such as temporary, seasonal, and rural labour based on the needs of the market; and the wage system was replaced with one based on individual performance. These policies in the 1980s marked an important step preparing for the privatisation of SOEs in the next decade.

The same process took place in research and development (R&D) in order to support the import substitution policy and develop technological autonomy in the electronics sector. The Tenth, Fourteenth and the Nineteenth Research Institutes were merged with the Bureau of Production and Technology and the Electronics Science Research Institute was established under the MEI in 1982 and 1983 respectively. State R&D institutes also gained financial and management autonomy under the *Supplementary Rule on Experimenting the Paid Contract System in the Administrative Expenses of the Research Institutes (1984)*, the *Opinions on Reforming the Technological Institute of the Electronics Industry (1985)* and the *Notice about Furthering the Electronics Technology Reform (1987)*. Due to lack of capital, these changes actually pushed the state-owned R&D institutes towards capitalist operation through cooperation with private corporations and foreign invested enterprises (FIE) or forming profit-making companies on their own. As a result, out of the 50 R&D institutions under the MEI, 48 of them either owned or operated a total of 204 profit-making organisations or companies including 37 joint ventures (Lu 2002). Legend Computers, which later became Lenovo Computers, for instance was the most successful private company formed under the Chinese Academy of Science whereas Great Wall Computers was a spin-off of the MEI. As a result, first stage marketisation succeeded in rejuvenating state capital and the infrastructure of the electronics industry on a central state budget of only 1.1 percent, 0.7 percent and 0.5 percent over the three five-year plans from 1981-1995 (Lu 2002). The transformation of state capital in the electronics industry was basically accomplished through privatisation and marketisation.

To further improve the productivity of Chinese capital in the electronics industry however necessitated import substitution and the construction of a stable national

market to achieve economies of scale and autonomy especially in core technology and components. Foreign direct investment (FDI) in the electronics sector in the early 1980s sought to use China as a processing base for low value added and labour intensive manufacture and assembly of components for export. The central state intervened under the Seventh Five-Year Plan (1986-1990) to directly promote and protect the market of a number of identified consumer electronics goods. National consumer electronics projects were launched by the government such as the colour TV project in the 1980s, and the video cassette recorder (VCR) and computer manufacturing projects in the 1990s. However, as 70-80 percent of colour TV components were imported, the state had to directly invest in developing or licensing core components manufacturing e.g. the integrated circuit (IC). Indirect intervention was disguised as part and parcel of the stepped-up enterprise reform that focussed on facilitating SOEs' and privately owned enterprises' (POE) access to loans and land through state banks and local governments. At the same time, transnational companies' (TNC) access to the local market was barred by high tariffs (for instance 82 percent for foreign brand computers in 1992), quotas on local market sales, and restricted access to local distribution channels under a licensing system. Direct state intervention in this period boosted the growth of the production of local TV and related electronics items by 31 percent between 1986 and 1990 and Chinese companies achieved 100 percent local production in colour TVs. The protective measures made foreign electronics goods un-competitive and successfully promoted a number of large-scale local electronics companies and brands. The Sixth and Seventh Five Year Plans therefore ended with the manufacture of 114million black and white TVs, 476million colour TVs, 147million cassette recorders, and the manufacture of national washing machines and refrigerators (Lu 2002). Export of electronics components also escalated.

#### **Emergence of Contradictions in Capitalisation and Labour - the Eighth and Ninth Five-Year Plans, 1991 - 2000**

Yet direct state support as well as the import substitution and market protection policy formed an oligarchic market in which five or six prominent state-owned or affiliated enterprises dominated up to 60 percent of the colour TV sector (Luo 2005). Duplicative investment, over-production, and relative underdevelopment of the rural consumer market finally led to keen competition within domestic capital and launched eight price wars in the colour TV sector between 1996 and 2002. The first price war shrank the market price by 18 percent (Li, Ying 2004) costing an economic loss of the national capital of RMB14.7 billion (*China Youth News*, 28 October 2000). Corrupt practices of SOE management and government bureaucrats which led to unprecedented inflation and overheated economy that directly contributed to the political crises of the state in 1987 and 1989 further affirmed the fact that Chinese capital still tied with affiliation to the state had not really achieved market efficiency and regulation. More radicalised restructuring of the SOEs therefore replaced revitalisation in 1990s resulting in unprecedented shrinking of the SOE sector. The blessing of Deng Xiaoping in 1992 behind the slogan of 'Building the Socialist

Economy with Chinese Characteristics' loosened the final ideological string to full-scale marketisation. On the one hand, means of all sorts were used to privatise the SOEs such as further promotion of joint ventures, mergers, liquidation, complete and partial buyouts by private investors, recapitalisation into mixed shareholding cooperatives or companies etc. On the other hand, through the administrative power of the central state, inefficient state capital was kicked out from the market. The 'Retain the Big Ones and Let Go the Small Ones' strategy left only the 1,000 largest SOEs under state funding and operation. About 100 centrally run and 2,500 locally run SOEs were turned into limited liability or shareholding companies whereas others were simply closed down in the 1990s (Lu 2002). On that basis, the 'Large Scale Company Strategy' (LSCS) was developed by the MEI in 1993 to maximise state support for six reformed SOEs<sup>2</sup> in TV, VCR, and computer manufacturing (ICT companies were included in 2004). LSCS was aimed at promoting a number of Chinese electronics conglomerates to accomplish the unfinished task of vertical integration particularly in the development of core technology.

Despite that, deeper contradictions in the financing and capitalisation of economic reform emerged after the mid-1990s. With the withdrawal of direct administrative funding to SOEs, loans from state banks became almost the only source of capitalisation for SOE restructuring. Yet, the non-commercial mission of state banks to finance the SOEs and the protective pressure from local government to lend to inefficient enterprises even on duplicative investments led to huge bad debt problems. The vicious cycle also drove the state banks and local government to speculate in real estate and stocks resulting in the accumulation of even more bad loans. The bubble in the real estate and stock market was saved from bursting in 1994 by government intervention and devaluation of RMB (Chan 2005). Although not directly implicated in the financial crisis in 1997 in Asia, the internal contradiction in the capital structure of the Chinese economy was alarming as the size of non-performing loans (NPL) rose to 20 percent of Gross Domestic Product (GDP) (US\$960 billion) in 1998 (Chan 2005). Quick and effective transformation of negative state assets and capital was needed. The government measure adopted in 2000 to allow the Assets Supervision and Administration Commission (ASAC) and the asset management companies (AMC) to swap the SOE debt for shares resulted in a US\$40.5 billion debt-to-equity swap and the average asset-liability rate drop from more than 70 percent to less than 50 percent in the SOEs involved (Zhou, Dayong 2003). Yet it was only nominal and by no means could it be interpreted as lessening the bad debt problem of the state banks<sup>3</sup> (Hart-Landsberg and Burkett 2004: 57). Finally real insolvent capital was pressured to go bankrupt leading to unprecedented closures of SOEs and lay-offs between 1998 and 2001 (Hart-Landsberg and Burkett 2004). On the other hand, thanks to the international trade wars in semiconductors and electronics goods in the late 1980s between North Asian countries and the US and Europe, transnational capital that possessed higher capital and technology intensity was reconsolidating the globalisation strategies that resulted in the second wave of electronics FDI inflow in the 1990s. FDI and private investment was therefore

increasingly sought as a major source of capitalisation in this period in China. While the number of FIEs in the sector was only 536 and the amount of utilised foreign investment was US\$607million in 1988 (Lu 2002), the number of FIEs rose to 7,000 in 1996 and more than 10,000 in 2001 (NBS 2003). Prominent companies such as IBM, Motorola, Nokia, Sony, Sanyo, Samsung etc. either started or began systematically to increase direct investment in China in this period. Almost without exception, these companies began with entering into joint ventures either with reformed SOEs or investment companies affiliated to local government as part and parcel of the state strategy to improve the profitability of state capital. As a result, the asset value and industrial output value of shareholding electronics companies rose to 17 percent of the whole sector and that of the FIEs rose to share 36 percent (of total asset value) and 45 percent (of the total industrial output) in the same year (Ministry of Information Industry, 1999). The number of workers employed in electronics FIEs reached 1.96 million in 2001 (NBS 2003). The policy of FDI-led export oriented industrialisation of the electronics sector and supportive government policies through the Ministry of Information Industry (former MEI renamed) and the Ministry of Economics and Foreign Trade (later renamed Ministry of Commerce or MOFCOM) in establishing high-tech industrial parks, zero-import/export dues, credit loans, export insurance etc. also paid off. The electronics industry has become one of the most vibrant in China and electronics export rose from 12.7 percent of the total national exports in 1999 to 28 percent in 2005 (Table 1, Ministry of Commerce 2002, 2006).

**Table 1: Export statistics of the new high-tech industries\* in China, 1996-2005**

Year	Export value (US\$100 m)	Annual growth ratio (%)	Share in total export volume (%)
1996	126.6	25.5	8.4
1997	163.1	28.8	8.9
1998	202.5	24.2	11
1999	247.04	22	12.7
2005	2,183	-	28

\* Computer manufacturing, telecommunication, new materials and electronics industry

Source: Consolidated statistics from MOFCOM

While Chinese capital was using state power and the space opened by the mobility of international capitals to reform themselves and outcompete each other, the social cost of the restructuring was paid directly by the state and Chinese labour. Stability in the labour market and the relative smoothness in laying off SOE workers could not be attained without direct state intervention and the simultaneous proletarianisation of rural labour en masse. Xiangang (a term literally meaning 'off the post' was devised to avoid terming these workers 'unemployed') reached its zenith between 1998-2001 in reaction to the 'let go' policy of indebted SOEs and the ripple effect of the Asian Financial Crisis in 1997. The Asian Development Bank estimated that in 2000 alone nine million SOE workers were laid off and the urban unemployment rate stood at 8.2 percent or 15 million including the xiangang workers (ADB 2001). Between 1998 and 2001, the number of laid off workers reached 25,500,000 (Zhao

2002). The social burden of restructuring went beyond the capacity of individual Chinese capital to absorb. The State Council then approved setting up re-employment service centres administered by the Ministry of Labour and Social Security (MOLSS) in all regions in 1998. The government allocated RMB73.1 billion to establish the *SOE Xiangang Workers Basic Living Protection and Re-employment Fund* and reformed the enterprise-based social security system into a society-based unemployment and pension insurance scheme in 1991 to socialise and share the cost of restructuring. Laid off workers were entitled to basic living grants, social insurance, job training and re-employment services for a period of three years after which they were thrown to the labour market as unemployed. The direct impact of the recapitalisation of the Chinese economy was a corresponding restructuring of the urban workforce and general informalisation of labour. The drastic rapidity in SOE lay-offs first of all resulted in the deterioration of formal employment and a parallel rise in informal employment. International Labour Organisation (ILO) statistics (Table 2) show that between 1996 - 1999, while the number of workers in the SOEs and collective owned enterprises (COE) decreased by 28 percent from 142.6 million to 102.84 million, the number of workers employed in the urban private enterprises and FIEs (including joint ventures) increased by 70 percent and 13 percent respectively (ILO 2002). At the same time, the number of own account workers and those employed in micro enterprises increased by a remarkable 41 percent (ILO 2002). The trend persisted as the number of SOE workers continued to fall by 4.6 million in 2001 and a further 4.8 million by the end of 2002 in contrast to the increase in the non-state-owned sector by three million in the same year (ADB 2003).

**Table 2: Changes in employment patterns in urban areas, 1996-1999** (millions)

Year	Total employment	Employed in SOEs	Employed in urban collective enterprises	Employed in private enterprises	Own account and micro-enterprise workers	Employed in foreign owned enterprises and joint ventures
1996	198.15	112.44	30.16	6.20	17.09	5.40
1997	202.07	110.44	28.83	7.50	19.19	5.81
1998	206.78	90.58	19.63	9.73	22.59	5.87
1999	210.14	85.72	17.12	10.53	24.14	6.12

Source: ILO 2002

Secondly, shrinking SOE employment was complemented with the proletarianisation of rural labour, which increasingly became a main labour force to sustain the continuous trade surplus and high FDI flow to China in this period. Movement of labour, which was strictly controlled in the socialist economy under the rural-urban household registration system, was relaxed de facto under the economic reforms. The number of migrant workers given in the Fifth National Census in 2003 doubled to 140 million from 70 million by 1993, which exceeded 10 percent of the total urban population and accounted for 30 percent of the rural labour force (*People's Daily*, 27 July 2005). This new supply of young rural labour in the cities

was socialised on capitalist relations as both the old labour standard and the labour dispute system lagged behind the transformed state capital relation. For instance between 1979 and the implementation of the revised labour law in 1995, the subject of the labour law was urban SOE and COE workers excluding rural migrant workers despite their growth in urban employment. Moreover the socialist labour relations and dispute system embodied in collective labour mechanisms at the workplace such as the collective contract system, the trade union and the workers' representative congress was exempted, usually under private negotiation between management and local government in the FIEs and POEs as part of the competitive edge of China as the FDI haven. Therefore the new capital in China was allowed to establish despotic workplace relations against a mass of unorganised migrant workers whose residence in the cities was dependent on employment. Indeed the shrinking of the mass base of the only legitimate trade union, the All China Federation of Trade Unions (ACFTU), in relation to that of the SOEs, and the drastic growth of the unorganised migrating workforce transformed labour relations in China to capitalist and individualised. Despite the adjustment of the state to play the role of legislator and regulator in the new social relations (Taylor, Chang, and Li 2003), the implementation of the economic reform necessitated exactly collaboration rather than subjugation of the interests of capital, particularly at local level. This resulted in a surge of isolated labour resistance actions first of all in the heavy industry cities that suffered SOE lay-offs in the late 1990s and later even in the FIE and POE sectors.

#### **The Pharmakon of Full Scale Marketisation - 2000 Onwards**

Indeed the contradictions in the recapitalisation and employment strategies of the Chinese economy had escalated so much that deeper embeddedness in the global capitalist economy was the only path to take. First of all, the government's asset management measures could not eradicate the insolvency loans of the state banks despite the nominal swap of figures. According to the 2002 annual report of the Bank of China, total NPL value continued to rise to RMB408.5 billion with a total loss rate of RMB187.4 billion by the end of 2002. The same applies to the China Construction Bank whose NPLs reached RMB268 billion with a loss rate of RMB56.9 billion (Shusong 2004). On the other hand, the anticipation of further opening China's market resulted in a surplus of capital desperate to take on more aggressive investment strategies. Actual FDI continued to reach a remarkable amount—a 20.4 percent increase to US\$27.4 billion in 2000 and a 12.5 percent increase to US\$52.7 billion in 2002 (ADB 2001, 2003). At the same time, the persistent trade surplus that reached US\$44.6 billion and four percent of GDP in 2002 directly contributed to an unprecedented foreign exchange reserve of US\$286.4 billion (ADB 2003). This, coupled with the high domestic savings rate, swelled total bank deposits since 2001 to 18.5 percent of GDP in 2004 (Chan 2005). Such contradictions could not be resolved simply through further recapitalisation but expansion of the market through real globalisation of capital<sup>4</sup>. The accession of China to the World Trade Organisation (WTO) in 2001 sustained production capacity and continuous accumulation of Chinese capital as well as employment for Chinese labour. Moreover, in 2002 the government officially

adopted a 'stepping-out' strategy, which approved 24 provinces and municipal cities to initiate and support overseas investment projects of local enterprises. By the end of 2004, the foreign exchange bureau had approved 1,152 overseas investment projects involving Chinese investment of US\$5.119 billion (Ministry of Commerce 2005). China's WTO entry indeed provided the opportunity for the state to adopt the twin strategies and yet it could be both medicine and poison. The challenge posed to the competitiveness of Chinese capital of exchanging greater access to the global market with equivalent if not more concession to opening the domestic one remains uncertain. Whereas the implication of intensified market competition on Chinese labour is even less guaranteed.

The electronics sector was therefore immediately faced with the cancellation of tariffs on more than 200 electronics items including computers, semiconductors, ICs and software, which were up to 30-100 percent in 1997 (Zhou, Y C 2006). Commitment to opening the domestic market especially the burgeoning telecommunication market means sacrificing the government efforts to protect the domestic industry and the LSCS. The contradiction was fully demonstrated in the scrapping of the two protective provisions approved by the MEI in the 1990s<sup>5</sup> (Ure 2002). Moreover, the passing of the new *Telecommunication Enterprise Management Regulation for Foreign Investment* in 2000 and the commitment of China to the Information Technology Agreement (ITA) further tied the hands of the central state in subsidising local governments and enterprises under commitment to the WTO<sup>6</sup>. The ITA obliged China to eliminate all tariffs (by 1 January 2005<sup>7</sup>) quotas (by 1 January 2002), subsidies, and other non-tariff barriers on electronics products covered by the agreement. More challenging to the Chinese companies was granting national treatment status to all enterprises in import-export rights, capitalisation and accession to the domestic distribution channels in the country. Indeed China's accession to the WTO turns a new page of fully-fledged competition, which has no turning back option. Although enterprise reform and the LSCS in the electronics sector did result in the emergence of a number of Chinese transnational conglomerates such as Lenovo, TCL, and Haier that were ready to benefit from the 'stepping out' strategy and compete in the global market<sup>8</sup>, more electronics companies that are already plagued with duplicative investment, cut-throat competition, and lack of core technology could lose out to foreign enterprises and continue being contained within their global production network.

Though riddled with internal contradictions, the particular way of the continuous incorporation of China and therefore these domestic contradictions into the global capitalist economy distinguishes China, as a strategic country for transnational capital, from other developing countries, as mere processing bases. The urgency to take best advantage of the 'rising China' seems particularly strong for globalised North Asian capitals, which over the years have developed to be competitors of western capitals. In the words of the CEO of Sony for example, China is the automotive at the core of the re-configuration of the Asian market that is key to the vitalisation of the company's global strategy after its launch in the western market in the 1980s

(*Financial Times*, 1 November 2002). Sony has a cumulative investment of US\$8 billion in China and is stepping up its China strategy to compensate for the less aggressive investments despite its early landing in China in 1978 (*People's Daily Online* 18 August 2003). Sony's Korean rival, Samsung started late but moved much quicker. In 1993, Samsung's first investments in China exceeded US\$4.5 billion; it has established more than 90 subsidiaries employing more than 50,000 workers across different sectors in China (Samsung China web site 2006). Samsung Electronics alone directly operates 14 manufacturing facilities, eight sales offices, and four R&D institutes in China, employing more than 23,000 workers (Samsung China web site 2006). Sales revenue earned from China reached US\$17.6 billion<sup>9</sup> in 2005 against the company's reported revenue of 57.46 trillion won in the same year (Samsung China web site 2006; *samsung.com* 2006). More so, while exports contributed 82 percent of the company's revenue, China alone shared US\$7.8 billion of the US\$50 billion export revenue of the Korean *chaebol* in 2005 (*Financial Times*, 14 April 2006; Samsung China web site 2006). The contribution of China to Samsung, as to other transnational capital however should not be treated as a priori based on a simple reductionist argument of low cost. The movement of Samsung in China is a trajectory of using accumulated market strength of the company and the adapted corporate strategies whose roots lie in the unique state-*chaebol* politics vis-a-vis labour in the home country to mediate and finally benefit from the internal contradictions of the Chinese economy revealed in the state-led economic reform.

## 2. SAMSUNG INC. AND MOVEMENT TO CHINA

### The Political-Economic Foundation of Samsung Korea

Samsung dates back to a small trading business in Korea in 1938, selling fruits and dried food to Manchuria. Within a decade the company had turned to multi-sectoral manufacturing including food processing, textile and electronics (Samsung web site). The genealogy of the *chaebol* was closely tied to post-Korean War political economy. The Park Chung-Hee Government, which replaced President Rhee's in 1971, sought to secure domestic legitimacy and protect national security after the reduction of the US army in Korea. The state-led development model based on import substitution and heavy industrialisation necessitated state collaboration with selected *chaebols* while exercising generalised control over other individual capitals and labour through repressive means particularly workers' collective actions (Chang, DO 2002). In return for the *chaebols*' support for the government's Heavy and Chemical Industry Promotion Plan launched in 1973, the state provided them with credit loan access amounting to as much as 60 percent of the sum total of the loans of the big Korean banks (Kim, S.Ran1996), which largely allowed the *chaebols* to accomplish diversification and capital accumulation. Yet in the 1970s, the Korean electronics industry including that of Samsung was limited to low-end production of transistor radios, CRT, and components for US and Japanese companies such as Corning Glass Works, Motorola, Sanyo, and NEC. Korea was highly reliant on import of core technology and FDI. To solve the problem of lack of vertical integration

capacity, Samsung decided to invest in autonomous development of core technology such as semiconductors. The *chaebol's* economic position allowed it to acquire technology through acquisition or licensing with companies such as Korea Semiconductor Company in 1974, Micron Technology, and Sharp for manufacturing dynamic random access memories (DRAM) in 1984. Meanwhile mass production of relatively low-end consumer electronics goods as well as other investments continued to accumulate capital to support capital-intensive investment in semiconductors and DRAM (Kim 1997).

The 1980s was marked by trade wars between the US, Europe, and the Northeast Asian countries. Suffering from a trade deficit of low-priced import of electronics products from Japan, Korea, and Taiwan, the US and Europe finally launched trade wars against the East Asian countries. The generalised system of preferences by the US and Europe for Korea was withdrawn in 1988 and import tariffs were imposed on Korean exports. Samsung followed their Japanese counterparts and responded by moving part of its export production such as cathode ray tubes (CRT), microwave oven, and white electronics products to the vicinity of the market namely the US (1984), Portugal and Mexico (1989) to evade high tariffs (Kim 1997). Yet mere capital mobility without possession of core technology and vertical integration would not suffice for a TNC to survive the competition with international capitals. The continuous high capital input of Samsung into semiconductor development and the corporate strength in surviving the plunge in DRAM price on the world market in 1985 would not have been possible without continuous state suppression of labour organising in the late 1970s and 1980s. Previous accumulation of capital allowed Samsung to finally take advantage of the competition between the US and Japan in 1987. When the Semiconductor Trade Agreement (STA 86-91) was signed between the US and Japan in 1985, Japan was forced to open its semiconductor market to foreign manufacturers which was followed with subsequent retaliatory measures in 1987 imposing more anti-dumping duties on Japanese DRAM in the US market. Restricted supply of 256K DRAM from Japan led to market shortage and a price hike (Kim, S Ran 1996). The trade war therefore opened the market to Samsung, which by that time had developed production of the 64K and 256K DRAM (in 1984) and the 1M DRAM (1985) (Kim, S.Ran 1996). Korea then became the second supply market to the US allowing Samsung to start profiting from economy-of-scale production.

However the 1980s was also the period when labour militancy and independent workers' struggles gained strength in fighting back against blatant state and capital repression. While the number of labour disputes was 174 per year between 1977 and 1986, the number rose to 846 per year between 1987 and 1996 (Chang, DO 2002:18). Already, the twin pressure faced by capital vis-a-vis international protectionism on the one hand and the forced opening of the domestic market in the 1990s embodied in the removal of import quotas and tariff reduction of imported consumer products to below 10 percent in 1989 and 1993 (Kim 1997) could not afford Korean capital to tolerate further loss of control over labour relations and wage hikes. Despite the fact that the state-led export oriented development model had inevitably embedded

Korean capital into globalised competition starting from late 1980s and early 1990s, the state could still be relied on for general capital to repress labour militancy and outlaw independent trade unionism. The *chaebols* however, particularly those in the strategic sectors such as heavy industry and electronics, could afford to adopt a more aggressive globalisation strategy to overcome market competition. The eventual market leadership Samsung acquired in semiconductors and DRAM allowed the company to streamline its product market focusing on strategic components namely semiconductors (40 percent), consumer electronics (38 percent) and information systems (22 percent) (Kim 1997). A globalised production network took shape utilising Southeast Asia and China for economies of scale production as well as new markets to support the Korean headquarters for core R&D and manufacturing of high profit margin niche products such as DRAM and TFT-LCD etc. Indeed the basis the chaebols such as Samsung had built in dominating the domestic market as well as investing in overseas markets allowed them to adopt new labour strategies in collaboration with the state for subtler control of the emerging independent labour movement. Hand in hand with the repressive state labour measures and the corporate reorganising of production, the former introduced flexibilisation of the labour market through legislation for dispatch labour, whereas the latter supplemented repressive labour control with shop floor human resources management (HRM) practices (Chang, DO 2002; Chang and Ho 2004). The HRM practices Samsung introduced in the 1990s such as above market wages and benefits, merit-based bonuses, performance-based appraisals, and contract system etc. were successful in quarantining labour disputes and independent trade unionism (Chang and Chae 2004). When the financial crisis hit the country badly in 1997, the historical moment had come to subsume the independent labour movement by concession and cooperation with the state and capital in general, and reinforcing the Samsungisation of labour relations in particular.

#### **The Movement of Samsung in China**

Samsung's investment in China started in 1992 after the normalisation of diplomatic relation between Korea and China. Within 15 years Samsung China has cumulatively invested US\$4.5 billion, set up 24 subsidiaries and employed a total of 50,000 workers (Samsung web site). Table 3 shows the chronology of the establishment of Samsung's electronics subsidiaries in China.

The sub-regional production network of Samsung in China was established in three major clusters. The northern city of Tianjin in Hebei province with geographical proximity to Korea manufactures 60 percent of China's cell phones (Yao 2002) and is also Samsung SDI's biggest cell phone parts manufacturing base. In Tianjin alone, Samsung has established 11 subsidiaries including investment from SDI, SEC, Samsung Electro-Mechanics (SEM), Samsung Textile, Samsung Corning and Samsung Techwin. They are all located in the Tianjin Economic-Technological Development Area (TEDA) making Tianjin Samsung's largest single investment site in China. The city alone receives 35 percent of Samsung's total investment in China, employing 28 percent of the entire Chinese employees of the company (*China Business News and Observer* 2006). The significance of Korean capital to the locale

**Table 3: Samsung's electronics affiliates in China**

Year	City (Province)	Affiliate name	Products, Chinese partner, capital ownership
1992	Tianjin (Hebei)	Tianjin Samsung Corning	VCR, DVD parts 100% subsidiary
1992	Huizhou (Guangdong)	Huizhou Samsung Electronics (HSEC)	Audio products 1992 HZ City Land Development Company
1993	Tianjin	Tianjin Samsung Electronics (TSEC)	VCRs, VCR decks, VCR drums, 1993 TJ Tongguan Company (TCB)
1993	Wei Hai (Shandong)	Shandong Samsung Telecommunications Co (SST)	Printers
1993	Tianjin	Tianjin Samsung Electro-Mechanics (TSEM)	VCR drum motors, tuners TJ City Wireless Electronics No.5 Factory
1994	Tianjin	Samsung Optic-Electronics	Cameras TJ City Camera Company
1994	Suzhou (Jiangsu)	Samsung Electronics (Suzhou) Semiconductor Co Ltd	Semiconductor. Later DRAM, SDRAM, flash memory, system LSI. Suzhou Industrial Park Shareholding Co Ltd
1994	Dongguan (Guangdong)	Dongguan Samsung Electro-Mechanics (DSEM)	Speakers, keyboards, etc 100% subsidiary
1995	Tianjin	Tianjin Tongguang Samsung Electronics (TSDI)	CTVs, TFT-LCD display TJ Tongguang Company (TCB)
1995	Suzhou	Suzhou Samsung Electronics (SSEC)	White electronics goods Joint venture with SOE, became 100% subsidiary in 2002
1996	Tianjin	Tianjin Samsung Mobile Display (TSDIM)	Display for CDMA mobile phones, PDA TJ Electronics Equipment Company
1996	Shenzhen (Guangdong)	Shenzhen Samsung Display Company (SSDI)	CPT,CRT, PDPSZ City government, SZ City Investment Management Company
1998	Dongguan	Dongguan Samsung Display Company (DSDI)	TFT-LCD display, electron guns, Dongguan City Houjie Town government. 100% subsidiary in 2001
1998	Shenzhen	Shenzhen SEG-Samsung Glass Co Ltd	CRT TV, Panel and funnel glass, SEG Corporation Acquisition to become biggest shareholder 2002
2001	Tianjin	Tianjin Samsung Telecommunications Co	GSM, CDMA cell phones Joint venture with Tianjin City Electronics Equipment Co
2002	Suzhou	Suzhou Samsung TFT-LCD Display Company (Suzhou SDI)	12.1", B 14.1", B 15.0", B17.0" monitors, TFT-LCD notebook display. 100% ownership
2002	Suzhou	Samsung Semiconductor (China) R&D Co Ltd	IC, Semiconductor design, R&D 100% ownership
2002	Suzhou	Samsung Electronics Suzhou	Notebook computers, 100% ownership
2002	Shenzhen	Shenzhen Samsung Kejian Mobile Communication Technology Co., Ltd	CDMA mobile phones, Joint venture with China Kejian Co Ltd. Acquisition and became biggest shareholder 2003
2002	Shanghai (Jiangsu)	Shanghai Samsung Display (SSDI)	VFD, PDP testing
2004	Shenzhen	Samsung Corning	CRT, 100% ownership

Source: Author's consolidation

is equally explicit. The industrial output of nine of these subsidiaries already accounts for 15.6 percent of the total industrial output of the FIE sector of Tianjin (Tianjin government 2004). The clustering effect brought by Samsung makes Korea the fourth largest investing country in Tianjin with the establishment of 1,502 Korean enterprises and RMB2.5 billion worth of utilised FDI in 2002 (Tianjin Foreign Affairs Office 2002). In Dongli and Jinnan districts inside TEDA, the Korean investment shares more than 60 percent of the total incoming FDI and export value as well as two thirds of the FIE employment. Samsung now procures more than 50 percent of components from more than 100 factories in Tianjin to support its annual production capacity of 150 million cell phones. The establishment of such a production base allowed Samsung to close down a Spanish cell phone factory in 1994.

A second Samsung cluster is in the Yangtze River Delta Area (YRD) of Jiangsu province in middle China. The YRD includes a number of information technology cities such as Shanghai, Suzhou, Kunshan, Wuzhou, and Wuxi that emerged in the second wave of FDI inflow to China after the mid-1990s that was capital- and technology-intensive anticipating the removal of tax and tariffs after China's accession to the WTO. The centripetal pull of Shanghai therefore enables YRD to attract investment from the Original Design Manufacturing and Original Brand Manufacturing (OBM) capital to accomplish regional vertical integration. Next to Shanghai, Suzhou has become the most favoured destination city of top Japanese and Taiwanese IC and notebook computer companies. There are currently more than 6,200 Taiwanese enterprises investing more than US\$28 billion in Suzhou while more than 40,000 Taiwanese expatriates and investors are settling there (*Suzhou Daily*, 18 February 2006). YRD now shares 60 percent of the country's IC packaging and 50 percent of China's total notebook production (Yao 2002). In 1994, the Jiangsu government constructed Suzhou Industrial Park (SIP) in a joint venture with the Singapore government. The privileged SIP enjoys unique investment and import-export policies including for instance the status of independent customs administration that allows enterprises to directly connect air freight import of materials from Shanghai with the manufacturing and logistics network within the industrial park for just-in-time and build-to-order exports. Besides, SIP has autonomy in approving investment projects, developing its own regional provident scheme, and handling passport and visa applications so as to attract expatriate IT professionals to stay in Suzhou<sup>10</sup> (SIP web site). As a result, the accumulative FDI of SIP reached US\$23.95 billion in 2005 (SIP web site). Realised industrial output and import-export value was worth US\$58 billion and US\$40.5 billion respectively in the same year (SIP web site). These investments are highly concentrated in IC, semiconductor, TFT-LCD, as well as automobile and aircraft components manufacturing. Samsung invested in five subsidiaries in SIP including SSDI, Samsung (Suzhou) Semiconductor Co Ltd, Suzhou Samsung TFT-LCD Co Ltd, Samsung Semiconductor (China) R&D Co Ltd and Suzhou Samsung Electronics and Computer Co Ltd. Suzhou is now the most concentrated site of Samsung China in IC design, packaging, and R&D, as well as the manufacturing of notebook computers and digitalised electrical appliances.

The third sub-region is Guangdong province where Samsung bases electronic components production in three subsidiary factories in Dongguan city and Huizhou city. Cell phone display, CRT TV, LCD TV and LCD display are manufactured in two other subsidiaries in Shenzhen where Samsung Corning is located to produce glass substrates for CRT TV and LCD TV. Unlike YRD, which is a late hotspot for capital-intensive FDI, Guangdong was the first province for labour-intensive processing industries from mainly Hong Kong and Taiwan. Despite the relatively low capital intensity of FDI, Guangdong province still tops the country in manufacturing non-core electronics components and peripheral products. For instance Dongguan city alone has more than 2,800 IT factories that support 95 percent of the peripheral sourcing within the city (Yao 2002). About 60 percent of the world's production of printers, computer case (40 percent), computer servers (30 percent), keyboards (16 percent) and CPU (15 percent) are made in Dongguan (Yao 2002). The Guangdong cluster is a key support base of components to SEM and is expected to achieve higher integration and expansion in TFT-LCD production.

In the beginning of its Chinese venture in the early 1990s, Samsung struggled hard with the market protection and 'FDI for export only' strategies of the Chinese government. China had successfully used FDI to improve the quality of state capital and Samsung had to enter into joint ventures with either local electronics SOEs, for instance TSDI with Tianjin Telecommunications and Cable Broadcast Company (TCB or Tongguan), TSDIM with Tianjin Electronics Equipment Company; or with the investment holding companies supervised directly by the local municipal government as in the case of HSDI with the Huizhou City Land Development Company, SSEC with Shenzhen City Investment and Management Company (SSEC) and DSDI with Dongguan City Houjie Town government (DSDI). Behind the collaboration was a double strategy of Samsung to seek low production cost and access to the local market. Therefore between 1992 and 1998, only low-end production such as VCR parts manufacturing was transferred and traditional consumer electronics goods such as VCRs, DVDs, and refrigerators etc. were sold through a sole agent and the 23 direct sales offices of Samsung in China. The degree of vertical integration and localised sourcing was low. Yet the marketing strategy did not work vis-a-vis the Chinese government's market protection and LSCS. The second 'movement' Samsung China took after 1998 incurred a different market and labour strategy of consolidation, market segmentation, and localisation. SSEC in Suzhou for instance sacked one third of its 900 workforce after suffering a loss of US\$2.1 million in 1998 with stocked up inventory and idle production lines (*Business Week*, 4 March 2002). All 23 sales offices were closed, inefficient Chinese managers appointed by the SOE partners in joint ventures were sacked, businesses and operations of subsidiaries were made independent to foster peer competition. China's WTO membership further occasioned a turning point for Samsung to adopt more aggressive strategies. Production was restructured to target China's high-priced markets in mobile phone, computers, TFT-LCD TV, and digitalised home appliances. On the other hand, the local industry market for core components amongst FIEs in China was also fast expanding thanks

to the second wave of FDI inflow after 2001. Greater localisation and vertical integration not surprisingly pushed Samsung's procurement in China to a peak of US\$15.3 billion in 2005<sup>11</sup>. The export value of Samsung from China in the same year reached US\$9.8 billion, which was 57 percent of the Korean company's total sales volume (Samsung web site). China has become the second largest market and manufacturing base of the company. Riding over the tides of China's irreversible market liberalisation in the new millennium, the move of the company to 'build a second Samsung in China' starting in 2002 demonstrates improved readiness of the company to take fuller advantage of the deepened structural economic as well as labour changes of China.

### **3. CAPITAL AND LABOUR STRATEGY OF SAMSUNG IN CHINA**

#### **Capitalising on the Capital and Market Contradictions of China**

Certainly the restructuring of Samsung electronics in China could not have succeeded in detachment from two historic moments of China's capitalist economic development at the turn of the century. The profit turn of Samsung electronics in China coincided first of all with the historic time when the internal financial crisis and SOE privatisation project reached the peak in 1998 harnessing a fundamental change in the capital structure of China. The second historic turn came after China's WTO accession and thus the disintegration of China's protectionist policy. The Chinese state had to grant national treatment status to all FIEs and lift the 20-40 percent local marketing rate restriction for FIEs after 2001. This was followed further by the relaxation of the prohibition against foreign investors' acquisition of the state-owned shares in the reformed SOEs in 2002 that immediately saw a boom of direct subsidiaries of TNCs. Gradually Samsung shifted to directly opening wholly owned subsidiaries or buying over the shares of the joint venture partners after 1998 (see Table 2). The joint venture in Shenzhen, the SEG-Samsung Corning Company, established the first case of foreign acquisition of state-owned shares of a listed company in China in 2004. The Chinese partner SEG was formed as a consolidated electronics SOE in 1986 based on the previous mergers of a number of electronics factories under the military bureau. In the enterprise reform SEG became a mixed shareholding company and yet was indirectly supervised by the Shenzhen government through the state authorised AMC formed solely to buy over negative SOE assets and debts from the national banks and consolidate them for profit-making investment. The joint venture with Samsung started with a technology transfer agreement aimed at modernising the production line of CRT TV and tubes of SEG while at the same time SEG could procure core components from other Samsung subsidiaries at full market rate. The low degree of real technology transfer actually realised in joint ventures is always a dilemma for Chinese companies, which became the case in SEG-Samsung that manufactured low-end CRTs and glass substrates without possessing the core technology from its Korean partner. More often than not, real transfer comes only after the foreign investor has acquired full ownership of the invested enterprise. Worse in this case, SEG was plunged into deeper debts due to mismanagement as

well as over-dependence on the production and technology of Samsung. The Shenzhen government which indirectly held shares in SEG was caught between the need for more foreign capital to save SEG from collapsing and selling out national assets to the Korean investor (*Finance and Economic Daily*, 16 February 2003). The final buyout deal in 2004 removed the last obstacle to Samsung's control of the SOE and straight afterwards, Samsung Corning in Korea announced the plan to transfer production lines to the restructured Samsung plant and invest another US\$470 million to turn it into the world's biggest CRT TV glass panel plant to supply to its affiliates and non-affiliate companies in China.

Indeed the desperate need for foreign capital and technology to deepen economic reform is also simultaneously pulling back, if not contradicting the earlier policy of the Chinese government to develop and protect domestic enterprises. China heavily relies on a foreign supply of CPU and industrial ICs that are dominated by Intel, AMD, and Japanese and Korean companies (Zhou, Y C 2006). The market exchange strategy could mean bridging or perpetuating the technology lag in the competition between Chinese and foreign capital. Samsung used similar tactics in its four-year penetration into the GSM and CDMA market in China. In 2000 the State Council of China decided to introduce the CDMA network and started licensing CDMA services to China Unicom and CDMA handset manufacturers. It was expected that in five years' time, the CDMA handset market in China would reach RMB500 billion (*Business News*, 2 December 2003). In fact Samsung had started developing the first Chinese language CDMA cell phone back in 1999. The licensing system however was opened to only 37 companies in 1998, 29 of which were GSM and 20 were CDMA. After 2000, no new CDMA license was issued (*China Internet Weekly*, 4 August 2004). Between 1998 and 2000, the restricted market access in the Chinese telecommunications market had been a major obstacle to Samsung's new product strategy. The only option was to enter into a joint venture with a SOE and Shenzhen Kejian Company was chosen as the Chinese partner. Kejian started as a subsidiary company of the Chinese Academy of Science in 1986. It did not possess key technology in handset manufacturing and had to rely on Samsung to produce the Kejian brand cell phone. The joint venture was an exchange between Samsung's supply of core parts for Kejian to put its own label on and the Chinese partner sold Samsung's handsets through its distribution channel in China. Samsung-Kejian was a cash generating machine for both parties earning a net revenue of RMB260 million for Kejian in 2003 and even more (RMB638 million) for Samsung. In 2002 Kejian even became the top local cell phone brand in China. But dependence on Kejian was only temporary. With China Unicom's adoption of Qualcomm's CDMA technology in 2002, Samsung being a long-term supplier to Qualcomm was finally granted a CDMA licence in the same year and the GSM licence in 2003. The need for Kejian dwindled. As Samsung's market sales reached eight million sets in 2004, the Korean company had become the greatest enemy of its Chinese partner. Kejian's decline was a typical reflection of many of the privatised SOEs that engaged in over-investment with acquired foreign capital and yet possessing no core technology. With accumulation of bad debts as

high as RMB670million, which was 251 percent of the net asset value of the company, the company was de-listed from the Shenzhen Stock Exchange in 2006 and Samsung is also considering withdrawing investment from the joint venture.

### **Samsung and the Restructuring of Chinese Labour Relations**

#### ***FDI and overall employment***

Besides the pressures from capital and technology, the Chinese state is increasingly confronted with the problem of unemployment. *The White Paper on the Employment and Policy of China* released by the MOLSS in 2004 shows that China was faced with the gravest unemployment situation at the end of 2003 reporting the highest urban unemployment rate of 4.3 percent meaning eight million did not have jobs (Ministry of Labour and Social Security 2004). The working population increased by 13.6 million every year during the tenth five-year plan between 2001 and 2005 (NBS 2004). This does not include surplus rural labour of 150 million awaiting employment<sup>12</sup> nor the 28.18 million workers who were laid off from the SOEs between 1998 and 2003 (Ministry of Labour and Social Security 2004). Employment pressure and the risk of social instability directly posed financial burden on the state. The central government had spent RMB73.1 billion to support the *xiagang* fund to pay for the living subsidies and re-employment training programmes for 23 million former SOE workers while the local governments in more than 30 cities directly fund the Re-employment Service Centres. New jobs were also directly created or nine million workers, five million of who were laid off SOE workers (Ministry of Labour and Social Security 2004). The financial pressure was unprecedented for local governments faced with both labour resistance from SOE workers as well as a dwindling central budget. Since 1981, the central state has reduced direct budgeting in the share of national fixed asset investment from 28.1 percent in 1981 to 5.7 percent in 2004 (Table 4). Increasingly, foreign and other sources of funding<sup>13</sup> become the dominant source of capitalisation accounting for 75.8 percent of national fixed asset investment by 2004 (*China Statistical Yearbook 2005*).

Similarly, the share of SOE employment in the national urban population also dropped from 69.9 percent in 1991 to only 25.3 percent in 2004, smaller than the combined employment share of the private enterprise sector (23.3 percent) and the FIE sector (3.9 percent<sup>14</sup>) (Table 5). As the source of revenue and employment has shifted to private and foreign capital, it is common to find that local government identifies with the interests (private and foreign) of capital rather than to regulate it enabling capital to utilise, and in return reinforces labour deregulation to carry out corporate labour strategies. Samsung's labour practices in the traditional socialist industrialised city of Tianjin contribute further to the disintegration of the socialist labour relations system; whereas in the case of Suzhou and Guangdong province the Korean company reinforces the growing trend of irregularisation of labour in China.

#### ***Disintegrating the Socialist Labour System - Case of Tianjin SDI and the ACFTU***

Tianjin city in North-eastern China where 11 of the 24 Samsung subsidiaries are located was a traditional socialist industrial town that suffered from serious production inefficiency, lack of investment and unemployment problems under the

**Table 4: Sources of fixed asset investment in China, 1981-2004 (RMB100 million)**

Year	Source of Funds			
	State Budgetary Appropriation	Domestic Loans	Foreign Investment	Domestic Fundraising and Other
1981	269.8	122.0	36.4	532.9
1982	279.3	176.1	60.5	714.5
1983	339.7	175.5	66.6	848.3
1984	421.0	258.5	70.7	1082.7
1985	407.8	510.3	91.5	1533.6
1986	455.6	658.5	137.3	1869.2
1987	496.6	872.0	182.0	2241.1
1988	432.0	977.8	275.3	2968.7
1989	366.1	763.0	291.1	2990.3
1990	393.0	885.5	284.6	2954.4
1991	380.4	1314.7	318.9	3580.4
1992	347.5	2214.0	468.7	5050.0
1993	483.7	3072.0	954.3	8562.4
1994	529.6	3997.6	1769.0	11531.0
1995	621.1	4198.7	2295.9	13409.2
1996	(629.7)	(4576.5)	(2747.4)	(15465.4)
	625.9	4573.7	2746.6	15412.4
1997	696.7	4782.6	2683.9	17096.5
1998	1197.4	5542.9	2617.0	19359.6
1999	1852.1	5725.9	2006.8	20169.7
2000	2109.5	6727.3	1696.3	22577.4
2001	2546.4	7239.8	1730.7	26470.0
2002	3161.0	8859.1	2085.0	30941.9
2003	2687.8	12044.4	2599.4	41284.8
2004	3255.1	13788.0	3285.7	54866.6
	P e r c e n t a g e R i s e			
1981	28.1	12.7	3.8	55.4
1982	22.7	14.3	4.9	58.1
1983	23.8	12.3	4.7	59.2
1984	23.0	14.1	3.9	59.0
1985	16.0	20.1	3.6	60.3
1986	14.6	21.1	4.4	59.9
1987	13.1	23.0	4.8	59.1
1988	9.3	21.0	5.9	63.8
1989	8.3	17.3	6.6	67.8
1990	8.7	19.6	6.3	65.4
1991	6.8	23.5	5.7	64.0
1992	4.3	27.4	5.8	62.5
1993	3.7	23.5	7.3	65.5
1994	3.0	22.4	9.9	64.7
1995	3.0	20.5	11.2	65.3
1996	2.7	19.6	11.8	66.0
1997	2.8	18.9	10.6	67.7
1998	4.2	19.3	9.1	67.4
1999	6.2	19.2	6.7	67.8
2000	6.4	20.3	5.1	68.2
2001	6.7	19.1	4.6	69.6
2002	7.0	19.7	4.6	68.7
2003	4.6	20.5	4.4	70.5
2004	5.7	18.5	5.3	70.5

Source: China Statistical Year Book, author's consolidation

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Urban employed population	15260	15630	15964	16816	17346	19815	20207	20678	21014	23151	23940	24780	25639	26476
Urban state owned units	10664	10889	10920	11214	11261	11244	11044	9058	8572	8102	7640	7163	6876	6710
Urban collective owned units	3628	3621	3393	3285	3147	3016	2883	1963	1712	1499	1291	1122	1000	897
Shareholding units			164	292	317			136	144	155	153	161	173	192
Joint owned units	49	56	66	52	53	49	43	48	46	42	45	45	44	44
Limited liability units								484	603	687	841	1083	1261	1436
Limited shareholding units						363	468	410	420	457	483	538	592	625
Privately owned units	68	98	186	332	485	620	750	973	1053	1268	1527	1999	2545	2994
Units funded by HK, Macao, Taiwan	69	83	155	211	272	265	281	294	306	310	326	367	409	470
Foreign funded units	96	138	133	195	241	275	300	293	306	332	345	391	454	563
Individuals	692	740	930	1225	1560	1709	1919	2259	2414	2136	2131	2269	2377	2521
Registered urban un-employment rate (%)	2.3	2.3	2.6	2.8	2.9	3	3.1	3.1	3.1	3.1	3.6	4	4.3	4.2

Source: China Statistical Year Book, author's consolidation

economic reforms<sup>15</sup>. However by February 2006 TEDA had successfully attracted FDI from 74 countries, hosted 4,102 FIEs, received cumulative FDI of US\$29.96 billion and actually utilised FDI contracts worth US\$23.43 billion (*China Economic Weekly*, 22 May 2006). TEDA was managed by the TEDA Trust Investment Company<sup>16</sup> (1987) supervised by the Tianjin government to consolidate state-owned and external resources for the re-industrialisation of the city (Tianjin Binhai Government 2005). The central state receded to the role of deregulation vis-a-vis local government over the use of land, means of capitalisation, and labour system<sup>17</sup>. The Tianjin government took the strategy of using FDI to improve state capital based on the foundation of the electronics industry, which in turn coincided, with the strategy of transnational capital to seek market escape in the 1990s. Favourable investment policies were granted to export oriented ICT enterprises such as three-year profit tax holiday renewable to 50 percent tax reduction in the fourth and fifth years, low enterprise tax rate of 15 percent, machine deterioration discount, and tax rebates. The tax rebate of Motorola alone in 2005 was equivalent to 75 percent of the total tax rebate of the FIEs (*21st Century Economics*, 9 May 2005). The government also provided generous administrative conveniences to foreign investors such as the provision of one-stop business services including construction of industrial parks and factory complexes, guaranteed energy and labour supply, speedy import/export controls etc. The rejuvenation project was successful as by 2003, US\$6.4 billion was injected from TNCs such as Motorola, Lucent, IBM, Samsung, Mitsushita, Honda, and Toyota to invest mainly in joint ventures with the SOEs in electronics, mechanical, and petrochemical industries. More than 800 SOEs were reformed, consolidated, or simply closed down (Tianjin Statistics Information Net 2004). The state-owned Tianjin City Electronics Equipment Company for example had pulled in US\$1.74 billion between 1996 and 2000 and reformed 38 other affiliated SOEs by establishing 113 joint ventures with foreign investors including four from Samsung (Zhao 2002). By the end of 2005, about 76.6 percent of government affiliated SOEs and 80 percent of the large- and medium-sized SOEs in Tianjin were transformed into various forms of mixed capital ownership enterprises (Tianjin City NBS 2005). These capital-intensive investments turned Tianjin into the third most important ICT manufacturing and export base of the country. Increased sourcing from leading TNCs created the cluster effect like that between 1992 and 2002, more than 300 electronics factories were established forming a RMB20 billion electronics supply network in Tianjin (Zhao 2002). Motorola, whose cell phones rank the second in the Chinese market, was sourcing US\$70 million worth of components from Tianjin that in turn further attracted US\$100 million FDI from OEM suppliers to the city (Tianjin government 2004). Its competitor Samsung is also planning to increase the local sourcing rate to 65 percent in 2006 while the Japanese car company Toyota is already sourcing 85 percent of its production locally (Tianjin government 2004). Indeed the dominance of FDI in supporting the local industries, boosting export and generating income to the local government is more than obvious. The city recorded a trade surplus of US\$1.43 billion in 2005 and export growth of 31.4 percent worth US\$27.4 billion in 2005 (Tianjin City NBS 2005). Such export figures again reflected the dominance of the FIE sector

as 80.3 percent of the city's exports were accomplished by the FIEs (Tianjin City NBS 2005).

Last but not least, the FIE sector has become an increasingly important employer in Tianjin. Unemployment, particularly the lay-offs in the SOEs had been a serious challenge to the local government. By 2002 unemployment had accumulated to two million, 60 percent of who were women (Cai 2002). The growth of the FIE sector and the re-industrialisation pulled by FDI successfully absorbed 23.9 percent of the city's working population totalling 446,400 workers in 2003. These workers earned a yearly average RMB20,000, which was RMB1,100 above the city's average income level (Tianjin government 2004). Nevertheless a large proportion of the employees in the FIE sector are not former SOE workers but young migrant workers as the economic development also attracted more than one million new peasant workers who migrated from other provinces (Zhu, Chang, and Zhou 2005). The direct impact of FDI on the alleviation of the unemployment problem of Tianjin rather lies in generating income for the local government to directly fund social security provisions and re-employment programmes<sup>18</sup>. Generalised economic growth particularly in the service industry also contributed to the absorption of surplus labour.

Almost all Samsung subsidiaries in Tianjin began as joint ventures with SOEs. Yet this doesn't seem to have implicated the Korean company into any rigorous labour conflict. The workers employed in of these subsidiaries today however are migrant workers aged between 18 and 25 recruited from vocational training schools all over the country (field work of Labour Action China (LAC) 2006). Like thousands of other SOEs in Tianjin, the conditions of the former SOE workers in the restructured joint venture partners of Samsung in China remain a mystery. These *xiagang* workers were supposed to maintain labour relations with the enterprise for a transition of three years during which they would continue receiving a minimum living allowance and be covered by the national social security scheme. The reality however is more often one-off dismissal with little or no compensation and in some cases laid off workers were mandated to buy back the shares of the restructured enterprise making themselves the actual payers of reform. Even more former SOE workers were driven to the informal sector. Despite the fact that there were collective as well as individual struggles of SOE workers against cases of enterprise restructuring, the silence of the trade union in these struggles and its reluctance to criticise, if not veto the reform destined any isolated protests as futile. The Tianjin ACFTU rather perceived itself as playing 'the facilitator' and 'safety valve' in stabilising the thoughts of SOE workers and smoothing enterprise reform (*Workers' Daily*, 8 December 2005).

The embarrassment of the ACFTU in the changing labour relations system is clearly reflected in the case of TSDI (known also as Tianjin Samsung Tongguan). Tianjin Tongguan Company, whose full name is Tianjin Communication and Broadcasting Group Co., Ltd (TCB), was a SOE formed in 1936 on the basis of an electrical appliance factory in Hunan province. Under the import substitution policy in the 1980s, TCB was supported by the government to develop the first national brand TV in China. The SOE was then privatised into a multi-shareholding company

in 1985. Today TCB has majority shares in 13 mainland electronics companies including Tianjin Electronics Equipment Company, which entered into joint venture with four Samsung subsidiaries. Samsung invested 94 percent of the initial capital in TSDI, which manufactures CRT TV and VCR with parts supplied by TSEC. The joint venture with Samsung took place when TCB had already completed enterprise reform and the joint venture is now modelled completely on Samsung's production and management system. The legacy of the socialist labour relations system hung over and yet the preservation of socialist mass organisations in TSDI such as the ACFTU, the Committee of the Chinese Communist Party (CCCP) branch and the Workers' Representatives Congress are however in hollow form only. The role of these mass organisations in enterprise restructuring was not known and yet their traditional function in economic co-planning with factory management has gone with the reform. The trade union and the CCCP branch are chaired by the Deputy Manager who is also the legal representative of the Chinese partner. Trade union representatives have the right to attend Board of Directors meetings and raise concerns on working conditions but have no power to intervene in the business operation of the company (Zhou, Y C 2006). Yet possible contradiction between the interest of the foreign capital and the Chinese trade union in this case is perhaps more assumed than real given the dual identity of the trade union chair, which implies an inherently corporatist structured character of the trade union. The CCCP branch dropped the class banner and its relevance to the TSDI workers is reduced to holding member study classes about government policies and consultation sessions. Lastly, the Workers Representatives' Congress, which was supposed to be a mechanism designated in the Enterprise Law in 1988 to uphold the ownership by the working class in decisions regarding economic restructuring and management-labour co-governance, was marginalised, reduced to an opinion-sharing platform composed only of management-selected workers from each department rather than a mobilising organ of shop floor worker participation. On the other hand, the Samsungisation of labour relations is taking place based along typical Samsung HRM lines such as merit-based bonus, one-year contract based on three-month performance appraisal that is tied to a yearly five to seven percent dismissal rate and the formation of a Family Affairs Committee (LAC interview with workers from TSDI, TSEC, Tianjin Tongguan, TSEM, Tianjin Telecom Co in May 2006). All these serve to replace socialist-styled worker collectivism with individual and irregular labour relations. More so, the smooth transition of the socialist-styled, party-led, statist trade union to the capitalist corporatist trade union in TSDI demonstrates exactly the 'mediated' role of the Chinese trade union in the post-reform era, not as the 'adversary' of the capitalist employers but their 'assistant' in pacifying contradictions within labour for the sake of boosting productivity and labour stability at the workplace (*Workers' Daily*, 8 December 2005). Indeed the TSDI-ACFTU offers Samsung the ideal labour and trade union relation, which is earned at a much cheaper cost than is the case in Korea.

The socialist legacy and the evolved corporatist character of the Chinese trade union seem to make it the natural' collaborator to the *chaebols*. The ACFTU of LG-

Philips in Changsha city, Hunan province, for instance also integrates itself into the HRM of the corporate rather than representing the independent interests of workers. The chair of the trade union in LG-Philips in Changsha submits plans to boost labour productivity to the management, organise productivity competitions, and awards well performing workers every year. It is not surprising that the company claimed to never have had any labour dispute since the trade union was formed in 1989 (*Chinese Chosun Daily Online*, 7 October 2003). In the case of Hyundai Beijing, the Korean management is relieved from all personnel matters including the formation of the ACFTU affiliate to the Chinese Deputy Manager who is a CCCP member and later also became the chair of the trade union (*Chinese Chosun Daily Online*, 7 October 2003). Certainly the socialist trade union structure which assumes congeniality of interest between labour and management under the Socialist Banner of The People lags behind the reality despite intensified labour contradictions and the unionising campaign launched by the ACFTU vis-a-vis the FIEs. Yet changes in the capital structure in China have not been matched by an equivalent change in real labour organising, which remains sporadic and obstructed by the absence of independent organising. Therefore although Samsung, along with other TNCs notorious for anti-unionism such as Wal-Mart, Kodak, and McDonald's was named in the ACFTU's trade union campaign in 2003, it was largely doomed due to lack of real pressure from labour. The absence of serious challenge from organised labour in China simply provides no reason for the Korean company to use a paper union to cover up its anti-trade union policy as is widely practiced in the Samsung plants in Korea and Southeast Asia.

#### **Samsung and Dispatch Labour in Suzhou**

In Suzhou city, Jiangsu province, where Samsung currently has five subsidiaries manufacturing white electronics goods, semiconductors, and notebook computers, another form of informalisation of labour is gaining dominance. The ICT and electronics industry, which is the most important source of FDI in Suzhou, is also the sector most vulnerable to labour dispatch. In SIP the number of dispatch workers exceeded 15,000 in 2003. It is expected that the figure has grown to 25,000 in 2006 meaning that more than one-fourth of employees in the industrial park are dispatch labour working in more than 100 enterprises within the park, 70 percent of which are large-scale electronics companies (Li, Y P 2006). Currently there are more than 20 registered dispatch companies stationed in SIP, networked with vocational schools all over the country, many of which are directly opened or supervised by the local provincial or municipal MOLSS. In one sense, the increasing use of dispatch labour in the ICT sector is a reaction from the state and capital to resolve the problem of labour shortage. The Suzhou MOLSS was expecting a skilled labour shortage of 15,000 only in the ICT sector in 2005 (*Hubei Daily*, 23 June 2005). In another sense, labour turnover is indeed a unique and popular form of 'labour resistance' to primitive exploitation particularly in the labour market in China where more than 100 million workers are migrating peasant labour that are neither organised nor effectively represented at the workplace. Labour dispatch is therefore a means for capital to overcome the pressure of high labour standards<sup>19</sup> and labour turnover to maintain

the low-cost strategy in China and is particularly so for capital-intensive electronics companies that require disciplined and stable workforces (*Hubei Daily*, 23 June 2005). The surge of HRM companies is a new phenomenon in the Chinese labour market. Suzhou Engma Human Resource Co Ltd (Box 1) for instance is the largest registered labour dispatch company approved by Suzhou city MOLSS, having business partnerships with prominent TNCs in SIP such as Mikron Technology, Innis, Sanyo, Yamaha, Hejian, THC, AU Optronics, Wellman, Delphi, Siemens, Samsung, DHL and Philips etc. (Engma China web site). Labour supply to dispatch companies is provided more and more by the local governments of inland provinces through affiliated vocational schools. Hubei is an example of a labour exporting province where 40 percent (2.2 million) of the working population migrates to other provinces for employment. The local government in Yichang city, Hubei budgets RMB800,000 every year to support the labour export programmes and another RMB700,000 for vocational schools (reference to an example of vocational school in Box 2) (Hubei Information Network 17 February 2006). In the advocated model of Yichang city, the government has supported 8000 youths every year through loaning school fees (RMB2,000) to students from poverty stricken areas to be returned after they have been placed in jobs through the vocational schools and dispatch companies such as Suzhou Engma. The latter signs labour dispatch contracts with the graduates and places them with client enterprises some of which, including Samsung, even provide tailor-made courses and syllabuses based on the actual production system to socialise rural labour before formal employment. The dispatch system allows the user company to abstain from direct labour relations and yet possess full authority over labour. The user company needs only to pay the salary, social security, and per head fee (RMB80) to the dispatch company, which in return provides labour training and accommodation, manages labour discipline, as well as resolving labour disputes and work injury cases for the user (*Hubei Daily*, 23 June 2005).

#### **Employment of Irregular Apprenticeship Labour**

Besides dispatch labour, apprentice labour is another abusive practice widely used in the ICT sector and by Samsung. Apprenticeships last from three to more than six months in all Samsung Chinese subsidiaries making a ready supply of labour to undercut the bargaining power of regular workers (LAC workers' interviews 2006). The three-month apprenticeship in the Tianjin subsidiaries is followed by another two-month probation, which in the end enables Samsung to pay, for a good proportion of every year, only 57 percent (RMB420 basic wage) of the legal minimum (RMB730) for such irregular employment (Table 6). Apprentices receive 30 percent less the basic wage and overtime compensation, and 50 percent less incentives and welfare provisions of formal workers. The situation is similar in Samsung-Kejian in Shenzhen where apprentices receive 85 percent (RMB690) of the legal minimum (RMB810). Not entitled to allowances, they receive (RMB690) nearly one-fourth less, before including overtime compensation, than the formal workers (RMB900) (Table 6). In DSDI in Dongguan city, nearly one-fourth of the 4,000 workforce were apprentices who worked for as long as six months on the production line (*Nan Fang*

**Table 6: Comparison of informal and formal workers' pay scales in Samsung's Chinese subsidiaries**

	<b>TSDI TS Mobile Display Co, TSEC, Tianjin Tongguan, TSEM, Tianjin Telecom Co.</b>	<b>Shenzhen Kejian</b>
Employment and Labour contract	3 month apprentice (under legal minimum) - 2 month probation (80% regular wage) - 1 yr regular contract to be renewed every year. No accumulation of seniority.	BW:R690, OT: R6-8/hr
Wage - Apprentice/probation	1st two-month apprentice: Basic wage R420 + Incentive R210 = R630 3rd month apprentice: Basic wage R420 + Incentive R210 + Welfare R100 = R730.	<i>Minimum wage: R810 OT: 150%, 200%, 300%</i>
Wage - Regular workers	<i>Legal minimum wage: RMB 590 in TJ. OT: 150% legal minimum for OT on weekday, 200% on weekend and 300% on statutory holiday</i>	<i>Legal minimum: R810 OT same as left</i>
	Basic wage Rmb530 + Incentives Rmb420 + Welfare Rmb200 = Rmb1,150 + OT (1)*Average wage in Low season: Rmb1,000/1,100 Average wage in Peak season: Rmb1,600/1,800	BW: Rmb750 + Full Attendance bonus Rmb100 + travel allowance Rmb150 = Rmb900 + OTL: R1,300P: R1,600

Source: LAC Interviews

### Box 1: Suzhou Engma Recruitment Ad

#### **Suzhou Engma Human Resources Consultation Co., Ltd**

Suzhou Engma is a human resources company approved by the Suzhou city Molss for labour dispatch. We are the most developed human resources company in Suzhou, entrusted by companies in Suzhou and Kunshan such as Acer Computers, Compal Electronics, and Foxconn, to train skilled labour.

Requirements as follows:

Male and female between 16 and 25

Male above 1.62 meters, Female above 1.5 meters

Healthy. Progressive thoughts. Diligent. Capacity for undertaking hardship

#### **Remuneration:**

5 days work per week; 8 hours per day. 30-90 day probation

Aggregate monthly pay Rmb800-1,200

Adjusted aggregate monthly pay subject to the enterprise to Rmb1,000-1,500 after probation

Well-performing employees entitled to housing and household registration

Enterprise provides old age, work injury, and medical insurance

All client enterprises strictly comply with labour law

**Box 2: Recruitment Ad of a Vocational Training School  
in Hubei Province**

**Golden Sun Computer Training School**

To create wealth to poverty stricken families, to achieve 'One person receives training, whole family relieved of poverty', Golden Sun Computer Training School is recruiting students from poverty stricken families in Linqing city area. Students who are from poor families, have good conduct and good academic results, and possess certificates issued by the village committee of the place of origin, can apply and sign agreement with the school: part of the school fee will be paid by the student, the rest to be deducted from the monthly wage after graduation and job placement.

Monthly quota for application: 20.

List of placement enterprises:

Suzhou Epson: free placement, overtime meal and accommodation, aggregate monthly income around Rmb1,000

Suzhou Acer: free placement, overtime meal and accommodation, aggregate monthly income above Rmb1,000

Kunshan Compal Electronics: free placement, overwork meal and accommodation, aggregate monthly income between Rmb1,100-1,500

Kunshan Foxconn: free placement, overwork meal and accommodation, aggregate monthly income between Rmb1,200-1,600.

*Daily*, 19 April 2006). It is therefore a systematic practice of Samsung to flexibilise labour as much as possible in China through short-term contractualisation and informalisation of employment to achieve low cost.

Labour flexibilisation is a corporate means to undermine the Chinese Labour Law and overcome government pressure on wage increases and social security provisions<sup>20</sup>. However, this second wave of informalisation of labour that is as systematic in the FIEs lately as it was in SOE lay-offs is due as much to state mobilisation as it is driven by the need of capital. Informalisation and flexibilisation of labour has become part of the state strategy to accomplish enterprise reform and achieve the employment policy. Today more than 18 provinces have promulgated local regulations on the supervision and operation of labour dispatch. Unlike coastal provinces, which are better positioned to attract FDI to develop export oriented industries and attain high GDP growth, inland provinces export labour to the rich provinces. Anhui and Hebei provinces for instance advocate themselves as labour export bases and dispatched 100,000 and 170,000 workers in 2004 (Anhui Province Labour Export Service Centre web site; China Labour Market Information Monitoring Centre 2004). By 2006, the country had registered more than 2,000 labour dispatch companies, many of them directly opened or administered by local governments and the MOLSS. It is ironic and indeed serves even more the interests of capital as

labour flexibilisation is not only institutionalised but also sponsored by the Chinese government at various levels due to structural economic inequality and pressure of (un)employment.

### ***Samsung's mitigated HRM practices in China***

A main driving factor of Samsung's move to China is labour cost. However it is of critical importance to recognise that China's cost advantage lies not in direct remuneration relating to legal labour standard but fundamental state-capital-labour relations in China. The legal minimum wage in China is not the lowest in Asia and yet labour productivity, which is inversely related to indirect labour cost particularly the militancy of labour organising, is certainly high compared with other developing countries. Still different capitals have their own strategy to mediate macro social relations with shop floor practices. In the case of Samsung, HRM strategies were introduced in Korea as a major union-busting tool in the historical context of the politicised labour movement and political instability in the 1990s. It is constructed around the identity of *The Samsung People* which has a collective aspect built upon the ideology of the corporate family backed by an above-market remuneration system which generates a high degree of internalisation and identification with corporate interests, corporate values, and corporate economic success on the part of Samsung workers. Such construction of a collective identity however is at the same time also highly individualised based on a personal appraisal system and a differentiated pay and incentive scale that includes the delivery of wages, bonuses, allowances, welfare benefits, and company shares. These HRM practices were implemented hand in hand with the generalised practice of labour irregularisation after the financial crisis in 1997 in Korea to increase corporate competitiveness in the global market and to disintegrate the basis of worker organising at the workplace. The Samsung philosophy and HRM practices are also copied in China but in a mediated, if not reduced version, particularly in providing material benefits to Chinese employees. To a large extent, the absence of the need to pacify a militant labour and bust independent trade unions in China rationalises the differences in practice. Samsung therefore needs only to follow and preserve existing labour relation system perpetuated first of all by the non-conflictual trade unionism in China that is weakly monitored by a mass of unorganised and individualised migrant labour.

The 'Samsung Family' philosophy is therefore congenial to the state-enforced non-conflictual labour relation system that the ACFTU supports. The family philosophy is propagated both through the construction of a paternal image of Korean management for Chinese migrant workers (*Economic Watch Daily*, 14 May 2005), as well as institutionalised means like the formation of the factory-based 'Family Affairs Consultation Committee'. Such committees are usually run by the Chinese partner to dissipate labour issues as personal and psychological problems. A similar counterpart is common in Taiwanese invested enterprises in China, usually known as Workers' Psychological Consultation Office or Workers' Living Consultation Office. Both types of factory institutions are management tools used to by-pass the legitimate role of the trade union or worker representatives if they are

present, and to depoliticise and perpetuate individualised rights of labour at the workplace. Their irrelevance on critical issues is clear to production line migrant workers, nor is the interpellation of the family philosophy successful vis-a-vis the weak material reward they receive (LAC interviews with workers from TSDI, TSEC, Tianjin Tongguan, Tianjin Telecom Co May 2006). Dissatisfied though they are, the equally corporatist nature and behaviour of the ACFTU and local state institutions are structural factors underpinning the highly unequal labour relations at the workplace thus leaving workers with few choices other than voting with their feet or breaking out into sporadic, unorganised wildcat actions.

While atomised labour relations minimise the risks of collective worker actions, they also have negative impacts, the most typical being high labour turnover. High turnover is easily aggravated by unsatisfactory working conditions for the Chinese migrant workers who are not entitled to the same rights and benefits as local residents at the place of work. Indeed Samsung is not offering market-leading remuneration and benefits to Chinese workers simply because of an absence of reciprocal social relations particularly to the state as in the mother country thus giving no foundation for the *chaebol* to out-perform itself against other capital or with Chinese labour. The aggregate wage level at the Samsung subsidiaries is just above the market price around RMB1,600 (US\$203) in the peak season and between RMB700-1,000 (US\$89 - 127) in the low season (Table 7). The cost strategy of Samsungs' subsidiaries works through a remuneration structure, which is typical also in the manufacturing sector in China that depresses regular work reward to stimulate higher labour value in off-regular time. Therefore a large proportion of income is earned from overtime work and related allowances based on a below-the-legal basic wage with the exception of Shenzhen SDI (Table 7). About 50 percent of the workers' income in HSEC comes from shift allowance, full-attendance bonus, incentives and compensation for overtime work of 70-80 hours a month<sup>21</sup> (LAC interview with workers from HSEC (a) 15 April 2006). Similar remuneration structures exist in other subsidiaries. Eight hours of regular work only provides workers in the Tianjin subsidiaries with about one-third (i.e. basic wage of RMB530/US\$67) of their total monthly income (average RMB1600-1800/ US\$203-229), while the other two-thirds comes from performance related incentives (RMB420/ US\$53), overtime compensation, and welfare subsidies (LAC interviews with workers from TSDI, TSEC, Tianjin Tongguan, Tianjin Telecom Co May 2006). Furthermore the one-year contract system excludes seniority in pay scales. The turnover rate therefore is most severe in HSEC where workers receive the lowest income in the peak season compared with other subsidiaries within the Samsung family (LAC interview with HSEC workers (a) 15 April 2006).

In order to maintain the meagre wage structure while not sacrificing production quality, remuneration is tied to the performance-based appraisal system, which in the case of HSEC, consists of quarterly, half-yearly, and annual reviews conducted by supervisors to assess productivity and discipline of workers (LAC interview with HSEC workers (a) 15 April 2006). Workers are graded (e.g. A, B+, B, B- etc.) and awarded accordingly with extra income equivalent to one month, half-a-month or

double basic wages (Table 7). Compared to the Korean counterparts, the limited incentive system for Chinese production line workers serves not so much to buy over their loyalty but rather to manage labour productivity by creating wage differentiation. In practical terms, the absence of job security, the low reward system, and the restricted prospect for real job promotion provide no basis for cultivating a strong Samsung identity amongst production line workers in China, who in general do not view Samsung as a particularly good employer or have any strong sense of belonging to the company. Some of them even feel that they are no different from informal workers and are ready to quit if there are job opportunities (LAC field interviews 2006). This overall individualised passive resistance and the absence of working class consciousness amongst the Chinese migrant workforce sustains and justifies the differential HRM practices between Samsung China and Samsung Korea. The passive resistance of Chinese workers in the form of high labour turnover cost can be socialised with the intervention of the Chinese state in the labour supply market, whereas institutionalised independent trade union movement and the militant labour actions at the Korean subsidiaries directly challenge the authority of the *chaebol*.

***The myth of low labour cost - the accomplishment of general not individual capitals***

The general state, capital, and labour relations support high productivity and relative low cost in China rather than the isolated practices of individual capitals. Nevertheless there are identifiable differences in labour conditions between the Samsung subsidiaries and the sub-contractors where traits of primitive capitalist exploitation are more explicit. Such differences however are a matter of degree rather than nature. While aggregate wages and below minimum basic remuneration tactics are the same in DSDI and a SMT supplier of Samsung in the same city of Dongguan, the supplier achieves profit accumulation mainly through long labour hours (240 overtime hours per month) and greater degree of wage depression (the supplier pays 78 percent of the legal minimum while DSDI pays a slightly higher 86 percent) (Table 8). Such differences between more competitive Korean capitals such as Samsung and the lesser ones is remarkable also in Tianjin. The local MOLSS found that sub-contracting Korean companies were operating lower profit margins compared to the OBM companies which the bureau found to be related to sub-contracting companies' proneness to labour disputes, strikes, relocation, and high vulnerability to cost rise. These companies had problems of wages (around RMB500-550/US\$63-67 a month), low or even no social benefits provision, and therefore more tense labour relations and abusive management practices (Tianjin government 2004). One must not forget however that it was the *chaebols'* success in negotiating state relations in the 1960s in Korea that allowed Samsung to have earlier-accomplished capital accumulation and thus the basis to contain and not only confront labour compared to the others. Nevertheless, the cost factor of Samsung China lies not in low direct labour cost (at Samsung subsidiaries) but accessibility to the component supply chain in China as confessed by the Korean management ('The Agile Giant: the Vertically Integrated Manufacturing Empire of Samsung': [http://www.esmchina.com/ART\\_8800069476\\_617](http://www.esmchina.com/ART_8800069476_617)

Table 7A: Working conditions of Samsung's electronics subsidiaries in China

	TSDI TS Mobile Display Co	TSEC	Tianjin Tongguan/Tianjin Display Monitor	TSEM	Tianjin Telecom Co	Suzhou SDI	Shenzhen SDI	Shenzhen Kejian	DSDI	HSEC	
Location	Tianjin city	Tianjin city	Tianjin city	Tianjin city	Tianjin city	Suzhou city, Guangdong province	Shenzhen, Guangdong province	Shenzhen, Jiangsu province	Dongguan, Guangdong province	Huizhou, Guangdong province	
Production	Display for cell phones	Parts for DVD, VCD, VDC	CRT, CPT, PDP, LCD TV & screens	Electronics components	Mobile phones		CRT, CPT	Mobile phones	Electronic guns, battery, display	Audio system	
Workforce size	1,200	1,100	1,200	1,500	4,500		2,000	1,000, 90% women	4,000, 90% women	2,000, 75% women	
Origin of workers	Tianjin locals + migrant workers	migrant workers from other provinces					Migrant workers	Migrant workers	Migrant workers	Migrant workers	Migrant workers
Recruitment	Vocational schools all over China					Vocational schools	Vocational schools, Rmb800 placement fee/student	Vocational schools and labour agents (R1,000/placement)	Vocational schools Rmb700 placement fee/student	Vocational schools Rmb800 placement fee/student	
Employment and Labour contract	3 month apprenticeship (under legal minimum) --- 2 month probation (80% regular wage) --- 1 yr regular contract to be renewed every year. No accumulation of seniority.					3 month probation. 1 yr contract renew/yr	3 month probation. 1 yr contract renew/year	3 month probation. 1 yr contract renew/year	3 month probation. 1 yr contract renew/year	3 month probation. 1 yr contract renew/year	
Wage - Apprenticeship/probation	1st two-month apprentice: Basic wage R420 + Incentive R210 = R630 3rd month apprentice: Basic wage R420 + Incentive R210 + Welfare R100 = R730.							BW: R690, OT: R6-8/hr			

**Table 7B: Working conditions of Samsung's electronics subsidiaries in China**

	TSDI TS Mobile Display Co	TSEC	Tianjin Tongguan Tianjin Display Monitor	Tianjin Telecom Co	Suzhou SDI	Shenzhen SDI	Shenzhen Kejian	DSDI	HSEC
Wage - Regular workers		<i>Legal minimum wage: RMB 590 in TJ. OT: 150% legal minimum for OT on weekday, 200% on weekend and 300% on statutory holiday</i>			Minimum wage: R700 OT: 150%, 200%, 300%	Minimum wage: R810 OT: 150%, 200%, 300%	Minimum wage: R810 OT: 150%, 200%, 300%	Minimum wage: R690 OT: 150%, 200%, 300%	Minimum wage: R600 OT: 150%, 200%, 300%
		Basic wage R530 + Incentives R420 + Welfare R200 = R1150 + OT (1)*Average wage in Low season: R1,000/1,100 Average wage in Peak season: R1,600/1,800			R800 - 1,800	300% BW: R810 + Heat Stress Allowance R100 in summer = R810 or 910 + OT. L: R1,000 P: R1,500	BW: R750 + Full attendance bonus R100 + travel allowance R150 = R900 + OT L: R1,300 P: R1,600	BW: R600 + Full Attendance bonus R50 = R650 + OT OT + R5/d night shift allowance L: R1,300 P: >R1,000 (2)*	BW: R650 + Night shift bonus R40 = R690 + OT + incentive based on monthly, bi-yr & yr appraisal
Working hours and leave		Legal requirement: 8 hours/day, 40 hours/ week. Overtime work less than 3 hours/ day and less than 36 hours/month 26 working days/ month, at least one day off/ week Annual leave on statutory holidays of 10 days a year							
		3 eight-hr shifts everyday OT less than 2/week day, OT in weekend in peak time 5 working days/week or 2 day off/week in low season 1 day off/week in low season Annual leave, maternity leave				3 shifts 8hrs/day.5 days/week.2 day off/wk in low time. 1 day off/wk in peak time	3 shifts 8hrs/day. Same	2 shifts 10.5hr/day L: 2 day off/week P: 1 day off/month	10 hr/day L: 40-50 OT/month, 2 day off/wk P: 70-80 OT/month, 1 day off/wk

Table 7C: Working conditions of Samsung's electronics subsidiaries in China

	TSDI TS Mobile Display Co	TSEEC	Tianjin Tongguan Tianjin Display Monitor	TSEM	Tianjin Telecom Co	Suzhou SDI	Shenzhen SDI	Shenzhen Kejian	DSDI	HSEC
Living conditions	Dormitory provided for migrant workers only (R80/month), 6-8persons/room. Locals and some migrant workers rent places to stay nearby. Food at canteen						Dormitory 4/room. Food provision. Deduct living fee R200/m	Dormitory 6/room, well-equipped food provision. Deduct 200/m	Dormitory 6/room, shared facilities. Food provision. No deduction	Dormitory only for women. R50/m house subsidy given. Food subsidy R50/m.
Social security	<i>Legal requirement: comprehensive insurance scheme includes old age, work injury, medical and maternity, the rate and coverage of which depends on local labour bureau's regulation</i>									
Joint Venture Governance	Old age, work injury insurance									
Management practices	8% wage old age, work injury insurance									
	R60/m old age, work injury insurance									
	R65/m old age, work injury insurance									
	R67/m old age, work injury insurance									
	Korean management in Department Manager above. Chinese management: Chinese JV partner as Company General Manager. Chinese middle management: line supervisors, floor supervisors, managers, department managers. Officeholders above the department manager are taken by Koreans. Chinese JV partner chair trade union, personnel department, handles relations with government, customs etc									
	Factory rules. Morning gathering and simple exercise. Monthly appraisal on productivity & discipline linked with incentives scale.									
	Strict QA, daily production quota, CCTV installed at workplace.									
	Chinese joint venture partner runs personnel affairs dept & 'Family Affairs Committee' handle complaints on living conditions not a bargain unit.									
	Internet cafe, ping-pong, badminton, library in factory complex. Factory organizes outings, sports events, community charity work.									

Table 7D: Working conditions of Samsung's electronics subsidiaries in China

	TSDI TS Mobile Display Co	TSEC	Tianjin Tongguan Tianjin Display Monitor	TSEM	Tianjin Telecom Co	Suzhou SDI	Shenzhen SDI	Shenzhen Kejian	DSDI	HSEC
Labour Management	No TU	TU welfare function only	TU chair is GM of Chinese JV partner co. Welfare function	No TU	No TU		No TU	No TU	No TU	No TU
Worker Identification	Unhappy with wage, Samsung is not paying higher No sense of superiority as Samsung People Quit if there is better factory						No wage increase. Unhappy about change shift every week. High turnover.		Work stress, high production quota, stand working, radiation hazard, eye problems	Low wage based on complex appraisals. Heavy workload, stand working problems

## Notes:

(1)\* OT compensation: Pay according to law Minimum Wage x 150% on weekday OT, 200% over weekend OT, 300% on statutory holiday. Legal minimum wage in 2006 - Tianjin: Rmb590, Suzhou: Rmb700, Shenzhen: Rmb810, Dongguan Rmb690, Huizhou: Rmb600.

(2)\*\* Incentives and appraisal scale in HSDI - (i) Quarterly appraisal incentive: Rmb50. (ii) Bi-annual and annual appraisal incentive scale: Grade A: 200% basic salary; Grade B+ 150% basic salary; B- 50% basic salary.

Source: Consolidated from LAC field interviews 2006

671\_12190e38200607.HTM, 1 July 2006). Behind the realisation of the corporate's competitive edge in improved logistics is maximal appropriation of labour value at the expense of the suppliers' workers. The Samsung Industrial Park in Tianjin, which hosts 26 suppliers in the vicinity and the Samsung Logistics Center in Dongguan running on a 24-hour basis enable the company to achieve just-in-time assembly of products within 24 hours of order placement and zero inventory at the Samsung subsidiaries (Knowledge and Economics 2005). The perpetuation of Samsung China's competitiveness vis-a-vis other capitals therefore depends exactly on the combined absolute labour exploitation of its suppliers in China.

**Table 8: Comparison between a Samsung subsidiary and a Dongguan supplier**  
(Guangdong province)

	Supplier A*	DSDI**
Location	Dongguan	Dongguan
Production	SMT	Components
Workforce	170	4,000
Contract	One year	One year
Working hours in peak month	12 hrs/day No day off 240 OT hrs	10 hrs/day One day off Estimated 80 OT hrs
Wages	BW: Rmb450 (Legal minimum Rmb574 a) + OT: R2.74 (Legal: Rmb3.4 b) x 240hrs + Full attendance bonus: Rmb90 + Living allowance: Rmb90 + Work allowance: Rmb65 = Rmb1,353	BW: Rmb600 (Legal minimum Rmb690 a) + OT pay + extra night subsidy: Rmb5/night + Full attendance bonus: Rmb50 = Rmb1,300+

## CONCLUSION

Before the late 1990s, China's state-led economic reforms had been successful in making use of FDI to accomplish the transformation of domestic capital and labour relations. While FDI benefited mainly from using China as a cheap processing base, the incomplete embeddedness of the Chinese economy in the global capitalist system still allowed the Chinese state the space to protect domestic capital from direct competition with the former. In a similar but different stroke, intensified competition within domestic capital and with labour plunged China as well as its Asian neighbours into financial crisis in the latter half of 1990s which in turn forced Asian states and capital towards greater liberalisation - the epitome of that for China was accession to the WTO. Full incorporation of China into the global capitalist market changed the strategy of FDI in China and that has aggravated contradictions between foreign and domestic capital and with Chinese labour. Samsung has been successful in taking advantage of these structural changes so far. However intensified competition is pressuring transnational capital to use technological lead time and shortened product cycle over the lesser capital to acquire greater share in the new markets and further support higher capital input for continuous R&D in turn to maintain its competitiveness. Therefore as Sony,

Samsung, Sharp, and LG-Philips are competing to manufacture the seventh, eighth, and even ninth generation panels in the home country (Gu 2006), the lag enables them to keep the Chinese competitors which never even possessed the technology of the fifth generation panel vulnerable to price depression initiated this time by foreign capital (*Nan Fang Weekly*, 26 January 2006). Samsung's technological edge ahead of its competitors can only be sustained through greater cost effectiveness and logistics integration within the production chain in China meaning a greater contradiction with the interests of labour both directly at the subsidiary and indirectly with its suppliers. However as long as the Chinese government is directly intervening in the labour market through the deregularising employment policy and suppression of independent organising, Chinese labour cannot rely on isolated labour struggles or the collective effect of passive resistance for the benefits of their interests in the labour market.

Indeed liberalisation in the Chinese labour market has led to massive lay-offs in the SOEs and quick proletarianisation of the rural workforce, which has replaced the socialist labour relations system with one that is highly uneven in terms of bargaining power. The mediation of these contradictions between state, capital, and labour against escalating challenges of market liberalisation have taken place in other countries leading to a crisis of the labour and trade union movement some of which saw the birth of new forms of anti-globalisation and anti-neo-liberalism movements within and across national boundaries. Until Chinese labour can demonstrate a more holistic articulation of its negation of the social contradictions at home rather than fragmented, sporadic reactions, the state and capital are the stronger players to fetishise or take advantage at the expense of labour. The Chinese version of that however remains to be seen.

#### REFERENCES

- 21st Century Business Herald 9 May 2005, 'Sample from Tianjin: Survey on the Contribution of Foreign Capital', <http://finance.sina.com.cn/g/20050410/19491503730.shtml> (In Chinese).
- Asian Development Bank 2001, 'Asian Development Outlook 2001 - China', [http://www.adb.org/documents/books/ado/2001/Update/prc\\_update.asp](http://www.adb.org/documents/books/ado/2001/Update/prc_update.asp)
- Asian Development Bank 2003, 'Asian Development Outlook 2003 - China', [http://www.adb.org/documents/books/ado/2003/Update/prc\\_update.asp](http://www.adb.org/documents/books/ado/2003/Update/prc_update.asp)
- Bartlett, Duncan 2005, 'Nokia's battle to stay world's number one', <http://news.bbc.co.uk/2/hi/business/4257999.stm>
- Beijing Business Week Online 4 March 2002, 'How Samsung Plugged into China', <http://www.bdachina.com/content/zh/about/pressquotes/50>
- Business News 12 February 2003.
- Cai, Lin Ping 2002, 'One Project, One Beginning', *China Development Brief*, <http://www.chinadevelopmentbrief.org.cn/wzdd/wzdd.jsp?id=19> (in Chinese).
- Chan, John 2005, 'Foreign Capital Pours into China's Banks', <http://www.countercurrents.org/economy-chan081005.htm>
- Chang, Dae-oup 2002, 'Korean Labour Relations in Transition: Authoritarian Flexibility?', *Labour, Capital and Society*, Vol. 35, No. 1, pp. 10-40.

Chang, Dae-oup and Jun-Ho Chae 2004, 'The Transformation of Korean Labour Relations since 1997', *the Journal of Contemporary Asia*, Vol. 34, No. 4, pp. 427-48.

China Business News and Observer 14 June 2006, 'Samsung Aims to Sell \$31 Billion in China in 2006', [http://www.cbnando.com/industry/electronics/2006/06/14/samsung\\_aims\\_to\\_sell\\_31\\_billion\\_in\\_china\\_in\\_2006.html](http://www.cbnando.com/industry/electronics/2006/06/14/samsung_aims_to_sell_31_billion_in_china_in_2006.html)

China Daily 24 April 2006, 'Samsung Aims to Buy More in China', [http://english.china.com/zh\\_cn/business/news/11021613/20060424/13270029.html](http://english.china.com/zh_cn/business/news/11021613/20060424/13270029.html)

China Economic Weekly 22 May 2006 (in Chinese).

China Internet Weekly 4 August 2004, 'License Economics: Existence Justified', <http://www.civweekly.com/article/2004/0804/A20040804330732.shtml> (in Chinese).

China Labour Market Information Monitoring Center 2004, 'Hengshui City of Hebei Province and MOLSS Strongly Promotes Labour Export', [http://www.lm.gov.cn/gb/employment/2004-10/26/content\\_51123.htm](http://www.lm.gov.cn/gb/employment/2004-10/26/content_51123.htm) (in Chinese).

China Youth News 28 October 2000, 'Calculating Gain and Loss of the Colour TV Price War, RMB14.7 billion Loss of State-Owned Assets', <http://finance.sina.com.cn/2000-10-28/19288.html> (in Chinese).

Chinese Chosun Daily Online 7 October 2003, 'The Rise of China No.6: Trade Union in the Forefront of Productivity', [http://chn.chosun.com/site/data/html\\_dir/2003/10/07/20031007000012.html](http://chn.chosun.com/site/data/html_dir/2003/10/07/20031007000012.html) (in Chinese).

Chinese Embassy in the US 2005, 'Chief of Labour Bureau: The Peak of SOE Lay-Off has Passed', <http://www.china-embassy.org/chn/gyzg/t190731.htm> (in Chinese).

Economic Watch Daily 14 May 2005, 'Park from Samsung China: Building a Second Samsung in China', <http://news.chinabyte.com/62/2005062.shtml> (in Chinese).

Finance and Economic Daily 16 February 2003.

Financial Times 14 April 2006, 'Samsung Q1 profits drop 25% on won strength', <http://www.ft.com/cms/s/bb5a9c4e-cb66-11da-9015-0000779e2340.html>

Gu, Z.Y. 2006, 'The 8th Generation LCD of Sharp on the Market, Samsung, Sony, LG-Philips Follows', <http://www.istis.sh.cn/list/list.asp?id=2794> (in Chinese).

Hart-Landsberg, Martin and Paul Burkett 2004, 'China and Socialism - Market Reforms and Class Struggle', *Monthly Review*, Vol. 56, No. 3.

He, Si Man 2006 'The Agile Giant: the Vertically Integrated Manufacturing Empire of Samsung', [http://www.esmchina.com/ART\\_8800069476\\_617671\\_12190e38200607.HTM](http://www.esmchina.com/ART_8800069476_617671_12190e38200607.HTM) (in Chinese).

Hubei Daily 23 June 2005, 'De-coding the New Model of Labour Transfer Training', <http://www.cnhubei.com/200503/ca793096.htm> (in Chinese).

Hubei Information Center 2006, 'On Several Models of Rural Poverty Labour Transfer in Hubei Province', [http://www.nmpx.gov.cn/jingyanjiaoliu/t20060217\\_41523.htm](http://www.nmpx.gov.cn/jingyanjiaoliu/t20060217_41523.htm) (in Chinese).

Kim, R.San 1996, 'The Korean System of Innovation and the Semiconductor Industry: A Governance Perspective', [www.oecd.org/dataoecd/34/59/2098646.pdf](http://www.oecd.org/dataoecd/34/59/2098646.pdf)

Kim, Youngsoo 1997, 'Technological Capabilities and Samsung Electronics', *Working Paper 106*, presented in Berkeley Roundtable on International Economy, United States, 1997.

Knowledge and Economics 2005, 'Samsung Supply Chain: Rise and Strength', <http://info.ceo.hc360.com/2005/04/08081310647.shtml> (in Chinese).

Li, Y.P 2006, 'The Storm of Labour Sub-Contracting', <http://www.cccv.cn/corpus/detail/2006/6/20690.asp> (in Chinese).

Li, Ying 2004, 'Review on the 20-Year History of the Electronics Appliance Sector', original from CCIDNet, <http://www.ittop100.gov.cn/200412/147163.shtml> (in Chinese).

Lu, Xin Hui 2002, 'Glorious History of the 20-Year History of the Reform in the Electronics

Industry', <http://www.cnii.com.cn/20021111/ca103217.htm> (in Chinese).

Luo, H.Q 2005, 'Understanding the Mystery of the Price War of the Colour TVs in China', <http://www.glr163.com/> (in Chinese).

Ministry of Commerce of PRC 2000, '1999 Implementing the Strategy of Scientific Development and Changes in China towards a Trade Superpower', <http://www.mofcom.gov.cn/aarticle/bg/200207/20020700032466.html> (in Chinese).

Ministry of Commerce of PRC 2000, 'Import-Export of the High-Tech Products Broke USD400 billion in 2005', <http://www.china.org.cn/chinese/EC-c/1088146.htm> (in Chinese).

Ministry of Commerce of PRC 2005, 'Bureau of Foreign Currency Inaugurates Regulations for Enterprises to Step Out', <http://fec.mofcom.gov.cn/aarticle/xiangmht/ar/200505/20050500368130.html> (in Chinese).

Ministry of Commerce of PRC 2006, *Research on the Economic Development of China 2006* (in Chinese).

Ministry of Information Industry of PRC 1999, 'Chinese Information Industry Annual Report 1999', <http://www.cnii.com.cn/20020808/ca87204.htm> (in Chinese).

Ministry of Information Industry of PRC 2004, 'Opinion on Speeding Up the LSC Strategy of the Information Companies', [http://www.mii.gov.cn/art/2005/12/17/art\\_66\\_1778.html](http://www.mii.gov.cn/art/2005/12/17/art_66_1778.html) (in Chinese).

Ministry of Labour and Social Security of PRC 2004, *White Paper on Employment Situation in China, Beijing: PRC* (in Chinese).

Nan Fang Daily 19 April 2006, '1/4 of the Workforce in Foreign Invested Company are Teenage Apprentice' (in Chinese).

Nan Fang Weekly 26 January 2006, 'Foreign Capital Instigating New Price War, Local TV Companies No Longer Prosperous' (in Chinese).

National Bureau of Statistics of PRC 2003, 'Three Types of Joint and Foreign Ventures Becomes the Main Drive in the High-Tech Industry', <http://www.cas.ac.cn/html/Dir/2003/08/29/0143.htm> (in Chinese).

People's Daily 27 July 2005 (in Chinese).

People's Daily Online 16 May 2005, 'Sony sets up R&D base in China', [http://english.people.com.cn/200505/16/eng20050516\\_185269.html](http://english.people.com.cn/200505/16/eng20050516_185269.html)

People's Daily Online 18 August 2003, 'Sony Sets China as its Second Largest Market by 2008', [http://english.people.com.cn/200308/18/eng20030818\\_122509.shtml](http://english.people.com.cn/200308/18/eng20030818_122509.shtml)

Shusong, BA 2004, 'The state-owned bank reform in China: policies and trends', a paper presented at *International Financial Corporation meeting in Minsk, Republic of Belarus, May 2004*.

Taylor, Bill, Chang Kai and Li Qi 2003, *Industrial Relations in China*, London: Edward Elgar

Suzhou Daily 18 February 2006 (In Chinese).

The Research Group of the Department of Training and Employment of the Ministry of Labour and Social Security PRC 2002, 'Skills Training in the Informal Sector in China', *The InFocus Program on Skills Knowledge and Employability*, ILO.

Tianjin City National Bureau of Statistics 2005, 'Statistics of the GDP and Social Development of Tianjin City 2005', [http://www.cpirc.org.cn/tjsj/tjsj\\_cd\\_detail.asp?id=6657](http://www.cpirc.org.cn/tjsj/tjsj_cd_detail.asp?id=6657) (in Chinese).

Tianjin Daily, 7 February 2006, 'Four Categories of People in Tianjin Can Apply for Re-Employment Benefits Card', [http://www.cbnando.com/industry/electronics/2006/06/14/samsung\\_aims\\_to\\_sell\\_31\\_billion\\_in\\_china\\_in\\_2006.html](http://www.cbnando.com/industry/electronics/2006/06/14/samsung_aims_to_sell_31_billion_in_china_in_2006.html) (in Chinese).

Tianjin Foreign Affairs Office, Asia Desk 2004, 'Overview on the Development, Problems and Solutions of Korean Invested Enterprises in Tianjin', <http://www.tjfao.gov.cn/tianjinwai/ban/20040924/455.html> (in Chinese).

- Tianjin Government 2004, 'Situation, Problems and Solutions to Three Types of Foreign Invested Enterprises in Tianjin', <http://202.192.172.14:2003/gqgl/2004513113322.htm> (in Chinese).
- Tianjin Statistics Information Net 2004, 'Development Situation, Problems and Recommendations on the Three Types of Foreign Invested Enterprises in Tianjin City', <http://202.192.172.14:2003/gqgl/2004513113322.htm> (in Chinese).
- Ure, John 2002, 'China's Telecommunication and IT: Planning and the WTO', *Working Paper, Telecommunications Research Project*, University of Hong Kong.
- Workers' Daily 8 December 2005 (In Chinese).
- WTO 2006, 'Information Technology Agreement', [http://www.wto.org/English/tratop\\_e/inftec\\_e/inftec\\_e.htm](http://www.wto.org/English/tratop_e/inftec_e/inftec_e.htm) (in Chinese).
- Xia, Lin 1998, 'Re-employment Project and the Success and Failure of the SOE Reform', <http://www.gmw.cn/01gmr/1998-02/16/GB/17605%5EGM1-1609.htm> (in Chinese).
- Yao, Gan 2002, 'New Typology of the Electronics and Semi-Conductor Industry in China', <http://www.ednchina.com/ec/Ectxt/ec020702.htm> (in Chinese).
- Zhao, WH 2002, 'Constructing the New Fight Engine of the IT Industry', [http://www.stdaily.com/gb/innovation/2002-09/26/content\\_18462.htm](http://www.stdaily.com/gb/innovation/2002-09/26/content_18462.htm) (in Chinese).
- Zhou, Dayong 2003, 'The SOE reform in China', Europa-University, Viadrina, Germany, [http://www.law-lib.com/lw/lw\\_view.asp?no=2165](http://www.law-lib.com/lw/lw_view.asp?no=2165)
- Zhou, Xin Zun 2006, 'Survey into the Company Governance Model of TJSID', [http://www.dongshihui.net/Article\\_Print.asp?ArticleID=836](http://www.dongshihui.net/Article_Print.asp?ArticleID=836)
- Zhou, Yu Chuan 2006, 'Development Profile, Strategies and Choices of the Electronics Components Manufacturing Industry in China', <http://www.sts.org.cn/fxyj/zcfx/documents/20060314.htm> (in Chinese).
- Zhu, Chang and Zhou 2005, 'Harmonious Tianjin: Sunshine for Everyone', [http://news.xinhuanet.com/newscenter/2005-03/15/content\\_2701277.htm](http://news.xinhuanet.com/newscenter/2005-03/15/content_2701277.htm) (in Chinese).

#### WEB SITE REFERENCES

- Anhui Province Labour Export Service Center, <http://www.hao71.com/company/workout.html>
- Engma China Web Site, <http://www.engma.net/html/>
- Samsung China, <http://www.samsung.com.cn>
- Singapore Industrial Park, [http://www.sipac.gov.cn/tzhjt20031212\\_1251.htm](http://www.sipac.gov.cn/tzhjt20031212_1251.htm)
- Tianjin Binhai Government, [http://www.bh.gov.cn/zsy/2005-01/11/content\\_3546935.htm](http://www.bh.gov.cn/zsy/2005-01/11/content_3546935.htm)

#### INTERVIEWS

- Interview with DSDI workers, 31 May 2006.
- Interview with HSEC workers (a), 15 April 2006.
- Interview with HSEC workers (b), 23 June 2006.
- Interview with Shenzhen Kejian workers, 11 June 2006.
- Interview with Shenzhen SDI workers, 4 June 2006.
- Interview with Tianjin Tongguan/Tianjin Display Monitor workers, May 2006.
- Interview with Tianjin Telecom Company workers, May 2006.
- Interview with TSDI workers, May 2006.
- Interview with TSEC workers, May 2006.
- Interview with TSEM workers, May 2006.

## NOTES

1 Without necessarily transiting to private ownership.

2 Under the administrative order named Promotion of the Large Scale Company Strategy in the Information Technology Industry, the six companies selected were Shanghai Broadcast Company, Changhong Company, Caihong Company, Panda TV, Legend Computers, and Hualu VCR Company. Four of them were TV manufacturers; two were computer and VCR manufacturing companies.

3 AMCs bought bad loans from SOEs and sold them at a discount or simply converted them into stock in the bankrupt companies without necessarily being able to recycle these debts into profits in the market. The debt swap and write-offs were shifted to the People's Bank of China (Hart-Landsberg and Burkett, 2004: 57).

4 The inequality of economies between coastal urban areas and inland provinces sharpened class inequality symbolised in the high Gini coefficient of 4.1 is also part of the reason for the need to develop the international market for Chinese investment.

5 These are the Provisional Approval Management Methods of Open Telecommunication Operations Affairs (1993) and the Provisional Market Management Requirements for Open Telecommunication Service Markets (1995) both of which aimed at reconsolidating the telecommunications market to benefit large domestic enterprises.

6 The WTO Basic Agreement on Telecommunications details six areas of compliance: competitive safeguards against predatory and discriminatory pricing by incumbent operators; availability of cost-based interconnection; the burden of universal service requirements to be reasonable; public availability of licensing criteria; a regulator independent of the industry who offers national treatment to new entrants; and transparency in the assignment of scarce resources such as radio spectrum (Ure, p7).

7 On average the Chinese tariff on ICT imports is 6.4 percent (US Department of Commerce, 2001)

8 The most remarkable example of which was Lenovo's acquisition of the PC business of IBM with US\$12.5 billion in 2004.

9 Samsung's sales revenue is much higher than Sony's which was reported as US\$3 billion in 2004 (People's Daily Online, 16 May 2005).

10 Other investment policies include two-year tax exemption and three-year tax reduction by half etc, investment policies that are also common in other cities.

11 Samsung further planned to pull up the local sourcing rate to 65 percent or US\$18.5 billion as well as 80 percent marketing rate of its Chinese production in 2006 ([http://english.china.com/zh\\_cn/business/news/11021613/20060424/13270029.html](http://english.china.com/zh_cn/business/news/11021613/20060424/13270029.html)).

12 In 2003 alone, the MOLSS estimated that 98 million migrant workers moved from rural to urban areas, which is more than six times the 15 million reported in 1990 (MOLSS, 2004).

13 For political reasons, the Chinese government distinguishes foreign funding as FDI from countries other than Hong Kong, Macao, and Taiwan whereas other sources of funding includes all sorts of funding from mainland, Hong Kong, Macao, and Taiwan.

14 The Chinese government distinguishes the FIEs into Hong Kong, Macau and Taiwan FIEs and FIEs invested from other countries.

15 On a visit to Tianjin in 1998 former Premier Zhu Rongzhi said that unemployment (in Tianjin) was not caused by economic reform but the fundamental economic structure ie duplication of investment, over-reliance on state bank loans, low economic productivity and employee redundancy (People's Daily, 16 February 1998).

16 The TEDA Trust Investment Company was a semi-public mixed-shareholding company. It went public on the Shenzhen Stock market in 1987.

17 These were approved in a number of state regulations such as Regulation on Administering Compensated Lease and Transfer of the Use of Land in TEDA (People's Government of Tianjin, 1988) and Opinions of the State Council on Related Problems Regarding Further Developing TEDA (State Council, 2006). Deregulation on the use of labour was approved by the central state under the PRC Collective Owned Industrial Enterprise Law (State Council, 1988).

18 The Tianjin government is promoting the Benefits for Re-employment Scheme in 2006 under which unemployed workers and those living below the minimum subsistence level are issued a Re-employment Benefits Certificate. The holder of the certificate may apply for a maximum of RMB50,000 credit loan for three years to start self-employed businesses. Enterprises employing more than 30 percent of workforce who are certificate holders can be granted a maximum of RMB1 million loans. Other than that, enterprises are entitled to social security subsidies and three-year tax holiday for employing certificate holders (Tianjin Daily, 7 February 2006).

19 In terms of labour standards, the Chinese Labour Law is in no way deficient amongst developing countries. The minimum wage varies in different provinces and cities; the highest is RMB810 in Shenzhen (2006). Working time is controlled at 40 hours per week, 26 days per month. Overtime work should not exceed three hours per day and 36 hours per month. Companies are required to pay as high as 13 percent of workers' wages for comprehensive social security including work injury, old age, unemployment, medical, and maternity insurance. The law also entitles workers to paid annual leave and maternity leave. If there is a trade union, the company has to allocate two percent of the aggregate wage to the upper level trade union as union fees.

20 Korean small- and medium-sized enterprises in Tianjin for instance complained that the social security scheme, taxed at 20.7 percent and 17 percent of the enterprise's aggregate remuneration for old age and medical insurance respectively adds to the financial burden of the FIEs (Tianjin Foreign Affairs Office, 2004).

21 The Chinese law labour limits overtime working to not more than 36 hours a month and not more than 3 a day. Regular work is 40 hours per week.



## CHAPTER 3

### LABOUR PRACTICES AND WORKING CONDITIONS IN TNCS: THE CASE OF SAMSUNG IN INDIA

*SOBIN GEORGE*

#### 1. INTRODUCTION

The study on the working conditions and labour practices in Samsung Electronics in India is part of the network research on Transnational Corporation Monitoring in Asia. The Asian Transnational Corporation (ATNC) monitoring network, since 2002, has been operational to build up a regional network through which labour organisations in different Asian countries can pursue concrete solidarity actions to improve working conditions of workers employed in Transnational Corporations (TNC). Against this backdrop, it is aimed to have a closer look at the labour management and forms of employment in the automobile and electronics sectors invested by Asian TNCs in Asia. As part of this endeavour, the Centre for Education and Communication (CEC), New Delhi collaborated with the network research coordinated by Asia Monitor Resource Centre (AMRC), Hong Kong to monitor the labour practices of Asian TNCs invested in India. The network research, in the first phase, focused on the movement of capital and its impact on labour by engaging a desk research on FDI flows and related aspects. In the current phase, emphasis is on specific cases of labour practices and labour conditions in selected ATNCs.

#### 1.1 Methodology

The present study places capital-labour interaction in the context of flexible production from a workers' perspective. The case of Samsung India Electronics is studied in this framework in detail. The study is qualitative in nature and involves both primary and secondary research. Personal interviews and case studies are the methods used for primary research. A sample of 20 workers from regular and contract

workers up to the level of operators were selected using random sampling methods. Information regarding wage structure, working conditions, labour practices, collective activities, and labour disputes are collected using a semi-structured interview schedule. Apart from that, one case study in the form of narration, is included in the text on the specific issue of economic and job insecurity of contract workers.

Information pertaining to the history of the unit, market share, details of investments, and Government policies, etc. are gathered through secondary research, largely by reviewing the relevant available literature. Sources of secondary information include policy documents of the Ministry of Commerce and Industry, Government of India (GOI), Government of Uttar Pradesh, labour laws, annual reports of Samsung India, newspaper reports, published research works, and web sites related to the electronics industry in India.

### **1.2 Organisation of the Study**

The study is organised into two sections. The first section gives an account of the growth of the Indian electronics sector under different policy regimes and subsequent production organisation in general. It also details the foreign direct investment (FDI) in the electronics sector and central and state policies regarding incentives, exemptions, and deregulation of the labour market. The second chapter tries to analyse the impact of production organisation and flexible production on labour conditions, citing the case of labour practices and working conditions in Samsung Electronics.

## **2. INDIAN ELECTRONICS INDUSTRY: CAPITAL INVESTMENT AND CHANGING PRODUCTION ORGANISATION**

The electronics sector in India consists of a wide range of products including consumer electronics, industrial electronics, computers and hardware parts, communication and broadcast equipment, strategic electronics, components, semiconductors, and computer software. The industry has undergone changes in terms of production organisation, market access and labour practices under different policy regimes. The electronics industry in India catered primarily to the domestic market in its early phase of development in the 1960s. The sector was primarily government owned until 1984 and restricted to the development and maintenance of fundamental communication systems including radiobroadcasting, telephonic and telegraphic communications, and augmentation of defence capabilities. Nevertheless the industry, in the post reform period, witnessed an upsurge in private investment and export by the establishment of 100 percent export-oriented units.

### **2.1 Changing Policy Regimes and the Industry**

The growth, structure and development of the electronics industry in India can be categorised into three broad phases with reference to different policy regimes. The first phase was between 1970 and 1980, which was featured by a higher level of state regulation (Chhachhi: 1999). The production was mainly done in small sectors and the supporting policies for small-scale sector by the government had catalysed

the growth of the industry to a larger extent. Foreign collaboration was not allowed in this period and the thrust was more on import substitution and promotion of indigenous research and development.

In 1981, the second phase began with policy measures initiated in the electronics industry based on the Sondhi Committee in 1979<sup>1</sup>, which liberalised the sector (Chhachhi, 1999, p. 10). The Integrated Policy Measures on Electronics, which was announced in 1985, had facilitated the entrance of large private firms in electronics production by liberalising the industry and allowing foreign investment with more than 40 percent equity in high technology areas. As a result a large number of firms entered into the sector during this period in India and production was significantly increased (Table 1). The structure of the industry that was concentrated in the small-scale private sector and some large public sector units had changed thereafter and large industrial houses and foreign-controlled companies came into fray (Joseph: 1989). The industry faced serious upheavals in the early 1990s and recorded negative growth as a result of the general recession in this period due to the early adjustment to macroeconomic stability. Many small-scale units were closed down during this period (Chakraborty, 1993). Growth of electronics and Information Technology (IT) hardware production declined to 8.7 percent during the 1990-1991 annual plan from 34 percent during 1985-1990 (Table 1).

**Table 1. Growth trends in electronics and IT hardware production in India, 1980-2000-01**

Period	Growth (%)
1980-81 to 1984-85 (Sixth Plan)	25.0
1985-86 to 1989-90 (Seventh Plan)	34.0
1990-91 to 1991-92 (Annual Plan)	8.7
1992-93 to 1996-97 (Eighth Plan)	17.1
1997-98	8.7
1998-99	14.3
1999-00	10.1
2000-01	8.5

Note: Annual growth rates for 1997-98 to 2000-01 are cumulative average annual growth rates for the Plan periods. Source: ELCINA as compiled in *Indiastat.com*

The electronics industry in the present phase is highly liberalised and investment-attracting in nature. The central and state governments in India have introduced foreign investment promotion policies subsuming a wide range of incentives in terms of licensing, taxes, subsidies, labour, and environmental standards. Specific policies for promoting FDI in electronics are cited below.

- PFDI up to 100 percent under the automatic route from foreign/non-resident Indian (NRI) investors without prior approval
- Industrial licensing has been virtually abolished in the Electronics and IT sector except for manufacturing electronics aerospace and defence equipment.

- Electronics and IT industry has no restrictions on location, subject to clearance from the authorities responsible for control of environmental pollution and local zoning and land use regulations.
- There is no reservation for public sector enterprises in the Electronics and IT industry and private sector investment is allowed in every area.

Some of the pertinent provisions in fiscal and tariff policy are as follows.

- Export Oriented Units (EOU)/Electronics Hardware Technology Park (EHTP) Units/ Software Technology Park (STP) Units are eligible for income tax exemption on export profits up to 2010, as per the sections of the Income Tax Act. 100 percent income tax exemption on export profits is available to Special Economic Zone (SEZ) Units for five years, 50 percent for the next five years and 50 percent of ploughed back profits for five years thereafter.
- Reduction of customs duty to zero percent on all the raw materials and inputs required in the manufacture of electronic components.
- Reduction of customs duty to zero percent on all capital goods for IT and Electronics sector
- Income from export of electronics/IT hardware to be exempted from income tax for 10 years from the starting date of commercial production. Starting with assessment year 2004-05, 50 percent income tax exemption on profits earned from Electronics/IT hardware manufacturing activity. This provision would be applicable to both existing and new units.

In addition, the government has introduced special provisions for electronic hardware and software sectors under the EOU Scheme, EHTP Scheme, STP Scheme, Export Promotion Capital Goods Scheme, Duty Exemption and Remission Scheme and SEZ Scheme aimed at further relaxing restrictions on investment, tax exemption, and flexible production for the foreign and domestic investors. Furthermore, the GOI has introduced foreign trade policies for facilitating export and import of electronic goods. Some important provisions for the same are as follows.

- All Electronics and IT products are freely importable except some defence related items. All Electronics and IT products, in general, are freely exportable with the exception of a small negative list which includes items such as high power microwave tubes, high end super computer and data processing security equipment.
- Second hand capital goods are freely importable.
- Export Promotion Capital Goods scheme (EPCG) allows import of capital goods on payment of 5% customs duty. The export obligation under EPCG Scheme can also be fulfilled by the supply of IT Agreement (ITA-1) items to the Domestic Tariff Area (DTA) provided the realization is in free foreign exchange.
- SEZs are being set up to enable hassle-free manufacturing and trading for export purposes. Sales from DTA to SEZs are being treated as physical exports. This entitles domestic suppliers to Drawback/DEPB (Duty Entitlement Pass Book) benefits, central sales tax (CST) exemption and Service Tax exemption.

## 2.2 Labour Policies

Both central and state governments have amended many laws pertaining to labour to facilitate foreign investment subsequent to liberalisation. Amendments in labour laws concerning industrial disputes, retrenchment and migrant and contract labour have been made by the state governments to facilitate foreign investments. The Industrial Disputes Act, for instance, has been amended to ease the permission of the appropriate governments for lay off and retrenchment.

Most of the state governments granted mandatory permission for restructuring, retrenchment and closure for large firms by amending respective laws. Amendment to the Contract Labour Act facilitates outsourcing of activities without any restrictions

**Box 1. Milestones in Electronics Policy**

Policy Initiative	Content
Babha committee report (1966)	Recommended development of an integrated electronics sector to achieve self-reliance with minimal resources, foreign capital, and a domestic role for private and small scale sectors
Formation of Dept. of Electronics (1970)	This was endowed with the responsibility for developing the electronics industry
Electronics commissions (1971)	Policy formulation with regard to electronics industry in the country
Sondhi committee (1979)	Recommended dismantling of regulation in general and the Monopolistic and Restrictive Trade Practices Act (MRTP) and Foreign Exchange Regulation Act (FERA) in particular
Menon committee (1979)	Recommended liberalisation of import of foreign capital and technology and duty free import of capital equipment
Components policy (1981)	<ul style="list-style-type: none"> <li>•De-licensing of component manufacture except for MRTP and FERA companies;</li> <li>•Provision of 70% foreign equity to FERA companies;</li> <li>•Liberal import of capital goods;</li> <li>•Relaxation in clearance</li> </ul>
Telecommunications policy (1984)	Equipment manufacture was opened to private sector
Computer policy (1984)	All Indian companies, including FERA, were allowed to enter all segments of the computer industry with no restriction on capacity. Most of the components needed were put under Open General Licence (OGL) to facilitate import
Integrated policy (1985)	<ul style="list-style-type: none"> <li>• De-reserved certain components of small scale sector;</li> <li>• Introduced broad-banding;</li> <li>• Liberal approach towards foreign companies with more than 40 percent equity in high technology areas</li> </ul>
Computer software policy (1986)	<ul style="list-style-type: none"> <li>• Reduction in import duty on all imports meant for software exports and no duty for 100 percent exports;</li> <li>• Provision of special financing schemes and permission for foreign companies in 100 percent export projects</li> </ul>
National Task force in ITC (1998)	Made 104 recommendations on software and 87 on hardware development in the country
Telecommunication policy (1994, 1999)	Opening up of telecommunication services for the private sector
Formation of MIT (1999)	Formation of Ministry of Information Technology

*Source: Kumar and Joseph: 2004, pp.5-6.*

and enables companies to offer contract appointments. Since women form the major share of low-end jobs in the workforce of the electronics industry, the government made provisions for engaging women workers in all the three shifts subject to provisions of transportation by amending the Factories Act<sup>2</sup>. In addition, the government proposes to introduce scores of amendments in the corresponding labour laws applicable to the electronics and IT product-manufacturing sector to further flexibilise the production organisation in the industry. By increasing the temporary status (contract term) of the workers to 720 days out of three years instead of 240 days out of one year as per the existing labour laws, the Government proposes to allow numerical flexibility in the IT and Electronics sector<sup>3</sup>. Additionally, the applicability of Contract Labour Abolition Act will be removed from IT-enabled sectors. Furthermore, manufacturers will be allowed to downsize employee rolls by up to 10 percent of total employee strength in any year without permission for facilitating functional and temporal flexibility in the sector<sup>4</sup>.

These policy level interventions have a significant role in the rise of electronic production and export in India, which was on a downward flight in the first quarter of the 1990s. The period after 1995-96 shows a steady increase in total electronics production in India. Total value of production for domestic and export increased to Rs. 1476.1 billion in 2004-05 from Rs. 223.4 billion during 1995-96, marking a compound growth rate of 21.11 percent over 10 years (Table 3). Out of the total production, software marked the maximum rate of growth with a compound growth rate of 45.75 and 30.01 percent between 1995-96 and 2004-05 for export and domestic respectively. Consumer electronics, computers, industrial electronics and electronic components showed positive growth during this period. Foreign as well as higher level of domestic investments in these sectors could be accountable for the growth of these sectors.

### 2.3 Foreign Direct Investment

India received FDI amounting Rs. 6602.55 crores in the electronics and electrical sector between 2001 and 2003 December (Table 2). FDI during the period January 2001 to December 2002 grew at a rate of 55.15 percent. Transnational corporations such as LG Electronics, Samsung, Daewoo, Philips, Goldstar, Delta Hamilan, Motorola, Nokia, etc. from other parts of Asia, the US and Europe established their production bases in India during this period both through joint ventures and FDI. Investment from Korea is given a special mention here due to the presence of large Korean TNCs like LG, Samsung and Daewoo in electronics production in India.

#### *Korean FDI in the Electrical and Electronics Sector in India*

Korea is the fifth largest investor in India, accounting for about 4.09 percent of total FDI on approval basis (DIIP: 2004, <http://www.dipp.nic.in>). The net amount of

**Table2. Foreign direct investment in electronics and electrical sector in India, 2001-2003**

	Amount (10 million)
2001 January - December	2056.69
2002 January - December	3190.86
2003 January - December	1355
Total	6602.55

*Source: Lok Sabha Unstarred Questions, No. 3384, dated 20.08.2004 as published by indiastat.com*

**Table 3. Electronics production in India, 1995-1996 to 2004-2005**  
(Rs 10 million)

Items	95-96	96-97	97-98	98-99	99-00	00-01
Consumer Electronics	5800	6500	7600	9200	11200	11950
Industrial Electronics	2900	3100	3150	3300	3750	4000
Computers	2225	2740	2800	2300	2500	3400
Communication and Broadcast Equipment	2600	3000	3250	4400	4000	4500
Strategic Electronics	1075	1300	900	1300	1450	1750
Components	3500	3700	4400	4750	5200	5500
Sub-Total	18100	20340	22100	25250	28100	31100
Software for Exports	2550	3700	6500	10940	17150	28350
Domestic Software	1690	2600	3470	4950	7200	9400
Total	22340	26640	32070	41140	52450	68850
	01-02	02-03	03-04	04-05	CGR (%)	
Consumer Electronics	12700	13800	15200	16800	7.37	
Industrial Electronics	4550	5550	6100	7700	5.76	
Computers	3500	4250	6800	8800	12.79	
Communication and Broadcast Equipment	4500	4800	5350	4600	-2.87	
Strategic Electronics	1800	2500	2750	3050	-17.71	
Components	5700	6600	7600	8800	4.72	
Sub-Total	32750	37500	43800	49750	6.41	
Software for Exports	36500	46100	58240	78230	45.75	
Domestic Software	10874	13400	16250	19630	30.01	
Total	80124	97000	118290	147610	21.11	

CGR = compound growth rate

Source: calculated from the data of the Department of Information Technology, GOI

Korean investment in India amounted US\$574.154 million from 1983 to 2004 (Table 5). The main sectors attracting FDI from South Korea are transportation, fuels (power and oil refinery), electronics and electrical equipment (computer software and electronics), chemicals (other than fertilizer) and commercial, office and household equipment. Among these the electronics industry accounts for 10.29 percent of the total investment till 2004 (Table 4). Major companies invested in the electronics sector are Daewoo, Samsung and LG Electronics.

**Table 4. Sectoral investment from Korea till 2004**

Sector	Percentage of total
Transportation	38.03
Electronic	32.94
Electrical	10.29
Commercial equipment	6.16
Household equipment	3.99

Source: DIPP, Ministry of Industry

## 2.4 Changing Production Organisation in the Industry

The industry has undergone significant changes in production organisation corresponding to different policy regimes. Production in 1960 was organised in small-scale centralised settings in the regulated regime. After liberalising the sector in the early 1980s production was widely subcontracted (Chhachhi: 1999, p. 10).

**Table 5: Korean investment in India (US\$ thousand)**

Year	No. of accepted cases	Amount of acceptance	No. of investment cases	Amount of investment	No. of net investment cases	Amount of net investment
1983	1	120	1	119	1	119
1984	0	0	0	0	0	0
1985	0	0	0	0	0	0
1986	0	0	0	0	0	0
1987	1	60	0	0	0	0
1988	1	24	1	25	1	25
1989	3	2,623	2	1,046	2	1,046
1990	2	2,060	2	963	2	963
1991	4	2,609	4	2,674	4	2,674
1992	6	4,176	2	3,234	2	3,234
1993	5	4,128	5	1,436	5	1,436
1994	15	52,257	8	43,065	8	43,065
1995	16	184,301	13	13,832	13	13,770
1996	19	372,988	11	150,296	11	150,296
1997	22	83,709	13	105,962	12	105,814
1998	10	301,805	14	285,748	14	115,619
1999	5	216,383	3	14,795	3	14,795
2000	6	12,077	7	15,379	7	15,344
2001	11	35,204	10	29,097	7	3,569
2002	8	43,040	9	44,837	9	44,837
2003	10	21,170	10	16,857	10	16,857
2004	29	48,946	27	40,771	25	40,691
Total	174	1,387,680	142	770,136	136	574,154

*Source: Korean Exchange Bank*

The small-scale sectors where production had been earlier was transformed to subcontractors of the large firms in the liberalised regime. Production in large firms, as a result, was limited to assembling parts manufactured by the subcontractors. Subcontracting in the electronics sector even extended to total transfer of production. In Bombay, for instance, companies such as Murphy and Bush transferred total production to subcontracted units while workers in the main plant were without work (Shrouti and Nandakumar: 1994 in Chhachhi: 1999). The practice of subcontracting thus resulted in large-scale downsizing and weakening of organised employment in the sector.

The post-liberalised period witnessed new forms of management practices and production organisation due to the integration of foreign production practices in the industry. Production has been largely automated and shifted again to large-scale settings. The industry, especially the TNCs subcontracted the production of components to other firms where it is either performed in the subcontracted firms or further subcontracted to other small or home-based production units. Production has been limited barely to final assembly of components in the parent unit. Thus the

electronics production is casualised in the changed regime. Possible effects of restructuring the industry include increase of casualisation and feminisation of work in low-end manufacturing. Studies conducted in the electronics production industries in the Delhi region show that aspects such as casualisation, feminisation and the precarious nature of work are prevalent in electronics production sector in India (Chhachhi, 1999, pp. 15-18).

Against this backdrop, it is pertinent to study how foreign capital, specifically TNCs, appropriates labour relations in the electronics sector. The next chapter attempts to reflect how the policy changes redefine capital-labour relations in TNCs by citing the case of Samsung India Electronics, a South Korean company invested in India.

### **3. LABOUR PRACTICES AND WORKING CONDITIONS IN THE ELECTRONICS INDUSTRY IN INDIA: THE CASE OF SAMSUNG INDIA ELECTRONICS**

This chapter attempts to place capital-labour interactions in the specific context of the labour practices and working conditions in Samsung India Electronics. The analyses are primarily based on interviews with and case studies of regular and contract workers up to the level of Operator in Samsung. The chapter details general information of the unit, background of the workforce, labour practices, working conditions and collective activities.

#### **3.1 The Unit**

Samsung India Electronics, a subsidiary of Samsung Electronics Co. Ltd is the centre of operations of Samsung in the South West Asia Region. The regional headquarters in New Delhi shores up the Samsung operations in Nepal, Sri Lanka, Bangladesh, Maldives and Bhutan besides India. Samsung India commenced operations in India in December 1995. The company initially operated in India through two subsidiaries, namely Samsung India Electronics Ltd (SIEL) and Samsung India Electronics Information and Telecommunication Ltd (SEIIT). SIEL initiated with a paid-up capital of Rs 1000 million of which 74 per cent was held by the parent company while SEIIT was a 100 per cent subsidiary.

The manufacturing complex of Samsung India is located at Noida, near Delhi. It houses the production of colour televisions (CTV), colour monitors, refrigerators, washing machines and software (Table 6). Though Samsung products of electronics and home appliances were available in the Indian market, Samsung had no production in India till 1997. Samsung India started production in June 1997 with the opening of a colour television unit in Noida with initial plant capacity of 400,000 units per annum and an investment of \$30 million. By January 1998, Samsung had launched all India operations, setting up branches all over the country. The company expanded its product range and capacity by investing in projects for microwave ovens in 1999, refrigerators and air conditioners in 2000 and colour monitors and washing machines in 2001 and regular upgrading of existing production with additional investment of \$30 million in the first phase and \$200 million in the second phase, excluding equity

and loans (Samsung Annual Report 2000-04). In 2003, SIEL merged with SEIIT and the unit in Noida formed the regional headquarters of Samsung Southwest Asia in 2004. Furthermore the company invested US\$15 million to set up another unit for mobile handsets in Gurgaon, Haryana by the end of the first quarter of 2006 (Samsung Press release).

The investment attracting measures of both central and state governments have facilitated Samsung investment, expansion and operations in India. Apart from the electronics and IT promotion schemes of the Government of India<sup>5</sup>, the state of Uttar Pradesh (UP) where the manufacturing unit of Samsung is located provided scores of incentives for the company as part of its investment promotion schemes. Samsung having investment of more than Rs. 500 million comes under the classification of Mega Investment Units of the Government of UP. Under this scheme, the unit enjoys the following incentives.

- Land allocation on a priority basis: Samsung acquired land for the manufacturing unit in Noida on a lease-cum-sale basis by this scheme. The rate of land on a sale basis was less than 25 percent of the sector rate and acquisition was done by the Industrial Development Authority of UP
- Set off from Trade Tax on all material required for manufacturing which includes raw materials, processing materials, machinery, plant, equipment, consumable stores, spare parts, accessories, components, sub-assemblies, fuels, lubricants, packing materials, etc.
- Exemption from payment of any Entry Tax under section 4B of the Entry Tax Act on all materials, plant, equipment and machinery required for manufacturing. Exemptions on own tax liabilities for suppliers or contractors and dealers whose raw material is purchased by the industry units and
- Single Window Clearance through a High Power Committee under the Chairmanship of the Chief Secretary of UP.

**Table 6. Product range of Samsung in India**

Product	Capacity	Details
CTV	1.5 million	Curved & Flat TVs
Colour Monitor	1.5 million	CRT & TFT LCD
Refrigerator	0.6 million	Frost-free and Conventional
Washing Machine	0.5 million	Fully Automatic and Semi Automatic
Air Conditioner	0.4 million	Window and Split Air conditioners

*Source: Annual report 2004, Samsung India*

#### *Production, Sales and Profit*

Samsung investment in India is both market seeking and export oriented. Products like colour TVs (CTV), colour monitors and refrigerators are exported to the Middle East, the Commonwealth of Independent States (CIS) and South Asian Association for Regional Cooperation (SAARC) countries from its manufacturing units in Noida besides sales in the domestic market. Samsung had a sales turnover of over US\$1

**Table 7. Growth of sales and profit of Samsung India (US\$1,000)**

	2000	2001	2002	2003	2004	CGR (%)
Domestic	8660353	7926014	9252348	7810048	9622975	-51.92*
Export	18570586	16493575	24008395	28599322	45633362	13.37
Gross profit	12613479	10396334	18508290	18838673	27792994	6.37

\*CGR became negative for domestic sector because years 2001 and 2003 recorded a steep fall in sale and profit. *Source: Annual reports, Samsung India*

billion in a decade of operations in India. Though domestic sales have not been consistent for Samsung, exports recorded a steady growth marking a compound growth rate of 13.37 percent between 2000 and 2004 (Table 7). Similarly gross profit has recorded a steady increase with a compound growth rate of 6.37 percent between 2000 and 2004. Production of colour TVs and monitors reached 10 million by November 2005 after beginning in June 1997 and June 2001 respectively. Other products such as refrigerators and washing machines also recorded higher production rates.

#### *Production Organisation*

Production in Samsung is largely supported through subcontracting. The company subcontracts the production of colour TV and monitor components, parts of refrigerators, washing machines and air-conditioners to other small firms. In-house production in Samsung therefore limited to final assembling.

The workforce in Samsung is configured in core and periphery levels. The core level consists of all regular workers of the company; contract workers form the periphery level. Regular workers include all managerial staff down to the level of supervisors and workers on the production line. Contract workers constitute the workforce engaged in supporting activities like transportation, gardening, security services, housekeeping as well as mainline production. In addition, there are regular and contract workers in supplier (subcontracted) firms on mainline production. The workforce up to the level of supervisor is further categorised as engineers, technicians, operators and helpers.

The production process in Samsung is highly automated and organised in lines. Production of CTV and monitors, home appliances including washing machines, refrigerators and air-conditioners is organised in separate Process Conveyor Belts (PCB). Production is based on 'tact time' and it varies for different products. Tact time, which is the ratio of total available task time to the total demand or output produced, is used for setting targets in every production line.

#### **3.2 Background of the Workers**

The total number of workers on the production line is around 1,700 of which 1,000 are employed on a regular basis, 400 are on contract and 300 are trainees. Female workers up to the level of operator amount to 500 constituting approximately one fourth of total employees. While male workers are engaged in mainline assembly, female workers on the production line are engaged in activities like cabinet assembly, cleaning and checking. The company has a unique system of labour recruitment. The company does not prefer to appoint local workers due to various reasons. The

major share of the workforce is from far away, largely from the rural and semi urban areas of the states of Bihar, Rajasthan, Uttaranchal, Orissa, Madhya Pradesh and Southern parts of India as well as neighbouring countries like Nepal. While the regular workers are recruited from these places through employment agencies, most of the contract workers are migrant labourers.

The age of workers varies between 18 and 30 for males and 20 and 27 for females. The average age of workers across all sections is reported to be 23 for both men and women. Employees other than contract workers and above the level of operators have undertaken technical education required for the job. The company provides training for casual workers after appointment.

In order to cross check the general trend, 20 workers from Samsung India, covering 14 contract and six regular workers, have been interviewed. All contract workers interviewed were migrants, 10 of who were from the State of Bihar and the remaining four were from Nepal. Among six regular workers, three were from Rajasthan, two from Madhya Pradesh and one was from Uttar Pradesh. In line with the general trend the workers were of the 20 to 30 age range. The company does not use technical education as a criterion for employment at operator level jobs like fitting, helping, checking and transportation and 18 out of 20 workers interviewed did not possess any technical qualifications required for the job. The company provides training corresponding to the job for a period of six months for regular workers and one month for contract workers before placing on mainline production. While all regular workers interviewed were educated above higher secondary (up to 18), contract workers were either educated up to secondary (around 15) or higher secondary levels.

### 3.3 Labour Process and Labour Relations

The company has both core and periphery structures. The core structure encompasses all managerial staff, engineers, technicians, operators and other workers. Periphery level comprises of workers hired on contract for tasks such as cleaning, transportation, housekeeping, security, gardening and mainline manufacturing jobs.

**Table 8. Distribution of respondents according to activity**

Activity	Frequency	Percent
Checking	5	25.0
Fitter	7	35.0
Helper	6	30.0
Transportation	2	10.0
Total	20	100.0

**Table 9. General profile of respondents (N=20)**

Profile		Regular	Contract
Age	20-25	4	10
	25-30	2	4
	Sub total	6	14
Sex	Male	6	14
	Female	-	-
	Sub total	6	14
General Education	Secondary	-	7
	Higher sec	-	7
	> Higher sec	6	-
	Sub Total	6	14
Technical Education		2	-

The core and periphery workers are distinguished on the basis of the employment contract with the company and there are considerable differences in the labour processes including recruitment, employment contract and wages among these workers.

#### *Recruitment*

Recruitment of regular workers is carried out directly by the company. At operator level, the company recruits through employment exchanges from various states. All regular workers interviewed were recruited through employment exchanges from their respective states. Regular workers initially are appointed as trainees and given six months' training. Contract workers, conversely, are recruited through contractors generally for a period of six months. Contracts for workers may be renewed based on the recommendation of the company by changing their names to flexibilise the complexities of the procedure associated with contract appointment. It is explained under the session 3.33, Facilities available and Violation of Labour Laws, page number 27 of the report as follows. (There are practices of changing the names of contract workers to reappoint them in the factory. By doing so the company can maintain an experienced labour force and avoid the additional expense of training new employees. In order to facilitate this practice neither the contractor nor the company keeps a register of contract workers. Under the provisions of the Contract Labour (regulation and abolition) Act every contractor should keep a register of workers and issue employment cards for them<sup>6</sup>. However, in Samsung, to extend workers' contracts, the contractors do not keep registers or issue employment cards. ). Maximum period of contract is found to be one year from the sample (Table 10). Out of 14 contract workers, contracts were renewed for five of them by changing their names. Maximum period of contract is found to be one year from the sample (Table 10). Out of 14 contract workers, contracts were renewed for five of them by changing their names.

#### *Wages*

We found considerable discrepancies in the wage structure for regular and contract workers in Samsung. Though wages of both regular and contract workers on the production line do not conform with market rates, the plight of contract workers is devastating. While wages of regular workers on the production line range from Rs.2,500 to 4,000 per month, they range between Rs. 1,800 and 2,100 for contract workers. Wages for regular workers, up to the level of operators, are fixed at Rs. 2,000 at entry level whereas it is between 1,000 and 2,000 for contract workers. Maximum

**Table 10. Nature of work and period of work (count)**

Nature of work	Period of work					Total
	1-6 months	6 months to 1 year	1-2 years	3-4 years	>4 years	
Regular			3	1	2	6
Contract	9	5				14
Total	9	5	3	1	2	20

wages at the operator level are Rs. 4,000 and 3,000 per month for regular and contract workers respectively. Salary of the regular workers is configured under the headings of conveyance allowance, house rent allowance and dearness allowance along with basic salary. Salary for contract workers, on the other hand, is on consolidated terms.

Salary increment for regular workers in the company is reported to be determined by worker classification such as A+, A, B and C. Yearly increment for workers in the A+ category is Rs. 800, and 700, 600 and 500 for A, B and C categories respectively. Operators therefore, being in the C category, are eligible for a hike of Rs. 500 per year. However, it is found that the company does not conform to these standards in actual practice in many cases. At the operator level, for instance, there were workers with wages between Rs. 2,000 and 3,000 with an increment of Rs. 1,000 in four years from the entry-level salary of Rs. 2,000 per month (Table 11). The primary study also found that wage increments are unevenly distributed among workers, irrespective of their period of work, taking attributes such as workers' loyalty and performance into consideration. For instance, while some workers with less than two years of experience got Rs. 3,000 - 4,000 per month (maximum salary in the unit for operator) at the operator level, it was 2,000 - 3,000 for some of their counterparts with more than two years of experience (Table 12). It is notable that there is no wage difference between male and female workers.

**Table 11. Nature of work and present wage (count)**

Nature of work	Present wage			Wage when recruited		Total
	1000-2000	2000-3000	3000-4000	1000-2000	>2000	
Regular	-	3	3	6	-	6
Contract	11	3	-	14	-	14
Total	11	6	3	20	-	20

Though unsatisfied with the present wages, both regular and contract workers have not demanded wage revision in the company. The major reason given by the workers that inhibits them asking for better wages is fear of loss of job.

**Table 12. Period of work and present wage (count)**

Period of work	Present Wage			Total
	1000-2000	2000-3000	3000-4000	
1-6 months	9	-	-	9
6 months - 1 year	2	3	-	5
1-2 years		2	1	3
3-4 years		1	-	1
>4 years			2	2
Total	11	6	3	20

Wages for overtime are fixed at the rate of Rs. 25 per hour for regular workers at the operator level and between Rs. 13.5 and 7.5 for contract workers. It is reported that most of the workers prefer to work overtime to earn extra income. We found workers, both regular and contract, working five hours of overtime a day. Though overtime work involves huge physical and mental strain for the workers, low basic wages coupled with high living

### Case study 1

*Balaram Jha, aged 26, is a migrant worker from Madhubani district, Bihar. He has been contracted for Air Vision Ltd, a supplier for Samsung, and works in the main line production of Samsung. He has been working with Samsung in quality checking for nine months. Before migrating to Delhi, Jha worked in a paper mill in Calcutta. After the closure of the mill he went to Delhi to find another job. He got the present job through one of his friends who worked for Samsung. Though Jha is obliged to another company he has never worked there. In effect, Jha is a contract employee in Samsung with out any 'official' obligation to the company. Wages for contract employees in Samsung are determined by the contractor. However there is a common wage rate for contract employees. Jha's wage at the time of joining was Rs. 1,800 per month (before nine months) and it increased to 2000 per month excluding overtime wages after six months. Being the single earner of his four-member family, Jha had no option other than working overtime to support the family's expenses. Jha manages to earn Rs. 3,000 to 3,200 per month by working four to five hours' overtime a day on average. After spending on personal expenses in Noida, he sends Rs. 1,500 every month to his family in Bihar to meet family expenses and children's education. He has no supporting mechanisms for any contingency. Being a contract worker, Jha does not have Employees' State Insurance (ESI) or other allowances such as Dearness Allowance (DA), Fixed Dearness Allowance (FDA), bonus and provident fund. Therefore any fall in work leads to disastrous economic conditions for Jha.*

expenses and family obligations force them to do so. The case of Balaram Jha (an alias), a migrant contract worker from Bihar illustrates the plight of contract workers in Samsung.

Jha's case reflects many pertinent aspects of economic insecurity of contract workers in Samsung. Firstly normal wages for contact workers are not fixed as per the market rate or taking living expenses into consideration. Secondly there is no regular revision of wages with regard to the general price hikes. Therefore workers have to work overtime in order to meet normal personal and family expenditure. The situation of regular workers is similar.

### 3.4 Working Conditions

In India electronics enterprises, especially small production units, have disreputable track records of poor working conditions. Evidence shows that electronics production units, predominantly in home-based settings and flattered factories are poorly ventilated and filled with smell of chemical fumes (Chhachhi: 1999). Home-based and small units for electronic components production are associated with precarious conditions of work and low wages. Large units like Samsung, on the other hand, are reported to be non-congested and well ventilated. However precarious conditions of work such as contractual labour relations, overwork,

low wages, physical dangers and mentally stressful conditions prevail in large units. In other words, shifting to large-scale automated production has only rearranged the stringent production practices of the electronics industry. The integration of modern production and management practices adopted from different environments (production techniques of the investing firms) has a significant role in appropriating the working conditions in large units. We found precarious working conditions on the production line in Samsung in terms of hours of work, safety and health and facilities at the worksite.

#### *Working Hours*

In Samsung work is target oriented and based on tact time (time needed for manufacturing a unit: the time needed to manufacture one unit of a product, measured as the elapsed time between the completion of one unit and the completion of the next). As per the official report of Samsung, productivity in CTV lines is 44 sets per day per employee and one CTV is produced in every 11 seconds. Tact time for CTV and colour monitor in the unit is 4.9 seconds, which means that there is only a gap of 4.9 seconds between two Samsung CTV/colour monitors rolling off the production line. Tact time for refrigerators is reported to be 16 seconds. Similarly other products such as washing machines and air conditioners are produced on the basis of tact time.

It is interesting to see how tact time, which is a measure of efficiency (as the company claims), translates into overwork in Samsung. The denominator of tact time is the available number of workers for performing various tasks. Another measure for fixing tact time is market demand. Between these two, market demand fluctuates while labour remains relatively stable in every situation. Given in a particular technological and automated production environment, tact time therefore is fixed according to market demand. In the specific case of Samsung, it is already seen product demand is high for Samsung in the market<sup>7</sup>. Therefore meeting the market demand, management increases production without increasing the labour force, which in turn results in overwork. In a line system, increasing the labour force is almost impossible due to constraints of the infrastructure. Working hours, therefore, are determined on the basis of tact time. Normal daily working hours are reported to be eight, in agreement with the provisions of the Factories Act. However, there is compulsory overtime in Samsung for every worker. It is reported that average daily working hours are nine hours for every worker. Total hours of work for every worker therefore amount to 54 hours, which is higher than the provisions in the Factories Act. In addition, workers have to compensate for the lapse in target achievement or leaves by working overtime.

There is a general trend of positive association between incidence of low wages and overtime for workers in Samsung. Pressure is on every worker, both regular and contract, for working overtime by keeping salary disproportionate to market rates. Therefore in most situations, overtime is a means to earn additional income as in the case cited above<sup>8</sup>. In the primary study all respondents were working overtime ranging from one to five hours excluding the compulsory overtime of one hour (Table 13). Reinforcing this association, the duration of overtime is high for contract workers

who have less wages than regular workers. While 13 out of 14 contract workers interviewed worked two to five hours more than the eight normal working hours, three regular workers worked two to three hours overtime in addition to the compulsory overtime. In this context it could be argued that lower wages in a way enables the company to translate overtime, which has serious repercussions on health and productivity, into an incentive for workers, especially contract workers whose health concerns and productivity may not be serious issues in a short span of employment.

Working hours in Samsung therefore far exceed the 48 permitted hours of work a week as per the provisions of the Factory Act. In every situation, it exceeds 54 hours and in most cases extends up to 60 to 72 hours a week. In short there is a clear violation of the Factories Act in Samsung in terms of hours of working, rest and payment of wages<sup>9</sup>.

#### *Occupational Safety and Health*

**Table 13. Incidence of overtime**

Nature of work	Overtime <sup>10</sup> (hours)					Total
	2	2 to 3	3 to 4	4 to 5	>5	
Regular	3	3	-	-	-	6
Contract	1	4	5	3	1	14
Total		4	7	5	3	1 20

Major occupational health hazards in the electronics industry are caused by exposure to ionising radiation, organic solvents, heavy metals such as cadmium and lead and chemicals that damage reproductive organs like arsine and phosphate. These have possible risks for diseases like cancer, respiratory infection as well as miscarriage, premature delivery, and intrauterine growth in pregnant women. The observed risks of occupational safety and health in the company are asthma and other respiratory problems due to the inhalation of dust and thin particles and chest and shoulder pain due to carrying heavy loads. In addition problems such as stomach upset, indigestion, back pain and muscle pain are reported to be prevalent. A commonly reported health problem in the units is body and shoulder pain (Table 14). Incidence of respiratory problems came second in the sample. Risks of accidents and injuries are also reported to be high in the company. There were instances of death and fatal injuries due to accidents related to the operation of machines.

**Table 14: Occupational health issues in the unit (reported morbidity)**

	Frequency	Rank
Body and shoulder pain	15	1
Finger injury	3	3
Respiratory problems and allergy	10	2
None	5	-
Total	20	

Apart from physical morbidity, workers have reported instances of stressful conditions. As reported by the workers, meeting the production target is the primary cause of stress. Besides, instances of harassment, overwork, job insecurity, family obligations and deterioration of health conditions are other major stress factors. Though stress situations are high for both regular and contract workers, contract workers are more susceptible to stress primarily due to job insecurity.

#### *Facilities Available and Violation of Labour Laws*

There are considerable discrepancies in the facilities available at the work site between regular and contract workers. Regular workers in Samsung get the facilities of canteen, insurance, transport, paid leave and compensation on death and permanent disabilities (Table 13). However, most of these facilities are restricted and conditional for regular workers, who for instance, are given tokens for using toilets. Similarly facilities such as transportation and canteen are on a user fee basis for regular workers. It is also found in the primary study that though regular workers are entitled to ESI provisions (regular employees up to the level of operators' monthly salary is less than Rs .6,500 in Samsung) they do not get the facilities in the company<sup>11</sup>. Contract workers, on the other hand are not offered transportation, canteen, leave, ESI, wage increment or rest room in Samsung.

We found violation of provisions of the Factories Act and Industrial Disputes Act pertaining to hospital facilities, compensation for permanent and temporary disabilities and compensation for lay off and retrenchment in Samsung. Regular workers in Samsung up to the level of operators are not provided with hospital facilities, advance payment during emergencies, lay off and retrenchment compensations. The Factory Act entitles workers to use hospital facilities within the factory. Medical facilities in Samsung, conversely, are restricted to first aid services. Likewise we came across instances of dismissals in Samsung with out compensation, violating the provisions of the Industrial Dispute Act<sup>12</sup>.

Similarly there are serious violations of the Contract labour (Regulation and Abolition) Act with reference to the facilities available for the contract workers in the factory. Also contract employees are not provided provisions such as canteen facilities, creches, transportation, paid leave, insurance, advance payment and compensation for industrial accidents in the company, violating the provisions of the Contract Labour (Regulation and Abolition) Act. Under the provisions of the act, contract workers are entitled facilities of canteen and rest rooms either by the contractor or principal employer. Infringing these provisions, contract workers in Samsung are denied canteen and rest room facilities<sup>13</sup>. Another major violation of the provision of contract employment in Samsung is observed with keeping records such as a register of person employed and employment card. There are practices of changing the names of contract workers to reappoint them in the factory. By doing so the company can maintain an experienced labour force and avoid the additional expense of training new employees. In order to facilitate this practice neither the contractor nor the company keeps a register of contract workers. Under the

**Table 15. Facilities available for workers up to the level of operator**

No	Facility	Regular	Contract
1	Canteen	Yes (with charges)	Yes (limited to tea)
2	Hospital Facilities	No	No
3	Grievance Redress Body	No	No
4	Creches	Yes	No
5	Drinking Water	Yes	Yes
6	Toilets	Yes (limited use)	Yes (limited use)
7	Transportation	Yes (with charges)	No
8	Advance	No	No
9	DA/FDA	Yes	No
10	Annual leave	14 days	No
11	Insurance	ESI	No
12	Maternity leave	Three months	No
13	Compensation on death	Yes	No
14	Compensation for permanent disability	Yes	No
15	Compensation for temporary disability	Bearing of hospital charges	No
16	Lay off compensation	No	No
17	Retrenchment compensation	No	No
18	Rest room	Yes	No

provisions of the Contract Labour (regulation and abolition) Act every contractor should keep a register of workers and issue employment cards for them<sup>14</sup>. However, in Samsung, to extend workers' contracts, the contractors do not keep registers or issue employment cards.

### 3.5 Gender Dimensions

Up to the level of operators women workers constitute one fourth of the total employees in Samsung. Female employment is mainly concentrated in assembling, screwing, checking and packing jobs, which are highly monotonous. It is notable here that there is no distinguishable gender bias in the lower level employment in Samsung as men constitute the major share of lower end employment in Samsung. We found a bias based on education and skill levels in the lower end jobs in Samsung against the general trend of gender bias in the manufacturing industry. The factors such as willingness to take up low paying jobs and limited organised engagements, which are the commonly argued reasons for preferring female employment by the employer, are found to be equally applicable to male and female employees in Samsung.

There are no discrepancies in terms of wages between women and men workers in Samsung. Complying with the provision of Equal Remuneration Act, women and men workers are getting equal wages for same or similar nature of work (Table 16). Similarly provision of creches is available for regular women workers

in Samsung. However, infringing the provisions of the Contract Labour (Regulation and Abolition) Act and the Inter-state Migrant Workmen (Regulation of Employment and Conditions of Service) Act, contract women workers, especially at the level of helpers and cleaners Samsung is reported as not providing creches. While 135 days are legally provided, Samsung grants regular women workers 90 days of maternity leave. Though maternity benefits should be provided after 80 days of working (under the Maternity Benefit Act), contract workers in Samsung are not provided with these benefits (Table 16). Moreover they do not encourage the appointment of married women in contract employment. Similarly ESI provisions are not supplied to regular women employees though they qualify in the case of all workers up to the level of operators. Provisions against sexual harassment in the Industrial Employment (Standing Orders) Act are also absent in Samsung. There are no grievance redress mechanisms against sexual harassment available in Samsung.

**Table 16. Major protective legal provisions pertaining to the employment of women in factories in India**

No	Name of Enactment	Protective Provisions
1	The Factories At, 1948	Provision of creches in every factory where more than 30 women workers are ordinarily employed
2	The contract Labour (Regulation and Abolition) Act, 1970	Provision of creches in every factory where more than 30 women workers are ordinarily employed as contract labour Female contract labour to be employed by any contractor between 6 am and 7 pm with the exception of midwives and nurses in hospitals and dispensaries
3	The Inter-state Migrant Workmen (Regulation of Employment and Conditions of Services) Act, 1979	Provisions for creches for the benefits of women workers in establishments where 20 or more women workers are ordinarily employed as migrant workers and in which employment of migrant workers is likely to continue for three months or more
4	The Maternity Benefit Act, 1961	Maternity benefit to be provided on completion of 80 days of working Not required to work during six weeks immediately following the day of delivery or miscarriage No work of arduous nature, long hours of standing likely to interfere with pregnancy/normal development of foetus or which may cause miscarriage or is likely affect health to be given for a period of six months immediately preceding one week before delivery On production of medical certificate, advance maternity benefit to be allowed Rs. 250 medical bonus to be given when no prenatal confinement and post natal care is provided free of charge
5	Equal Remuneration Act, 1976	Payment of equal remuneration to men and women workers for same or similar nature of work No discrimination is permissible in recruitment and service conditions except where employment of women is prohibited or restricted by law
6	Employees State Insurance (General) Regulation, 1950	Maternity benefit is payable from the date medical certificate is issued for miscarriage or sickness arising from pregnancy, confinement or premature birth
7	Industrial Employment (Standing Orders) Act, 1946	Provisions regarding safeguards against sexual harassment of women workers at their workplace

*Source: Compiled from various Acts*

### **3.6 Collective Actions**

Employees in Samsung are not unionised. The scattered nature of the workforce, uncertain employment, fear of job loss, management threats and lack of awareness are reported as the factors hindering workers from organising. It is notable that no initiations from existing or central trade union have been made to organise these workers to date. In one instance four co-workers showed informal solidarity against the refusal of leave to a worker whose father died. All five workers were terminated.

Unionisation in Samsung is curtailed in many ways. Practices of labour recruitment, employment contract, line management and disciplinary actions are aimed at demoting any form of organisation of the workers. Firstly the company keeps a scattered workforce and significantly limits the interaction amongst them by recruiting a workforce that is segregated along the lines of language, region and gender. For instance most of the workers are either migrants or recruited from far away places. Secondly there is constant monitoring and performance evaluation by the supervisor inside the company. Therefore the jobs are always at stake and any union engagement may lead to victimisation. Thirdly the company by any means consciously does not create an environment to spread a discontent, which is common to every worker. For instance, incidents such as harassment, suspension and dismissals, which may stimulate the collective class conscious of the workers, are dealt with in isolation. There were no incidents of mass dismissal in the company. Conversely dismissals are implemented at intervals; a time gap helps ensure that retrenched workers have no chance to organise collectively.

Lack of organisation has significant repercussions on the wages, working conditions and labour relations of workers. Fixing and revision of wages for instance, are not calculated by indicators such as market rate, general price hike or cost of living. Workers do not demand wage hikes though they are discontent with irrational practices. Similarly larger infringement of labour laws and violation of human rights prevail in Samsung in terms of working hours, wages, discrimination and statutory benefits.

## **4. CONCLUSION**

This study has attempted to situate capital-labour interaction in the wider context of flexible production with special reference to transnational investments in developing countries. The specific case of Samsung Electronics, a South Korean TNC invested in India sheds light on capital-labour interactions and the results on the working and living conditions of the workforce.

Preferential treatment for foreign capital with specific reference to dismantling labour laws has a negative impact on labour in TNCs in India in general. This has been found to be true for Samsung India Electronics. Additionally, in line with the general picture, there are larger forms of violations of existing labour laws pertaining to hours of work, welfare measures and contract employment in Samsung.

These have broader repercussions on labour relations, wages and working conditions of the employees. There is a deliberate policy of informalising formal employment in Samsung through large-scale contract appointment on the production line. A considerable quanta of workers in mainline production in Samsung are contract workers; appointed directly by the company through contractors or employees of the suppliers. This in turn is the actual labour demand of the unit. Wages for both regular and contract workers in Samsung do not conform to market rates. We have found a general trend of association of low wages and overtime for workers. Reinforcing this association, it is seen that duration of overtime is high for contract workers who have lower wages than those of regular workers. Similarly we have found precarious working conditions in terms of non-availability of statutory provisions for both regular and contract workers in Samsung.

Integration of modern production and management practices in TNCs is mainly responsible for the precarious working conditions and weakening of collective actions in Samsung. Irrational fixing of targets based on tact time was found to be overstraining workers. Practices such as constant monitoring, performance-based wage revisions, etc. are weakening the class conscious of workers. Likewise, practices of labour recruitment, employment contract, line management and disciplinary actions are aimed at demoting any form of organisation of the workers.

#### REFERENCES

- Adnett, Nick 1996, *European Labour Markets: Analysis and Policy*. Longman: London.
- Bensal, Dhiraj et al. 2004, 'The Indian Electronics industry', <http://www.calce.umd.edu>
- Chakraborty, P. 1993, 'Electronics industry in India', *Electronics For You*, New Delhi: GOI.
- Chhachhi, Amrita 1999, 'Gender, Flexibility, Skill and Industrial Restructuring: The Electronics industry in India', *Working Paper, No. 296*, Institute of Social Sciences, The Hague.
- Department of Information Technology 2004, *Draft Paper on National Electronics/IT Hardware Manufacturing Policy*, New Delhi: GOI.
- Government of India 1976, *Equal Remuneration Act, 1976*, New Delhi: GOI.
- Government of India 1946, *Industrial Employment (Standing Orders) Act, 1946*, New Delhi: GOI.
- Government of India 1970, *The Contract Labour (regulation and abolition) Act, 1970*, Chapter VII, New Delhi: GOI.
- Government of India 1948, *The Employees State Insurance Act, 1948*, New Delhi: GOI.
- Government of India 1948, *The Factories Act 1948, Act No. 63 of 1948*, New Delhi: GOI.
- Government of India 1947, *The Industrial Dispute Act, 1947, Act No. 14 of 1947*, New Delhi: GOI.
- Government of India 1979, *The Interstate Migrant Workmen (Regulation of employment and conditions of services) Act, 1979*, New Delhi: GOI.
- Government of India 1961, *The Maternity Benefit Act, 1961*, New Delhi: GOI.
- Joseph, K.J. 1989, 'Growth Performance of Indian Industries Under Liberalisation', *Economic and Political Weekly*, Vol. 24, No. 33.
- Kumar, Nagesh and K.J. Joseph 2004, 'National Innovation System and India's IT Capability:

Are there any Lessons for ASEAN New Comers?', *RIS Discussion Papers*, 72/2004, New Delhi: RIS.

Lall Sanjaya 1978, 'Transnationals, Domestic Enterprises and Industrial Structure in Host LDCs: A Survey', *Oxford Economic Papers*, New Series, Vol.30, No.2, pp. 217-48.

Samsung India Electronics, Annual Reports, 2000-2004, [www.Samsungindia.com](http://www.Samsungindia.com)

Shrouti, A. and N. Kumar 1994, *New Economic Policy, Changing Management Strategies: Impact on Workers and Trade Unions*, New Delhi: Maniben Kara Institute and Friedrich Ebert Stiftung.

### WEB SITE REFERENCES

<http://www.dipp.nic.in>

<http://www.rbi.org.in>

<http://www.commerce.nic.in>

<http://www.instat.com>

[www.samsungindia.com](http://www.samsungindia.com)

[www.indiastat.com](http://www.indiastat.com)

<http://www.indembassy.or.kr>

1 The Sondhi Committee was set up to revitalise the electronics production sector in India. The report published in 1979 recommended dismantling regulations in general and MRTP and FERA in particular.

2 The GOI made an amendment in the Factories Act to allow women employees to work late-night shifts with employers providing adequate safeguards at workplace and while commuting. The amendment, allowing women to work between 10 pm and 6 am, will benefit those working in SEZs, textiles, and IT sectors (especially call centres) as it includes a rider that these times shall be allowed only if the employer ensures safety.

3 Numerical flexibility implies the adjustment of labour inputs to changes in output and demand. For details see Draft Paper on National Electronics/IT Hardware Manufacturing Policy, Department of Information Technology.

4 Functional flexibility is the match between available workers and vacancies; temporal flexibility is the variety of working time arrangements. For details see, Adnett (1996), *European Labour Markets: Analysis and Policy*. Longman: London.

5 For details see specific policies for promoting FDI in electronics included in chapter 2 of the report, pp.4-6

6 In respect of each job on which he engages contract labour contractors shall maintain a Muster Roll and a Register of Wages in Form XVI and Form XVII respectively and issue an employment card in Form XIV to each worker within three days of the employment of the workers. For details see The Contract Labour (regulation and abolition) Act, 1970, Chapter VII, GOI.

7 Samsung's official report claims gross profit has recorded a steady increase with a compound growth rate of 6.37 percent between 2000 and 2004. For details see financial statements in the Samsung annual reports.

8 See Case Study 1.

9 There is provision for: one weekly holiday, and not more than 48 hours in a working week for an adult worker; at least half an hour rest after a stretch of five hours of continuous work; no women should work between 7 p.m. and 6 am (Seconds. 51-66); no person less than 14 years of age should work in a factory; no child should work more than four hours a day and

should not work between 10 pm and 6 am.; one full wage leave should be given to an adult worker for every 20 days of work and one for every 15 days to a child worker; a woman should have 12 weeks of maternity leave. For details see The Factories Act 1948, Act No. 63 of 1948, Govt of India.

10 Working hours as per the provision of the law is eight.

11 The Employees' State Insurance Act, 1948 ensures integrated needs-based social insurance scheme that protects the interest of workers in contingencies such as sickness, maternity, temporary or permanent physical disablement and death due to employment injury resulting in loss of wages or earning capacity. Employees of covered units and establishments drawing wages up to Rs. 6,500 per month comes under the purview of the scheme for social security benefits. For details see The Employees State Insurance Act, 1948, Govt. of India.

12 The Industrial Dispute Act entitles workers to settle disputes through works committees, conciliation officers, boards of conciliation, courts of enquiry, labour courts, tribunals and voluntary arbitration in industrial settings. Similarly it ensures payment of wages to workers pending proceedings in high courts, rights of appeal, settlements in outside conciliation, notice of change in employment conditions, protection of workers during delay of proceedings, strike and lockout procedures, lay-off compensation and retrenchment compensation. For details see The Industrial Dispute Act, 1947, Act No. 14 of 1947 GOI.

13 In every establishment to which the Act applies and wherein work regarding the employment of contract labour is likely to continue for six months and where one hundred or more workers are ordinarily employed an adequate canteen shall be provided by the contractor for the use of such contract labour within 60 days of the date of coming into force of the rules in the case of the existing establishments and within 60 days of the commencement of the employment of contract labour in the case of new establishments. Similarly in every place where contract labour is required to halt at night in connection with the working of the establishment to which the Act applies and in which employment of contract labour is likely to continue for three months or more the contractor shall provide and maintain rest rooms or suitable alternative accommodation within 15 days of the coming into force of the rules in the case of existing establishments, and within 15 days of the commencement of the employment of contract labour in new establishments.

14 In respect of each job on which he engages contract labour contractors shall maintain a Muster Roll and a Register of Wages in Form XVI and Form XVII respectively and issue an employment card in Form XIV to each worker within three days of the employment of the workers. For details see The Contract Labour (regulation and abolition) Act, 1970, Chapter VII, GOI.

## CHAPTER 4

### SAMSUNG-THAILAND: AVOIDING DIRECT CAPITAL-LABOUR RELATIONS

*DENNIS ARNOLD<sup>1</sup>*

#### INTRODUCTION

Thailand's electronics industry has expanded rapidly since the mid-1980s. The share of electronics and other manufactured exports as a percentage of total exports increased from five percent in 1970 to 74 percent in 2001 (UNCTAD 2005:3). Thailand's major exports include rubber, textiles and garments, auto and auto parts and electric-electronic products. Of total exports, electronics accounts for about 30 percent of the total.

Government promotion has been a primary factor in the expansion of Thailand's electronics industry. Since the Plaza accord and the appreciation of the Japanese Yen (and the New Taiwan Dollar) in 1986, Thailand has been a primary destination for direct investment in Southeast Asia, behind Singapore and Malaysia. Foreign direct investment (FDI) in electronics has figured prominently in Thailand. The relative macroeconomic and political stability of Thailand and its strategic location as an export base has also contributed to FDI flows, as has relatively skilled, low-cost labour. However, despite rapid increases in FDI and electronics exports, Thailand is still largely limited to assembly operations in electronics, or low value added processes.

In Thailand work in the electronics industry is often deemed more desirable and entailing better conditions than the textile and garments and food processing sectors. However, work conditions regularly meet sweatshop standards. The unionisation rate in the electronics sector in Thailand is low, yet higher than many other labour-intensive private sector industries in Thailand. The private sector unionisation rate in Thailand is between 1.5 to 2 percent. The Confederation of Thai Electrical

Appliances, Electronic, Automobile and Metalworkers (TEAM) report that 18,744 out of their 43,984 members in 2005 are from 13 unions in the electronics sector (or 43 percent of the total TEAM members in 2005<sup>2</sup>). This accounts for around six percent of the 300,000 workers in the electronics sector in Thailand (Toyota Thailand Workers Union 2005). Additionally, there are a number of other trade unions, which are not TEAM affiliates, bringing the percentage of organised workers in electronics to around seven or eight percent. Although low compared to a number of industrialised countries, it indicates an industry with potential for organising workers.

## **1. GOVERNMENT PROMOTION OF ELECTRONICS**

Inward FDI as a percentage of gross domestic investment in Thailand is quite low, at 3.8 percent from 1993 to 1997 (UNCTAD 1999). However, the share of FDI stock in Thailand's electronics industry is about 90 percent (UNCTAD 2005:7). This highlights the fact that transnational corporations (TNC) have been the catalyst of the industry. A brief review of government support and promotion of electronics helps to explain why foreign productive capital has moved to Thailand.

The macroeconomic environment for investment is outlined in the National Economic and Social Development Plans (NESDP). These five-year plans, initiated in 1961 under a military government in the import substitution industrialisation era, have set targets for economic development. During the import substitution phase, from 1961 to 1971 under the NESDP, the electronics sector grew slightly, mainly producing radios and TVs in foreign invested firms. The NESDP's export orientation period (1972 to 1985) is the predecessor to Thailand's more formalised engagement of export oriented industrialisation from 1986, according to implementation of World Bank structural adjustment policies and loans. From 1972 to 1985 the electronics industry expanded to produce printed circuit boards (PCB), piezoelectric crystals and microwave isolators (UNCTAD 2005:10). Investment during this and the preceding period were dominated by Japanese and US firms. Exports of Thai products began, initially to the US under the Generalised System of Preferences.

From 1986 manufacturing in Thailand and other Southeast Asian nations increased dramatically, as did exports. Cheap labour, a relatively stable macroeconomic and political environment in Thailand, combined with higher labour costs and the appreciation of several East Asian currencies led to massive capital relocation of East Asian TNCs to the region. The Board Of Investment (BOI) was the key state-led force that facilitated the flow of productive capital into Thailand.

### **1.1 The Board Of Investment**

Field Marshal Sarit Thanarat established the BOI with the Investment Promotion Act of 1959, it was given authority to provide investment incentives to industries deemed vital for economic development. The BOI is composed of two bodies: the Board and the Office of the BOI. The Board, currently chaired by Deputy Prime Minister Dr. Somkid Jatusripitak formulates policy guidelines. The Office of the BOI

is the administrative arm that implements the decisions of the Board. The BOI currently works with the Ministry of Foreign Affairs, the Ministry of Commerce and the Ministry of Industry. (UNCTAD 2005:6).

Currently, the BOI is the arm of the government responsible for promoting and directing FDI and other types of investment in Thailand. A system of financial incentives and privileges is used to encourage investment overall, to reward certain targeted industries, and to encourage development in specific regions of the country. BOI support, including low import tariffs on equipment and parts necessary for production for export are factors driving FDI in the sector. The role, targeted industries and promotion criteria of the BOI has changed considerably since the early 1980s.

In 1982 and 1983 the government reorganised the BOI's structure, and it began to "coordinate most permits and approvals necessary for foreign investors and spelled out objective criteria for investment promotion for the first time" (Felker 2001:140). This is one of the initial attempts by the Thai government to liberalise investment procedures in favour of foreign capital, a process that is still underway. The changes in 1982-83 granted more generous tax incentives for export oriented projects, and allowed foreign majority joint ventures to sell up to 20 percent of their output on the domestic market (Felker 2001:140). However, due to intensive lobbying by domestic capital certain industries such as textile and garment, auto parts and agriculture maintained protected status.

In the late 1980s when FDI increased dramatically land and labour costs began to increase and local industrialists began to fear they would be marginalised. Unlike the years prior to the boom foreign investors showed a preference for wholly owned subsidiaries rather than joint ventures with Thai firms. In 1987 the BOI revised its promotion criteria again, this time in favour of 100 percent foreign invested projects, to capitalize on the FDI boom, a move that was criticized by domestic business. At the time the President of the Federation of Thai Industries (FTI), Paron Issarasena, also the chairman of the Siam Cement Group (a major shareholder in Toyota assembly in Thailand) called upon the government to 'limit the relocation of footloose industries from other countries ... These industries will come to use Thailand's generalised system of preferences and then leave for other countries which offer them better privileges, leaving nothing for Thailand' (Bangkok Post, 12 January 1989). (Felker 2001:142)

One of the primary complaints from domestic business was foreign firms' access to duty-free imports, particularly capital-equipment, which was the BOI's most important incentive after special tariff protections and corporate income tax holidays (Felker 2001:143). (From 1993 tax holidays and other BOI incentives would become based primarily on regions within Thailand - see below). In the last years of the 1980s domestic business succeeded in influencing the BOI, particularly since FTI and other business associations became BOI supervisory board members, and promotion was extended to areas dominated by domestic capital such as food processing, auto parts and simple machinery. Although Thai firms held their own in

certain labour-intensive industries, foreign firms accounted for a majority of manufactured exports; meanwhile, they formed few linkages with inefficient domestic industries (Felker 2001:144). The integration of foreign invested firms' supply chains with domestic capital and manufacturers is an ongoing objective of the Thai government and business associations.

Concerns in the late 1980s and 1990s have by and large materialised in a number of industries in Thailand today. For instance, a number of analysts feared that the FDI surge would lead to a dependency trap which temporarily boosted growth while binding local economies into subordinate positions in a hierarchical regional division of labour (Felker 2001:144, citing Bernard and Ravenhill 1995). Accordingly, critics suggested that Thailand would be stuck as an assembly and export base with low levels of technology and transfer which are prerequisites for sustainable industry. This has varied considerably from one sector to another: Thailand's capacity in auto parts production has increased considerably (see Arnold 2006), while in the case of electronics these concerns have materialised as Thailand still has low levels of capacity in higher value added nodes of electronics production (see below). The relatively weak role of the state in the late 1980s through much of the 1990s, when changes in government were frequent, led to a sheltered and largely inefficient domestic (import substitution) manufacturing sector which could not compete on export markets, and TNC dominated export oriented firms with few local links (Felker 2001:161).

In 1991 the BOI shifted its intention to 'transform its role from a controller and monitor of investments to a supporter and facilitator of industrial upgrading' (Felker 2001:162). New guidelines allowed 100 percent foreign owned firms to sell up to 20 percent of their output on the domestic market. Again, domestic business complained, but a compromise was reached with a list of sensitive products produced by local firms, and local market access of foreign firms would be regulated. The compromise was due in part to much increased capacity of a few large Thai conglomerates, including the Charoen Pokhapand (agri-business) and the Saha Union (textile and garment) would gain under a more liberalised market. Other domestic companies accepted deregulation since they could maintain market control. However, the BOI's intention to promote technological upgrading took a back seat to industrial decentralisation, until recent shifts under Prime Minister Thaksin's Thai Rak Thai party (see below).

## **1.2 Recent BOI Policies**

In order to promote industrial activity in certain locations, in 1993 three investment promotion zones were created. They are based on economic factors such as the level of income and availability of infrastructure. A core rationale for BOI promotion zones is to address industrial dispersal away from the Bangkok and central region and the uneven development that accompanies such concentration. Accordingly, projects in Zone 3 typically receive much more intensive promotion than projects in Zone 1. For example, Zone 3 projects are tax-exempt for eight years compared to three in Zone 1. (see <http://www.boi.go.th/english> for details).

### ***BOI promotion zones***

**Zone 1:** includes Bangkok, Samut Prakan, Samut Sakhon, Nakhon Pathom, Nonhtaburi and Pathum Thani (Bangkok and five provinces)

**Zone 2:** includes Ang Thong, Ayutthaya, Chachoengsao, Chon Buri, Kanchanaburi, Nakhon Nayok, Phuket, Ratchaburi, Rayong, Samut Songkhram, Saraburi and Suphanburi (twelve provinces)

**Zone 3:** encompasses the remaining 58 provinces

Source: <http://www.boi.go.th/english>

In the electronics sector, production is located in Bangkok and its vicinity (Zone 1), the Eastern Seaboard (Zone 2) where there are a number of industrial clusters, and in the north of Thailand in Lamphun Province (Zone 3). Production in Lamphun is in a zone that is part Export Processing Zone (EPZ) and part industrial zone (IZ). There are roughly 65 factories in the Lamphun EPZ/IZ, employing over 35,000 workers. About half of the 65 factories are electronics<sup>3</sup>, but those factories account for about 70 percent of the workers in the industrial area. Investment is primarily Japanese firms producing computer parts and components. In early 2006 the first-ever trade union in Lamphun was registered in an electronics firm.

Primary reasons for operating factories in Lamphun and the Eastern Seaboard is BOI promotion, they are in the most heavily promoted Zones, 3 and 2 respectively. Secondly, the current minimum wage is lower, at 145 per day in Lamphun, and from 153 to 166 baht in the Eastern Seaboard, compared to 184 baht per day in Bangkok and its vicinity (minimum wages as of 2005). Another reason to move away from the Bangkok area is lower trade union density.

Following the 1997-1998 financial crisis the BOI relaxed foreign ownership rules. In combination with the depreciation of the Thai baht, this led to an increase in mergers and acquisitions, mostly involving foreign investors taking more shares than domestic affiliates. (UNCTAD 2005:14). Foreign investors can now own up to 100 percent of projects in manufacturing for the domestic market. This has facilitated outsourcing and logistics management for foreign TNCs operating in Thailand, which both export and distribute on the local market.

BOI incentives currently take two forms:

- a) Tax-based incentives, which include exemption or reduction of import duties on machinery and raw materials, and corporate income tax exemptions.
- b) Non-tax incentives, which include permission to bring in foreign workers, own land, and take and remit foreign currency abroad.

On 8 December 2005 an incentive initiated by the BOI was for import duty exemptions on raw materials to suppliers that supply products to export manufacturers in the plastics, electrical/electronics and automotive industries (BOI 2005b). To be eligible electronics suppliers must be pre-approved by the Electrical and Electronics Institute. Prior to this, the Thai government announced that it would eliminate or reduce tariffs on products used in the electronics industry, as part of a programme to promote Bangkok 'as a centre of electronics production in SE Asia' (*Bangkok Post*

2005). Around 1,500 products would no longer face import taxes. An additional 400 products would be taxed at one percent for raw goods, five percent for intermediate products, and 10 percent for finished products. Given Thailand's relatively low capacity in higher-tech nodes of electronics production, in addition to testing and design capacity, means nationalist claims of being the production centre for Southeast Asia are quite baseless.

Also on 8 December 2005 the BOI initiated a new incentive scheme intended to boost competitiveness. As Table 1 demonstrates, with this new promotion tax exemption inside and outside of industrial estates are equal, and the duration of privileges are reduced between Zone 1 projects and Zone 3 projects. It is possible for companies operating in Thailand for decades to continue receiving BOI privileges if they combine follow-on investments to operations begun in earlier phases (BOI 2005a), under this and past BOI investment privileges.

The criteria to be considered long-term investment is investment must total at least 15 billion baht; also, details on the usage of raw materials and components must be included, and all component projects in the plan must lie within the electrical and electronics industry's supply chain. Furthermore, long-term investments are required to make minimum investments in at least one of three 'Skills, Technology and Innovation' areas: 1) research and development (R&D) or design, 2) advanced technology training for employees, or 3) support for educational or research institutions. (BOI 2005a).

**Table 1. Corporate income tax exemptions for all electrical and electronics projects (No. of years)**

		Zone 1		Zone 2		Zone 3	
		Outside IE	Inside IE	Outside IE	Inside IE	Outside IE	Inside IE
Previous Privileges	Electrical and Electronics	-	3	3	7	8	8
	HDD and Parts	4	4	6	6	8	8
	ICs	4	4	6	7	8	8
New Privileges		5	5	6	7	8	8

Note: IE = industrial estate; HDD = hard disk drive; IC = integrated circuits

Source: BOI 2005a

Although the BOI did not quantify what a 'minimum investment' in one of the three areas is, the programme is congruent with the government's plan to promote both skills development and the 'filling out of local supply chains'. UNCTAD (2005:19) divides the production of electronic goods into three major stages that can be performed separately: design, original equipment manufacturing and assembly. Manufacture and design capabilities remain low in Thailand, with the exception of a few sub-sectors, such as HDD, which have strong manufacturing capabilities. This means Thailand is largely limited to assembly. The previously mentioned BOI promotion of long-term investment is one of several initiatives to move production into higher value added nodes. The more recent BOI incentives are a part of ongoing

attempts to target other aspects of the electronics industry supply chain, rather than relatively simple assembly. By fostering growth in R&D, training and marketing the government intends to deepen its stake in the electronics sector, perhaps preventing capital relocation to countries with lower cost labour than Thailand by providing other input along supply chains.

Other Thai government measures to strengthen domestic (capital) capacities include (UNCTAD 2005: 27-8):

- The National Science and Technology Development Agency (NSTDA) established a programme for industrial consultancy services in 1992. It promotes the utilisation of local and foreign consultants by Thai firms to facilitate the formation of alliances. The NSTDA has commissioned the HDD cluster development to develop and implement several projects that address the needs of the HDD sub-sector.
- Unit for Industrial Linkage Development (BUILD). In 1992 the BOI created the BUILD programmes to encourage the development of support industries, strengthen linkages and help small and medium-sized contract manufacturers improve their productivity, as well as to facilitate cooperation between foreign and domestic firms.

Overall, government led initiatives such as NSTDA and BUILD are not utilised. UNCTAD (2005:22) reports that only 20 percent of the firms they surveyed have used the “services of public research institutions and perceive the services offered as important to them”. UNCTAD goes on to note that R&D is low in Thailand, with only 15 percent of firms having facilities. With that said, the industry is beginning to move into manufacturing, which is considered a significant step up in the value chain.

These and other initiatives are a response to the fact that the electronics industry has not developed beyond the capacity to source, adapt and operate foreign technologies, in addition to the capacity to upgrade and improve assembly processes. Technology diffusion in the electronics industry is limited, as few companies in Thailand have the capacity to design and develop novel products (UNCTAD 2005:20). Compared with Taiwan and Singapore, the industry is attempting to catch up in Thailand and move into higher value added production. If value added per employee in the electronic sector is set at 100 percent for the US, Singapore scores 72 percent while Thailand only scores eight percent (see McKinsey 2002). Although this data is questionable, it demonstrates the predominance of assembly in Thailand.

The current lack of more sophisticated electronics production can be traced back over the past several decades. Unlike Malaysia, the Thai government did not pressure TNCs to upgrade their production activities (Felker 2001:166). Thailand’s government took a more passive role than Malaysia when dealing with FDI and accordingly did not negotiate with foreign investors over the technological content of new investment. This is largely due to the fact, as mentioned earlier, that domestic business objected to the BOI assuming greater power to bargain with foreign investors. Another related factor is the ease of importing and exporting materials was relatively low in Thailand (Felker 2001:165). With increasing intra-firm trade taking hold in the 1990s TNCs looked for efficient customs procedures to lower cost and speed of production.

TNCs have been either sourcing inputs through imports or, increasingly, from other foreign firms or joint ventures also producing in Thailand. Fully-owned Thai companies are often not linked to these export oriented firms due to their poor technological capability (Felker 2001:169), although this varies according to the type of product. However, Thai firms have been modestly successful. A 1995 Japanese International Cooperation Agency study found 402 electrical and electronics part suppliers, of which 97 were primary suppliers to major assemblers. 30 (31 percent) were wholly Thai-owned, 47 (48 percent) were joint ventures and 20 (21 percent) were wholly foreign-owned (Felker 2001:173).

## 2. TNCs IN THAILAND'S ELECTRONICS INDUSTRY

### 2.1 Data on Electronics in Thailand<sup>4</sup>

Since the mid-1980s the electronics sector has been one of the most significant destinations of FDI in Thailand's manufacturing sector. As with FDI in other sectors, levels increased dramatically from 1988<sup>5</sup>. Table 2 demonstrates the significance of electronics in total FDI flows.

**Table 2. Percentage of investment projects granted by incentives (by sector)**

Sector	1998	1999	2000	2001	2002
Agricultural Products	4.6	8.0	10.9	11.1	24.8
Minerals and ceramics	0.4	0.3	4.7	2.3	1.3
Light industries/textiles	5.2	6.3	11.3	5.6	11.4
Metal and machinery	3.7	8.9	12.3	10.2	17.5
Electrical and electronic	23.3	40.5	33.7	20.3	18.0
Chemicals and paper	17.0	29.4	25.6	27.3	10.5
Services	45.7	6.7	1.6	23.3	16.4
Total	100.0	100.0	100.0	100.0	100.0

*Source: UNCTAD 2005, citing BOI Office 2003*

A direct result of increases in FDI is the share of manufacturing goods for export. They increased from 4.7 percent in 1970 to 62.5 percent in 1991. Since 1995 computers and peripherals and IC have been the main exports of the manufacturing sector, and their combined annual export value has stayed above \$10 million since 1999.

In 2000, the electronics industry accounted for about 40 percent of exports and contributed \$6.2 billion to Thailand's foreign exchange revenue. About 91 percent of all the products of the electronics industry are exported. Of the electronic exports, totalling about \$23.6 billion in 2000, 40 percent were electronic parts and 34 percent were computers and peripherals. The remaining 26 percent were composed of consumer electronics, electrical household appliances, telecommunication and office equipment, and others.

In terms of products, HDD and parts accounted for about 21 percent of total exports in 2000, while semiconductors accounted for about 20

percent. Thailand is the world's second largest producer of HDD after Singapore and accounts for almost 20 percent of the global production. Similarly, the semiconductor sub-sector of the electronics industry in Thailand has expanded rapidly since 1995, with an average annual growth rate of about 18 percent.

Source: UNCTAD 2005:16

## 2.2 Samsung in Thailand

Samsung Electronics Co. took an export oriented path similar to other East Asian corporations currently manufacturing goods in Thailand. 91 percent of all electronics industry products in Thailand are exported (UNCTAD 2005:16). However, domestic sales are increasingly a factor leading to production in Thailand, since they account for 20 percent of Samsung sales in Southeast Asia. In the first nine months of 2004, Samsung had revenues of US\$1 billion in Thailand. This represents a little over 2.5 percent of their total global revenues of \$38.4 billion in that period. In 2006 Thai Samsung Co. announced one billion baht marketing expenditure in Thailand in attempts to increase its market share (Srimalee 2006).

**Table 3. Electronics industry exports structure in 2000 (%)**

Electronic parts	44
Computers and peripherals	34
Consumer electronics	15
Home appliances	6
Telecoms and office	4
Others	1

Source: Mckinsey 2002

**Table 4. BOI-promoted investment in the electronics industry**

Total annual investment (\$ million) categorised by export proportion of total products (1964-1995)

	Domestic market 100%		Export market 100%		Export market 80-90%	
	No. of firms	Investment	No. of firms	Investment	No. of firms	Investment
Total	27	568.16	333	7159.96	165	1527.47
%	5.14	6.14	63.43	77.36	31.43	16.5

Note: 'Domestic market 100%' means that the products were exclusively for sale on the domestic market, while 'Export market 100%' means that the products were exclusively for export. 'Export market 80-90%' means that 80-90% of the products were exported.

Source: UNCTAD 2005:7 (citing Board of Investment Office, Thailand)

Thailand was the first country in Southeast Asia with a Samsung branch office. Box 1 is a chronology of Samsung's history in Thailand

Washing machines, refrigerators, television sets, air conditioners and microwave ovens are the primary products produced by Samsung in Thailand. In addition to those products, retail items in Thailand include cell phones, DRAM, SDRAM, plasma display panels, mp3 players, DVD players, digital camcorders and microwave ovens.

In addition to production and retail, Samsung has also designated Thailand as its regional R&D development centre for traditional TV sets, in addition to flat-screen units in the (unspecified) next stage. Currently there are roughly 1,000 R&D and marketing personnel employed by Thai Samsung Electronics Co. Ltd; that number is expected to triple in the coming decade (see <http://www.samsung.com/th/>).

### Box 1. Samsung in Thailand

**1987** - Samsung Electronics Co. set up a branch office in Bangkok.

**1988** - Thai Samsung Electronics Co. Ltd. was established as a joint venture between Saha Pathana Inter-Holding Co. Ltd. and Samsung Electronics Co. (51% SEC, 49% SP). Their first production facility in Thailand produced colour televisions for the low-end market.

**1990** - The creation of Samsung Electro-mechanics Thailand (a wholly-owned subsidiary) is announced; begins operations in 1993 producing components for colour televisions, microwaves and audio equipment.

**1993 - 1995** - Samsung established production of VCRs, television components and washing machines in Thailand.

**2000** - Received 'Best Factory Award' in Electronics from the Thailand Ministry of Industry.

**2002** - Samsung relocates the production of microwave ovens and large refrigerators from South Korea to Thailand.

- Received the 'Excellence in Labour Relations' award from the Labour Protection and Welfare Department.

**2004** - Samsung creates a regional R&D centre in Thailand to focus on traditional and flat screen television sets.

Source: <http://www.samsung.com/th/>

There are two Samsung production facilities in Thailand<sup>6</sup>. Thai Samsung Electronics Co. Ltd. has a factory in Sri Racha Industrial Park in Chon Buri Province, which mainly produces home appliances. Samsung Electro-Mechanics (a Samsung subsidiary) has a factory in Wellgrow industrial park in Chachoengsao Province that produces electrical components.

Samsung receives the following BOI promotion:

1. Thai Samsung Electronics factory in Sri Racha Industrial Park, Chon Buri Province. For BOI purposes, this factory is a Manufacturer of Electronic Products, in an industrial estate, in Zone 2, and is entitled to the following privileges: (a) Full exemption on import duty for machinery until 31 December 2009; (b) Five-year corporate income tax exemption; (c) One-year exemption from import duties on raw materials used in the manufacture of export products.
2. Samsung Electro-Mechanics factory in Chachoengsao. For BOI purposes, this factory is a Manufacturer of Parts or Supplies Used for Electronic Apparatus in Zone 2, and is entitled to the following privileges: (a) Full exemption on import duty for machinery until 31 December 2009; (b) Three year corporate income tax exemption; (c) One year exemption from import duties on raw materials used in the manufacture of export products.

In 2006 Samsung announced it would shift production of its 400 and 440-litre refrigerators from Korea to its Sri Racha plant in the third quarter of that year. The plant will become Samsung's Southeast Asia refrigerator manufacturing base (Srimalee 2006).

**Table 5. Production capacity by product (percent exported) as of 2002**

Product	Number	Percent
Microwave ovens	5 million	95
Refrigerators	700,000	80
Colour televisions	600,000	10
Washing machines	1.46 million	90
Air-conditioners	73,000	20

Source: Treerapongpichit 2002

### 3. LABOUR IN SAMSUNG THAILAND

Work in the electronics industry is often deemed more desirable with better conditions than other sectors in Thailand. Workers in the electronics industry are predominately women, and often feel 'proud' to be a part of it, as it is deemed better than textile and garment and food processing. This is due in part to the industry requiring higher skills and often higher levels of education, leading to increased feelings among workers that they are better off than in other industries. Often, due to this, workers have lower levels of class consciousness. The electronics industry is largely union-free, not only in Thailand but also internationally, and union busting in electronics and other industries in Thailand is rife. A confluence of the above factors can be construed as reasons for low levels of organised workers in the electronics sector. However, the auto sector is highly organised in Thailand, meaning the 'quality' or prestige of the industry is perhaps not a determining factor. Other factors such as gender and the flexible nature of the electronics sector are perhaps more relevant.

Unionisation rates in the electronics sector in Thailand is low, yet higher than other private sector industries in Thailand, particularly food processing and textile and garments. The private sector unionisation rate in Thailand is between 1.5 to 2 percent. The TEAM state that 18,744 out of their 43,984 members in 2005 are from 13 unions in the electronics sector, or 43 percent of the total TEAM members in 2005 (Toyota Thailand Workers Union 2005)<sup>7</sup>. This accounts for around six percent of the 300,000 workers in the electronics sector in Thailand. There are a number of other trade unions that are not TEAM affiliates, although TEAM accounts for the bulk of unionised workers in the sector. Including non-TEAM affiliates, the unionisation rate in the electronics sector is probably around seven to eight percent.

In early 2005 the first trade union in a Samsung plant was organised in Thailand, however by the time the union was formed the workers were no longer technically employed by Samsung. Rather, as is often the case in the industry, they had been transferred to work for Samsung through a subcontract company<sup>8</sup>. Following is a brief analysis of the events surrounding this case.

#### 3.1 Samsung Electro-mechanics Thailand

Prior to May 2005 there were no reported attempts to organise a trade union at the electrical components producing Samsung Electro-mechanics Thailand in the Wellgrow Industrial Park in Chachoengsao Province. The instigation to organise, as is often the case in Thailand, came because of a significant change at the workplace.

##### ***Company Profile (in May 2005)***

*Samsung Electro-mechanics (Thailand) Co., Ltd*

*Location:* 93 Moo 5 Tambon Bangsamak, Amphur Bangprakong, Chacherngsao

*Authorised management:* Mr. Bieng Soo Choi or Mr. Chong Yoon Choi or Mr. No Sung Hwan (Director) signed their names with a seal of the company

*Employees:* 3,300 Total: Female - 2,650; Male - 550; 800 of the 3,300 workforce are dispatched (outsourced) workers from an in-house labour agency

*Wage:* 90 percent daily wage, 10 percent monthly wage

*Employment period:* average 3 - 10 years

*Minimum wage:* 185 baht per day for regular workers; 165 baht per day for outsourced workers

*Working days:* Monday - Friday

*Weekly holiday:* Saturday - Sunday

*Working shift:* Shift 1: 7:30 - 16:30 + Lunch break: 12:00 - 13:00; Shift 2: 19:00 - 04:00 + Lunch break: 23:00 - 24:00

*Pay day:* 25th of every month

*Organising in SEMTHAI (ATNC (2005a), Jaroenphol (2006) and Solidarity Center (2005))*

Samsung Electro-mechanics Thailand (SEMTHAI) is divided into three sections, section 1 - TV parts, section 2 - PCB and mobile phone parts, and section 3 - digital camera parts. In May 2005 Samsung announced that section 1 would be separated into independent companies, and that workers would be transferred once the construction of the new factories, about 20km away, were complete. Certain parts of the production process would be allocated separately by establishing another 'company', owned by a Korean investor who was previously a manager at SEMTHAI. The new factories would still produce for the Samsung brand (TV parts), but no longer as a Samsung affiliate.

Once Samsung announced the transfer workers immediately understood that it contradicted their rights. During the process three different trade unions were organised at SEMTHAI by a national labour centre. Following is a brief description of the case.

On 9 May in a meeting among the FBT department (400 workers) and DY department (1,000 persons) with their manager, workers were informed by management of their impending transfer from SEMTHAI to ANEON Electronics (Thailand) Co., Ltd and Mile E & DS (Thailand) Co., Ltd. This transfer of employer would take place when workers resign from Samsung Company and re-file an application form with the new company. On that day a majority of the workers refused to comply with the order, although some complied, perhaps without considering the repercussions.

ANEON Electronics (Thailand) Co., Ltd and Mile E & DS (MED) (Thailand) Co., Ltd are Korean-owned companies. Both companies registered *after* SEMTHAI held the meeting and announced to the workers that they must resign and rewrite the employment contract, meaning the companies did not exist in the initial stages of negotiation. In addition, these two companies are registered in the same premises, at SEMTHAI. These companies were created by upper level management at Samsung, to employ the Samsung workers and continue producing for Samsung. It is somewhat surreal that the Samsung workers were asked to transfer their employment to a company that did not exist on the same premises as their current employer.

There are a number of possible explanations for Samsung's actions. Firstly, Samsung wanted to avoid direct responsibility for the workers, and accordingly increase the flexibility of their production in Thailand. The informalisation/

flexibilisation of work is a global trend that has been prominent in Thailand since the financial crisis in 1997-1998. By not directly employing workers financial capital is freed for Samsung to be directed to other aspects of their business. This is important in light of the fact that Samsung had consistently been expanding their operations in Thailand, particularly over the previous five to 10 years, and ANEON and MED would provide the production to do so.

With the increasing focus on R&D and marketing in Thailand and the region, another possible explanation for SEMTHAI's move is increased focus on these nodes with higher profit margins. Given the lack of preferred or qualified sub-contractors in Thailand, SEMTHAI is able to maintain relations with former managers who are familiar with the expectations and standards for Samsung products. Rather than take a risk on a different sub-contracting plant in Thailand, SEMTHAI set up a de-facto subsidiary without having to take responsibility for the workers. This is a tactic widespread in the textile and garment sector and could become more common in electronics manufacturing. The implication is Samsung may be making a shift from its current vertically integrated producer-driven supply chain model, to a buyer driven supply chain that bases production on competition among sub-contracted suppliers. Buyer driven supply chains are far more flexible, ease the shifting of production from one factory, country or region to another based on market demands and decreases interaction with less profitable nodes of the supply chain, particularly mass-produced, labour-intensive products found in Samsung plants in Thailand.

Following the initial meeting the manager of each department clarified the transfer plan in an attempt to ensure the workers' 'confidence' toward the company with the following announcement:

1. The same welfare as received in SEMTHAI will still be provided.
2. The record of employment period from working in SEMTHAI will be resumed.
3. The new premises will be approximately 20 km away from SEMTHAI (the workers would have to continue working at SEMTHAI during the one-year construction of the new plant. The location of the new factories had not even been decided at the time).

Management claimed that these details would be clearly written in the transfer contract. It stated that the workers did not have to refill the application form as they initially said, but sign the transfer contract only. SEMTHAI presented the workers 'an employment contract' of ANEON Electronics (Thailand) Co., Ltd and Mile E & DS (Thailand) Co., Ltd, which included a 120-day probation period. The workers would be sacked if they failed satisfactory performance during this period.

Workers realised that their rights would be violated according to the terms laid out by Samsung. They made initial contact with Ms. Bang-on Sang-ngam, an organiser with the Central Labour Congress of Thailand<sup>9</sup>. Ms. Bang-on and Mr. Bunjong Jaroenphol, an organiser with the Paper and Printing Labour Federation of Thailand, and one of the organisers at SEMTHAI, met with workers and "helped them to understand" that the proposed agreement violated a number of laws and rights related to severance pay, years of service with the company and other matters. The workers decided to appoint representatives to negotiate with management.

The day after informing workers of the contract, SEMTHAI issued an announcement regarding a “cash reward” for any workers who would voluntarily sign the new employment contract, but only if they signed between 11-13 May. Many of them agreed to sign but the employment contract was later cancelled. Meanwhile, the workers held a meeting at the Central Labour Congress of Thailand to formulate demands to submit to management, in addition to appointing the worker representatives.

On 13 May the workers collected a list of 678 supporters for their demands. The workers submitted seven demands to the company. On 14-15 May SEMTHAI held a meeting with the workers in an attempt to persuade them to withdraw their names from the workers’ request submitted to the company, and sign a form against the establishment of the union. The following day SEMTHAI arranged a meeting with the seven workers’ representatives. Mr. Noh Sung Hwan, President of Samsung received the workers’ request. Two requests could not be settled, Item 4: regarding transferring the workers and Item 1: bonus. Accordingly, the representatives reported the labour dispute to a mediator in Chacherngsao Province.

Shortly afterwards the workers held a meeting at Central Labour Congress of Thailand, and agreed to withdraw the request dated 13 May 2005, since the number of supporters of the demands increased from 678 to 1,768 workers. The number of workers subject to transfer was 1,400, so this round of negotiation was supported by some ‘Samsung’ workers who were not slated for transfer and change in their terms of employment. They increased the number of demands from seven to 11 and appointed seven representatives to negotiate on their behalf. According to Thai labour law, workers do not have to be unionised in order to negotiate collectively with management; only 15 percent of the workforce is required to do so without a trade union to represent workers.

On 18 May, with mediation of officials from Chacherngsao Labour Welfare and Protection Department, SEMTHAI announced an agreement regarding the workers’ 11 demands. (See Appendix 1). However, management sacked the seven workers’ representatives without any severance pay, claiming intentions to create troubles and a disorderly working environment, in addition to persuading workers to ‘misbehave’, allegedly causing the company to suffer losses. The company reported them to the police and security guards and ordered them to be escorted away from the company premises immediately. Samsung posted a prohibited sign with their photos to prevent them from entering the factory premises.

The following day the seven sacked workers submitted a request to the Chacherngsao Labour Welfare and Protection Department to seek reinstatement. They also filed a complaint with the police at Bang-wua Police Station with the charge that the company violated the Labour Relations Act of 1975, which prohibits the employers from firing employees during negotiation. Their rights were clearly violated. They also filed a complaint with the Governor of Chacherngsao Province.

Afterwards, mediators from the Ministry of Labour and Chacherngsao Labour Welfare and Protection Department had a meeting with Mr. Noh Sung Hwan, President of SEMTHAI, Parin Yardcholabutr (an unidentified participant), the seven dismissed workers, and two consultants. The results were:

1. SEMTHAI would consider reinstating *some* of the seven workers. The rest of them would be offered severance as agreed or could otherwise file a complaint according to the law.
2. SEMTHAI agreed with the workers' demands dated 18 May 2005, which would be effective for those workers who signed up to the demands.

SEMTHAI reinstated five of the workers' leaders to resume work on 30 May; two workers, Teerayuth Leklup and Kotchapak Ratanapol were not granted reinstatement. After several months of uncertainty, on 2 August 2005 the two sacked workers' settled for \$36,585 in compensation from SEMTHAI. Reportedly their colleagues, many of whom had contributed both morally and financially to support their struggle, were upset as they were encouraging them to fight for their rights.

However, prior to this settlement in August, and despite the terms of the agreement, the workers at SEMTHAI were essentially coerced into making a decision regarding their terms of employment with their 'new' employers. A primary reason behind workers organising in the first place was over the transfer and to ensure that they were protected after the transfer. Stopping the transfer was never a significant issue in the process of organising or negotiation. Initially the transfer was not going to be done according to the law, but according to the agreement between workers and management (it is perhaps not a CBA) it would at least follow the law. At the time of writing all of the workers and production are still in the same location, the SEMTHAI plant. The transfer is still pending although the terms of employment went into effect in May 2006, see Box 2.

In the end, roughly 800 workers chose option A, 200 chose B and about 350 chose option C. In practical terms those who chose A received compensation but lost their years of service. Pay for those who chose A and C continue to be the same, however four months after the agreement their working hours began to decrease, despite demands to increase working hours. In December 2005 those who chose option A got 1.5 months bonus, those who chose option C received bonus according to the agreement, 3 months. Those who chose option B are considered new employees, so the company reportedly 'does with them as they will' (Bunjong 2005).

### **3.2 Organising a Trade Union at Samsung**

On 25 June about 100 SEMTHAI workers organised two different unions, one for rank and file workers and the other for upper level workers/management. Neither was able to expand membership to different sections, and neither included newly transferred workers at ANEON and MED. In fact, both nearly collapsed shortly after registration as they were not able to organise a general assembly within 120 days of union registration.

**Box 2. Three choices for SEMTHAI workers**

**Choice for making the working agreement**

Date;.....

Section ..... Employee's name ..... ID no. ....

I would like to choose one of the following choices concerning the working agreement dated 18 May 2005 at 16:20.

In the agreement No. 4 stating the transfer of workers to ANEON electronics (Thailand) Co. Ltd., which complies to the 1998 Labour Protection Act, the transferred workers shall enjoy the same wages, welfare and fringe benefits as provided by Samsung Electro Mechanics (Thailand) Co. Ltd. and one of the following choices below:

No.	Content	Choose	Date of payment
A	The workers who resign from SEMTHAI would receive compensation at the amount regulated in the national labour law but would not receive a gratuity and no prolongation of the years of service in the new company. The new company agrees to employ them without probation period. The calculation of the workers' compensation are as follows-From fully 120 working days but not fully one year of services, 30 days compensation (1 month) shall be paid.-1 year but not fully 3 years, 90 days compensation (3 months) shall be paid-3 years but not fully 6 years, 180 days compensation (6 months) shall be paid.-6 years but not fully 10 years, 240 days compensation (8 months) shall be paid. -From 10 years up, 300 days compensation (10 months) shall be paid.		
B	The workers who resign from SEMTHAI would receive legal compensation and one month severance payment in lieu of advance notice under the national labour law but not receive gratuity and no prolongation of their years of services in the new company. In applying for the jobs in the new company, it is the company's consideration on regulating position, wage and welfare on individual worker together with condition of 120 days probation period.		
C	The workers who agree to be transferred to the new company would not receive any compensation and severance payment in lieu of advance notice but would receive a gratuity and prolongation of their years of service.		
Signature;..... ( )			

Following are details of those two unions at SEMTHAI (note they have the same contact person and address):

Leader of Samsung Labour Union (Supervisor level)

33/1450 Moo 10, Soi Chokchai 54

Ladprao Road, Bangkok Thailand

Union registration No. 918, dated: June 27, 2005

Contact person; Mr. Nopadol Rattanapon

Worker Samsung Labour Union

33/1450 Moo 10, Soi Chokchai 54

Ladprao Road, Bangkok Thailand

Union registration No. 917, dated: June 27, 2005

Contact person; Mr. Nopadol Rattanapon

There was reportedly no reaction from management upon formation of the Worker Samsung Labour Union, raising suspicion that both were essentially created by management as a means to suppress any demands from workers still directly employed by SEMTHAI. Furthermore, the formation of both unions may have been a public relations measure on the part of Samsung to ensure their 'good standing' with the Ministry of Labour as promoting 'good' labour relations. At the time of writing it appears that both unions are not developing, and could collapse at any time. A worker from ANEON/SEMTHAI (ATNC 2005a) claims that both are 'paper unions' with no real support among the workers either at SEMTHAI or the two spin-off companies.

Finally, a third trade union was formed in late 2005 by the former SEMTHAI workers, primarily by those who chose option (C) when their employment was transferred. It is registered as the Electro-Mechanics Workers Union (EMWU). The EMWU is the only of the three unions that is developing (Jaroenphol 2006 and ATNC 2005a), since it is the only one of the three unions with widespread support among the workers.

There are a number of implications and possible lessons from this case study. Firstly, it is apparent that workers were effectively divided by management throughout the course of this case. The efficacy of the unions that were formed remains to be seen, but the fact that three different unions were formed according to workers' status and chosen relationship with the employer after workers divided into three distinct groups is quite problematic. As mentioned, another factor preventing widespread membership and effectiveness of the so-called 'Samsung' unions is the fact that they were not able to organise across sections in the factory. It is interesting that the name of the two 'paper unions', Leader of Samsung Labour Union and Worker Samsung Labour Union both include 'Samsung' in their name, despite the fact that they were organised in the process of being transferred.

Another issue is that after the initial problems regarding the transfer settled down, the workers who are still technically employed by Samsung at SEMTHAI have lost interest in trade unions, since they think the problem is solved and there is

no further need to organise or unionise. This touches on problems for unions not only in Samsung Thailand, but throughout Thailand. Many trade unions are often at a loss to be relevant at times other than direct conflict with capital.

#### 4. CONCLUSIONS

The development of Thailand's electronics industry has been heavily promoted and guided by the government. Neo-liberal economic models, which promote the market as the primary regulating force, are becoming prominent in Thailand, yet the state is still playing a key role in determining the future of the industry. Paradoxically, the state is entering a number of agreements with other countries, primarily through free trade agreements and the World Trade Organisation, which would lessen the ability of the state to interact with the market. The Thai government is attempting to balance the fine line between the two while promoting the country's industry as a manufacturing and R&D centre, comparable to Taiwan and Malaysia. The competition to engage these nodes of production is intense, and if Thailand is to succeed it must combine high skills, low cost and other structural factors conducive to long-term investment such as political and macro-economic stability. Maintaining these political and macro-economic conditions could easily lead to increasing repression of labour rights.

The case study in this report offers a glimpse into tactics corporations in the electronics sector are using to recompose labour. Although work conditions at SEMTHAI are considered above average when compared to other factories in the Wellgrow Industrial Estate, it elucidates the increasing flexibilisation of the workforce and the concurrent decreases in direct relations among branded (often retail) capital and labour. The quality of work at the Samsung spin-off companies remains to be seen, but it is plausible that it will decrease as workers bargaining power is splintered and reduced.

#### REFERENCES

- Arnold, Dennis 2006, 'Free Trade Agreements in Southeast Asia', *the Journal of Contemporary Asia*, Vol. 36, No. 2.
- Asian Transnational Corporation Monitoring Network (ATNC Network) 2005a, *Workshop on Organising Flexible Labour: Workshop Minutes*, Bogor, Indonesia: Organized by Asia Monitor Resource Centre, 20-22 November 2005, unpublished.
- Asian Transnational Corporation Monitoring Network 2005b, *Organizing Flexible Labour in Asia: Summary Report*, Bogor, Indonesia: Organized by Asia Monitor Resource Centre, 23-25 November 2005.
- Asian Transnational Corporation Monitoring Network 2005C, *Workshop on Electronics Industry and Workers: Summary Report*, Hong Kong: Co-organized by Asia Monitor Resource Centre and Hong Kong Christian Industrial Committee, 28-31 March, unpublished.
- Bangkok Post 2005, 'Tariff cuts will boost electrical and electronics sectors', *Bangkok Post* 8 November, p. B1.
- Board of Investment 2005a, 'New BOI Incentives to Dramatically Boost Thailand's

Competitiveness and Drive Thailand to Become Electronics Hub of Southeast Asia', *BOI Press Release, 9 December*, <http://www.boi.go.th>

Board of Investment 2005b, 'BOI Import Duty Exemptions Expanded to Non-Promoted Suppliers of Plastics, Electronics and Automotives', *BOI Press Release, 9 December*, [http://www.boi.go.th/english/download/hot\\_topic/40/Raw.pdf](http://www.boi.go.th/english/download/hot_topic/40/Raw.pdf)

Felker, Greg 2001, 'Investment Policy Reform in Malaysia and Thailand', in K. S. Jomo (ed.) *Southeast Asia's Industrialization: Industrial Policy, Capabilities and Sustainability*, New York: Palgrave.

Kim, Youngsoo 1997, 'Technological Capabilities and Samsung Electronics', *Working Paper 106*, presented in Berkeley Roundtable on International Economy, United States, 1997.

McKinsey 2002, 'Thailand: Prosperity through Productivity', *McKinsey Global Institute Reports*.

Solidarity Center 2005, *List of brief incidents at Samsung Electro-mechanics (Thailand) Co., Ltd*, Bangkok, unpublished.

Srimalee, Somluck 2006, 'Industrial Expansion: Samsung to Boost Local Refrigerator Production', *Bangkok Post*, 8 February.

Toyota Thailand Workers' Union 2005, *Confederation of All Toyota Thailand Worker's Union*, unpublished power point presentation.

Treerapongpichit, Busrin 2002, 'Samsung Set to Expand Thai Base', *Bangkok Post*, 5 June.

United Nations Conference on Trade and Development (UNCTAD) 1999, *World Investment Report 1999*, Geneva: UNCTAD.

United Nations Conference on Trade and Development 2005, *A Case Study of the Electronics Industry in Thailand*, New York and Geneva: United Nations.

Wiriyaopong, Nareerat 2004, 'New Expansion Plans set by Korean Firms', *Bangkok Post*, 12 January.

## INTERVIEWS

Interview with Bunjong Jaroenphol (Paper and Printing Labour Federation of Thailand) No. 1, 11 January 2006.

## APPENDIX 1

### Working condition agreement (at Samsung Thailand)

18 May 2005, 4.20 p.m.

The meeting between 'the workers' representatives' and 'the employers' representatives' (Samsung Electro Mechanics Thailand), hereinafter referred to as 'the company', at Pro-st meeting room in the company on 18 May 2005 at 2 p.m. according to the demands dated 17 May 2005, both parties agree to have additional working condition agreements as follows.

No.1 The company agrees to pay three months bonus annually upon previous conditions and criteria.

No. 2 The company agrees to increase shift payment from 30 to 50 baht per day per person upon previous conditions and criteria and provide 2 uniforms per year, increasing from 1 uniform per year.

No.3 The company agrees to increase incentive allowances to daily [temporary] workers  
A) Increasing the allowance in the first month from THB400 to THB600 per person per month.

B) Increasing the allowance in the second month from THB500 to THB700 per person per month.

C) Increasing the allowance in the third month from THB600 to THB800 per person per month.

The company agrees to increase incentive allowance to monthly [permanent] workers

D) Increasing the allowance in the first month from THB600 to THB800 per person per month.

E) Increasing the allowance in the second month from THB700 to THB900 per person per month.

F) Increasing the allowance in the third month from THB800 to THB1,000 per person per month.

No.4 In the transfer to the new company, it would comply with the 1998 Labour Protection Act by which the transferred workers shall enjoy the same wages, welfare and fringe benefits as previously provided by the company and one of the following conditions.

A) The workers who resign from SEMTHAI would receive a compensation at the amount regulated in the national labour law but would not receive a gratuity and no prolongation of their years of service in the new company. The new company agrees to employ them without probation period. The calculation of the workers' compensation are as follows.

- From fully 120 working days but not fully one year of services, 30 days compensation (1 month) shall be paid.

- 1 year but not fully 3 years, 90 days compensation (3 months) shall be paid.

- 3 years but not fully 6 years, 180 days compensation (6 months) shall be paid.

- 6 years but not fully 10 years, 240 days compensation (8 months) shall be paid.

- From 10 years up, 300 days compensation (10 months) shall be paid.

B) The workers who resign from SEMTHAI would receive legal compensation and one month severance payment in lieu of advance notice under the national labour law but not receive gratuity and no prolongation of their years of services in the new company. In applying for the jobs in the new company, it is the company's consideration on regulating position, wages and welfare on individual worker together with condition of 120 days probation period.

C) The workers who agree to be transferred to the new company would not receive any compensation and severance payment in lieu of advance notice but would receive a gratuity and prolongation of their years of service.

D) For the permanent workers in other sections, whom not be transferred to the new company, the company agrees to pay one month gratuity.

No.5 The company agrees to increase salary annually for monthly workers at least 5 per cent per year. For the daily workers, the company agrees to increase 5 Baht per day annually. On 1 June 2005, the company agrees to increase salary for monthly workers at 5 per cent of their previous amount and increase for daily workers at 5 Baht per day.

No. 6 Daily workers who have been working for fully three years will become monthly workers on the 1st of next month after his/her due. For the workers, who have their three years of service due on 31 May 2005, will become monthly workers on 1 June 2005 by calculating the salary by multiplying daily pay with thirty days.

No. 7 The company agrees to remain good working conditions agreement done both in written and non written form.

No. 8 The company agrees to give opportunity to a 'leader' to be promoted to be a 'supervisor'.

The above agreements shall be in effect since 1 June 2005, for three years.

Signature ..... (workers' representative) Signature..... (company's representative)

Signature ..... (workers' representative) Signature ..... (company's representative)

Signature ..... (workers' representative) Signature ..... (company's representative)

Signature ..... (workers' representative) Signature ..... (company's representative)

Signature ..... (workers' representative) Signature ..... (company's representative)

Signature .....(workers' representative) Signature ..... (company's representative)

### NOTES

1 Research assistance was provided by J Eric Elder, a volunteer with Thai Labour Campaign in late 2005-early 2006.

2 51 percent of the 43,984 TEAM members are from 30 auto sector unions.

3The remaining factories in Lamphun produce jewellery, food processing, leather and other light manufactured goods.

4 Unless otherwise noted, data for this section is drawn from UNCTAD 2005, pp. 13-18.

5 For a more detailed analysis of FDI in Thailand and Southeast Asia, see Arnold 2006.

6 Minimum wage is set at the provincial level in Thailand. As of January 2006 the minimum wage in Chachoengsao is 153 baht per day, while Chon Buri is 166 baht per day.

7 51 percent of the 43,984 TEAM members are from 30 auto sector unions.

8 Ironically, Samsung won the 'Excellence in Labour Relations Award' from the Labour Protection and Welfare Department in 2002, despite the fact that there were no unionised workers in Samsung at that time.

9 Referred to as the Workers Confederation of Labour Center of Thailand, see Solidarity Center 2005.



## CHAPTER 5

### WORKERS IN SAMSUNG MALAYSIA: UNDER THE STATE-TNCS ALLIANCE

*LABOUR RESOURCE CENTRE*

#### INTRODUCTION

This is a limited overview of Samsung Groups in Malaysia. Due to restricted accessibility to official information about Samsung in Malaysia, this research has to rely upon bits and pieces of material we gathered from direct and indirect interviews (mainly with Samsung Electronics Display and Samsung SDIM, two of the chief Samsung groups in Malaysia). It was almost impossible to meet workers inside. They were scared of anybody connected to any kind of labour groups or politics or even just opposition parties. Even if we managed to meet some workers, they did not have a clear picture of their own working conditions. They were struggling with their own lives, saving money to buy motorcycles and trying to find better stable jobs. They don't have much interest in the growing number of migrant workers among themselves. Furthermore, office workers don't know much about working conditions in the factory that is only several metres away from them. Even trade unionists in Malaysia were unfamiliar with Samsung factories that are located in an isolated industrial complex called Samsung Factory Zone. In the zone, thousands of workers live in dormitories and hundreds of sub-factories operate in isolation from the outer world. Samsung Malaysia is the leading case of successful localisation among Samsung's foreign subsidiaries. It is said that two percent of Malaysia's gross domestic product (GDP) and 0.8 percent of exports rely on that zone (Roh, Moo-Hyun 2005). In spite of the limited objective and quantitative data presented in this report, readers will have a chance glance at a foreign invested corporation that is fully supported by its government and successfully scatters workers to various statuses of individuals.

Section 1 contains a broad sketch of Malaysia's electrical and electronics industry and their priority. Also it shows the general picture of foreign investment in this country together with foreign investment policies of the Malaysian government, involving various kinds of incentive, free trade zones, and a huge pool of migrant workers. You can read the successful story of Samsung Malaysia and the splendid strategies of Samsung Groups in section 2. Section 3 provides stories about workers-testimonies of their stressful lives dogged by a number of productivity campaigns, and intense competitions for grade-based bonuses. In section 4, there is a story of migrant workers as subcontract workers in the Samsung Multiplex Zone and some interesting stories about home based workers as the third layer of Samsung's subcontracting chain. It also reveals that Samsung's policies, as well as that of the Malaysian government, effectively blocks workers from organising.

## **1. ELECTRICAL AND ELECTRONICS INDUSTRY IN MALAYSIA AND THE SAMSUNG CORPORATION**

### **Overview of Malaysia's Electrical and Electronics Industry**

It's not difficult to find analysis that shows the electrical and electronics industry in Malaysia has certainly come a long way over the last 30 years. From a handful of companies with less than 600 workers in 1970s, the industry has today attained world-class capabilities and is the largest contributor to the country's manufacturing output, employment, and exports. In 2004, gross output of the industry totalled RM183.1 billion (US\$48.2 billion), while the industry's exports of electrical and electronics products amounted to RM241.5 billion (US\$63.6 billion) or 64.1 percent of total manufactured exports. The industry created 369,488 job opportunities, accounting for 36.6 percent of total employment in the manufacturing sector (Malaysian Industrial Development Authority 2006). Business Opportunities in Malaysia Electronics Industry 2004 by Malaysian Industrial Development Authority (MIDA) introduces Malaysia as 'a market-oriented economy combined with a young, educated workforce, an excellent infrastructure, and a government committed to maintaining a business-friendly environment', that has made Malaysia's formula for success in attracting investments into the country's electronics sector (MIDA 2004). The government announced Malaysia as now home to transnational companies (TNC) from the US, Japan, Europe, Taiwan, and Korea, manufacturing products ranging from semiconductor devices to consumer and industrial electronics.

Malaysia has achieved considerable success in developing its electronics sector on the basis of heavy foreign investment. Table 1 shows the growth and change of the electronics industry between 1997 and 2003 and Table 2 shows the priority scale of electronics and electrical products against other industries in 2005 and early 2006 and also the amount of foreign investment.

Malaysia began to industrialise in the early 1980s. Many countries on the road to industrialisation were looking to emulate the West at that time, but former prime minister Mahathir's 'Look East Policy Malaysia' sought to ensure its success in

**Table 1. Malaysia's electronics industry, 1997-2003<sup>1</sup>**

Year	Output*		Employment*		Exports**		Imports**	
	RM billion	% growth	No.	% growth	RM billion	% growth	RM billion	% growth
	(US\$ billion)				(US\$ billion)		(US\$ billion)	
1997	85.6 (22.5)	12.6	343,300	4.3	107.3 (28.2)	17.0	75.2 (19.8)	11.3
1998	106.7 (28.1)	24.6	341,700	(0.5)	146.7 (38.6)	36.7	92.5 (24.3)	28.8
1999	129.8 (34.2)	21.6	382,000	11.8	179.7 (47.3)	22.5	109.8 (28.9)	12.6
2000	167.1 (44.8)	31.0	423,600	10.9	212.7 (56.0)	18.4	143.4 (37.7)	30.6
2001	144.4 (38.0)	(15.1)	355,800	(16.0)	182.6 (48.0)	(14.2)	122.1 (32.1)	(14.9)
2002	136.6 (35.9)	(5.4)	345,500	(3.0)	188.4 (49.4)	3.2	138.6 (36.5)	13.5
2003	147.1 (38.7)	7.7	360,048	4.2	183.2 (48.2)	(2.8)	138.3 (36.4)	(0.2)

industrialisation by following the example set by Japan. Japan was called an economic leader in Asia from which Malaysia learned its technological expertise to its work ethics. There was an increase in the number of students and trainees from Malaysia going to Japan and also a rapid enlargement of direct investment in Malaysia by Japan's electric and electronic industries and automobile manufacturers. Many of these companies were seeking to move abroad as a way to deal with the strengthening yen. From the late 1980s, Korean companies also followed Japan by investing in Malaysia competing for construction projects like the Petronas Towers in 1996. Along with that more than 2,360 Malaysian trainees, students, and government officers were sent to Korea between 1983 and 2004.

At the same time increasing leakage from the truncated operations of TNCs led the government to seek strategies to expand linkages domestically in the 1980s. Convinced that the Japanese and Korean models built around large industries worked, the government strongly promoted the heavy industries of steel, cement and cars following the Look East Policy of 1981 as a means to develop domestic firms. It was only since 1986 when the first Industrial Master Plan was launched that the export processing zones gained active promotion from the government. A severe slowdown in GDP in the mid-1980s led the government to take advantage of a new wave of TNCs relocating from Japan, the Republic of Korea, Taipei, China, and Singapore with also largely US TNCs by reviving incentives and opening new free trade zones in other parts of the Western corridor of Peninsular Malaysia (Rasiah 2003). Industrial development was dependent on TNCs from mainly US and Japan when in 2004, the Malaysian Government approved US\$263 million in new manufacturing investment by US companies, with the bulk in the electronics and electrical sectors. Accordingly, in addition to becoming an exporter of goods such as semiconductors and consumer electronics, Malaysia became the sole country in the

**Table 2A. Projects approved by industry, 2006\* (US\$)<sup>2</sup>**

Industry	No.	Domestic Investment	Foreign Investment	Total Proposed Capital Investment
Electronics & Electrical Products	40	72,020,634	153,034,569	225,055,202
Chemical & Chemical Products	15	114,086,203	30,831,023	144,917,226
Machinery Manufacturing	23	32,266,267	34,546,034	66,812,301
Food Manufacturing	11	30,717,126	6,301,564	37,018,691
Furniture & Fixtures	16	22,668,664	9,652,990	32,321,654
Textiles & Textile Products	9	2,902,132	29,045,824	31,947,956
Plastic Products	16	23,028,902	6,858,327	29,887,228
Transport Equipment	10	10,457,716	16,100,837	26,558,553
Wood & Wood Products	6	20,699,615	4,770,632	25,470,247
Fabricated Metal Products	24	10,274,376	11,413,173	21,687,548
Non-Metallic Mineral Products	8	9,784,384	10,311,184	20,095,568
Basic Metal Products	5	5,013,158	12,714,220	17,727,378
Paper, Printing & Publishing	4	2,052,659	11,165,634	13,218,293
Rubber Products	5	1,428,532	4,279,445	5,707,977
Scientific & Measuring Equipment	2	1,264,935	1,552,618	2,817,553
Beverages & Tobacco	1	2,395,856	266,206	2,662,062
Petroleum Products (Incl.Petrochemicals)	1	315,789	473,684	789,474
Leather & Leather Products	-	-	-	-
Miscellaneous	3	4,327,500	1,254,079	5,581,579
TOTAL	199	365,704,447	344,572,042	710,276,489

**Table 2B. Projects approved by industry, 2005 (US\$)**

Industry	No.	Domestic Investment	Foreign Investment	Total Proposed Capital Investment
Electronics & Electrical Products	226	651,275,784	2,978,666,947	3,629,942,731
Chemical & Chemical Products	64	224,095,597	228,810,577	452,906,174
Machinery Manufacturing	85	120,363,245	149,997,219	270,360,464
Food Manufacturing	75	243,579,505	139,969,184	383,548,689
Furniture & Fixtures	55	117,954,566	16,703,526	134,658,092
Textiles & Textile Products	35	59,936,229	38,468,525	98,404,754
Plastic Products	81	154,017,592	156,520,694	310,538,287
Transport Equipment	62	240,073,049	132,583,812	372,656,861
Wood & Wood Products	36	74,542,986	20,317,526	94,860,512
Fabricated Metal Products	115	133,725,985	65,949,821	199,675,806
Non-Metallic Mineral Products	30	85,639,444	156,867,803	242,507,247
Basic Metal Products	47	730,124,924	113,288,544	843,413,468
Paper, Printing & Publishing	23	218,354,804	32,567,406	250,922,210
Rubber Products	27	146,799,933	56,620,874	203,420,807
Scientific & Measuring Equipment	15	16,441,538	359,073,902	375,515,441
Beverages & Tobacco	9	4,429,103	20,421,130	24,850,232
Petroleum Products (Incl.Petrochemicals)	15	158,344,504	35,005,806	193,350,311
Leather & Leather Products	1	1,415,703	943,802	2,359,505
Miscellaneous	25	85,653,242	3,257,399	88,910,641
TOTAL	1,026	3,466,767,734	4,706,034,498	8,172,802,232

Association of South East Asian Nations (ASEAN) region to launch a national car industry. Such developments accelerated Malaysia's industrialisation and spurred significant economic growth by helping to expand its exports, which until then had consisted of typical primary products such as raw rubber and tin. But still the desire of increasing foreign participation in this activity goes on as a huge issue.

### **Overview of Malaysia's Foreign Investment and Government Policy**

From the early 1980s through the mid-1990s, the Malaysian economy experienced a period of broad diversification and sustained rapid growth averaging almost eight percent annually. New foreign and domestic investment played a significant role in the transformation of Malaysia's economy. Manufacturing grew from 13.9 percent of GDP in 1970 to 30.9 percent in 2003, while agriculture and mining, which together had accounted for 42.7 percent of GDP in 1970, dropped to 8.7 percent and 7.2 percent, respectively, in 2003. According to the government, Malaysia is one of the world's largest exporters of semiconductor devices, electrical goods, and other appliances, and has ambitious plans to make Malaysia a leading producer and developer of high-tech products, including software (US Department of State 2005).

Having attracted foreign direct investments, Malaysia's industrial development has been dependent on TNCs, especially from the US and Japan. Table 3 compares foreign investment amounts by major trading countries. Malaysia maintains cooperative relations with mainly US, the European Union, and Japan. Major trade markets are US 18 percent, Singapore 15 percent, and Japan 10.9 percent in exports<sup>3</sup> and major suppliers of imports are US 15 percent, Japan 15 percent, and Singapore 11 percent (US Department of State 2005)<sup>4</sup>.

**Table 3. Projects approved by country, 2006\* and 2005 (US\$)<sup>5</sup>**

Country	2006 *		2005	
	No.	Foreign Investment	No.	Foreign Investment
US	11	101,597,986	42	1,356,576,555
Netherlands	2	70,460,421	26	440,525,503
Singapore	27	38,568,797	130	768,386,459
Japan	13	29,628,515	84	966,242,622
France	3	10,881,368	5	9,283,458
Republic of Korea	8	9,236,435	24	177,261,120
Sweden	1	8,614,411	2	9,436,842
Taiwan	12	6,321,487	71	113,340,723
Australia	3	6,144,309	12	41,030,137
China	4	5,747,237	11	10,417,076
Egypt	2	4,519,737	-	-
Mauritius	1	4,400,514	-	-
Switzerland	3	3,721,842	6	148,219,567
UK	3	2,708,525	11	26,107,446
Others	-	42,020,459	-	639,206,991
Total***	-	344,572,043	-	4,706,034,498

**Table 4. Approved manufacturing projects, 2000 - 2004<sup>6</sup>**

i	2000	2001	2002	2003	2004	2000 - 2004
Number	805	928	792	965	1,101	4,591
Potential Employment	88,112	89,440	64,744	77,182	88,634	408,112
Proposed Called -up Capital (RM)	3,577.80	4,142.20	2,498.40	6,613.70	4,449.60	21,281.60
Malaysian Equity (RM)	1,421.30	1,307.30	1,136.50	1,941.10	2,706.20	8,512.40
- Bumiputera (RM)	345.4	519.8	314.8	903.1	1,168.3	3,251.4
- Public Corporations (RM)	431.7	5.0	36.0	85.0	0.0	557.7
- Non-Bumiputera (RM)	644.3	782.5	785.7	953.0	1,537.8	4,703.3
Foreign Equity (RM)	2,156.5	2,834.9	1,361.9	4,672.6	1,743.4	12,769.2
Loan (RM)	15,694.7	9,971.5	5,336.8	12,843.5	14,590.8	58,437.4
Retained Earnings/(RM) Reserves	8,503.7	4,051.3	2,129.3	2,687.7	1,994.8	19,366.8
Other Sources (RM)	5,834.1	7,609.8	7,912.4	6,999.8	7,738.3	36,094.4
Total Capital Investment (RM)	33,610.3	25,774.9	17,876.9	29,144.7	28,773.5	135,180.2
- Local (RM)	13,761.8	6,867.7	6,298.9	13,504.3	15,629.5	56,062.3
- Foreign (RM)	19,848.5	18,907.2	11,578.0	15,640.4	13,143.9	79,117.9

Table 4 shows the composition of local and foreign capital investment in manufacturing projects from 2000 to 2004. Table 2 explains foreign investment effects on Malaysia manufacturing parts, especially for electrical and electronics industry, 'promoted activities', 'pioneers', and value-added industry.

Malaysia is said to have always welcomed investments in manufacturing. To further enhance Malaysia's investment climate, equity holdings in all manufacturing projects were fully liberalised from 17 June 2003. Foreign investors can now hold 100 percent equity in all investments in new projects, as well as investments in expansion and diversification projects by existing companies, irrespective of the level of exports and without any product or activity being excluded (MIDA 2006).

The Malaysia Government web site publishes 'reliable' information about the country policies, laws, and government decisions, and socio-economic development in Malaysia. It advertises Government Supportive of Pro-business policies such as responsive government, liberal investment, attractive tax and other incentives and a liberal exchange control regime. In Malaysia, tax incentives, both direct and indirect, are provided for in the Promotion of Investments Act, 1986, the Income Tax Act, 1967, the Customs Act, 1967, the Sales Tax Act, 1972, the Excise Act, 1976 and the Free Zones Act, 1990. Direct tax incentives grant partial or total relief from income tax payment for a specified period, while indirect tax incentives come in the form of exemptions from import duty, sales tax, and excise duty. The major tax incentives for companies investing in the manufacturing sector are the Pioneer Status or Investment Tax Allowance based on certain priorities, including the levels of value added,

technology used, and industrial linkages. Eligible projects are termed 'promoted activities' or 'promoted products'. Government updates every year the List of Promoted Activities and Products - High Technology Companies; most electronic and electric products are involved.

In order to reduce the costs of doing business and to provide a competitive business environment, there are incentives for 'Relocating Manufacturing Activities to Promoted Areas' that existing companies, which relocate their manufacturing activities to the promoted areas, are eligible for a second round of incentives like Pioneer Status with tax exemption of 100 percent of statutory income for a period of five years or Investment Tax Allowance of 100 percent of the qualifying capital expenditure incurred within a period of five years from the date the first qualifying capital expenditure was incurred. There are also Incentives for High Technology Companies that engage in 'promoted activities' or in the production of 'promoted products' in areas of new and emerging technologies. They can also get Pioneer Status with tax exemption of 100 percent of statutory income for a period of five years and Investment Tax Allowance of 60 percent (100 percent for promoted areas) on the qualifying capital expenditure incurred within five years. Table 5 shows the index of incentives policy.

To facilitate export oriented companies, areas were designated as free zones under the Free Zones Act 1990 which provides a broad legal framework for companies to carry on manufacturing, trading, and commercial activities within the zone. Under the Free Zones Act, zones are designated as free commercial zones or free industrial zones. Companies located in free industrial zones are permitted to import capital goods, raw materials, and components for the purpose of manufacturing products for export, without payment of import duties, surtax, sales tax, or excise duties. No retailing of goods may

Table 5. Approvals granted for establishment of manufacturing projects by incentive, 2000 - 2004

Incentive;	Number					Potential Employment					Total Proposed Capital Investment (RM Million)				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
Pioneer Status	154	222	225	264	340	27,683	26,212	22,024	18,873	22,422	13,398	9,284	5,574	9,911	6,125
Investment Tax Allowance	52	63	57	36	53	9,492	10,966	6,513	4,654	7,334	4,612	7,568	6,768	1,571	3,046.9
Industrial Adjustment Allowance	-	2	-	-	-	-	4	-	-	-	-	3.7	-	-	-
Without Tax Incentives	599	641	510	665	708	50,937	52,258	36,207	53,655	58,878	15,601	8,919	5,535	17,662	19,602
TOTAL	805	928	792	965	1,101	88,112	89,440	64,744	77,182	88,634	33,610	25,775	17,877	29,145	28,774

be transacted in a free industrial zone without prior approval of the authorities. Commercial activities that include trading, bulk breaking, grading, repackaging, re-labelling, and transit are restricted to specifically designated free commercial zones. To divert shipping to Malaysian ports, Port Klang is gazetted as a free port. The free port status promotes trans-shipment trade, and diverts and redistributes shipping traffic from neighbouring ports to Port Klang. Other ports like Kuantan and Kemaman on the East Coast of Peninsular Malaysia will also be given free port status (US-ASEAN Business Council, 2003).

Several government policies attract foreign investment. Officially there is no national minimum wage law applicable to the manufacturing sector in Malaysia. Basic wage rates vary according to location and industrial sector, while supplementary benefits, which may include bonuses, free uniforms, free or subsidised transport, performance incentives and other benefits, vary from company to company. Salaries and fringe benefits offered to management and executive personnel also vary according to industry and employment policy of the company. As of 1997, the Employment Act, 1955 regulates minimum terms and conditions of service of an employee earning RM1,500 per month and below. The Act also provides for payment of compensation to workers not covered by the Employees' Social Security Act, 1969 for injuries caused by accidents arising in the course of employment. All companies, with one or more employees whose wages do not exceed RM2,000 a month, are required to insure their employees under the two schemes administered by the Social Security Organisation (SOCSO) namely, the Employment Injury Insurance Scheme and the Invalidity Pension Scheme. Under these schemes, employers and employees are required to contribute based on the employees' gross salary. However, if the employee's salary exceeds the minimum level at any time during employment, the employee and employer are still required to contribute to the schemes. But it is believed that only less than two percent of workers are influenced by these 'minimum terms' and fundamentally the basic wage is below the increasing rate of real wages that lots of workers say it is of no use.

It is openly said that the Malaysian Government's objective is to promote cordial employer-employee relations, and industrial peace based on social justice, equity, and good conscience to bring about a productive, contented labour force and to ensure a favourable climate for investment and sustained economic growth. The Trade Unions Act, 1959 provides for the registration and administration of trade unions in line with the policy of the Government to encourage the growth of so-called democratic, healthy, and responsible trade unionism, within the context of public and national interests. A trade union should confine its membership to employees within a particular trade, occupation, or industry and should apply for registration upon its formation. The Trade Unions Act provides sufficient safeguards against militancy or unlawful activities of trade unions. All trade unions are inspected periodically to ensure compliance with the law. The industrial Relations Act, 1967 provides for the regulation of relations between employers and workers and their trade unions, and the prevention and settlement of labour disputes. The Act states the legitimate rights of employers and workers and their trade unions, and also

provides for the protection of 'pioneer' industries during the initial years of their establishment against any unreasonable demands from trade unions.

Malaysia, like other export oriented industrialisation has been categorised as a 'dependent development regime' and associated with authoritarianism. Unions have never been banned outright in post-independent Malaysia, however there are additional controls on trade union activity and organisation placed in the export oriented sectors. In the 1970's, special provisions relating to 'pioneer industries', which limited collective bargaining by workers and at times their freedom of association, were introduced as a means to minimise negative consequences for inward investment where industrial relations in countries with an Foreign Direct Investment (FDI) export orientated strategy based upon low skill, low value added, and low cost labour gives rise to labour subordination.

There is one more important labour force in Malaysia: migrant workers. The Malaysia Government promotes and restricts them at the same time in visible and invisible ways. The Ministry of Human Resources claims that in the finance crisis of Malaysia to 1999, more than 80,000 of migrant workers lost their jobs. The trade union centre, Malaysian Trades Union Congress (MTUC) insisted that the report underestimated the reality. Because like construction and lots of manufacturing sectors, most migrant workers were hired as subcontractual and couldn't be counted as lay-offs. Also there's a report that around 1996, the nation's strategy to resolve the shortage of labour and dependence on foreign labour was to entice female participation in the labour force. Specifically, the state encouraged the private sector to facilitate greater entry of females into the labour force by adopting flexible work practices such as flexi-time for full-time women workers and job sharing, while also reducing the overtime payment.

But to entice more FDI, foreign labour was one of the main keys to control wage rises. So, the government tried to control them by the law. Companies employing manual foreign workers must insure their workers with a local insurance company as required by the Workers Compensation Act, 1952. As a measure to ensure that employers employ foreign workers only when necessary, an annual levy is imposed. It needs to be paid upfront based on the duration of the approved work permit. The 1998 Budget stated that any levy paid in 1997 onwards would be rebated against income tax chargeable on the expatriate.

To hire foreign workers legally there is some condition like unskilled foreign workers in Malaysia Peninsula must have ASEAN, Bangladesh, or Pakistan nationality. They must be permitted by the Foreign Workers Department in the Ministry of Internal Affairs before applying for short-term work visas. In Sabah, legal foreign workers must be Indonesian or Filipino. The foreign workers who want to work in the state Lubuan, must be from Indonesia, Philippines, Thailand, Bangladesh, or Pakistan. In Sarawak, the unskilled workers must be from Bangladesh, Pakistan, or any ASEAN countries. They must get a warrant from the Labour Department and the quota permission from the Special Cabinet Committee on Foreign Workers before applying for visas.

The Malaysian Government encourages TNCs to hire local workers first. A company cannot finish contracts with local workers for the purpose of hiring foreign workers. If the company needs downsizing, it cannot dismiss local employee without migrant workers first who are engaged in a similar sector. But except for this, every worker is protected by labour law including foreign labour. Also the Malaysian Government says English is widely used in Malaysia, especially in business thus facilitating the investor's communication with local personnel and suppliers. The country's legal and accounting practices derived from the British system are similar to most international companies. Furthermore, in view of the creation of a free trade area among the members of the ASEAN where tariffs on manufactured goods and processed agricultural products are to be reduced below five percent, and acceleration of tariff reduction under the Common Effective Preferential Tariff (CEPT) programme, Malaysia has over the last few years reduced or abolished customs duties and sales tax on many items. Thus, with the further reduction on duties under the CEPT programme, customs duties and sales tax are expected to ease further (US-ASEAN Business Council, 2003).

## 2. THE COMPANY

### **Samsung Groups in Malaysia**

In Sembilan state, Seremban city, is Tuanku Jaafar Industrial Complex where most of Samsung's Malaysian subsidiaries are, such as the Samsung Corning (SCM)<sup>8</sup>, Samsung SDI (SDIM, Samsung SDI Malaysia), and one of the Samsung Malaysia Electronics (SME). The company says that in this region, Malaysia plays a key role in Samsung's strategy as both a manufacturing export base as well as a market for high-value technological products. According to Samsung Electronics, it alone employs a total of 2,200 employees in Malaysia and its offices in Malaysia consist of one subsidiary office and two manufacturing facilities. In recent years, Samsung Electronics has said it evolved as a major consumer brand consistently clinching the top three positions across Southeast Asia for TVs, monitors/LCD monitors, side-by-side refrigerators, washing machines, and DVD players. Samsung Malaysia Electronics (SME) Sdn. Bhd. was incorporated as a subsidiary office dealing in marketing and customer service for Samsung electronics products and appliances in October 2003, and in 2005, in sales operations. SME was elevated from its status as a representative office, and then known as Samsung Electronics Co. Ltd. (Kuala Lumpur Office), which was initially set up in April 1989 to coordinate market surveys and marketing activities between the headquarters and local distributors. The two manufacturing plants of Samsung Electronics are Samsung Electronics (M) Sdn. Bhd. (SEMA) and Samsung Electronics Display (M) Sdn. Bhd. (SDMA). The former was established in 1989 and located in Port Klang<sup>9</sup>. The latter was established in 1995; the nature of business includes manufacturing colour monitors and TFT-LCD monitors. It is also producing colour TVs for the Malaysian market. SDMA is located in Seremban, Negeri Sembilan<sup>10</sup>. The company advertises its mobile handset business and in 1999 launched Samsung into the highly dynamic telecommunications industry. The brand

**Table 6. Seremban investment status<sup>11</sup>**

	<b>SEDM (SDI)</b>	<b>SCM (Electric)</b>	<b>SDMA (Electronics)</b>
Land(m2)	297,000	184,800	39,600
Building (m2)	69,300	75,900	26,400
Products	CPT/CDT Mount Gun	Panel & Funnel GAS for CPT/CDT	Colour Monitor PCB
Production lines	TV Tube-4 lines Monitor Tube-2 lines	PANEL - 3 lines FUNNEL - 2 lines	Monitor - 2 lines PCB - 12 lines
Producing capability (million)	CPT/CDT - 9.5 MOUNT GUN - 18	PANEL - 12 FUNNEL - 12	Monitor - 1.8 PCB - 3.6
Capital (million)	US\$62	US\$56.8	US\$38
Investment amount (million)	US\$468	US\$307	US\$26

**Table 7. Seremban sales status<sup>12</sup>**

		1992-1994	1995	1996	1997
Sales Amount (US\$ million)	SEDM (SDI)	265	277	481	620
	SCM	47	29	90	169
	SDMA		13	255	428
	Total	312	319	826	1,217
Profit (US\$ million)	SEDM (SDI)	23	19	47	53
	SCM	4	-6	-4.3	13.9
	SDMA		-1	5.0	6.1
	Total	27	12	47.7	73

continues to grow and is now the second largest mobile phone company in the South East Asia Pacific region, commanding a market share of over 20 percent in Malaysia. Samsung Electronics Malaysia announced its goal is to be ranked among the world's top three digital technology companies by the year 2010 with LCD panels, memory (DRAM, Flash, etc.), digital media (A/V & IT), digital appliances, and telecommunications, a single business operation for the home and office and mobile environments.

Samsung SDI(M) was built on a 152-acre site and is the biggest plant compared to Samsung SCM and Samsung SDMA with an investment of US\$550 million is said to hire around 3,800 local workers. Its main products are Braun Tube (picture tube), PDP (Plasma Display) module, phone display, OLED, and LCD. With the company's introduction, SDI(M) owned five percent of the world's colour picture tube (CPT), colour display tubes (CDT), and electron guns. Its full product range comprises electron guns, 14, 15 DF, 16, 20, and 21 DF inch CPT, and 14, 15, 17 and 17 DF inch CDT. Gross production for SDI(M) reached 1.4 million in 2003. The majority production is targeted for export to Asia as well as Europe including South Korea, Mexico, Thailand, Indonesia, Germany, Italy, Spain, India, US, and Hong Kong. The main customers for colour TVs are Samsung Electronics, Sharp, Funai, and Matsushita. Meanwhile, main customers for colour monitor are Samsung Electronics, LIKOM and BENQ (Samsung: [www.samsungsdi.com](http://www.samsungsdi.com)).

### **Brief History of Samsung Malaysia**

- 1990** - Established Samsung Electron Devices Malaysia (SEDM)  
- Constructed Local Subsidiaries and CPT factory with US\$100million.  
- Samsung SDI, by investment of US\$1200million, 52 hectares
- 1991** - SEMA achieved total production of one million sets
- 1994** - Commenced consumer electronics business with partner S Marina Sales & Service
- 1995** - SEMA achieved total production of three million sets
- 1995** - Samsung Display (M) started producing and exporting monitors
- 1996** - Established Samsung Industrial Complex, 25% of Tuanku Jaafar  
- Invested US\$800million. Extended business to IT products - SyncMaster monitor
- 1997** - SEMA & SDMA receive ISO 9002 certifications from SIRIM QAS
- 1998** - Commenced mobile phone business with partner First Mobile Group  
- SDMA received 'Caring Employer Award' presented by YAB Seri Dr Mahathir
- 1999** - Named Samsung Park in Lenggeng since 1997 purified by local officers  
- Samsung monitors achieve No. 1 market share  
- SDMA 5 million monitors production achievement  
- SDMA ISO 14001 achievement
- 2001** - Got Prime Minister Quality Award from Mahathir
- 2001** - Decided to produce 17inch Dynaflat CRT monitor. New investment US\$4,200,000 for that line, supporting goods of industry related to displaying machine, 58 percent of products would export to Thailand, others in Malaysia, within six production lines, expected to produce 12,800,000 CPT/year, CDT for exporting 14-21inch monitors for TV and Computer; these export amounts over US\$100million
- 2002** - Commenced Laser Printer Business with OneTechnoNiche  
- Sold one million units mobile phone  
- Sponsor of Asian Games in Busan, Malaysia Book of Records for Most Number of Private-Sponsored Supporters to a Game out of Malaysia to attend
- 2003** - Recorded US\$5million profit, supplying 140,000 Braun Tubes per month.  
- Establish Samsung Malaysia Electronics (SME) sales subsidiary  
- Achieve No. 1 market share for DVD players  
- Samsung donates over MR325,000 to two Malaysian organisations as part of MR2.3 million programme, DigitAll Hope to bridge the digital divide in Southeast Asia
- 2004** - Started matching grant fund in March 2004 with 45 percent of SDIM 3,800 workers  
- Open first 3 Samsung Customer Service Plazas servicing all Samsung products for the first time (A/V, IT, mobile phone, digital appliance)

- Laser printers achieve 3rd position in market after only 1.5 years
- Open 3 Samsung Brand Plazas: Samsung Mobile Plaza at Times Square, KL for mobile phone and Samsung Digital Media Plaza at Bintang Walk, KL for AV product Samsung IT Plaza at Low Yat Plaza, KL for IT products.

**2005** - Succeeded in Miracle, 6 SIGMA project, 97BB (Black Belt)

- Reduced 113 workers and made effects of saving cost price US\$5200,000, reducing 24 hours of manufacturing leading time (Samsung Press Release).

- Exported TV monitor to Thailand, Korea and Malaysia - 70percent (86.8 million baht) of 123.6million baht of Thailand Monitor Export amount between Jan. to May 2004 (Press: <http://www.zdnet.co.kr/news/digital/0,39030978,39129206,00.htm>).

(Source: Samsung Company 2006)

### **Samsung and Politics**

There's a quite well known story of a union busting case in 1999 at Samsung Malaysia. It is described in detail in section 4. Most workers who remembered the case say that it was impossible to happen without the aggressive support of the Malaysian government. It is widely acknowledged that there was from the beginning an agreement between the government and Samsung: the Malaysian government would never allow unions in Samsung for 10 years. One mentioned that once 10 years had passed the company might look for another safe haven, indicating that the company keeps lobbying the Tax Office these days. Surely it's not just about Samsung but rather any foreign company in Malaysia supported by government. But we could find something more.

There are several clues that Samsung is concerned about the good relationship with the Malaysian government and also multiple units of the royal family, sultan, and kings. It is said that royal families are major business players in Malaysia that investment on building good relationships with them would be helpful in reducing lots of bureaucracy along with material benefits like offering their land etc. It doesn't only mean that the company got awards, and prizes to advertise them, but also they are famous for friendship with government officials. One important figure who once worked at the labour ministry, now works as advisor to Samsung. And their community within sports like 'friendship golf' is an open secret. There's Samsung flat screen TV in the living room of a sultan in the factory area. It is not likely that they deal with money directly but it is the company is well known for giving presents. Workers too last year all got a 15 inch TV set; believe it or not migrant workers and contractual workers were included. But one of the workers was not satisfied with the salary but enjoys the gifts that are given whenever high ranking officials visit the company.

Even this year, it is said that instead of getting some small award Samsung SDIM president chose to make a presentation at a May Day ceremony because Samsung already had all of the biggest prizes offered by the Government (Fong Chan Onn 2005)<sup>13</sup>. On 22 November 2005 at the ceremony of Samsung SDI (M)'s fifteenth

anniversary, the Minister of Human Resources made a speech: 'Samsung SDI (Malaysia) Berhad, which was established in October 1990 at the Tuanku Jaafar Industrial Park, is the first and largest Samsung overseas manufacturing plant. It has been recognized as one of the most successful multinational companies operating in Malaysia. For 15 years, Samsung SDI (Malaysia) has enjoyed many successes and achievements.'

### 3. LABOUR

#### **Automation and Workforce**

Because of relatively low wages, lots of jobs are done manually rather than automated. It is impossible to calculate the exact rate of automation in Samsung Malaysia. One of the experts was shocked by working conditions in many parts of Samsung's production facilities. Hazardous work processes, that would have been replaced by machines in Korea, are still done manually and consequently workers are exposed to powerful smells, gas, and chemicals without safety assurance. According to the information source, Malaysia has lots of Industrial Safety Health Law to follow. However, the company can present to government inspectors a picture totally different from the reality. Among the workers, awareness of safety rights is very low. Even though they are educated about safety and sign documents indicating they would follow company regulations and otherwise take responsibility by themselves, workers didn't wear safety glasses or masks during their work. One of the workers remarked that it was too hot to wear the mask.

According to another worker who has been working Samsung Display for more than 10 years, the company announced increasing the rate of automation from current 40 percent to 60 percent. However, nothing has been confirmed and nothing happened yet. For example, among the six production lines in Samsung SDIM, line numbers two to four are old one and number one has been there for 10 years so that the status of automation is generally very low. It is believed that the picture tube industry itself is declining and there is no choice but leave them as they are. According to one expert, these days almost the entire process of picture tube making is done by robots elsewhere. However, in Malaysia, the company can hire enough workers with only 10 percent of the amount of investment. Besides like Samsung Corning, the factory is not just the assembling final products but processing the raw materials into final products. Therefore, it is almost impossible to renovate the production process or move to some other place with automated facilities. Worse still, it is said that recently they fired more than 700 workers and less than 1,000 workers are left, producing speculation that in the long term Samsung Corning and Samsung Electronics will be closed. Some speculate that electrical appliances with the name of Samsung function as an advertisement that promotes the image of Samsung and that is why they are worth investing in, in spite of recent financial difficulties. However, other parts-producing subsidiaries might not be necessary from the perspective of Samsung since they are in trouble. It looks unavoidable for old lines for old models, such as 14 inch TV picture tubes, to be closed down and it is already happening. In around 100

workers where 70 percent were men male and 30 percent were women, most older women were sacked and about 50 percent of the workers were relocated to a re-education centre. That means they only earn basic salary so more than half of them will quit the job in several months. There is a rumour that the battery production line will be substituted with line two and the Samsung Company will enlarge investment on lines for digital commodities, such as mobile phone, its components, and LCDs.

Malaysians' working style is said to be quite relaxed. One pointed out that the solution of Samsung is to use three Malaysian workers for the job of one Korean worker. Even then labour cost is still cheaper. Some managers indicated low efficiency as the biggest problem of the company. But workers complain that they have to memorise and follow strictly the manual that tells workers how to do the job and it removes any sort of autonomy in work and makes work more stressful. Every work process is divided into various simple stages. The manual is made for anybody to be able to substitute in any work without much experience. To an operator, time is the priority because management emphasises punctuality. Management considers one minute late for work is absence for the day. Operators have to take a time test for speed-based performance twice a year.

**Table 8. Seremban employee composition<sup>14</sup>**

Company	Total No.	Sex		Race			
		Female	Male	Malay	Indian	Chinese	Etc.
SEDM (SDI)	4,578	2,513 (54.9%)	2,065 (45.1%)	3,038 (66.4%)	496 (10.8%)	247 (5.4%)	797 (17.4%)
SCM (Electric)	1,092	968 (88.6%)	124 (11.4%)	901 (82.5%)	112 (10.3%)	72 (6.6%)	7 (0.6%)
SDMA (Electronic)	1,290	485 (37.6%)	805 (62.4%)	827 (64.1%)	184 (14.3%)	76 (5.9%)	203 (15.7%)
Total	6,960	3,966	2,994	4,766	792	395	1,007

### Worker Composition

Table 8 took open information about workers' composition from a publication introducing the company around 1997. Samsung also openly announced that Samsung Malaysia hires 6,000-7,000 local workers.

However, an insider affirmed that nobody knows the concrete number of workers inside Samsung factories. Concrete data of facts such as number of employees according to racial background are reported only to government and not available to the public. No doubt, the majority of workers in Samsung are Malay working as operators and supervisors, but it seems that Chinese are more than 40 percent in departments dealing with human resources, finance, public relations and other general affairs. Regarding racial discrimination, most workers say that life is good for the Malays because their bosses are of the same racial background and a lot of 'currying favour' goes on. They say it's not good for the non-Malays. We'll see workers' numbers as a pure fabrication in section 4.

### **Working Conditions**

The company operates eight-hour shifts for factory workers. The timetable of Samsung SDI is as follows: There are three teams: A, B, and C. A team works from 7am to 3 p.m., starting with a five-minute meeting at 7 a.m. After two hours, workers have a 15-minute break, and lunch from 11:30 a.m. to 1 p.m. They finish the work and go home at 3 p.m. after two hours more work. Same pattern applies to team B working from 3 p.m. to 11 p.m. and team C working from 11 p.m. to 7 a.m. Teams A and B rotate work schedule after six days work and one day leave while team C rotates every three days. There is an allowance for the workers on the night shift. But it seems not that everybody works by those patterns as somebody saw the Burmese working between 8 a.m. to 7:30 p.m. and also some trainers work from 8 a.m. to 5:30 p.m.

The company used to go outside to high schools in Kwantan, Perak etc. (rural areas) to recruit students. However, it seems that Samsung does not do it any more. It is not compulsory for the workers to live in dormitory. Workers who live far away from the factory can stay in the dormitory for their own convenience. Most migrant workers directly hired by the company are supposed to live in the dormitory. Although it looks like condominium from outside, it is in fact rather like a hostel with four workers in one room on bunk beds. Washing machines and vending machines are on every floor. Normally married workers or supervisors don't stay in the dormitory. It is closed from midnight to 6 a.m. so everybody must come by midnight. In particular migrant workers must report all their movements. These days most Malays live away from those annoying rules and regulations.

Light injuries like cut fingers or head injuries by robots happened frequently. For minor injuries, there is a small clinic inside the factory. There is also a separate accident insurance scheme for industrial accidents. Fortunately there has been no major industrial accident for the last five years. However, one construction worker died from accident in 2005. It was not a big issue since it happened during a company holiday and the worker was working for a third-level subcontractor of Samsung. Some operators express concern that ergonomics problems, such as those that cause shoulder or back pains, are not considered as occupational problems. They also testify that long-term medical leave affects appraisal and bonus so that most of workers do not take it. Hospital admission covered by the company is third class, relatively poorer than is offered by other TNCs such as Motorola. Compassionate leave is three days a year for occasions related to workers' parents, spouse, and children. Permanent workers have a health benefit of RM200 per year including dental service. This allows a maximum 60 visits to hospital and each visit to hospital cannot exceed RM25.

Another remarkable thing is the hundreds of productivity-campaigns inside the company. Saving energy campaign, saving cost campaign, and saving time campaign stickers are put here and there in the company. Another noticeable thing is Samsung's strategy for localisation. It is believed that there was a special office focusing only on the strategy of successful localisation. Many Koreans who had graduated from schools in Malaysia were chosen to join the office. Most of them are now in high

managerial positions and the tactics they developed became a well organised system. Different styles of foods at different restaurants (Indian, Chinese, and Malay) are served for the workers. During the Hari raya (the period of Islamic fasting), the management tried to show respect to local religion; there was neither music nor morning group exercise. The management did not allow coffee in the office in consideration for the fasters and prepared dinner-boxes for the fasters so that they could eat after the fasting period. Non-Malay workers are also considered. For example, during the last Chinese New Years Day, the company played only Chinese music. These systematic localisation strategies seem to work very well as workers testify that they feel respected by their company and feel comfortable with their working place. Sometimes the vice president has lunch at a Malay restaurant, chatting with workers. Workers enjoy that.

There are number of CCTVs in company facilities of Samsung SDIM. One office worker mentioned that the work place has as many cameras as a casino, inside and outside offices. The factory has also cameras. Office workers seem to take cameras as a safety measure. But not all reactions to the CCTVs are positive. Even some managers admit that every movement of workers is regularly reported and various kinds of cases against the rule is recorded on the systematic database. Furthermore inside the office, they have an on-line system that connects them as fast as they could wish<sup>15</sup>.

The average of workers' satisfaction with company was six on a scale of one to 10. Most of them are unhappy with the low salary and hard work. But one says that honestly there's no similar company in Malaysia so that it's not easy to compare their wage or working conditions with others. And also one adds that the company is good at benefits like birthday gifts, regular outside dinners, all sorts of company products for souvenirs that it can be the biggest merit.

#### 4. LABOUR RELATIONS

##### **Wage System and Employment Contract**

Samsung SDIM has hired around 3,500 workers as regular workers. Actually there is no open data indicating the proportion of regular to irregular workers. There is even no mention of divisions and differences between regular and irregular labourers. Some engineers mentioned a possibility of reducing workers in the long run and two of the factories would be closed. (Samsung Groups in Malaysia have more than six factories in the same area. Samsung SDIM has three factories and each has two production lines hiring 80 workers.) There are also reports that almost half of the workers staying in the Serembang dormitory (estimated 2,500 workers in the dorm) are foreign workers and therefore irregular.

The workforce in Samsung SDI is composed of operators and engineers in several grades. Operators have five different levels and also engineers have five levels: two levels of junior and three levels of senior. There are also technicians on three different grades. Only technicians or senior operators can be supervisors. Three or four times a year all the supervisors must participate in training programmes, containing safety,

chemical processes, how to be a good supervisor etc. and after every training programme there is a test that must be passed. The wage depends on level and several valuations are for bonus. For example, the second level of engineer can be a 'promotion manager' and s/he can evaluate operators once a year. Workers in grades A, B, C, D are given 10 percent, eight percent, five percent, and zero percent bonus respectively. Although the wage gap between levels and bonus grades are not that significant and grade A is given only to the top two percent of workforce.

In terms of basic salary without allowances, most unskilled female workers earn a minimum RM1,000-1,500 while engineers and male managers earn around RM3,000-4,000 and RM6,000-7,000 respectively. Managerial office jobs seems to pay around RM5,000 including bonuses and allowances. Women workers account for about 60 percent of the total workforce. However, most of them are operators while most of the managers are men. It seems that Samsung in Malaysia does not have very high salary for workers. It is known that just five years ago lots of female unskilled operators worked for only RM600-700<sup>16</sup> a month. Therefore, there are unsatisfied workers. A trainer, who has been working for Samsung Electronics for 10 years, starting as a production operator (salary RM350), was very unhappy with current basic salary (RM914) and bonus, which is grade-based<sup>17</sup>. According to the trainer, no one knows their own grade except the human resources department, causing distrust among the workers (at the moment, the company has plans to disclose the grades system). There are different allowances provided, including RM100/month for attendance, RM50/month for transport, RM110/month for skilled workers, and RM2.50/day for food.

Annual leave of 16 days a year to maximum 22 days is guaranteed. However, days of no operation are deducted from leave. So if there is a family emergency but no more leave left to take, workers have to take unpaid leave. There are a number of permanent female workers with more than 10 years of service. In terms of maternity leaves, it seems that the company is quite good at following the labour law<sup>18</sup>, giving two months paid leave. However, the management pressure woman workers when they are not willing to take night shift or overtime work after giving birth. Malaysia's government allows women to work overtime at night in Free Trade Zones only with special reasons. Last October, most middle aged women workers who had been working for more than 10 years and now had children as primary school students were the first targeted for voluntary retirement.

There are contractual and permanent workers in SDIM. It is a norm that contracted workers becomes permanent workers after one year as a contracted worker. Three or four years ago, according to the workers, contractual status was applied only to a three-month training period at the beginning of the employment. There are also cases that engineers, technicians, and managers have tenure confirmed after six months and operators whose tenure has been uncertain for even five to six years. Contractual workers increased after the Asian economic crisis. Before, almost all workers were employed permanently. It is known that there is quota of permanent workers. Therefore, a contract worker can be upgraded only if a permanent worker resigns. For contracted workers, only two weeks termination notice is given.

### **Workers along the Subcontracting Chain**

It is not surprising that there are lots of migrant workers in Samsung. Some of them are hired as factory workers inside Samsung by agencies or in-house subcontractors and some work in different sectors as cleaners, drivers, and guards etc. But numbers of migrant workers work with subcontractors' factories inside Samsung Multiplex. The number of those factories is estimated at more than 100. They share the working history with Samsung from the beginning in Malaysia. And many of them followed Samsung from Korea to Malaysia. Most subcontract companies are owned by Koreans and all their products are purchased by Samsung subsidiaries. They hire more than 30-40 workers each and many of them are migrant contract workers.

There are migrant workers in subcontractors or so-called 'cooperative firms' operating inside Samsung factories. A subcontractor hires about 50 Burmese workers out of its total 200. Migrant workers, including Burmese, Vietnamese, and Indonesians whose contracts are for two to three years, are required to work between 8 a.m. to 7.30 p.m. for lower salaries than local workers. They also get fewer benefits, no dental service, and only 10 days of annual leave. They can become regular workers but the limitation of work permits are still fixed less than three years. The numbers of migrant workers are estimated at around 400 at Samsung SDI and more than 500 in Samsung Corning. Most of them come from Nepal, Burma, Cambodia, Laos, and Indonesia on two- or three-year contracts. It can be assumed that foreign workers do the same work as permanent workers.

Now let's see some research on home-based workers in Malaysia. Honestly it is extremely difficult to estimate the scale of home-based workers in Samsung. Most are not aware of the final destination of their products since the products go through middle subcontractors, often more than one. However, some of them know that they are producing some parts for Samsung. Most of them were hired by subcontractors who have between 10 to 20 years of experience of subcontracting work for major TNCs. The research shows that their work includes 'inserting screws into iron cylinders' and 'soldering casings onto electrical components of television sets' for Samsung products.

Most workers are female and their numbers are increasing. Many of them have to take this work because of increasing living costs in this country. It is believed that most jobs were done inside the factory before. Now with downsizing and cost-cutting methods of companies, that work goes outside. Our study revealed that the majority of home-based workers were previously employed in a factory when they were young and single. However, after having children, they had to resign to care for the family. But they needed extra income for their family at the same time. So among them quite a lot of workers are disciplined and have skills for those jobs. The subcontractors deliver raw materials to homes and collect finished products after two to three days. There is no job security and no sustainability. Everything depends on the contract and their producing ability. The cost is two to three cents per unit. 16 hours a day earns them from RM200-300 to RM1,000-1,500 (if

they work really hard). Average income is between RM400 and RM700. Home-based workers often hire assistants who are frequently migrant workers. They work at the home of the principal home worker. Migrant workers in this type of arrangement get extremely low wages.

For the companies, there are a number of merits in using home-based workers according to our research. Firstly, they don't have to pay for water, electricity, and other basic things for production. Second, every contract is based on individual trust so that there is no official requirement like employment agreement. The company has no responsibility for accidents during work. Most of their employments depend on individual links in the community. Without any official record or written agreement with the subcontractors, many home-based workers experience delayed or unpaid wages. Third, as they are treating plastic, chemicals, paper, and several uncertain materials, their houses are full of micro dusts and chemical smells. Most of them use fans so that all cannot help but inhale polluted air. Various injuries often happen but must be treated by workers themselves. Most of them work sitting on the floor so that they have severe ergonomics problems in their necks and backs. But they have no choice because earning at least RM200-300 more is vital. Without this income, their children cannot go to kindergarten. They cannot have any kinds of job security, employment benefit, or work insurance.

Sometimes when there is an urgent order, they have to work 24 hours a day. Usually those women get up at 6 a.m. and prepare breakfast, send the children to school, and start work from 10 a.m. to 12:30-1:00 p.m. when the children come back home. They resume work around 3 p.m. to 6 p.m.. After finishing dinner (preparation and eating), they work from 10:30 p.m. to 2 a.m. If there is big order, other family members also have to work, that is, it becomes family business as well as family responsibility. As a family member, children also must work. Daughters' and sons' work is 'free'. Sometimes even neighbours help. They are not officially 'workers' so they cannot go to the industrial court and they don't have any right to be represented. They can complain to the labour office but it means they won't get any more orders. They identify themselves as 'under class'.

### **Organising**

It is said that there was some agreement between Samsung and Malaysia's government prohibiting trade unions during the first 10 years of investment. It is one of the open secrets. The Malaysian government is known to protect foreign investors in the so-called pioneer sector from unions. It was proved by one famous case in 1999 in Samsung Electronics Malaysia.

In 1998, the Electrical Industry Workers Union (EIWU) (a national federation affiliated to the International Metalworkers' Federation) tried to organise Samsung workers. On 14 June 1999, the union declared the founding of a trade union in Samsung. After that day, the company started interrupting the attempt to organise a union by circulating among the workers a form that requested workers to give up union membership. The management wrote an official letter to the Ministry of Human Resources and The Director General of Trade Unions (DGTU).

In justifying themselves, the company argued that Samsung Electronics Malaysia belongs not to Electrical Industry but to the Electronics Industry. At that time the main products of Samsung Electronics were microwave ovens, magnetron, and printed circuit board (PCB) and the company asserted nothing could be classed as electrical products. In addition, the management argued that production of microwaves that could be argued as electrical goods made up less than two to three percent of the whole production<sup>19</sup>. However, according to the workers, more than 90 percent of products were microwaves at that time. In 2000, the company proudly announced that Samsung Electronics Malaysia had the capability of producing 800,000 units per year and all of them were exported<sup>20</sup>. Besides, one of the members of the EIWU in the Japanese Matsushita, was still producing microwaves as its main product<sup>21</sup>. So the EIWU contacted the IMF Geneva office on 10 July and they visited Malaysia on 14 July and tried to make it an international issue.

The DGTU asked both sides to submit reports to overview the dispute. It is norm in Malaysia that this kind of disputed union approval case takes normally two to three years to reach a decision and needs further investigation. However, instead of doing further investigation or mediation, the Malaysian Government (the Ministry of Human Resources) judged, after only three months, against the Samsung workers that EIWU did not have right to represent workers in Samsung Electronics.

Until now, although there is no legal prohibition (has been allowed since September 1988) against organising unions in the electronics industry, government policy effectively discouraged any unionisation in this sector. Malaysian trade union law limits a union to organising workers only within a single industry or closely related industries. The DGTU ruled in the 1970s that the EIWU could not organise workers in the electronics sector, as the two industries are different. Other attempts to organise a national union for the electronics industry failed on similar grounds during the 1980s. In September 1988, the government announced that it would permit in-house unions to be organised in the electronics sector. A National Electronics Industry Workers Union (NEIWU) was formed, but was denied registration on the grounds that it sought to represent workers in both electronics and electrical industries. The government allowed several in-house unions in the electronics sector during the late 1980s and early 1990s. At present, workers at six electronics companies are represented by in-house unions. However, government policy still illegalises national unions in the electronics sector, the country's largest industry.

According to MTUC officials, 150,000 electronics workers are denied their right to organise, and only eight in-house unions have been formed in the electronics industry. The ban on national unions in this sector has its origins in concessions given by the Malaysian government to foreign electronics firms in 1972, which ensured that workers in their factories would not form trade unions. Efforts to form unions in the 1970s and 1980s in the electronics sector, witnessed strong resistance by US companies that led the state to be more oppressive to trade unions than it would otherwise have been. Under increasing pressure from the International Labour Organisation (ILO) and the imminent General System of

Preferences review, the Malaysian government dropped its ban on unions in the electronics industry in 1988, but allowed only in-house unions. To date these unions have failed to provide workers with adequate protection, and workers continue to be denied the freedom to form a union of their choice. Malaysia also declines to ratify ILO Convention 87 that covers freedom of association and the right to organise workers.

Trades Union Act (TUA) was effective from 1959. While it confers legality to trade unions, it has numerous provisions contrary to ILO Conventions. As the country developed, more and more obnoxious amendments were introduced to the Act, the worst being the 1980 amendments, which were in fact the brainchild of Dr. Mahathir Mohamad, the former prime minister of Malaysia. The DGTU shall have general supervision, direction and control of matters relating to trade unions (section 3). Under section 4A, which was introduced in 1980, s/he shall exercise all such powers, discharge all such duties, and perform all such functions as may be necessary for carrying out the provisions of the Act.

Under colonial, rule the workers were allowed to form General Unions, which means a membership could comprise all categories of workers. This right has been systematically undermined by section 9 of the Act, which says Malaysian workers are only allowed to form unions within a particular trade, occupation, or industry. Furthermore, the DGTU is empowered to refuse registration of a trade union by section 12(3) if s/he is of the opinion that: the union is likely to be used for unlawful purposes, or any of the objectives of the union are unlawful, or the constitution of the union conflicts with the provision of the Act. S/he can also reject the registration of a trade union if there is in existence another union catering for similar workers. The operative condition is “in her/his opinion”. What a blow to the concept of freedom of association!

Section 15(2) says if there is more than one union in existence in a particular trade, occupation, or industry, the DGTU may cancel the certificates of all unions other than the union that has the largest number of members. It is yet another slap for freedom of association. The DGTU is empowered to suspend a branch of a union if s/he is satisfied that the branch has contravened the provisions of the Act or the rules of the union. It is also within the power of the DGTU to disqualify an elected executive of a trade union or a federation of trade unions by specifying the grounds for such disqualification (section 28(2)).

Even in employing a worker, a union needs clearance from the DGTU under section 29 of the Act. If an employer claims her/his workers have no right to be members of a particular union, the DGTU is empowered to make a decision based on her/his own opinion. While the government has given permission for trade unions to invest in business enterprises and cooperatives, it is mandatory under section 49 for the union concerned to obtain prior approval from the DGTU before the investment is carried out. Violation of this condition carries a penalty of two years' imprisonment and/or RM2, 000 fine.

Sections 50 to 57 in Part VIII of the Act deal with union funds, finance, and accounting procedure etc. The DGTU can enter a trade union office and inspect all its books and records. S/he can also freeze the funds of a trade union. The primary purpose of all these restrictive provisions in the Act, it is claimed, is to protect the funds of the union, which belong to the members. But the fact is that there have been instances of union money being mismanaged and misappropriated. Haven't you heard that union money has been used to gamble on the stock market, invested in questionable economic ventures, and provided interest-free loans to union leaders?

Under section 71, the DGTU can seek information on any of the activities of a trade union by summoning any person to her/his office. The DGTU may administer oaths to and examine any person on oath summoned before her/him. Even for international affiliation, a trade union must obtain the prior approval of the DG under section 76B; s/he must also be furnished with the constitution and the details of the officers of the international organisation concerned. S/he is also empowered under section 76C to order the trade union to withdraw from an international organisation.

## 5. CONCLUSION

Through this study, from the beginning to end, researchers were repeatedly surprised by the tight and effective relation between foreign investors and the government. As long as there is profit to make out of this relationship for both the government and corporations, it will continue to exist. There is a grave concern for the workers belonging to the most vulnerable and powerless group in globalised production. Those workers are surviving on the lowest payments, unstable and uncertain income sources, no employment contracts and thus no job security, no access to social security or social protection, and no negotiating power. These workers are in constant fear of losing their jobs. Outside factories, migrant workers and home-based workers contribute to reducing business costs and risks of capital. Inside factory, even permanent workers face almost the same problem of being fired at any time by the company. Workers have thousands of demands on the basis of their legal rights but couldn't find the proper way to make the rights real by overcoming the fear and exhaustion from daily work. Perhaps, we could not provide a clear-cut image of workers in Samsung. However, we hope that this is an opportunity to share at least some limited information to enlarge the basis of worker solidarity and contribute to building strategies in the future. We imagine that workers in Samsung will get back their rights in the near future.

## REFERENCES

- Malaysian Industrial Development Authority (MIDA) 2004, *Business Opportunities in Malaysia Electronics Industry 2004*, Kuala Lumpur, Malaysia.
- Rasihah, Rajah 2003, *Fostering Clusters In The Malaysian Electronics Industry*, Working paper, Faculty of Economics and Administration, University of Malaya.

US Department of the State 2005, 'Background Note: Malaysia', <http://www.state.gov/r/pa/ei/bgn/2777.htm>

Malaysian Industrial Development Authority 2006, 'Manufacturing-Investment 2006', <http://www.mida.gov.my>

Roh, Moo-Hyun 2006, *Speech at Kuala Lumpur, Malaysia, 12.2005*

US-ASEAN Business Council 2003, 'Business Guide Malaysia', [http://www.us-asean.org/Malaysia/business\\_guide/Tax\\_System.asp](http://www.us-asean.org/Malaysia/business_guide/Tax_System.asp)

YB Datuk Seri Dr Fong Chan Onn (Minister Of Human Resources Malaysia) 2005, *Speech at Launching Ceremony of Samsung SDI(M) 15th Anniversary*, 22nd November 2005.

Ministry of Human Resources 2006, 'Minimum Conditions of Employment by The Employment Act, 1955', [www.mohr.gov.my](http://www.mohr.gov.my)

Samsung Malaysia 2006, 'About Samsung; Samsung Electronics Malaysia', <http://www.samsung.com/my/aboutsamsung/samsungelectronicsmalaysia/index.htm>

## NOTES

1 Source: MIDA 2004. \* Department of Statistics (Monthly Manufacturing Statistics) \*\* Department of Statistics (External Trade Statistics) (US\$1 = RM 3.80).

2 \* Figures for 2006 are for January - March only. Source: <http://www.mida.gov.my/statistic/Manufacturing-Investment2006/JanMac06/UStable2-byindustry.html>

3 2003 merchandise exports: \$127.0 billion: electronics, electrical products, palm oil, petroleum, liquid natural gas, apparel, timber and logs, plywood and veneer, natural rubber (<http://www.state.gov/r/pa/ei/bgn/2777.htm>).

4 2003 Merchandise imports: \$99.2 billion: machinery, chemicals, manufactured goods, fuels, and lubricants.

5 \* Figures for the year 2006 are for January - March only.

\* Summation of totals may not be exact due to rounding difficulties.

6 [http://www.mida.gov.my/stats\\_man/2004/appr-table8.html](http://www.mida.gov.my/stats_man/2004/appr-table8.html)

7 Source: [http://www.mida.gov.my/stats\\_man/2004/appr-table13.html](http://www.mida.gov.my/stats_man/2004/appr-table13.html)

8 Lot 635 & 660, Kawasan Perindustrian Tunaku Jaafar, 70450 Sungai Gadut, Negeri Sembilan Darul Khusus (Phone: 60-6-677-7115 / Fax: 60-6-677-7304).

9 Lebu2, North Klang Straits, Area 21, Industrial, Park, 42000, Port Klang, Selangor Darul Ehsan, Malaysia (Phone: 60-3-376-1068 / Fax: 60-3-376-3461).

10 (HSD) 69244, No. P. T. 12692 MU.K.im Ampangan, Tunaku Jaafar Industrial Park, 71450 seremban, Negeri Sembilan Darul Khusus, Malaysia (Phone: 60-6-678-7914 / Fax: 60-6-678-7389).

11 Lee, Jang-Ro and Shin, Man-Soo 2000, Korean Companies and New Market on Abroad, *Muyok*, pp.166-7.

12 Same as above. It was almost the only open information on the early results of Samsung Groups.

13 'The company had been awarded many prestigious awards from the Malaysian government. These include the Caring Employer Award, the Prime Minister's Hibiscus Award, the National Productivity Award, the Prime Minister Quality Award, the National Landscaping Award and The Most Competitive Employer Award.' (YB Datuk Seri Dr Fong Chan Onn , Minister Of Human Resources Malaysia, Launching Ceremony.

14 Lee, Jang-Ro and Shin, Man-Soo 2000, Korean Companies and New Market on Abroad ,

Muyok, p.167.

15 There is also a fine of RM50 for not bringing a name tag, without which workers have to pay for lunch themselves.

16 3.77RM = 1US\$.

17 Her/his working time is from 8a.m. to 6 p.m. S/he is providing workers with trainings on products, safety, quality control. S/he also prepares questions for quarterly exams for workers in production lines, writes up reports, and also clocks time for speed-based performance regularly.

18 'Minimum Conditions of Employment' by The Employment Act, 1955:

- Paid maternity leave: 60 days

- Paid holiday: At least 10 gazette public holidays in one calendar year and on any day declared as a public holiday under section 8 of the Holiday Act 1951

- Paid annual leave for employees:

Less than two years of service: 8 days

Two or more but less than five years of service: 12 days

Over five years of service: 16 days

- Paid sick leave per calendar year: Less than two years of service: 14 days

Two or more but less than five years of service: 18 days

Over five years of service: 22 days

Where hospitalisation is necessary: up to 60 days

- Payment for overtime work: Normal working days: one-and-a-half times the hourly rate of pay

Rest days: two times the hourly rate of pay

Public holidays: three times the hourly rate of pay

- Normal work hours: Not exceeding eight hours in one day or 48 hours in one week.

19 'It is involved in the manufacturing of microwave ovens, and it is currently the only microwave oven manufacturer in Malaysia. In 2004, Samsung Electronics Malaysia (SEMA) was appointed as the global headquarters for Samsung's microwave oven business.' (<http://www.samsung.com/my/aboutsamsung/samsungelectronicsmalaysia/index.htm>).

20 Lee, Jang-Ro and Shin, Man-Soo 2000, Korean Companies and New Market on Abroad, Muyuk, p.204.

21 EIWU has also Sharp and Ericson as members.

**PART 2**

**TOYOTA**



## CHAPTER 6

### TOYOTA AND ASIAN AUTOMOBILE WORKERS

*KANEKO FUMIO*

#### INTRODUCTION

Since 2002, the Asian Transnational Corporation (ATNC) monitoring network has been conducting research and workshops on the activities of Asian-based transnational corporations (TNC) from a standpoint of empowering their workers. *Automobile Workers and Industry in Globalising Asia* published in March 2004 (AMRC, to order see <http://www.amrc.org.hk/resource.htm>) is a fruit of our initial activity. In 2005, we set up several research teams on TNC employing methods such as mobilising capital and utilising irregular workers for making profit. Our research team decided to pick up Toyota as a representative of Japan-based TNC, conducted a piece of research on its activities in Asia and the situation of its workers, and made this report based on the outcome.

Toyota is not the sort of TNC that mobilises its production site from one place to another in order to secure the access to cheap labour. Toyota is the sort of corporation that makes profit by inducing its workers to work efficiently by permeating a particular method called the Toyota Production System through established production sites. To make the Toyota Production System work, there are many factors necessary: the managerial control which entices improvement in productivity, irregular workers who enable flexible production, the trade union's harmonious relationship with the employers, and so on. Our research team looked into how the Toyota Production System is introduced into Asian production sites and what kind of situations the workers are in as a result at the same time as focusing on the management, on the irregular employment and on the trade union.

The members divided their tasks country by country: Japan, Thailand, the Philippines and India; and conducted each piece of research according to the specified common items: the capital and managerial trend, the governmental policy

on industry and labour, the workers' composition, the working conditions, the labour management, and the trade union. The research methods are gathering secondary material from published material and websites and gathering first-hand sources by interviewing the workers and the trade union relations.

This report overviews the general picture of Toyota as a global corporation with special attention to the Toyota Production System and the trends of its exportation to other Asian countries.

This is not everything about Toyota or TNCs in Asia by any means, as our research was short-term, but contains some valuable original accounts from our interviews with the workers. Based on this, we are aiming further to pursue more research, to keep an eye on runaway TNCs, and to progress our activities towards establishing workers' rights in this region of the world.

Toyota Motor Corporation has grown into one of the world's top car manufacturers via the so-called Toyota Production System that is characterised by its thorough enhancement of capital efficiency. Toyota Production System is maintained by intensive labour and long working hours that utilise its workers up to the limit. And such labour control is made possible by the trade union that identifies itself with the management. In the meantime, Toyota is a TNC shifting production overseas under the globalisation of the world economy. However, it is highly questionable how far the Japanese born production system can be exported to or how well the Japanese style labour control can be brought into an overseas country with different cultural and social settings.

## **1. TOYOTA'S CAPITAL AND MANAGEMENT**

### **1.1 History and the Firm Size**

Toyota Motor Corporation was founded in Aichi prefecture in central Japan between Tokyo and Osaka in August 1937, just one month after the outbreak of the all-out war between China and Japan. The founder Toyoda Kiichiro was a son of the inventor of the first automatic loom, Toyoda Sakichi, who set up Toyota Industries Corp. Along with Japan's hyper-economic growth after the Second World War, Toyota Motor Corporation opened factories of its own as well as of its affiliation in the prefecture one after another. Toyota eventually developed into the largest car manufacturer in Japan under one family management. The cumulative numbers of the domestic production kept increasing, totalling 100,000 vehicles in 1947, one million in 1962, 10 million in 1972 and 100 million in 1999 (Toyota no Gaikyo 2005, pp. 49-51). In the year 2006, it is estimated that Toyota will pass General Motors to become the largest car producer in the world.

Let us look at some statistical indicators to grasp how gigantic Toyota is. Firstly, the capital was 397 billion yen (about 3.5 billion dollars) in the year 2005 with a total market value of listed stock reaching 187.1 billion dollars. By the total market value, which amount to more than 7.6 times as much as the sum of GM and Ford, Toyota ranked 8th in the list of world enterprises at the end of 2005 (Nihon Keizai Shimbun, Jan. 5, 2006). Secondly, annual sales were 163.6 billion dollars in 2004, again, ranking

the company as 8th on the list. Sales exceed the GDP of Thailand but comes 4th after GM, DaimlerChrysler AG and Ford among car manufacturers (ibid, Jul. 21, 2005). Thirdly, however, the annual profit of Toyota is 1,171.2 billion yen (about 10 billion dollars) in 2004, exceeding by far the profits of the other three, each of which is merely around 300 billion yen (over 3 billion dollars) (Asahi Shimbun, Oct. 6, 2005).

Toyota originally started as a local enterprise in Aichi prefecture, away from the capital city Tokyo, and thus kept distance from the centre of Japanese political and business communities. But, as it developed into a top-rank corporation on national and international scales, Toyota increased its influence in central politics and business. The watershed was the appointment of Toyota's then CEO, Toyoda Shoichiro, as the chairperson of Keidanren (Japan Federation of Economic Organizations), one of the two pressure groups that represented the interests of large scale companies in 1994. In 1999, Okuda Hiroshi, the president of the company became the chairperson of the other group of big business representative, Nikkeiren (Japan Federation of Employers' Associations). Further, in 2002 when Keidanren and Nikkeiren merged, Okuda became the chairperson of the new organisation, Nippon Keidanren (Japan Business Federation). Okuda has also been exercising his political influence in Japan's so-called restructuring since being appointed from the private sector as a member of the Council on Economic and Fiscal Policy set up in the Cabinet Office under the Koizumi administration (cf. Kaneko 2006).

## 1.2 Managerial Trend

Table 1 shows changes in the volumes of production and sales and suggests the recent managerial trend of Toyota. The figures in the table include performances of Daihatsu Motor Co., Ltd. and Hino Motor Co., Ltd. as affiliated companies. The production was five million vehicles per year in fiscal year (FY) 1999 (April 1999 to March 2000), went over six million in FY 2003 recording second in the world's car manufacturing, and further went over seven million in FY 2004. During this period, the growth of domestic production was gradual whilst the overseas counterpart was growing significantly. This trend continued in FY 2005 that produced eight million vehicles, and was forecast to do so again in FY 2006, with over nine million cars

**Table 1 Production and sales (Unit: 1,000)**

Fiscal Year	Production			Sales		
	Japan	Overseas	Total	Japan	Overseas	Total
1999	3,864	1,139	5,003	2,178	3,005	5,183
2000	4,098	1,178	5,275	2,323	3,204	5,527
2001	4,029	1,375	5,404	2,217	3,568	5,785
2002	4,162	1,821	5,983	2,218	4,028	6,246
2003	4,284	2,230	6,514	2,303	4,416	6,719
2004	4,535	2,697	7,232	2,381	5,027	7,408

Notes

- 1) Fiscal year is from April to March in the next year
- 2) Consolidated Base

*Source: Toyota Motor Corporation, Annual Report*

produced, taking over General Motors' top position of the producers (Nihon Keizai Shimbun, Dec. 21, 2005). The total sales has demonstrated a similar trend as the total production. However, the domestic sales have seen very few increases, making it clear that the increase of sales has been maintained by the overseas market.

In Table 2, we can see changes in sales and net profit in the last decade. Since FY 1997, the volume of sales has steadily increased. From a worldwide glance at sales, Toyota was not up to the standard of the big three, GM, DaimlerChrysler AG and Ford, until FY 2004 but became number two after GM in FY 2005. The net profit has also been increasing since FY 1998, with a notable jump in FY 2001. As a result, Toyota now leads the big three by far in profit reflecting this on its aggregate value of listed stock as discussed above.

Table 2 includes the total number of employees in the whole Toyota group, and shows that the number increases as the group grows. We should pay attention here to compare the rates of increases in sales, net profit and number of employees. In between FYs 1995 and 2004, the growth was 1.7 times in the sales, 4.6 times in the profit, and 1.8 times in the numbers of employees; it is clear that the ratio of the profit increase was large. Accordingly, the per-capita profit per employee can be calculated to have increased from 1.75 million yen (about 15,000 dollars) to 4.41 million yen (about 38,000 dollars). We will discuss later that high profit as such is achieved by enforcing the Toyota Production System.

Based on the high return, Toyota conducts large-scale investment into research and development so as to lead the world's car industry as a whole. In The Global Vision 2010 published in 2002, the company envisages the 'advent of regenerating and recycling society' and predicts certain 'advancement of motorisation in a global scale' under the global environmental constraints. From this perspective, Toyota puts its efforts into developing hybrid cars with the engine fuelled by both oil and electric motor and fuel-cell-powered cars as the forerunner of the practical use of this technology.

Toyota's breakthrough was, however, not accomplished single-handedly by Toyota Motor Corporation Japan. It was done by accumulated efforts of affiliated companies, major affiliated part producers, and contracted and sub-contracted enterprises in Japan. The key factor that enabled this contribution was permeation of the Toyota Production System to the whole Toyota group. We shall thus comprehensively look into the organisation of the Toyota group.

**Table 2. Sales profit and number of employees (Unit : billion yen )**

<b>Fiscal Year</b>	<b>Sales</b>	<b>Net Profit</b>	<b>Number of Employees</b>
1995	10,719	257	146,855
1996	12,244	386	150,736
1997	11,678	454	159,035
1998	12,749	356	183,879
1999	12,880	407	210,709
2000	13,424	471	215,648
2001	15,106	616	246,702
2002	16,054	945	264,096
2003	17,295	1,162	264,410
2004	18,552	1,171	265,753

Notes

- 1) Consolidated Base
- 2) 1995-2002: Japanese Accounting standard
- 2003-2004: US Accounting Standard

Source: Toyota Motor Corp, Annual Report

### 1.3 Organisation of the Toyota Group

Toyota built 12 plants of its own by the 1980s as shown in Table 3. All of them are in Aichi prefecture where the company's headquarters is situated, suggesting Toyota's agglomeration of advantages at the time of building plants there. The 1970s was the peak of the building when the company was aiming for volume production within its own plants. Four of them are the current main factories with more than 5,000 employees: Motomachi Plant for top class cars such as Crown and Mark X; Takaoka Plant for more low-end cars such as Corolla and Vitz; Tsutsumi Plant for mid-range cars such as Prius and Camry; and Tahara Plant for prestige cars such as Celsior and Land Cruiser Prado. All deal with the end process of assembling.

However, the location invited a limitation regarding labour force recruitment. Thus, as in Table 3, three factories built in the 1990s are situated in Kyushu, Hokkaido and Tohoku, far away from Aichi prefecture. These factories are Toyota owned factories in practical terms but are spun-off into separate entities because of the tax preference by the local governments. Kyushu Plant assembles top class cars such as Harrier and Kluger.

**Table 3 Domestic production sites**

Name	Location	Start of Operations	Number of Employees
Honsha Plant	Aichi	1938	2,598
Motomachi Plant	Aichi	1959	6,181
Kamigo Plant	Aichi	1965	3,177
Takaoka Plant	Aichi	1966	5,370
Miyoshi Plant	Aichi	1968	1,602
Tsutsumi Plant	Aichi	1970	5,111
Myochi Plant	Aichi	1973	1,722
Shimoyama Plant	Aichi	1975	1,403
Kinu-ura Plant	Aichi	1978	2,927
Tahara Plant	Aichi	1979	6,833
Teiho Plant	Aichi	1986	1,607
Hirose Plant	Aichi	1989	1,299
Toyota Motor Kyushu	Fukuoka	1992	2,095
Toyota Motor Hokkaido	Hokkaido	1992	1,303
Toyota Motor Tohoku	Miyagi	1998	149

*Source: Toyota Motor Corp, Annual Report 2004*

We should note that Toyota cars are also produced by enterprises in the Toyota group apart from the plants directly owned by the Toyota Motor Corporation itself. Table 4 is the extract of major enterprises which produce either end products or parts within the Toyota group. Toyota's subsidiaries number as many as more than 500 and affiliations number more than 200. The major ones shown in Table four are the ones directly involved with the domestic production of vehicles. They

typically have long history with their foundation dating back to before 1950. Many of them have long-standing relationships with Toyota, located in Aichi prefecture but some, including Daihatsu Motor and Hino Motors, have had established histories as different companies and joined the Toyota group only recently.

**Table 4. Toyota Group companies**

Name	Location	Start of Operations	Capital (million yen)	Share of Toyota (%)	Number of Employees
Daihatsu Motor	Osaka	1907	28,404	51.2	10,296
Toyota Industries	Aichi	1926	80,462	23.5	9,888
Aichi Steel	Aichi	1940	25,016	24.2	2,407
Toyoda Machine Works	Aichi	1941	24,805	23.6	3,850
Hino Motors	Tokyo	1942	72,717	50.1	8,673
Toyota Auto Body	Aichi	1945	8,871	50	8,077
Kanto Auto Works	Shizuoka	1946	6,850	50.1	5,361
Aisin Seiki	Aichi	1949	45,049	22.7	10,208
Toyoda Gosei	Aichi	1949	25,318	42.6	5,463
DENSO	Aichi	1949	187,456	23.2	38,620
Toyota Boshoku	Aichi	1950	4,933	46.8	2,118

Note 1) Manufacturing Affiliates

Source: *Toyota no Gaikyo 2005*, p.42

In Table 4, five enterprises deal with the end process of assembling: Daihatsu Motors for compact cars such as Cami and Passo; Toyota Industries for Vitz and RAV4; Hino Motors for commercial vehicles such as Dyna/Toyoace and Townace; Toyota Auto Body for diverse types including Hiace or Voxy; and Kato Auto Works for many passenger cars including Crown and Corolla. Daihatsu and Hino also produce cars with their own brands whereas the other three concentrate on the Toyota brand. Each of these enterprises plays the role of safety valve for Toyota to adjust production to the market trend. The flexibility that characterises the Toyota Production System cannot exist without such group companies. Adding to this, Fuji Heavy Industries Ltd., ranked 20th among the world's car manufacturers, which had been affiliated with General Motors, publicised that they would form a capital alliance with Toyota in October 2005 (Nihon Keizai Shimbun: Oct. 6, 2005). This move symbolises GM's slump and Toyota's leap in business and will further enlarge the scale of the Toyota group.

To look at the group from a different perspective, Table four shows six large-scale parts makers. Among them, there are giant TNCs which have many affiliated enterprises in their own right: DENSO, for making engine parts, air conditioners, etc., is ranked 3rd and Aisin Seiki, for making transmissions, brakes, etc., is ranked 8th among the world's car part manufacturers. These large-scale companies are themselves umbrella companies which organise numerous small- to mid-size subcontractors with sub-subcontractors under them. Through these enterprises, the Toyota Production System permeates thoroughly via capital alliance, dispatch of key personnel or technical cooperation resulting to sustain Toyota's management

of expansion and high profit making. Thus, Toyota's globalisation or shifting production overseas actually means shifting the whole group of companies overseas; the system has rapidly been constructed in which research and development are conducted in Japan and production is carried out abroad.

#### 1.4 Multinationalisation

Let us now look at the overview of Toyota group's shift overseas. Toyota began organising a sales network abroad early and has expanded exports. The ratio of overseas sales, or the proportion of sales outside Japan in the company's own world sales, has been over 50% since the early days. Table one above shows that 58.0% of the total sales was occupied by the overseas sales in FY 1999 and the ratio increased to 67.9% in FY 2004.

Toyota was supplying overseas markets with exports in the beginning but took a step to local production in North America, the largest market for the company, during the trade friction between the United States and Japan in the 1980s. Since then, the ratio of overseas production, or the proportion of the production outside of Japan in the company's own world production, has steadily been increasing. The overseas production ratio was 22.8% in FY 1999 reaching 37.3% in FY 2004 as shown in Table 1.

The overseas profit rate of Toyota, meanwhile, became 33% or so recently according to the Annual Financial Statement. This figure more or less matches the overseas production rate. But if export is assumed to be the source of the overseas profit, the figure matches the overseas sales rate.

Table 5 demonstrates the accumulated figures of Toyota's overseas production, sales and export divided into regions. The most important region for production is North America followed by Asia and Europe. The same can be said about the sales and the export except that Asian exports slowed in 2004. Exports to Asia did not increase at all between 1995 and 2004 whilst the number of production nears the number of sales in the region. This explains that local production trend in Asia deepened.

**Table 5 Overseas production, sales and export by region**  
(Unit: 1,000)

	Production		Sales		Export	
	1995	2004	1995	2004	1995	2004
North America	730	1,444	1,169	2,292	454	814
Latin America	4	80	96	153	111	96
Europe	100	583	384	916	263	419
Africa	88	109	136	207	47	92
Asia	259	647	433	772	156	156
Oceania	54	110	145	233	77	165
Middle East	23	70	133	377	89	202
Total	1,253	3,043	2,496	4,949	1,202	1,952

Notes 1) Middle East includes South Asia

Source: Toyota no Gaikyo 2005, p.14

Table 6 shows distribution of Toyota's production plants abroad. In 2005, Toyota had 52 plants in 26 countries and regions around the world. The Latin American Plant (in Brazil) is the oldest one established in the 1950s although there were not many overseas plants built after this until the 1970s. From the 1980s onwards, the plants of production rapidly increased, clearly demonstrating Toyota's managerial shift towards overseas. By region, Asia leads the number of plants, 26 or a half of all the plants abroad, followed by North America and Europe. If compared with the number produced abroad in Table 5, we can infer that there are large-scale plants in North America whereas there are smaller-scale plants in Asia. Four of the plants in North America actually have production capacity of more than 300,000 vehicles whereas the largest plant in Asia, among many other smaller ones, produces 270,000 vehicles in Thailand. However, as Toyota expands the market in Asia it would be increasing the production capacity there as well. We will discuss details of Asian production in section 3.

**Table 6. Number of overseas manufacturing companies**

	1950s	1960s	1970s	1980s	1990s	2000s	Total
North America	0	0	1	4	3	3	11
Latin America	1	0	0	1	2	0	4
Europe	0	1	0	0	2	5	8
Africa	0	1	1	0	0	0	2
Asia	0	2	2	4	8	10	26
Oceania	0	1	0	0	0	0	1
Total	1	5	4	9	15	18	52

*Source: Toyota Motor Corp, Annual Report 2005, pp. 124-7*

Meanwhile, we need to include expanding operations of the group companies when talking about multinationalisation of Toyota as mentioned earlier. In Table 7, the numbers of Toyota's and the group companies' plants expressed by region are shown, including not only production plants but also sales offices. Toyota itself has most (96), situated mainly in Asia, Europe and North America. It is notable that DENSO, a parts maker, has 83 overseas companies, of which 35 are in Asia, almost the same as Toyota. Toyota Boshoku's 46 and Aisin Seiki's 38 are significantly large figures as well. In addition, although it does not show this in Table 7, groups of smaller-scale sub-contracting parts makers have also advanced into overseas with the umbrella companies. The Toyota group basically aims to transfer the Toyota Production System. But the original system does not work abroad where the socio-cultural background is different; varieties of conflicts or changes are inevitable. To present a true picture of the system as such is a major aim of this report. Before we proceed into the main argument however, we will summarise the Toyota Production System with its labour control as its core in the next section.

**Table 7. Number of overseas companies of Toyota Group**

	North America	Latin America	Europe	Asia	Others	Total
Toyota Motor	20	8	28	33	7	96
Toyota Auto Body	0	0	0	4	0	4
Daihatsu Motor	1	0	3	5	1	10
Hino Motors	3	0	1	10	1	15
Denso	16	5	24	35	3	83
Toyota Boshoku	13	1	3	27	2	46
Aisin Seiki	18	1	4	14	1	38
Aisin Takaoka	2	0	0	8	0	10
Aisin AW	3	0	2	2	0	7
Total	76	15	65	138	15	309

Source: Toyo Keizai Shimposha, *Kaigai Shinshutsu Kigyo Soran 2005*

## 2. TOYOTA PRODUCTION SYSTEM AND LABOUR MANAGEMENT

### 2.1 Toyota Production System

#### *Contents of the Toyota Production System*

The origin of Toyota's strength is said to be in its Production System. Then, what is the Toyota Production System? In the introduction of his book, *Toyota Production System: Beyond Large-Scale Production*, Ohno Taiichi, the originator of the system, states that this is a system aimed at enhancing the efficiency in production, based on producing many models in small quantities and thoroughly eliminating loss.

The Toyota Production System called for countless introduction manuals and practice guides. But their summary would have three main components: Just-In-Time, Automation, and *Kaizen* (constant improvement).

'Just-In-Time' is the foundation of the Toyota Production System: to procure just what is needed, only when needed and only in the quantity needed during the whole process towards the completion of car production. By achieving this, losses that would have reduced efficiency are eliminated. Toyota aims to lower production costs by reducing the following seven elements: 1) over-production, 2) waiting time, 3) transportation cost, 4) processing stages, 5) inventory, 6) motions and 7) making defects. one to five are related to Just-In-Time; all parts and partly-finished products would not be either in short or in excess, their optimal quantities flowing non-stop throughout the production process and workers working non-stop without a break if Just-In-Time is fully enforced.

There is also a system called *Kanban* to sustain Just-In-Time. This method is born out of a concept that a later process takes what is needed from an earlier process; the last process operates according to a particular production plan, one process prior produces the parts necessary for the last and the line repeats this to the very first process. *Kanban*, literally meaning 'signage', is a tool to pass the information from one process to the one after, and in effect, the *Kanban* chain

reaches parts makers even outside Toyota factories. Accordingly, the Toyota Production System is constructed as inclusive of affiliated enterprises and sub-contractors. Even in a sub-contractor factory, Just-In-Time is required if within the Toyota Production System. But the degree of enforcement is the highest in Toyota's own factories; sub-contractors at one end of the process uphold the system bearing some loss.

There are also other methods that support Just-In-Time such as Standard Work, and Synchronization and Levelling. Standard Work is a way of operation standardised by an efficient combination of the means of production such as workers, machines and tools. This is measured by three elements of Takt Time, or the time for making a product, Work Sequence, or the order workers operate, and Standard In-process Stock, or the minimum quantity of work-in-process. By improving Standard Work, loss is eliminated completely. Synchronization is for all the processes to keep the pace of the last process in a line so as to eliminate loss again. Levelling aims for zero-fluctuation to reduce uneven flows of production when there are in-puts of different car types in one line corresponding to the 'production of many models in small quantities'. Related to Levelling, small lot production and quick and frequent changes of setups are required. These methods might seem to be inefficient compared to the idea of producing a few models in large quantities such as Ford's. However, the Toyota Production System which aims otherwise in order to flexibly adapt to market conditions cannot avoid changes of setups for different models. But the time for each changing is now improved to 3 minutes from 3 hours which was required to do the same operation at first.

The second core component of the Toyota Production System is Automation. Automation improves efficiency of production by introducing machinery. This is, however, not mere replacement of human beings by machines; its main purpose is to 'add human wisdom' to machines to halt the production line automatically when there is a malfunction. Stopping a line is an accident against Just-In-Time but it is prioritised to prevent another loss of product failure by an unattended malfunction. Machines are equipped with various functions of mistake-proofing which forestall the failure. There is also the '*andon* board' which visually notifies line workers to stop the line for a malfunction. If there is a problem, the root cause is sought to prevent it from occurring again. Starting from the direct cause, asking-why-five-times is the way Toyota deals with production failure.

Automation also aims at reducing the number of workers. The 'added human wisdom' to machines made it unnecessary to have a worker overseeing each machine all the time; each worker is in charge of multiple processes. By this, hitherto single-skilled workers are transferred into multi-skilled workers to provide a production system in which labour supply can flexibly coincide with the changes in the numbers of production. Simultaneously, workloads of workers are inevitably on the increase.

The third core component is *Kaizen*, literally meaning 'constant improvement'. In order to cut losses, activities to improve each process are pursued daily. At the

centre is the improvement of operations. Reviewing Standard Work, manpower reduction, reduction of work-in-process inventory, reduction of defective goods, developing production capacity and the line layout are the items pursued. It should be noted that these improvement activities are participated in by all members of the operation team voluntarily, although it is difficult to define what genuine volunteering is. The idea to put the production-field centre stage, called *genchi genbutsu*, or the production spot and the actual item, has heavy weight in Toyota, making *Kaizen* activities on the spot to be appreciated as giving the workers a sense of fulfilment and achievement by participating in it. However, this appreciation stems from a one-sided evaluation. Looking at this from the other side, it is clear that the elimination of loss exposes workers to excessive stress; workers are in a way putting the noose around their own necks at the same time as excluding from the team those who do not or cannot keep up with *Kaizen* activities.

#### ***Essence of the Toyota Production System and Its Impact on Workers***

As seen above, the Toyota Production System is a system to realize flexible production to correspond with the market's trend by enhancing efficiency through exhaustive reduction of losses. In principle, this is to increase the speed of capital circulation to the limit by maximizing efficiency to create surplus-value. The parts and partly-finished goods in stock mean that the circulating capital is halted whilst having no inventory means that the capital is always in circulation accelerating the creation of surplus-value. The same is true not only in the production process within a factory but also during the course of distribution in which the finished cars are dispatched to and sold in the market. The possible occurrence of inventories in the distribution process would also result to stop the capital circulation; downsizing inventory is a major issue for any enterprise. In the case of Toyota, loss from over production is avoided by producing many models in small quantities. In addition, Toyota raises operation rates by employing a system called 'continuous double shift' but not to the extent of 100 percent utilisation of its fixed capital such as machinery and equipment. This is because Toyota thinks 24-hour usage of fixed capital to create surplus value would overproduce and be against its production system.

Toyota is also thorough about utilization of labour. As stated above, waiting, or workers doing nothing, is reduced to zero by ceaseless *Kaizen* of Standard Work. Division of labour among a working team is made flexible resulting in covering the gap between the capabilities of the workers; if there is a slow worker, his or her team mate who works quicker compensates and prevents the team productivity as a whole from lowering. Further, Toyota analyses workers' motions into three categories: 'work' which produces added value; 'movement' which produces no added value but is necessary; and others which neither produce added value and are unnecessary, reducing as much loss as possible.

We should note, however, that the system that prioritises efficiency as such is built upon the strain on the workers and sub-contractors. The direct as well as the indirect sub-contractors are affected by Just-In-Time and those who are at the bottom

of the enterprise pyramid might as well shoulder the risk of certain changes, e.g. in production plans. Companies at the end of the production line outside Toyota are in a weak position to negotiate and cannot adjust to the changes unless they have some stock parts. Their workers are often exposed to unjust overtime work.

Also the workers in Toyota itself are affected as follows. Firstly, they are forced to conduct highly intensive work with no leeway for long hours as an inevitable result of the aim for total elimination of loss. The 'flexible' production system with frequent changes in its plan requires overtime work. Stoppage of production lines by some defects in machines would also require overtime work necessary for making up for the delay.

Secondly, relocation of workers and irregular employment are unavoidable during production adjustment; to correspond with the market trend, relocations between Toyota factories and external and/or temporary assignments to Toyota's affiliated companies are common. This way of personnel transfer has serious impact on the workers' lives. However, Toyota does not make its regular workers redundant on principle. Instead, irregular employees are used as a safety valve to reduce or increase the production capacity in accordance with the market's requirement. Thus, for Toyota, a certain ratio of irregular workers is a must but with very harsh working conditions.

Thirdly, to conduct *Kaizen* activities smoothly, it is fundamental to have a trade union in line with harmonious labour relations. Toyota's trade union has its base on the idea that the workers gain by cooperating with the management and contributing to improvement of the operating result. Labour-management confrontation is carefully averted. The union is then incorporated to the management as a tool of labour control. From the workers' viewpoint, their union is a function of management thus not an organisation that aims to realise their demand.

## **2.2 Labour Control**

### ***Employment and Workers' Status***

The number of Toyota's employees was in the range of five-thousand persons in the 1950s. It passed the 10,000 mark in the 1960s, the 40,000 mark in the 1970s, and the 70,000 mark at its peak. However, in spite of the spurt in sales, it remains unchanged at 65,000 recently. What increases or decreases corresponding with the amount of production is the number of irregular employees, as mentioned above. In the recession period of the 1990s, for instance, the number of Toyota's irregular employees was reduced to almost none. But it increased to 8,147 or 12.5% of its 65,346 regular employees at the end of March 2004 as the economy recovered. At the end of September 2005, the number reached 19,881 or 30.1% of the 65,994 regular employees (Toyota: *Annual Financial Statement*).

The style of irregular employment has changed through the era. In 1956, the two-month temporary labourer scheme was introduced and eventually developed into probation, opening the opportunity for probationers to become regular employees. From the second half of the 1960s, the scheme for agricultural off-season labourers

started. It later witnessed employment for limited terms, regardless of seasons, to become the core of Toyota's irregular work force (Kamata Satoshi, *Japan in the Passing Lane: An Insider's Account of Life in a Japanese Auto Factory*, 1983, Random House, and Ihara Ryoji, *Toyota no Rodo Genba*, 2003, Sakurai Shoten: both written by term labourers are indispensable documentaries describing the harsh realities of their work). In 2004, the Worker Dispatch Law was amended and Toyota began to receive irregular workers from recruitment agencies. The aims of this were to adjust employment and to reduce the labour cost. But the extreme dependence on irregular employment as a result is possibly prone to decline in the quality and destabilisation of the production system.

Concerning regular employees, the blue-collar workers involved in factory work have an ability-based status, which differs from that of administrative and engineering staff. This ability-based status is the basis of the wage constitution as well as linked to job positions. The status and job positions system have often been changed but recent co-relation can be described as in Table 8. The status used to be divided into nine levels but changed to six levels in 1999. The positions saw the distinction between managerial supervisors and expert skilled workers in 1991. Skilled workers are artisans directly working under the managerial supervisors. The managerial supervisors consist of chief leaders (CL) and group leaders (GL) who used to be called kocho, or assistant manager, and kumicyo, or head of lineman, respectively. The EX class is equivalent of hanchō, or line foreman. The changes, as these were, had the aims of flattening corporate hierarchy and making employment flexible at the same time as intending to transfer the company's employment policy from seniority to meritocracy.

**Table 8. Status and position of workers**

Status	Position	
	Leader	Expert
CX Class	CL (Chief Leader)	CX (Chief Expert)
SX Class	GL (Group Leader)	SX (Senior Expert)
EX Class		EX (Expert)
Senior Class		
Junior Class		
Base Class		

*Source: Sugiyama 2004, No. 1371, p.8*

Table 9 demonstrates the composition of employees in a factory. There are a group of 20 workers under a GL forming the basic unit of a worksite. One GL and 3 EXs are members of management while 12 are regular workers and four are term workers. Almost all are male, all have high school certificates and usually promoted to the EX level in their late 30s, or 20 or so years after joining the company. High school leavers could achieve CX level in their 50s. Above this is the section chief, or one of the 'core posts' in recent terminology, for university graduates only.

**Table 9. Personnel organisation of a group**

<b>Name</b>	<b>Position</b>	<b>Age</b>	<b>Sex</b>	<b>Length of Service</b>
A	GL	38	M	20 years
B	EX	43	M	19 years
C	EX	40	M	21 years
D	EX	37	M	19 years
E	Regular Worker	35	M	17 years
F	Regular Worker	41	M	16 years
G	Regular Worker	35	M	15 years
H	Regular Worker	32	M	13 years
I	Regular Worker	41	M	12 years
J	Regular Worker	28	M	10 years
K	Regular Worker	26	M	8 years
L	Regular Worker	29	M	8 years
M	Regular Worker	20	M	2 years
N	Regular Worker	21	F	2 years
O	Regular Worker	19	F	1 years
P	Regular Worker	19	M	1 years
Q	Term Worker	22	M	1 month
R	Term Worker	32	M	1 month
S	Term Worker	18	M	1 month
T	Term Worker	29	M	1 month

*Source: Ihara 2003, P. 36*

The rise in status or position would be decided by the chief's assessment in which the worker's ability of day-to-day operations, participation in training programmes and sub-group activities etc. are evaluated.

In addition, there is an opening for a term worker to be promoted to regular employee by his or her chief's recommendation and passing an examination. This promotion opportunity to regular employment can be an incentive to term workers but is only available to a very limited number of them in reality.

### **Wage**

Toyota's wage system has changed largely since the 1990s. As shown in Table 10, the standard wages were composed of the dual elements of production pay and basic pay. The basic pay was decided by the worker's ability and the nature of the work in theory but by seniority in practice. The production pay was calculated according to the efficiency of production reflecting the operating result of the whole company as well as of the particular section. The production pay exceeded the basic pay to motivate the company as a whole to improve productivity. Since the 1990s, however, the production pay has been reduced and items related to individual worker evaluation have been on the increase. Basic pay was transferred to job evaluation pay, which is decided by the chief's assessment. Job ability pay introduced in the 1990s was categorised into ranks that were decided according to job status, thus, in order to increase this, it was necessary to go up the ladder of status. Toyota's wage system started to gear towards stronger meritocracy around this time.

**Table 10. Wage system (Unit %)**

1980s		1990s	2000s
Production Pay	60	Productivity Pay 20	Productivity Pay 20
Basic Pay	40	Basic Pay 40	Job Evaluation Pay 30
		Job Ability Pay 20	Job Ability Pay 30
		Age Pay 20	Age Pay 20

Source: Sugiyama 2004, No. 1371, p. 20

Table 11 shows the proportion of different items constituting the average monthly wage of the average worker of 37.9 years old with 17.7 years of continuous employment in FY 2003. On top of standard wages, there are extra wages occupying 21% of the total wage. The major part of it is overtime pay implying that overtime work weighs heavily in the worker's income generation. 130% of a corresponding standard wage is paid for overtime work per hour. The worker falls back on overtime wage tying him or her to long working hours.

**Table 11. Average monthly wage**

		Yen	%
<b>Standard Wages</b>	Job ability pay	93,013	20.75
	Age pay	56,104	12.51
	Job evaluation pay	137,444	30.66
	Productivity pay	54,071	12.06
	Others	14,114	3.15
	Sub-total	354,746	79.12
<b>Extra Wages</b>	Overtime pay	65,257	14.56
	Others	28,334	6.32
	Sub-total	93,591	20.88
	Total	448,337	100

Source: Sugiyama 2004, No. 1371, p. 6

Toyota, aiming to suppress the cost of labour, is extremely cautious in increasing standard wages. Because they are the standard for calculating pay rises, overtime pay, lump sum allowances or retirement allowance thus have a long term large effect on the company. Toyota has never responded to the demand of its workers for a pay rise despite recent favourable performance. Instead, it has offered lump sum moneys, which have less long term effects and attempt to minimise the workers' discontent. In FY 2003, per capita annual lump sum allowances in total reached 2,370,000 yen. By this, Toyota workers gained much more annual wage increases than workers of other companies in the same trade or Toyota's sub-contractors.

But what is stated above is only for regular employees and totally different from the wage system of irregular term labourers. The contract term for a term labourer is four to five months with a the daily wage of 9,000 to 9,800 yen. A term labourer earns the monthly wage of 250,000 yen assuming that he or she works for a four month term, on continuous double shift, for 21 days a month with 20 hours of overtime. Apart from this pay, there can be bonuses for working full term and/or for working without absence, tardiness or early leave. These incentives tend to make term

labourers work the full term without taking any leave. The first four month term would give him or her 58,800 yen of full term bonus and 84,000 yen for not being absent, tardy or leaving early. Besides, these bonuses are raised from the second term. Toyota still recruits term labourers all over the country throughout a year to assure that the company has enough of them. The wages for them do not reach those of the regular employees of the same company but exceed those in other sectors such as the service sector. Term labourers are indispensable to Toyota's highly profitable management.

### **Working Hours**

The Toyota Production System is maintained by its workers' long and intense working hours. To look at work shifts in Table 12, there are three types: continuous double shift, day-and-night shift, and triple shift. The continuous double shift is the shift the majority take recently. In this case, the duty hours of the first shift are eight hours and 40 minutes and actual working hours are seven hours and 35 minutes, after deducting one hour and five minutes for unpaid breaks. This is a quarter of an hour per shift shorter than the other types of shifts but is more stressful to workers as this type of shift changes its allocation in a day from day to night and vice-versa every week. Working days are decided by the Toyota calendar and are principally five days a week. There are consecutive holidays in May, August and before and after New Year but national holidays are working days. All in all, Toyota operates 244 days per annum with 1,850 to 1,911 hours of regular working hours.

**Table 12. Shift work system**

			Start-Close	Recess	Actual Working Hours
Double shift	Continuous shift	First	06:25 - 15:05	1hr. 5min. 08:30 - 08:40 10:40 - 11:25 13:25 - 13:35	7hr. 35min.
		Second	15:45 - 24:25	1hr. 5 min. 17:50 - 18:00 20:00 - 20:45 22:45 - 22:25	7hr. 35min.
	Day and night shift	Day Night	07:55 - 16:50 20:25 - 05:20	1hr. 5 min. 1hr. 5 min.	7hr. 50min. 7hr. 50min.
Triple-shift		First Second Third	06:25 - 15:05 13:55 - 22:35 22:10 - 06:50	50 min. 50 min. 50 min.	7hr. 50min. 7hr. 50min. 7hr. 50min.

*Source: Asano 2004, No. 1383, p. 14*

Overtime, holiday work etc. adds 200 to 300 hours extra to the regular hours making the total above 2,100. Workers in subcontract companies have even longer working hours. Excessive working hours, compared to the European standard, are a part of Toyota's competitive strength. Many hours of overtime explain why there is not much allowance for delays or for labour in regular hours in the Toyota Production System; if the company wants to increase production for a short term, the system

adapts by prolonging working hours, not the numbers of workers. As stated above, the workers might as well take it because the overtime wage is a large proportion of their wages.

Furthermore, it should be noted that the significance of 'team work' in the Toyota Production System makes workers refrain from taking paid leave. Because there is no leeway in personnel, there is an atmosphere that workers cannot take leave at will if considering their team mates. And, numbers for requirements such as safety drills and meetings before work or Quality Control (QC) circle and other group activities after work (though overtime/paid work) are counted as 'off-duty' but carry a meaning of prolonged duty, i.e. added working hours, for the workers.

### ***QC Circle Activity***

The Toyota Production System does 'execution' as its workers actively participate in *Kaizen* to reduce loss. Small group activities represented QC circles have a significant meaning (see Saruta, 1995, ch.6).

Toyota's QC circle activity started in the 1960s and established its style in finding themes in issues around product quality, cost performance and work safety. Recently, the typical style commits a circle to one theme that is altered every four months, for one hour or so each meeting twice a month. A circle is consisted of about 10 members with an EX class line foreman as the leader and another 'theme leader' as the facilitator. A CL, or assistant manager, and a GL, or head of lineman, are appointed as the caretaker and the advisor, respectively, but do not actually join the circle's activity.

In a QC circle, to submit an idea of *Kaizen* alongside the theme of the time is required. The submission is almost enforced and is subject to performance assessment. More than 500,000 *Kaizen* ideas are submitted annually throughout Toyota. The fruit of an idea is applied to the worksite that originated the idea but might not stop there. If considered excellent, it will be presented as a contest in the factory, then as a contest between factories, then the whole company and the whole Toyota group in the end, like a tournament.

This is not to say that all workers in Toyota willingly taking part in QC circles. But those who aspire to promotion are positive about it when it comes to the performance assessment. QC activity is also a way to equip workers with multi-skills via shared know-how of their operation as all worksites participate, although it results in higher density of labour and lesser time and peace of mind for the workers.

### ***Education and Training***

To lift workers' skill at the same time as promoting their sense of loyalty to the company, Toyota provides a variety of education and training (ibid. ch.7). The forms of education and training are threefold: education at work (daily education), formal education (training) and informal activity.

Education at work is based on On-the-Job Training (OJT) and promotes multi-skills for workers via rotations within a worksite and between worksites. Simultaneously, it is intended to push the productivity drive through *Kaizen* and QC circle activities, as seen above, during the rotations.

The formal education course includes obligatory programmes divided in accordance with the company strata from new recruits to floor managers and executives. The programme for the new recruits aims to build the 'Toyota-man spirit' that makes workers obedient to the company. The next step is to educate mid-ranking skilled workers with various long term and short term programmes. Among them, the 'Toyota special technical course' concentrates on training in academic subjects, laboratory practices, on-site factory studies, thematic studies, panel discussions and field drills. Only selected members from each worksite take part in these and they are expected to become the cores of worksites in future. Informal activity includes various group activities within the company, promotion for 'personal touch' (called 'PT mobilisation'), mobilisation for 'creating a cheerful dormitory', and other club activities. There are in-company groups for different strata of workers, namely, the CX group (2,200 members), the SX group (8,000 members) and the EX group (14,000 members). They are called the groups of 'three layers' that enhance communication among the peers. There also are eight groups for workers from different educational backgrounds: groups of graduates from Toyota *Kogyo Gakuen* (boarding school to train skilled workers), high school leavers, university graduates, mid-career recruits, National Self-defence Force leavers, graduates from car mechanic schools, technical vocational schools and junior colleges. The Toyota Kogyo Gakuen group is the most closely united group. However, there is a recent tendency for the *raison d'être* of the school affiliation groups to die as the consciousness of youth changes.

The promotion for 'personal touch', or PT, is organised to enhance smooth communication at work through social gatherings and events held almost every month. These social gatherings are planned and attended by groups of 10 to 20 workers, expecting good team-work on the job as the result. Toyota's club activity organises leisure time sports and other cultural activities, demonstrating the will of the management to fully enforce its control even over the workers' free time.

### ***Employees' Benefits***

Toyota has instituted various benefits of its own to secure workers' lives (ibid. ch.9). The Toyota Cooperative Association, for instance, provides convenience for workers as consumers and is a mega co-op dealing with everything except cars from cradle to grave. And, because Toyota's benefits are plenty, the municipal city of Toyota, where Toyota's headquarters is situated, is said to have quite a low social welfare budget.

A significant policy in Toyota's welfare system is housing policy. For school leavers from all over Japan, it provides dormitories for single workers. Here, mobilisation for 'creating a cheerful dormitory' is conducted to build up the 'Toyota-man spirit' as mentioned earlier. When workers get married, they live in company houses provided with low rent within easy reach of work, by Toyota car of course. At company houses, there are associations of the houses and of the workers' wives. But, as it is only after 10 years that workers are eligible to live in company houses, they buy their own houses. The Toyota Housing Corporation sells them new houses

offering a mortgage from Toyota housing loans. Having a mortgage for the house ties workers even more to the company; the workers become entangled in Toyota's labour management on as well as off duty.

### **2.3 Trade Union**

#### ***History of Toyota's Trade Union***

The trade union of Toyota Motor Corporation was established in 1946, immediately after the Japanese defeat of WWII in the period of democratisation of the country while under US occupation. Around this time, trade unions in Japan were militant and strongly influenced by the Communist Party. In 1949, an austerity and stabilisation programme, called the Dodge Line, was implemented to solve inflation in the chaotic post-war Japanese economy. The country then fell into severe recession, and Toyota was on the verge of bankruptcy. In April 1950, management announced a cutback of 1,600 employees from its 6,000 workers. The trade union fought against this for two months, including going on eight consecutive days of 24-hour strike. In the end, however, the industrial dispute was ended by the union accepting the lay-off of 1,500 and the resignation of the executives, including the CEO. This was the historical Toyota Dispute after which the influence of the Communist Party declined with management beginning to establish tight-knit countermeasures against the union.

In 1962, during the period of hyper economic growth, the trade union of Toyota signed a contract of 'Industrial Manifesto' with management clearly stating management-labour cooperation. Let us look at the gist of this important document here (from the union's website: <http://www.kabanet.org/gaiyou/roushi3.html>):

1. To contribute to development of the national economy through a flourishing car industry: we do our best to achieve this aim by industrial harmony and recognising the vital role of the car industry as a key industry in our country and its important position in the national economy; we especially make ourselves aware of the public nature of enterprise and fully engage in the spirit of servicing society, industry.
2. To found industrial relations on trust: we have built healthy and fair industrial relations with understanding and trust between workers and employers on the principle of faith and fidelity achieved through many transitions in the past; based on this, we work further towards a peaceful and stable industrial relation by respecting the rights and obligations of both parties.
3. To sustain and then improve the prosperity as well as the working conditions of our enterprise through advancing productivity: for this purpose, both workers and employer consider each other's standpoint, adopt a common position, make efforts to enhance productivity and its fruits, aim to sustain and then improve the stability of our employment and working conditions based on productivity; we then must further cultivate the driving force of progress; the company holds that the origin of enterprise prosperity lies in its people and thus readily works towards maintenance and improvement of their working conditions; the union, at the same time, holds that enhancing productivity is necessary and thus readily cooperates with the company's managerial policies in order our enterprise to prosper.

Based on these thoughts, the union came to fully cooperate with Toyota's policy of betterment of the quality and performance of its products, reduction of their cost and establishment of a mass production system. A labour agreement that ceased to exist after the 1950 Dispute was signed again in 1974, but it ended up denying most of the rights of strike and collective bargaining. Labour bargaining is not dealt with by a collective of workers but left to the labour-management council.

The cooperation between capital and labour was confirmed in 'The decision of the workers and the employers towards the 21st century' published in 1996 to mark the 50th anniversary of the union's founding as well as 'Toyota trade union's vision for the 21st century' published in 1998. The union that cooperates with the company is integrated into the Toyota Production System as an indispensable element.

#### ***Toyota Trade Union: Organisation and Role***

The shop floor official of the Toyota trade union is a worksite committee member who is chosen from every 15 union members. Many are CX, GX or EX members of management. The election of the executive committee chair requires publication of 50 nominations, making it difficult for a worker to stand as a candidate for a union executive if he or she is against the policy of labour-management cooperation. To become a union official is to step into career advancement. The company regards the workers who become union officials as in temporary transfer and promote them during that period although their salaries are paid by the union. It is not rare to become a member of the management or one of the executives after working as a union official.

Negotiation between the workers and the management was done by the labour-management councils: the labour-management council and the labour-management roundtable at company level; branch roundtables at plant level; and worksite roundtables at worksite level. Labour-management councils hold meetings four times a year attended by all the officials from management and union as well as 300 observers (Katayama 2005, p.240). In these meetings, managerial policies are explained and basic issues of industrial relations are discussed. The roundtables at each level are the place to exchange opinions in order to deepen the communication between the workers and the management.

Toyota trade union's cooperation with management to decide the wages illustrates its nature. In March 2002, when Toyota recorded the unprecedented pre-tax profit of trillion yen, management responded to the union's demand for a unified pay increase with zero raise. This answer was due to one word from Okuda Hiroshi, the president of Japan Federation of Employers' Associations (Nikkeiren) and the board chairman of Toyota. Okuda ordered the zero raise so as to suppress across-the-board pay rises in all Japanese enterprises. No wage increase against the backdrop of the company's record performance was incredible. But the union accepted this with almost no resistance. As a result, other enterprises with less profit all-round also awarded zero raises this year; shunto, the Japanese annual spring labourer offensive, took a crucial turn.

There must be many workers who are dissatisfied with such a trade union subservient to the management. However, any movement against labour-management cooperation in Toyota has been crushed without exception by the surveillance system upheld by the management, the union and the informal gatherings. Then, in January 2006, a new trade union called All Toyota Labour Union was formed. This is a union where irregular workers and workers of Toyota affiliated companies can become members. Although the number of members is still small, this is epoch-making in the history of Toyota's labour movement. Toyota's first trade union swiftly exhibited vigilance by publishing a newsletter reporting that the establishment of this new union could well harm the 'industrial relations of Toyota built on its history'.

#### ***Umbrella Organisations and International Activities***

In 1972, Toyota trade union, and the unions of Toyota's affiliated enterprises and sub-contractors formed a federation, the Federation of All Toyota Workers' Unions (ATWU). This consisted of both the manufacturing and the sales departments seizing the moment of the trade unions of Japan's car industry as a whole reorganised their federations. In 2004, ATWU consisted of 108 manufacturers' unions and 180 dealers' unions - 288 unions with 266,000 worker members. The ideal of ATWU is also to establish harmonious labour relations, like Toyota trade union, and plays the role of permeating the Toyota Production System to the whole Toyota group from the union's side.

In the same year, a month after the formation of the ATWU, the Confederation of Japan Automobile Workers' Unions (JAW) was also formed as a federation of trade unions of the car industry. The initiative to create JAW was taken by the Nissan affiliated unions first but taken by the Toyota ones later, changing the chair from one of Nissan origin to one of Toyota. Corresponding to this, the industrial relations of the whole Japanese car industry began to tilt towards a Toyota-style harmonious relationship. The number of the members of the JAW is 700,000 with ATWU as the largest organisation in it.

There are umbrella organisations above JAW, namely, the Japan Council of Metalworkers' Unions (IMF-JC) and Japanese Trade Union Confederation (RENGO, or JTUC). IMF-JC was formed in 1964 and currently has two million members whilst RENGO was formed in 1989 and has a massive 6.8 million members. The Toyota trade union's influence among them is again strong; Kato Yuji, the double chair of JAW and IMF-JC, is from Toyota union and is also the vice president of RENGO.

These trade unions are readily involved in international activities at each level. JAW, for example, is working for strengthening the alliance with other Asian trade unions of the car industry through attending car industry-related international conferences and seminars organised by the International Metalworkers Federation (IMF). IMF-JC is also advancing networking with other Asian trade unions through international labour seminars or bilateral union discussions. International activities as such mean exporting the Japanese style trade union movement with labour-management cooperation. However, the trade union movement in the world, especially

in Europe, is in progress towards regulating the 'free' activities of TNCs, quite opposed to the mainstream union movement in Japan. Asia's labour movement from now on is entering a phase in which the European style and the Japanese style will compete.

### 3. TOYOTA'S GLOBAL STRATEGY AND ASIA

#### 3.1 Strategy for Europe and the US

As shown in Table 5, North America is the most important region for Toyota's overseas production occupying 47% of all production abroad in FY 2004. Asian production (21%) and European production (19%) followed. The number of sales was also topped by North America (46%), followed by Europe (19%) and Asia (16%).

Toyota's revenue and operating income by region is summarised in Table 13; the recent trend of these aspects are divided into four regions: Japan, North America, Europe and Others, including Asia, Mid-south America, Africa, the Middle-east and Oceania. The revenues are relatively large in Japan and North America, but their rates of increase are distinctive in Europe and Others. The operating incomes are also large in Japan and in North America but, again, their recent rates of increase are significant in Europe and Others. The negative figures in Europe are supposedly inflicted by the cost of initial investment. For reference, Toyota was ranked in North America and Europe as the largest operating income earner among Japanese enterprises by region in FY 2004 but it was not even in the top 20 in the Asian region (*Nihon Keizai Shimbun*, Jul.5, 2005).

Table 13 Revenue and operation income by region (unit: billion yen)

Fiscal Year	Revenues				Operating Income			
	Japan	North America	Europe	Others	Japan	North	Europe America	Others
1998	9204.60	4737.30	1204.90	905.10	622.50	149.80	11.90	3.50
1999	9608.40	4667.80	1104.90	830.40	588.40	164.00	-8.80	5.00
2000	10056.00	4964.90	1047.10	942.80	670.30	205.80	-23.00	9.80
2001	10533.70	5832.30	1594.50	1400.40	870.30	265.80	-12.40	19.80
2002	11265.2	6262.70	1591.00	1695.80	1032.80	289.80	3.90	52.50
2003	11590.00	6127.60	2164.30	2361.90	1108.10	391.00	72.50	96.90
2004	12004.10	6373.40	2479.40	2809.10	987.20	447.50	108.50	141.20

Source: Toyota Motor Corp. Annual Reports

Toyota's global strategy situates North America as the most important region, followed by Europe and then Asia. North America has the largest production base as well as the largest market for the car industry as a whole, and it is of course the stronghold of the big three, General Motors, Ford Motors and DaimlerChrysler. Toyota bit into such a region by exporting at first, then by adding local production from the 1980s. The first production plant for Toyota was New United Motor Manufacturing Inc. (NUMMI), a joint venture with GM, holding 50% of shares, which started its operation in California in 1984. Based on this experience, Toyota

consecutively established wholly-owned subsidiaries such as TMMK in Kentucky and TMMC in Ontario, Canada, in 1988, TMMI in Indiana in 1998, TMMBC in Mexico in 2005 and TMMTX in Texas scheduled for 2006. It is notable that the operating locations chosen are the regions known to have weaker influence of UAW (the United Auto Workers) as a strong trade union is an obstacle to the Toyota Production System.

In the North American market, Toyota vehicles gained a reputation for high quality and good mileage and marked sales of over two million cars in 2004. Market share reached 13.3% in 2005 with the speed aiming to overtake DaimlerChrysler within 2006. Toyota is further planning to build plants in Canada and Mexico by 2010 to produce more varieties from compact to large-scale cars in order to increase the ratio of local production from 60% in 2004 to 75%. Toyota's strength is significant compared to GM and Ford is in eclipse.

Having earned confidence from the North American 'success', Toyota put emphasis on proceeding into Europe where it had a small share. The first full-scale production plant in Europe was TMM(UK) in the U.K. starting its operation in 1992. The second plant was TMMT in Turkey in 1994, followed by the third TMMF in France in 2001. These plants are subsidiaries wholly owned by Toyota. But the next one, TPCA built in the Czech Republic in 2005 is a joint venture with Peugeot Citroen Automobile (PCA) with a share of 50% producing 300,000 vehicles annually. For these 300,000 cars, Toyota and PCA use the same engine and undercarriage but each of them has different designs to sell 200,000 as PCA cars and 100,000 as Toyota cars. Duties of production and part sourcing are also divided into Toyota and PCA, respectively, so as to produce low-price compact cars. Toyota further plans to build another plant in Sankt-Petersburg, Russia, in 2007. But the company's share in the European market is still small, ranking only 8th by occupying 5% of the sales of passenger vehicles in 2004. This is because the European market is saturated with prominent car makers already as can be seen in the largest share enjoyed by Renault being a mere 10%. Toyota's current goal of the share in Europe is 10% accordingly.

### **3.2 Strategy for ASEAN**

Toyota sees the Asian market as important following North America and Europe. Strategically, it is divided into the Association of South East Asian Nations (ASEAN) and China. In ASEAN, the opening of production plants was earlier than in Europe and the US but the scale was small; it was not considered to be so important in Toyota as a whole at first.

Table 14 confirms the current status of Toyota's production plants in Asia. There are the end-assembly plants and parts making subsidiaries in main ASEAN countries. The years of advance were the 1960s to Thailand and Malaysia, in the early 1970s to Indonesia, at the end of 1980s to the Philippines and in the 1990s to Vietnam. Each of the plants mainly produces passenger cars such as Camry and Corolla but the scale of production is not as large as in the North American counterparts. Based on the numbers of employees, TMT in Thailand and TMMIN in Indonesia are relatively large.

**Table 14. Manufacturing companies in Asia**

Country	Company	Startup year rate (%)	Voting rights	Products	Product (1,000)	No. of employees
Thailand	Toyota Motor Thailand	1964	86.43	Camry, Corolla Hilux Vigo	270	7,760
	Toyota Auto Body Thailand	1979	48.97	Stamped parts		93
	Siam Toyota Manufacturing	1989	96	Engines prop shafts		1,279
Malaysia	Assembly Services	1968		Camry, Corolla, Hiace, TUV	47	1781
Indonesia	Toyota Motor Manufacturing Indonesia	1970	95	Camry, Kijang Innova engines	136	4,459
Philippines	Toyota Motor Philippines	1989	34	Camry, Corolla, Innova	18	1,242
	Toyota Autoparts Philippines	1992	95	Transmissions, joints		533
Taiwan	Kuozui Motors	1986	56.66	Camry, Corolla, Vios, TUV	127	2,903
Vietnam	Toyota Motor Vietnam	1996	70	Camry, Corolla, Hiace, TUV	9	550
China	Tianjin Jinfeng Auto Parts	1997	30	Steering parts, Prop shafts		408
	Tianjin Toyota Motor Engine	1998	50	Engines		800
	Tianjin Fengjin Auto Parts	1998	90	Continuous velocity joints		350
	Tianjin Toyota Forging	1998	100	Forged parts		100
	Sichuan Toyota Motor	2000	45	Coaster, Land Cruiser Prado	7	700
	Tianjin Toyota Press	2002	50	Pressed parts		260
	Tianjin Toyota Resin	2002	50	Plastic parts		190
	Tianjin FAW Toyota Motor	2002	50	Vios, Corolla Crown	84	2,311
	Changchun FAW Fengyue Auto	2003		Land Cruiser	4	250
	FAW Toyota Changchun Engine	2004	50	Engines		150
	Toyota FAW (Tianjin) Dies	2004		Stamping dies		160
	Guangqi Toyota Engine	2005	70	Engines, parts		50
	Guangzhou Toyota Motor	2006		Camry		1,400
Bangladesh	Aftab Automobiles	1982		Land Cruiser Prado		110
Pakistan	Indus Motor	1993	12.5	Corolla, Hilux	25	1,190
India	Toyota Kirloskar Motor	1999	99	Qualis, Corolla	48	2,397
	Toyota Kirloskar Auto Parts	2002	64.3	Axles, transmissions		493

Note 1) Products as of 31 March 2005

Source: Toyota Motor Corp., Annual Report 2005, pp.126-27, Toyota no Gaikyo 2005, pp.12-13, 19-20

Outside ASEAN, many plants were built in China from the latter half of the 1990s. In South Asia, Toyota advanced into Bangladesh in the 1980s and into Pakistan and India in the 1990s. We can infer that there are numerous sub-contractors under enterprises in the Toyota group apart from the direct subsidiaries as seen in Table 7.

In Table 15, sales of subsidiaries in Asia that sold more than 1,000 vehicles in 2004 are shown. From this, it is clear that Toyota established a seamless network in this region. The companies which sold over 100,000 are Thai TMT, Indonesian Toyota-Astra Motor and Taiwanese Hotai Motor reconfirming that Thailand and Indonesia are important places. Asian countries in which Toyota ranked top of the share in the car market in 2004 were Indonesia, Thailand, the Philippines, Singapore, Vietnam, Taiwan and Brunei (Toyota no Gaikyo 2005, p.19).

**Table 15. Sales companies in Asia**

Country	Company	Startup year	Vehicle sales (1000)
Thailand	Toyota Motor Thailand	1964	234.2
Malaysia	UMW Toyota Motor	1982	52
Singapore	Borneo Motors	1967	34
Indonesia	Toyota-Astra Motor	2003	140
Philippines	Toyota Motor Philippines	1989	29.2
Brunei	NBT (Brunei)	1973	3.2
(Taiwan)	Hotai Motor	1949	135.3
(Hong Kong)	Crown Motor	1966	9.8
China	Toyota Motor (China)	1993	12.4
(Macao)	YAT Fung Motors	1993	1.4
Korea	Toyota Motor Korea	2001	5.4
Vietnam	Toyota Motor Vietnam	1996	9.2
Pakistan	Indus Motor	1990	26.8
Sri Lanka	Toyota Lanka (PVT)	1995	1
India	Toyota Kirloskar Motor	1999	48

Note 1) Companies which sold more than 1,000 units in 2004

Source: Toyota no Gaikyo 2005, pp. 19-20

Thailand is the largest base of the ASEAN market. Toyota marked its first step of advance by opening the Bangkok branch of Toyota Motor Sales Co. Ltd. in 1957. TMT was established in 1962 through the Investment Promotion Act introduced by the Thai government, and the Samrong plant started operations in 1964. Samrong was the second overseas factory opened after the one in Brazil. It started as a 'knocked down' factory that dealt only with assembling imported parts, gradually shifted to the local procurement of parts and increased the production volume, and led to the opening of the second plant of Gateway in 1996. In 1997, Thailand was hit by a drastic currency crisis. The country's economy went through chaos; the car market shrunk as if it burst. The whole car production in Thailand was nearly 600,000 vehicles per year in 1996 but was drastically reduced to 150,000 in 1998, and then recovered to 750,000 in 2003. Since then, it has expanded at fever pitch to break the one million mark for the first time in ASEAN in the year 2005, and is predicted to reach two million in 2010.

In the midst of such change, Toyota constructed a man-agerial strategy to make the Thai factories the basis of production aimed not only for the Thai

**Table 16. Export of vehicles and auto parts from Asian subsidiaries**

Country	Company	Products	Destination
Thailand	Toyota Motor Thailand	Soluna-vois	Brunei, Singapore, Philippines, Indonesia
		Corolla	Indonesia, Singapore
		Hilux	Philippines, Laos, Cambodia, Singapore, Australia
		Body panel	Japan
		Corolla, Camry CKD part	ASEAN, Taiwan, India, Australia
	Siam Toyota Manufacturing	Engine (L type)	Japan, ASEAN, Taiwan, India, South Africa, Australia
		Cylinder block	Japan
		Engine parts	ASEAN, Taiwan, India, South Africa, Australia
Indonesia	Toyota Motor Manufacturing	Kijang	Brunei, Papua New Guinea, South Pacific
		7K engine	Japan, ASEAN, Taiwan, India, South Africa, Australia
		TUV CKD parts	
Philippines	Toyota Motor Philippines	CKD parts	ASEAN, Taiwan, India , Australia
	Toyota Auto parts Philippines	Transmissions	Japan, ASEAN, Taiwan, India, South Africa
		Continuous velocity joints	ASEAN, Taiwan, India, South Africa
Malaysia	Assembly services	Corolla, Camry CKD parts	ASEAN, Taiwan, India, Australia
Taiwan	Kuozui Motors	Jacks	Japan
		TUV, Corolla, CKD parts	ASEAN, India, South Africa, Australia, Brazil
China	Tianjin Toyota MotorEngine	Cylinder block, cam shafts	Japan
	Tianjin Fengjin Auto Parts	Continuous velocity joints	Japan
	Tianjin Toyota Forging	Inboard joints	Japan
Continuous velocity joints		Philippines	

Source: Toyota no Gaikyo 2005, p.21

market but also for the ASEAN and further for the whole world market. There emerged a huge cluster of the parts industry in Thailand enticed by the Thai government's policy to promote the Thailand's car industry as the 'Detroit of Asia' to attract foreign investment. It is also important that the ASEAN Free Trade Area (AFTA) is coming into effect, largely reducing the tariffs on cars and their parts traded within the region, making it more efficient to aggregate the end and main-part productions in one plant than having them segregated. The Thaksin government further concluded Free Trade Agreements with Australia, India and Japan; Thailand gained suitable conditions to be a base of not only the ASEAN but global car production.

Toyota then started the production of Innovative International Multi-purpose

Vehicle (IMV) in Thailand strategically targeting the global market. IMV is the generic name for pick-up trucks, Sports Utility Vehicles (SUV), mini-vans etc., which share a type of undercarriage and other parts. They are manufactured at a low cost and aimed for sales in the markets of 'developing' countries all over the world. The production of small trucks was totally transferred to Thailand from Japan in 2004, and full-scale production systems were put into place for IMVs in the Samrong plant and for passenger vehicles in the Gateway plant. A new plant in the vicinity of Bangkok is currently planned for doubling annual production from 270,000 in 2004 to 550,000 in 2007.

Next to Thailand, Toyota situates Indonesia as a base for the ASEAN production. Toyota's advance into Indonesia started in 1970 when it established Toyota-Astra Motor as a joint venture. This enterprise dealt with production as well as sales and became one of the top car manufacturers in Indonesia. But it also had a problem for swift decision making as a joint business. After the collapse of the Suharto government by the Asian currency crisis, Toyota separated the production division and the sales division of the joint venture, planning to make the former its total subsidiary. As a result, TMMIN was established with 95% of the capital held by Toyota in 2003 to deal swiftly with changes of car types manufactured, facility of investments and other important decision making. IMV (mini-van) production followed Thailand in 2004, with a plan to annually produce 220,000 vehicles in collaboration with Daihatsu from 2006.

In comparison with Thailand and Indonesia, the status of the Philippines is lower in Toyota's strategy. Advance into the country started in 1960s, but Toyota withdrew from there in 1984 because of an economic crisis. In 1988 Toyota advanced into the Philippines again after the fall of the Marcos regime. Toyota set up TMP jointly with the Metropolitan Bank and the other companies but held only 34% of its capital. TMP produced multi-purpose vehicles in Bicutan and passenger vehicles in Santa Rosa. But both plants suffered low rates of operation reflecting the slump in the whole Philippines' market. Thus the production was integrated in Santa Rosa in January 2005 making the capacity of 30,000 vehicles a year and enabling IMV to start production in the same year.

In addition, factories in ASEAN have established inter-relationships of importing and exporting the end as well as the parts products as shown in Table 16 below. Within such a network, it is clear that Thailand plays a significant role.

We should pay attention to India among other Asian countries outside ASEAN. The Indian market for passenger vehicles was one million in year 2004, and is predicted to hit two million in 2010. Toyota started operating Toyota Kirloskar Motto (TKM) in 1999 but occupied a mere 5% of the market share in 2004, being far behind Suzuki with 45% share, Tata, 16%, and Hyundai, 13%. Toyota plans to build a new plant in 2007 and aims for the share to become 10%, producing 200,000 vehicles, in 2010. It also started to supply transmissions from India to Thailand utilising the FTA between the two countries.

### 3.3 Strategy for China

In China where economic growth continues, car production and sales are rapidly growing also. Especially distinctive is the growth of the market for passenger vehicles. Total number of vehicle sales passed the two million mark in year 2000, four million in 2003 and is predicted to go beyond six million in 2006, ranking second in the world's car market. Toyota's production and sales in China lagged behind other overseas enterprises. Volkswagen, General Motors or Honda took a lead among known makers but Toyota fully started its advance into China only from 2002.

It has been suggested that the main reason for Toyota to be so late was that it prioritised advance into the US despite the Chinese government's request to do so in China in the first half of the 1980s. For car production in China, it is obligatory for a foreign company to establish a joint venture and hold less than 50% of the shares. This regulation restricts full exercise of the managerial prerogative and may well hinder the Toyota Production System. It would thus be reasonable for Toyota to have hesitated its advance into the country.

In the 1990s, seeing the trend of other known car manufacturers advancing into China, Toyota expressed belated interest in building a plant for complete end products. The Chinese government kept postponing authorisation and issued the permission to operate a joint venture with Tianjin Motor in 2000. However, Tianjin Motor started to suffer downturn. Toyota then needed the First Automobile Works (FAW), the largest car manufacturer in China, to buy Tianjin Motor and agreed with the FAW to have comprehensive business collaboration before its full commitment to the advance.

Having stated the above, Toyota did have various test cases to operate in China before 2002. The first step was to prepare opening of a factory for end products in Tianjin by group parts makers such as DENSO and Aisin Seiki from the last half of the 1990s. The second step was for Toyota itself to establish joint venture enterprises for parts production in the same city, as seen in Table 16. Building a factory for engine production was particularly important. The third step was to establish Sichuan Toyota Motor with an enterprise from Sichuan prefecture for a plant producing complete end products started to produce micro buses in the year 2000.

After these preparatory steps, the Tianjin FAW Toyota Motor opened in Tianjin in 2002 and started to produce a compact passenger vehicle, VIOS. The first plant of this company initiated the production of Corolla in China in 2004 and the second plant launched production of top class cars: Crown and Mark X in 2005. At the same time, the company took the lead to improve the sales network in China and established another enterprise with THE FAW to control overall sales in 2003, leading to governing 170 sales branches. Accordingly, the number of sales recorded 100,000 vehicles, or the market share of 2%, in 2004 and increased to 180,000 in 2005.

The joint venture with the FAW group brought Toyota to establish a production plant in Tianjin as well as to further plan to have another venture business with Guangzhou Motor in the Guangzhou area in the south. By doing this, a factory producing engines with the capacity of 300,000 engines a year began to operate in

2005; it was the establishment of an export base which aimed to sell two thirds of its products in Asia. In the following year of 2006, opening of a production plant for mid-range cars especially Camry and development of 117 sales branches are planned. Further, the third plant in Tianjin in 2007 and the second plant in Guangzhou in 2008 are scheduled to be built. The goals are to construct an annual production capacity of 700,000 vehicles, to expand sales branches to 600 premises, and to attain 10% of the share of the Chinese car market.

Now, we have seen Toyota's global strategy; it is to expand into North America, Europe and Asia, to aim for a 15% share of the world car market in 2010, and to achieve the position of the world's largest car manufacturer finally.

#### **4. EXPORTATION OF THE TOYOTA PRODUCTION SYSTEM**

How is Toyota planning to install the Toyota Production System in its production sites in Asia? How different are the methods and degrees of installation of the system from one country to another? This section will look into these questions by focusing on labour compositions, working conditions, work processes and the ways in which trade unions are organised in Thailand, the Philippines and India.

##### **4.1 Labour Composition (Regular and Irregular Workers)**

It should be noted that utilisation of irregular workers is one important condition upholding the Toyota Production System. In Japan, Toyota has achieved flexible production and labour cost reduction by utilising seasonal workers. As for recruitment of irregular workers, Toyota directly deals with it in Japan whilst commissioning the recruitment to human resource agencies in Thailand and India and receiving students from affiliated schools as trainees in the Philippines.

It is reported that there are 4,518 permanent (regular) workers and 4,236 temporary and fixed contract workers in Toyota Thailand. The ratio of irregular workers against the total number of 8,754 is as high as 48 percent. After the 1997 Currency Crisis, flexibility of the job market progressed further, increasing irregular employment. In the Philippines, it is reported that there were 1,231 regular workers and 428 non-regular workers (trainees and contract workers) in January 2005. The total number is 1,659 with the irregular portion of 26 percent. In India, one quarter of line workers appears to be under irregular employment. Some data show that there were 1,519 regular workers while there were 300 contract workers in July 2005, suggesting that the irregular portion is 16 percent. But it seems that trainees are counted as regular workers here, which would make the figure 25 percent or so when included in the group of irregular workers. In Japan, regular workers amount to 65,994 and irregular workers 19,881, making the irregular portion into 23 percent in September 2005. It is said that the limit for a manufacturing company to employ irregular workers is around 30 percent; the Thai figure above seems to be too high for sustainable management. By any means, the recent worldwide tendency to increase irregular employment offers the Toyota Production System an advantageous environment.

How then is the promotion from irregular to regular position dealt with? In Japan, a worker employed on an irregular basis more than six months can be promoted to a

junior-regular position by his/her supervisor's reference as well as passing an exam, then, s/he can take another exam to become a fully regular worker. This scheme has an incentive for the worker to have a purpose in the job but open only for a limited few. In Thailand, a worker would again gain a reference and take an exam after working irregularly for two years, then s/he could become a regular worker, though numbers are limited. In the Philippines, as stated above, students from affiliated schools become trainees first, are then selected for probation and can become regular employees. In India, too, after working as a trainee and then probationer for two years, a worker can theoretically be employed on a regular basis.

These irregular workers are disadvantaged in that they have lower wages, less welfare and no right to join a trade union on top of being forced to be in an insecure position. But workers in a weak situation is a necessity for the Toyota Production System to operate flexibly. This method is common in all production sites of Toyota.

#### **4.2 Working Conditions and Work Processes**

To start looking at working conditions, let us compare Toyota's wage systems in these countries. In Japan, the wage is decided after being assessed with a complex of evaluations. Each worker's wage is known only by calculating detailed items for assessing his/her work. But one thing for sure is that there is strong evidence of the merit system principle. Compared to this, in Thailand, the Philippines and India, wage evaluation is rather simple, centring on the basic payment. However, it is common to have a large portion of overtime pay, making it structural for the workers to work overtime. Also, it is a common structure that regular and irregular workers' payment schemes differ by huge intended wage gaps.

Regular working hours and shift-work are common, with variations and frequent slight changes of actual starting and finishing times for the double shift. In a recent example in Japan two consecutive double shifts, which is the mainstream way of working there, the first shift is from 6:25 to 15:05 whereas the second shift is from 15:45 to 24:25. As there is only 40 minutes between the two shifts, the worker can hardly work overtime in the first shift. Toyota India operates similarly with the first shift starting at 5:15, finishing at 14:35, the second shift then starting at 15:05 and finishing at 23:35, leaving only 30 minutes in between. In comparison, the day-and-night shifts have longer hours in between. For example, some Toyota factories in Japan operate from 7:55 to 16:50 for the day shift and from 20:25 to 5:20 next morning for the night shift. In Thailand, the day shift is from 7:30 to 16:30 and the night shift is from 19:30 to 4:30. In the Philippines, they are from 7:00 to 16:00 and 19:00 to 4:00. In these cases, it is possible to operate with considerable overtime work.

In any case, the workers are made to change shifts and to do overtime work. Overtime is, again, a necessary element for the flexible operation of the Toyota Production System, burdening the workers with long working hours but resulting in Toyota's high profit. In fact, workers of European car manufacturers work 1,600 to 1,800 hours a year whilst Toyota workers would work 2,300 to 2,400 hours.

Long working hours are common in Toyota across Asia, including in Japan. But there are more problems in Asian factories outside Japan with safety of the workshop. It has been pointed out that in each of the Asian factories, the work environment is harsh and hazardous for workers' health. This is probably because the trade unions have less power and *Kaizen* activities, as one of the pillars of the Toyota Production System, are not permeated.

How far are *Kaizen*, Just-In-Time and Automation, the main pillars of the Toyota Production System, permeated in Asia? Just-In-Time is introduced in every factory; its characteristics such as *Kanban*, standard work and takt time are used with the exact Japanese words to go with the system. Nevertheless, it requires further investigation if the surface look corresponds to the substance with the aim of efficiency. It is especially questionable if Automation is actually rooted in the factories outside Japan. Multi-skilled work is developed in Japan in which a worker looks after several machines which are equipped with 'human wisdom' in order to cut labour to the limit. However, in other Asian countries where there is abundant cheap labour, the incentive to reduce the labour is not quite as appealing as in Japan. There is no apparent multi-skilled work in the Philippines, Thailand or India. There is a wide gap between the numbers of per worker production per year in Japan and in each Asian factory outside Japan.

If the incentive to reduce labour does not work, *Kaizen* activities are also not handled with enthusiasm. There is a need for further research on how necessary it is to have QC circles at all.

#### **4.3 Trade Union**

Stability in industrial relations and the existence of a harmonious trade union is also an essential element of the Toyota Production System. However, the harmonious relationship on the workers side has not been easily achieved in the rest of Asia as in Japan as the management wishes. In Thailand, the union was established in the early 1980s with ceaseless conflicts with the company although it adopted the 'declaration of the employee and the employer' which stated mutual trust and cooperation between the two parties (Gankoji 2005, pp. 115-116). The Thai Declaration is a duplication of the 'declaration of the employee and the employer' agreed in Toyota Japan in 1962, clearly stating that both the employee and the employer cooperate towards achieving the aims of improvement of the products' quality and capacity, reduction of cost and establishment of the mass production system. The ideal of this declaration did not take firm root immediately in Thailand but it is no mistake to say that it gradually permeated the Thai Toyota union so as to secure a cooperative relationship particularly after the 1997 Currency Crisis. The trade union of Thai Toyota has a strong tie to its Japanese counterpart and has the role to spread harmonious industrial relations to other Asian enterprises affiliated with Toyota.

In contrast, the relationship between the workers and the company was far from stable in the Philippines. Attempts to organise unions have been repeated since the beginning of the 1990s in Philippines Toyota but they were diverted by the

management who did not accept the idea of the trade union itself. The current union, TMPCWA, was established and registered with the government in 1998, and conducted an election for its certification in order to gain the right to bargain with the management in the year 2000. TMPCWA attained the support of the majority of employees. However, the management did not accept this result, appealed to the authorities and, while it was fighting against the union over authenticity, fired as many as 233 workers consisting mainly of the core members of the union. Since then, the TMPCWA has been in struggle with the company for retraction of the layoffs and recognition of the union. Recently, this conflict gathered worldwide attention when the intervention of the International Labour Organisation (ILO) issued a recommendation to support the union's claims and the IMF launched a campaign criticising the management. The persistent attitude of the management to reject the establishment of a trade union that confronts the company has so far resulted in the failure to introduce the Toyota Production System in the Philippines.

In India, too, the industrial relationship cannot be called stable. An industrial conflict ignited by a pay issue broke out just after the start of the plant's operation in 2001. The management created a Team Member Association which was meant as a substitute for a trade union. They tried to construct the relationship with workers, but failed. The management attacked the workers with dismissals. Workers countered with strikes and officially established a union. Exchanges of firing and strikes continued until the state government intervened and issued a ban on strikes. The conflict temporarily ceased. But there is no vision for the union to shift to the harmonious style.

## 5. CONCLUSION

There is a piece of research investigating industrial relations in Toyota's affiliations in Asia from the managerial perspective by Gankoji Hiroshi, titled *Toyota Roshi Manejimento no Yushutsu (The Exportation of Toyota Labour Management)* (2005, Minerva Shobo). In this piece, Gankoji points out three basic factors that transfer Toyota style industrial relations to other Asian societies: 1) the 'ideal' of mutual trust and cooperation between employees and employer, 2) 'democracy' in organising and operating trade unions, and 3) the 'management system' that is able to give workers motivation for improving productivity. From this perspective, he analyses cases in Thailand, Indonesia and China, and concludes that Toyota's advance into Thailand is developing but it is only at the starting point in Indonesia and in China. Industrial relations in Thai Toyota are reported to be harmonious, suggesting that the importance of the Thai plant as a strategic point in the whole of southeast Asia for Toyota is considered to be growing.

On the other hand, the Toyota Production System of more advanced forms such as the multi-skilling with the aim of reducing the labour force and frequent changes of assembling processes aiming at producing many types of cars in

small quantities are not necessarily going to be implemented that well, in Thailand or elsewhere. In places where there is scarcity of labour as well as a saturating car market like Japan, the economy of reducing any excess in the Toyota Production System performs at its best. But the sources of the company to make profit in Asian affiliations where the conditions are different would be more exploitative, such as utilisation of irregular employees and long working hours with built-in overtime. Yet, it is still true in the latter case that the company needs stable industrial relations and the Thai company seems to have achieved this. Thus, how Thai Toyota succeeded in achieving a harmonious union and whether this style of unionising will spread to other parts of Asia are questions for further investigation.

#### REFERENCES

- Asahi Shimbun, 6 October 2005.
- Asano, Kazuya 2004, 'Toyota no Seisan Hoshiki to Rodo Jikan (Toyota Production System and Its Working Hours)', *Chingin to Shakai Hoshō* (Wage and Social Security), No.1382 - 1383, November & December 2004.
- Dae-oup Chang and Ed Shepherd (eds.) 2004, *Automobile Workers and Industry in Globalising Asia*, Hong Kong: Asia Monitor Resource Centre.
- Gankoji, Hiroshi 2005, *Toyota Rōshi Manejimento no Yūshutsu (The Exportation of Toyota Labour Management)*, Kyoto: Minerva Shobo.
- Ihara, Ryoji 2003, *Toyota no Rodo Genba (Toyota's Work Site)*, Tokyo: Sakurai Shoten.
- Imai Hiroshi 2003, *Toyota no Kaigai Keiei (Toyota's Overseas Management)*, Tokyo: Dobunkan Shuppan.
- Kamata, Satoshi 1983, *Japan in the Passing Lane: An Insider's Account of Life in a Japanese Auto Factory*, New York: Random House.
- Kaneko, Fumio 2006, 'Toyota: a Corporate Monarch Shaping Japan in its Image', *Japonesia Review*, No.1, pp. 45-51.
- Katayama, Osamu 2005, *Dare mo Shiranai Toyota (Toyota that Nobody Knows)*, Tokyo: Gentosha.
- Nihon Keizai Shimbun, 5 July 2005.
- Nihon Keizai Shimbun, 21 December 2005.
- Nihon Keizai Shimbun: 6 October 2005.
- Nihon Keizai Shimbun, 5 January 2006.
- Ohno, Taiichi 1988, *Toyota Production System: Beyond Large-Scale Production*, Portland: Productivity Press.
- Saruta, Masaki 1995, *Toyota Shisutemu to Romu Kanri (Toyota System and Its Labour Management)*, Tokyo: Zeimu Keiri Kyokai.
- Sugiyama, Naoshi 2004, 'Toyota no Chingin Seido (Toyota's Wage System)', *Chingin to Shakai Hoshō* (Wage and Social Security), Nos.1371, 1372, June 2004.
- Toyo Keizai Shimposha 2005, *Kaigai Shinshutsu Kigyo Soran (Directory of Japanese Transnational Corporations)*.
- Toyota Motor Corporation, *Annual Financial Statements: Each Year*, Tokyo: Toyota Motor Corporation.
- Toyota Motor Corporation, *Annual Reports: Each Year*, Tokyo: Toyota Motor Corporation.
- Toyota Motor Corporation 2005, *Toyota no Gaikyo (Outlines of Toyota)*, Tokyo: Toyota Motor Corporation.

### WEB SITE REFERENCES

<http://www.toyota.co.jp/index.html>

<http://www.jama.or.jp>

<http://www.kabanet.org/>

<http://www.fine.or.jp>

<http://www.jaw.or.jp>

<http://www.imf-jc.or.jp>

<http://www.jtuc-rengo.or.jp>

## CHAPTER 7

### TOYOTA IN THAILAND: CAPITAL AND LABOUR IN 'HARMONIOUS' GLOBALISED PRODUCTION<sup>1</sup>

*DENNIS ARNOLD*

#### 1. INTRODUCTION

The auto assemblers and 700-plus auto-related parts suppliers currently producing in Thailand characterize the higher value added path Thailand's industrialization strategy has been leading for decades. Tracing the history of auto production in Thailand elucidates the guiding-although ad-hoc role the Thai government has played in promoting it. It also demonstrates the changing struggles and perceptions of auto workers in Thailand, and how mobile capital has recomposed labour in developing Thailand, in this case study Toyota Motor Corporation.

Auto production in Thailand has a relatively long history for the Southeast Asia region. Production began in 1961 under the import substitution model to promote local content and dissuade reliance on foreign input. Over the past forty years it has progressed and is currently in the process of entering the neo-liberal model that dominates the global economy. Over that period Thailand's auto industry has expanded significantly; it is currently the world's fourteenth largest auto maker, producing over one million units per year for the first time in 2005.

Domestic consumption of new autos has significantly increased over the years, particularly Japanese autos, as a few hours in Bangkok's infamous traffic confirms. Auto exports from Thailand began around 1995, and currently accounts for about 40 percent of the total unit output. Local consumption has been the primary factor for auto assembly in Thailand, though with a population of only 65 million people it cannot be the basis of future plans to extensively develop the auto industry and transform Thailand into the 'Detroit of Asia', an (overly) ambitious campaign underway.

Toyota began its operations in Thailand in 1956, its first foreign-based subsidiary, with auto sales. Toyota manufacturing in Thailand began in 1964, and its share of the local market has consistently been at the top in recent years. Strategic alliances with Thailand's traditional ruling elite, in addition to continued support and promotion from the Thai State, have played key roles in Toyota's and other Japanese TNCs' success in Thailand.

Currently, Toyota directly employs over 11,000 workers in Thailand, from upper management to line workers, in addition to tens of thousands who produce parts for Toyota assembly in parts manufacturers and related businesses based in Thailand such as sales and service. The increasing relocation of Toyota and other Japanese capital into Thailand has significantly impacted how labour in Toyota-Thailand is organized. Initially trade union struggles at Toyota Auto Works were characterized by conflict, while over the past decade labour relations have been described as harmonious by the Toyota trade union since they have adopted the 'Toyota Way' of labour relations and its philosophy of capitalism. This has an impact not only for workers directly employed by Toyota, but also for significant portions of the auto and auto parts industry in Thailand.

However, as Thailand is negotiating free trade agreements with Japan, the US and a number of other countries, the future of the auto industry in Thailand will no longer be protected by high tariffs or local content requirements of the past. The industry is currently shifting to prepare for more open trade on the global market and increasing exports, eliminating protection, which the state has given to the sector since its beginning stages. This, combined with an increasingly flexible labour market, formally underway since 1998, will bring further changes to how labour is organized in Toyota and their parts producing 'family', with many possible implications for the strength of labour vis-a-vis capital.

## **2. AUTO PRODUCTION IN THAILAND: POLITICAL ECONOMY OF INVESTMENT**

In 1957-1958 Field-Marshal Sarit Thanarat along with his 'Revolutionary Council' took control of the Thai government in twin coups. This set Thailand on the path of significant economic, social and political change through an emphasis on "stability, order, authoritarianism, anti-communism, state intervention in certain areas of the economy and politics and rapid capitalist development"<sup>2</sup> (Hewison 1989:97, Brown 2006:1). The first phase of Thailand's capitalist development initiated by Sarit in the 1960s was the import substitution industrialization (ISI) model that sought to protect domestic industries for local consumption, generate employment and eliminate underemployment in peasant agriculture and generate rapid technological progress; the plan was carried out with technical assistance from the World Bank, in addition to huge loans from the Bank (Charoenloet 2002:247).

The Revolutionary Council represented a new alliance of capital, the monarchy and civil and military bureaucrats that moved away from state-led industrialization strategies (Brown 2004:69). The state withdrew from direct competition with the private sector in order to broaden its power base from state enterprises.

Field Marshal Sarit established the Board of Investment (BOI) with the Investment Promotion Act of 1959, it was given authority to provide investment incentives to industries deemed vital for economic development. Sarit appointed himself the first Chairman of the BOI, and from 1962 to 1969 the auto industry was one of the first industries that the BOI promoted (Mingsarn 1993:6). This period was known as the 'decade of darkness' due to the repressive nature of the government that had emasculated Parliament, muted the press, imposed martial law and banned political parties (Brown 2004:70 citing Yano 1972; Thak 1979). Of course, trade unions were not tolerated during this period, particularly in light of the Indochina wars taking place, meaning they were largely seen as a potential political or 'communist' threat, regardless of their actual orientation. It wasn't until the late 1960s, with the growing threat of rural insurgency led by the Communist Party of Thailand that the government began to open space for trade unions in an attempt to placate growing anti-government sentiments.

In this social and political climate a joint venture was formed by Ford Inc. (UK) and the Anglo-Thai Motor Co. Ltd., its local distributor, and the first autos were produced in Thailand in 1961. In that year 310 passenger cars and 215 trucks, or 12 percent of the auto market in Thailand were produced (Mingsarn 1993:7). Toyota Motor Thailand Co. Ltd's (TMT) first business in Thailand was established as Toyota Motor Sales Co. Ltd in 1956. It was the first Toyota Company in Thailand, and the first Toyota Company established overseas (see <http://www.toyota.co.th>). In 1962 Toyota Motor Thailand was established as an automobile assembler with a registered capital of 11.8 million baht with BOI privileges (see <http://www.toyota.co.th>). In 1964 Toyota's first assembly plant in Thailand was opened at Samrong Nua about 20 kilometres south of Bangkok, which is still a site of Toyota manufacturing, importing completely knocked down (CKD) vehicles for reassembly. By 1969 there were six assemblers in Thailand, five of which were Japanese-related enterprises, with a total of 12,140 automobiles assembled in that year (Mingsarn 1993:7). Up until 1971 auto assembly in Thailand included a very low proportion of domestically produced parts, leading to a substantial trade deficit. The overall level of output was relatively insignificant.

### **Local Content**

Auto production slowly rose from 525 vehicles in 1961 to 10,667 in 1970 (Mingsarn 1993:1), while little technology transfer was taking place and it produced little value added to the Thai economy other than low-paying jobs. In 1971 agriculture accounted for 73.7 percent of the labour force; manufacturing, particularly in auto, accounted for a small fraction of the working population. While promoting its textile and garment and other light manufacturing sectors which were employing increasing numbers of rural-urban migrants, the Thai government shifted its policy on the auto sector in order to promote local content from the early 1970s, in a string of ad-hoc policies which finally ended in 1999.

In the period of 'industrial rationalization' (1972 to 1977) local content requirements (LC) were introduced and became effective on 1 January 1975. LC was fixed at 25

percent for passenger cars, 20 percent for commercial vehicles with windshields and 15 percent for commercial vehicles without windshields (Mingsarn1993:8). The requirements were in favour of lower cost models, meaning Japanese models, and in the ensuing years Japanese manufacturers and parts suppliers came to lead the local market sales and manufacturing. Through the 1970s LC requirements did not meet one of its primary objectives, to decrease trade deficits in the auto sector. In fact, it increased six-fold from 1972 to 1977. It was during this period, in 1975, that TMT built its second assembly plant in Thailand, it is also located at Samrong.

Throughout the industrial rationalization period, trade unions and labour activism in Thailand were revitalized after years of suppression, and there was a sharp increase in strikes, sit-ins and demonstrations. Brown (2004:83) characterizes this period as after more than a decade of political repression, a key objective of these struggles was to force employers and government to accord workers a legitimate voice at the workplace and in the wider social and political arenas. An outcome is the 1975 Labour Relations Act (LRA), which to this day has a major impact on labour relations and trade union formation in Thailand. The LRA formally opened space for trade unions and essentially 'legalized' tripartite negotiations, in addition to the right to strike, to bargain collectively, form not only trade unions but also federations and congresses. The LRA and the 1998 Labour Protection Act (LPA) are the two guiding principles for government sanctioned trade unionism in Thailand, and are much criticized for leading to the government's manipulation of labour. Most importantly for the context of Toyota in Thailand and perhaps labour rights in general is how creating 'space' for officially sanctioned trade unions is not enough; actual implementation of workers rights is essential. The massive influx of mobile capital quantified by foreign investment and the impact this has had on organizing the working class in Thailand is perhaps the key consideration to understanding how labour rights are or are not implemented.

The Thai government introduced 'localization' (1978 to 1986) and with it new LC were introduced. The LC of passenger cars increased to 35 percent by 1980 and rising five percent per year until it reached 50 percent. With localization the government banned completely built up (CBU) imports and increased import duty on CKD to 80 percent. The CBU ban was beneficial to Japanese TNCs who were the largest producers, and marks a starting point for Japanese domination of the local market that still exists. To displace these Japanese companies and chip away at their market share would be difficult for other auto manufacturers to do ([http://www.business-in-asia.com/automotive/interview\\_us.htm](http://www.business-in-asia.com/automotive/interview_us.htm)).

An interesting development during this period is related to one of Toyota Motor Thailand's primary shareholders in Thailand, the Siam Cement Group. Siam Cement Group is one of the oldest and is the largest corporate conglomerate in Thailand. It was founded in 1913 and has throughout its history had close links to the Royal family. In 1964 it was named a Company under Royal Patronage. Among its many ventures in Thailand, Siam Cement is currently the second largest shareholder in TMT, behind only Toyota Motor Corporation, with Bangkok Bank the third largest

shareholder in TMT. This interest in Toyota in Thailand cannot be overemphasised, particularly since banking and local industrialist factions retained significant control over the economic base of Thai society, at least up to the economic crisis of 1997 (Brown 2004:91).

In the period of localization the ‘mandatory deletion’ was introduced, the inclusion of brake drums was the outcome of lobbying by a joint venture between the Japanese engine producer Kubota and Siam Cement (Mingsarn 1994:8). During this period the number of locally produced parts rose to 180 by 1977, but were technically simple. Japanese affiliates were the big winners (Doner 1991).

### **Export Oriented Industrialization - Thailand BOI Promotion Policies**

In the mid-1980s Thailand was in the transition to export oriented industrialisation (EOI), which was a part of a global shift away from ISI as proposed by the World Bank (Bell 2003: 15). EOI, which is based on taking advantage of cheap (usually young women) labour in manufacturing light goods for export, dominated Thailand’s economic strategy until recent changes were initiated by Prime Minister (PM) Thaksin Shinawatra and his Thai Rak Thai (Thais Love Thais) Party. The pattern in Thailand and many other Southeast Asian countries practicing EOI has been to suppress and maintain authoritarian control over labour and trade unions in order to maintain ‘investor confidence’ and foreign direct investment (FDI) inflows, which is seen as the engine of economic development. However, it should be noted that the transition from ISI is not complete under EOI, since domestic industries, including LC in auto production, was maintained for a number of years under EOI.

Currently, the BOI is the arm of the government responsible for promoting and directing FDI and other types of investment in Thailand. A system of financial incentives and privileges is used to encourage investment overall, to reward certain targeted industries, and to encourage development in specific regions of the country. BOI support, including low import tariffs on equipment and parts necessary for production for export is driving FDI in the sector. The role, targeted industries and promotion criteria of the BOI have changed considerably since the early 1980s, when Thailand began significant shifts toward EOI.

In 1982 and 1983 the government reorganized the BOI’s structure, and it began to ‘coordinate most permits and approvals necessary for foreign investors and spelled out objective criteria for investment promotion for the first time’ (Felker 2001:140). This is one of the initial attempts by the Thai government to liberalise investment procedures in favour of foreign capital, a process that is still underway. The changes in 1982-83 granted more generous tax incentives for export oriented projects, and allowed foreign majority joint ventures to sell up to 20 percent of their output on the domestic market (Felker 2001:140). However, due to intensive lobbying by domestic capital certain industries such as textile and garment, auto parts and agriculture maintained protected status.

In 1986 the government revived a proposal to localize the production of diesel engines. The programme was aimed at small pick-up trucks, which comprised the

**Box 1: Auto and auto parts policies, 1978 to 2000**

1978-1979: Establishing of percentages requirement for local contents on passenger-car, truck and bus assembling

- Car-increasing 50 percent within five years
- Truck and bus-increasing five percent per annum for the next five years

Disallowed CBU imports of car and motorcycle

1980: CBU imports for van and jeep assembling passenger car were included into the car assembling policy, while CKD were to be in compliance with the truck and bus policy

1982: Requirement on percentage of local contents for passenger-car assembling is limited at 45

1986: lists of the required local contents for passenger car assembling were replaced by Parts List A and Parts List B.

- Part A: It was compulsory to all assembling
- Part B: Assemblers were able to choose the rest from contents stated in Part List B.

1989: Domestic car assembling was required to use local contents according to List A., in addition to that of List B which could be chosen freely. The total amount of local contents shall be at least 54% of the overall assembled parts, and total series assembled could be up to only 42, with up to two models allowed for each series.

1991: Announcement of a new pick-up truck policy. All local contents lists shall be used. Locally manufactured engine was required for an assembly of a pick-up truck with engine capacity more than 1,000 cc.

- New structure for passenger-car tariffs, including a commercial tax which resulted in a car-price decrease
- Announcing an abolishment of passenger car import restriction

1994: The Ministry of Finance allowed 50% special reduction on normal import duty, pursuant to Brand-to-Brand Complementation Scheme (BBC Scheme).

1998-1999: Establishing Thailand Automotive Institute (TAI)

- Having an agreement to abolish the local-content requirement policies that have been applied on automotive assembling and the abolishment has been enforced since 1 January 2000.
- Revising the automotive-tariff: the new automotive-tariff structure was formally announced in order to supplement the abolishment of local-content requirement policies

*Source: Thai Auto Parts Manufacturers Association  
(<http://www.thaiautoparts.or.th/ehome.html>)*

largest part of the auto market. Four foreign-local joint ventures were granted exclusive licenses to assemble engines, along with special import licenses and tax-breaks. In exchange they agreed to achieve targets of 80 percent local content after four years. Siam Nawaloha, the foundry arm of the Siam Cement Group, was a partner in three of the four ventures. (Felker 2001:170). Lobbying such as this set the stage for relative strength of Thai and Thai-foreign joint ventures in auto parts production, currently exporting significant parts in the region.

In the late 1980s when FDI increased dramatically land and labour costs began to increase and local industrialists began to fear they would be marginalized. Unlike the years prior to the boom foreign investors showed a preference for wholly owned subsidiaries rather than joint ventures with Thai firms. In 1987 the BOI revised its promotion criteria again, this time in favour of 100 percent foreign invested projects, to capitalize on the FDI boom, a move that was criticized by domestic business. At the time the President of the Federation of Thai Industries (FTI), Paron Issarasena, also the chairman of the Siam Cement Group (a major shareholder in Toyota assembly in Thailand) called upon the government to ‘limit the relocation of footloose industries from other countries;KThese industries will come to use Thailand’s generalized system of preferences and then leave for other countries which offer them better privileges, leaving nothing for Thailand’ (Felker 2001:142, citing Bangkok Post, 12 January 1989).

One of the primary complaints from domestic business was foreign firms’ access to duty-free imports, particularly capital-equipment, which was the BOI’s most important incentive after special tariff protections and corporate income tax holidays (Felker 2001:143). From 1993 tax holidays and other BOI incentives would become based primarily on regions within Thailand (see below). In the last years of the 1980s domestic business succeeded in influencing the BOI, particularly since FTI and other business associations became BOI supervisory board members, and promotion was extended to areas dominated by domestic capital such as food processing, auto parts and simple machinery. Although Thai firms held their own in certain labour-intensive industries, foreign firms accounted for a majority of manufactured exports; meanwhile, they formed few linkages with inefficient domestic industries (Felker 2001:144). The integration of foreign invested firms’ supply chains with domestic capital and manufacturers is an ongoing objective of the Thai government and business associations.

Concerns in the late 1980s and 1990s have by and large materialized in a number of industries in Thailand today. For instance, a number of analysts feared that the FDI surge would lead to a dependency trap, which temporarily boosted growth while binding local economies into subordinate positions in a hierarchical regional division of labour (Felker 2001:144, citing Bernard and Ravenhill 1995). Accordingly, critics suggested that Thailand would be stuck as an assembly and export base with low-levels of technology and transfer which are prerequisites for sustainable industry. This has varied considerably from one sector to another: Thailand’s capacity in auto parts production has increased considerably, while in the case of electronics these

concerns have materialized as Thailand still has low-levels of capacity in higher value-added nodes of electronics production. The relatively weak role of the state in the late 1980s through much of the 1990s, when changes in government were frequent, led to a sheltered and largely inefficient domestic (import substitution) manufacturing sector which could not compete on export markets and TNC dominated export oriented firms with few local links (Felder 2001:161).

EOI offered corporations and investors, whether foreign or domestic, 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 (Chang 2004). Thailand succeeded in uniting arrangements that liberalised capital flows and deregulated labour practices in ways that, to varying degrees, led to significant-yet uneven-economic growth, resulting in a dramatic economic transformation over the mid-1980s to mid 1990s.

There was a sharp increase of auto production in Thailand from 1986 to 1996 under EOI. Export of autos began to increase from about 1993, and prior to that production mirrored domestic sales. Manufacturing and services began to dominate the Thai economy, and rural-urban migration increased dramatically. This was induced in part to increasingly scarce land for agriculture leading to a labour surplus in agriculture.

In 1991 the BOI shifted its intention to ‘transform its role from a controller and monitor of investments to a supporter and facilitator of industrial upgrading’ (Felker 2001:162). New guidelines allowed 100 percent foreign owned firms to sell up to 20 percent of their output on the domestic market. Again, domestic business complained, but a compromise was reached with a list of sensitive products produced by local firms, and local market access of foreign firms would be regulated. The compromise was due in part to much increased capacity of a few large Thai conglomerates, including the Charoen Pokhapand (agri-business) and the Saha Union (textile and garment) would gain under a more liberalized market. Other domestic companies accepted deregulation since they could maintain market control. However, the BOI’s intention to promote technological upgrading took a back seat to industrial decentralization, until recent shifts under PM Thaksin’s Thai Rak Thai government (see below).

Thailand’s BOI has long offered investment privileges to encourage the decentralisation of industrial development. In order to promote industrial activity in certain locations, in 1993 three investment promotion zones were created. They are based on economic factors such as the level of income and availability of infrastructure. The role of BOI is not to monitor labour rights, in fact inclusion of any form of monitoring or even policy of promoting labour rights would weaken BOI’s role of promoting investment and maintaining ‘investor confidence’ in Thailand, highlighting necessity of informal labour-capital relations.

A core rationale for EOI, and BOI promotion zones, is to address industrial dispersal away from the Bangkok and central region and the uneven development that accompanies such concentration. However, industrial decentralization has essentially failed to materialize since 1986. For example, of 30 industrial estates in

operation (which are either joint private-public ventures or fully public, as opposed to industrial parks which are private) 11 are in Zone 3, 12 in Zone 2 and seven in Zone 1. Seven of the Zone 3 industrial estates are in the Rayong area on the Eastern Seaboard, which is actually quite close to Bangkok and other industrial clusters in neighbouring Chonburi Province (Tsuneishi 2005, p. 32).

The BOI is the arm of the government responsible for promoting and directing FDI and other types of investment in Thailand. A system of financial incentives and privileges is used to encourage investment overall, to reward certain targeted industries, and to encourage development in specific regions of the country.

These incentives currently take two forms:

- a) Tax-based incentives, which include exemption or reduction of import duties on machinery and raw materials, and corporate income tax exemptions.
- b) Non-tax incentives, which include permission to bring in foreign workers, own land, and take and remit foreign currency abroad.

The two most important factors in determining a project's eligibility are industry type and location. The following categories of industrial activity are eligible for BOI promotion:

- a) Agriculture and Agricultural Products
- b) Mining, Ceramics and Basic Metals
- c) Light Industry
- d) Metal Products, Machinery and Transport Equipment
- e) Electronic Industry and Electronic Appliances
- f) Chemicals, Paper and Plastics
- g) Services and Public Utilities

Each of these categories is broken down to the product level, and specific types of privileges and conditions are assigned to each product category. For example, a manufacturer of Solar Cells (a subset of the Electronic Industry and Electronic Appliances category) is subject to the following privileges and conditions:

- a) Classified as a priority activity of special importance and benefit to the country and is entitled to receive exemption from machinery import duty and corporate income tax exemption for eight years, regardless of zone, and will not be subject to the cap on the amount of corporate income tax exemption specified in Paragraph 2 of Section 31. Other rights and benefits shall be granted according to BOI announcement No. 1/2543.
- b) Production processes must be approved by the BOI.

***BOI Promotion by Location: Thailand's Investment Zones***

**Zone 1:** includes Bangkok, Samut Prakan, Samut Sakhon, Nakhon Pathom, Nonhthaburi and Pathum Thani (Bangkok and five provinces)

**Zone 2:** includes Ang Thong, Ayutthaya, Chachoengsao, Chon Buri, Kanchanaburi, Nakhon Nayok, Phuket, Ratchaburi, Rayong, Samut Songkhram, Saraburi and Suphanburi (12 provinces)

**Zone 3:** encompasses the remaining 58 provinces

(Source: [http://www.boi.go.th/english/about/boi\\_privileges\\_by\\_location.asp](http://www.boi.go.th/english/about/boi_privileges_by_location.asp))

See Appendix 1 for further data on BOI promotion.

Also in 1993 the government declared several specific auto production activities as eligible for full BOI promotion regardless of the location (i.e. whether it was in the Bangkok area or rural Thailand). They include forging and casting operations and the production of mould and die or jigs and fixtures (Felker 2001:172). Felker goes on to note that the BOI also began to focus its overseas promotion on encouraging Japanese small- and medium-scale suppliers to relocate to Thailand. The influx of foreign suppliers was met with resistance from local SME parts suppliers, the objective to deepen localization and technology diffusion against the growing need to produce more competitive, high quality parts.

### ***The Financial Crisis and Neo-liberal Restructuring***

The financial crisis of 1997 and the following years brought a number of dramatic changes both to workers and the government's economic strategy. The financial crisis led to widespread unemployment in manufacturing as factories closed or scaled back operations, while it threatened the survival of domestic capital. Neo-liberal economic reforms under the Chual Leekpai government according to the conditions of the International Monetary Fund (IMF) bail-out package became increasingly unpopular, particularly with domestic capital, and this among other factors led to the rise of the Thai Rak Thai party and Thaksin Shinawatra (see Brown and Hewison 2005). Elected in 2001 and again in 2005, Thaksin and the Thai Rak Thai party brought the government under control of big domestic capital<sup>3</sup>.

The economic crisis was a wake up call to Thailand on the vagaries of global capitalism, and PM Thaksin exploited this with nationalist policies, which focused more on the rural poor than urban populations. However, mid-way through his first term Thaksin embarked on a number of plans and policies with perhaps far more adherence to neo-liberal policies than Thailand had experienced before. The economic vision under Thaksin is not completely new, TRT stressed the need for an innovative, knowledge-based and productive economy, and a desire to make the economy more competitive in exporting higher value-added products, diversifying markets and developing new niche industries (Brown and Hewison 2006:359). This presupposes continued FDI in desired industries, but also increased competitiveness and innovation among small- and medium-sized enterprises (SME). The impact of the financial crisis on labour and trade unions, and the policies implemented by Thai Rak Thai and its predecessor has a considerable impact on TMT and the suppliers producing for them. For parts suppliers, the end of LC is a turning point into the shift toward engaging competition in the global auto industry, away from ISI. This is best summarized as Thailand's promotion of its auto industry as the 'Detroit of Asia' (see below) in attempts to become a regional hub for auto manufacturing. For labour, 1998 began the shift to the steadily increasing use of flexible labour in the auto and other sectors. This practice is legalized and regulated under the 1998 LPA.

After domestic capital had a chance to recover from the crisis Thaksin embarked on a plan to privatise a number of Thailand's most profitable state enterprises, particularly the Electricity Generating Authority of Thailand (EGAT), which would

have been Thailand's largest ever initial public offering<sup>4</sup>. Also, Thailand began pursuit of a number of bilateral free trade agreements with countries including Japan, the US, Australia, China and New Zealand among others, in addition to ongoing negotiations for the Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA).

#### ***Japan-Thailand Economic Partnership Agreement***

Negotiations for the Japan-Thailand Economic Partnership Agreement (JTEPA)<sup>5</sup> began exploring a possible bilateral economic partnership agreement (EPA also Free Trade Agreement or FTA) in 2001/2002, but official negotiations did not start until February 2004. On 1 September 2005 the Thai and Japanese Prime Ministers announced agreement in principle for the JTEPA. However, formal signing of the EPA has been postponed due to Thailand's political deadlock at the time of writing. Thailand's Permanent Secretary for Commerce Karun Kittisataporn said the Thai-Japanese FTA will be signed only after the new Thai government takes office (Bangkok Post 2006). Initially Japan and Thailand planned to sign the agreement in early 2006, but with an election in Thailand not likely to happen until late 2006, signing the EPA (and further negotiation of the Thai-US FTA) may be postponed to 2007, assuming the new government intends to go ahead with the deal.

Thailand's rationale behind the EPA is increased liberalisation with one of its most strategic trade partners and sources of investment. Bilateral trade between Japan and Thailand was nearly US\$35 billion in 2004. Thailand is Japan's most important destination for investment in Southeast Asia in terms of volume of direct investment in 2004, and Japan was Thailand's largest source of FDI in 2004<sup>6</sup> (Ministry of Foreign Affairs 2005), and has long been a primary source of FDI for Thailand. For Japan the deal deepens her potential for market penetration in its primary manufacturing base in the Southeast Asia region, and is a step toward the goal of an ASEAN-wide FTA<sup>7</sup>.

Although some details of the agreed-upon text may be altered, the core components of the JTEPA have been agreed. The major elements of the agreement (in principle) are industrial goods, agricultural, forestry and fishery products, government, intellectual property, movement of natural persons and customs procedures among others. The EPA would cover more than 7,000 items, representing more than 90 percent of the total trade between Thailand and Japan (Kate 2005).

Industrial products are broadly categorized as market access 'improvements' by Thailand and Japan. In the field of industrial products, both sides will eliminate tariffs on almost all the goods within 10 years from the date of the entry into force of the JTEPA.

For Thailand they include: (see Ministry of Foreign Affairs 2005)

a) Automobiles

- For passenger cars with engines exceeding 3,000 cc, the tariff rates will be reduced in equal annual instalments from 80 percent annually until it reaches 60 percent in 2009 and will then be maintained at 60 percent.

- For passenger cars with engines not exceeding 3,000 cc, both sides will renegotiate on market access improvement and the renegotiation will commence on a date to be agreed upon before the signing of the JTEPA.

- A political declaration on automobiles will be issued at the time of signing of the JTEPA.

b) Auto parts

- Subject to the AFTA coming into effect in 2010, a preferential tariff elimination scheme for auto-parts (Original Equipment Manufacturing - OEM) will be implemented whereby:

- For items with tariff rates over 20 percent, the tariff rates will be reduced to 20 percent on the date of entry into force of the JTEPA and maintained at 20 percent and eliminated in 2011;

- For items with tariff rates 20 percent and below, the tariff rates will be maintained and eliminated in 2011;

- For sensitive items (five items), the tariff rates will be maintained and eliminated in 2013.

c) Iron and steel products

- Tariffs on some steel products will be eliminated on the date of entry into force of the JTEPA.

- Tariffs on the others will be eliminated, at latest, by the first day of the 11th year after the entry into force of the JTEPA.

- For some specific hot-rolled coils and plates, zero-tariff quota schemes will be established and their quantity will be jointly reviewed annually.

Market access 'improvement' by Japan includes (see Ministry of Foreign Affairs 2005):

a) Textiles and apparels

- Tariffs on almost all items will be mutually eliminated immediately on the date of entry into force of the JTEPA.

b) Articles of jewellery

- Tariffs will be eliminated immediately on the date of entry into force of the JTEPA (five items).

c) Petroleum and petrochemical products

- Tariffs on most items will be eliminated immediately on the date of entry into force of the JTEPA and tariffs on the remaining items will be eliminated five years after the date of entry into force of the JTEPA in equal annual instalments.

### ***Negative Reactions in Thailand***

The JTEPA has not been popular among many business associations in Thailand, particularly the Thai Auto Parts Manufacturers Association, yet it has gone largely overlooked by civil society opponents of the Thai-US FTA negotiations, which have been ongoing simultaneously with the JTEPA. Tariffs in Thailand on auto and auto parts currently range from 30 to 80 percent, so reducing (nearly all of) the tariffs to zero to 20 percent is a dramatic change for parts manufacturers. While parts manufacturers in Thailand are competitive in the Southeast and South Asia regions, they cannot compete with Japanese, Taiwanese and Korean parts manufacturers without tariffs and past local content requirements.

Yongkiat Kitaphanich, President of the Thai Auto Parts Manufacturers Association said, "If the FTA with Japan will not create clear benefits for Thailand but likely result in huge losses to the domestic car industry, why do we have to open our market" (Achara 2005). A few days later PM Thaksin replied (to local business leaders critical of Thai-Japanese free-trade talks) by labelling them "'cartels' afraid of competition; KThey cannot maintain the status quo as cartel businesses living day by day, calling for help from the government when they collapse into NPLs [non-performing-loans]" (Sivalo, Chaitrong, Ajanapanya 2005).

Yongkiat went on to say that the zero-tariff scheme under the EPA will undermine the government's 'Detroit of Asia' policy, and that Japanese manufacturers in Thailand would start to use parts from their parent companies or suppliers in Japan rather than using Thai-made parts (Pongvutitham 2005). However, as was the case in the late 1980s and early 1990s less competitive local manufacturers are likely to be pressured by competitive manufacturers and the government to accept the reduction or elimination of tariffs protecting local industry.

In response to outcries from auto parts manufacturers in Thailand, the Thai government agreed to grant import duty exemptions on raw materials that supply export industries in plastics, electrical/electronics and auto industries. This may be the result of lobbying from business associations and individuals including Pramot Pongthong, president of Vichien Dynamic Industry Co Ltd, who said, "If opening the market is unavoidable [under the JTEPA], the association [TAPMA] urged the government to ... consider reducing to zero tariffs on raw material imports to strengthen local manufacturers' competitiveness before market liberalisation ..." (Pongvutitham 2005).

Perhaps this is a small victory for the parts manufacturers in Thailand, but they seem acutely aware that their fate is spelled out in the details of the JTEPA.

### ***The Detroit of Asia?***

In addition to ambitions of being the 'Detroit of Asia', Thailand is also promoting the 'Kitchen of the World' project. Both projects are based primarily on a combination of industrialization strategy and Thai-nationalism. These projects create both ambitions and targets for industry while instilling a sense of pride in workers employed in those industries. In fact, it is not uncommon to hear Thai trade unionists in the auto and auto parts sectors consistently refer to Thailand as the 'Detroit of Asia'; with that the government has been largely successful.

Auto production has increased significantly, from 419,861 units in 1993 to over one million for the first time in 2005. Thailand has 14 automobile assembly plants with a total production capacity of 1.2 million vehicles per year. There are five motorcycle assembly plants with a combined production capacity of 2.5 million units per year. In addition, there is an auto parts industry with 709 factories. Of these, 386 are direct automotive suppliers and 201 are direct motorcycle suppliers, while 122 are suppliers for both automobile and motorcycle manufacturers. (TAPMA 'Detroit of Asia in the 21st Century' n.d.)

There are about 1,000 companies related to the automotive industry such as those in the leather, plastics, rubber, steel, electronics, glass, paint and petrochemical industries. There are also business groups that are related in terms of clusters such as after-sales, auto financing, used cars, freight, financial services, education, training and research, among others. (TAPMA “Detroit of Asia in the 21st Century” n.d.). Although these figures have risen considerably over the past decade, including the estimate that the industry employs more than 200,000 people in vehicle assembly and component parts production (Weiler n.d.:1), in addition to boosting Thailand’s overall economic performance, Thailand still has a long way to go before claiming its position as an auto capital of Asia. Currently Thailand is the world’s 14th largest auto producer, and in Asia behind Japan, China, Korea and India, in addition to having a less developed auto industry than Taiwan and Malaysia<sup>8</sup>, but the current lack of capacity as a research, design and product testing base is one of the major obstacles in Thailand’s aspirations. To move from an assembly centre to a centre of information and technology in the auto sector will be a very difficult transition indeed. With that Toyota is taking steps to deepen the integration of Thailand in its regional production network. In 2005 Toyota established the Toyota Technical Centre in Thailand to design and evaluate new Toyota vehicles for the region, particularly multi-purpose vehicles. And in 2006 Toyota announced plans to relocate its support division for production, purchasing and logistics from Japan to its manufacturing operations in the South Asian region with the launch of Toyota Motor Asia Pacific Co Ltd, which will support Toyota Motor Corporation’s (TMC) manufacturing affiliates in Thailand, Indonesia, Malaysia, Philippines, Vietnam, Taiwan and India (Wijayasinha 2006).

#### ***Transition to an Open Auto Sector<sup>9</sup>***

In terms of product quality, at present Thailand’s lower-tier parts suppliers are struggling with defect rates of more than 1,000 parts per million (ppm), while assemblers such as General Motors (GM) have started to demand defect rates lower than 20ppm. [Japanese and] US autos also require much higher environmental standards than suppliers in Thailand can currently meet. On cost, many of the major assemblers have set targets to reduce prices by 20-30 percent within two to three years. For example, GM has set a target of five percent per year cost reduction. While this is possible for many large, direct suppliers, smaller indirect suppliers, of which there are many in Thailand, will struggle to meet 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 in order to engage the global market. 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 suppliers in Thailand. Additionally, suppliers need to adopt the use of information technology in their supply chain management to shorten lead time, lower inventory, increase

### Box 2: BOI Resolution on Raw Materials

BOI Import Duty Exemptions Expanded to Non-Promoted Suppliers of Plastics, Electronics and Automotives Bangkok BOI Secretary General Satit Sirirangkamanont announced after the BOI Board Meeting on 8 December that the Board has agreed to grant import duty exemptions on raw materials to suppliers who supply their products to export manufacturers in plastics, electrical/electronics, and automotive industries. To be eligible for the special programme, suppliers must be pre-approved by the relevant industry association, according to the following table:

Products	Approving agency
Plastic products and coatings	Thai Plastics Industry Association
Electrical and electronic parts and components	Electrical and Electronics Institute
Automotive parts and components	Thai Automotive Institute

Source: BOI 2005

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 (TDRI 2003).

It is evident that, in order to meet the above requirements for increased access to the world's largest auto market(s), major changes are needed, including all-important cost-saving measures. Trade union members in the auto sector in Thailand, which are currently among the strongest unions in the private sector, are certain to bear the brunt of cost-saving measures, promoting an extension of already proliferating outsourced workers who are employed on a temporary basis through employment agents or brokers, rather than directly by the manufacturer. Given the relatively weak capacity of first tier suppliers in Thailand it is possible that they could be replaced by foreign suppliers once tariffs are eliminated under the proposed free trade deal with Japan, potentially eliminating crucial backward linkages from the production process.

#### ***The Development of Toyota in Thailand***

As mentioned earlier in this section, the first and second Toyota assembly plants started operating in Samrong in 1964 and 1975. In 1988 the third plant was constructed at Samrong while the TMT headquarters was moved there in the same year. In 1997 the Gateway plant was built in Chachoengsao Province, which is in BOI Zone 2, about 130km southeast of Bangkok on the eastern seaboard. Another plant is scheduled to open in 2007 in the Bangkok Metropolitan area. This is the least promoted Zone, meaning BOI investment privileges may not be the deciding factor for the location of investment, as is often the perception among labour activists in Thailand.

**Figure 1: Toyota Motor Thailand production**

	<b>Samrong plants</b>	<b>Gateway plant</b>	<b>New plant</b>
Location	Samutprakarn province (approximately 20km south of Bangkok)	Chachoengsao province (approximately 130km southeast of Bangkok)	The outskirts of the Bangkok Metropolitan area
Start of Production	1964	1996	2007 (Planned)
Production capacity (normal operation)	250,000 units/year	200,000 units/year	100,000 units/year (planned)
Product line up	Hilux, Fortuner	Camry, Corolla, Soluna, Wish	Hilux (planned)

Source: Toyota Motor Corporation Press Room 2005

In addition to assembly, Toyota has a number of other business activities outlined in Figure 2.

**Figure 2: Toyota businesses in Thailand (In addition to TMT)**

<p><b>Toyota Auto Body Thailand Co.,Ltd.</b>  <i>Type of business:</i> Producing and acting as sub-contractor for producing parts assembling car and truck bodies for car assembly</p>
<p><b>Toyota Body Service Co.,Ltd</b>  <i>Type of business:</i> Toyota's biggest body repair and paint service center in Asia to increase after sales service potential, with 120 service bays capable of providing body repair and paint services for 12,000 cars annually</p>
<p><b>Toyota Leasing (Thailand) Co.,Ltd</b>  <i>Type of business:</i> A joint-venture company of both domestic and foreign financial institutions and associated companies, to help reduce financial burden of dealers in Bangkok and upcountry, who are selling on instalment basis</p>
<p><b>Toyota Transport (Thailand) Co.,Ltd.</b>  <i>Type of business:</i> Providing transportation of cars to dealers all over Thailand</p>
<p><b>Toyota Automobile Technology Co.,Ltd</b>  <i>Type of business:</i> Doing private school business (Toyota Automobile Technology School), higher vocational education, Level Por. Wor. Sor. In industrial technics, automotive branch</p>
<p><b>Rachamonkol Rice Co.,Ltd.</b>  <i>Type of business:</i> Rice mill business</p>
<p><b>Thai Auto Works Co. Ltd.</b>  <i>Type of business:</i> Manufacturing and assembling car chassis</p>

Source: <http://www.toyota.co.th/red/en/motorgroup.asp>

### **Data on Toyota in Thailand**

#### *Capital-Volume, Shareholders*

(Source: Ministry of Commerce auditing statements on TMT Co ltd.)

TMT 2005 registered capital is 7,520,000,000 baht<sup>10</sup> (ending balance as of 31 March 2005). Total earnings are 200,812,640,713 baht; expenditures 184,562,030,378 baht; net profit is 11,344,624,952 baht.

#### *Shareholders:*

62 total, 61 are Thai and one foreigner (Toyota Motor Corporation).

*Top five shareholders (with registered capital in parentheses) are:*

- 1) Toyota Motor Corporation (6,499,655)
- 2) Siam Cement Group (752,000)
- 3) Bangkok Bank (98,247)
- 4) Toyota Sukhothai (a Toyota dealer)
- 5) Toyota Ubon (a Toyota dealer)

*Total Sales & Profits*<sup>11</sup>

Toyota has 88 dealers and 238 showrooms in Thailand.

Total sales of TMT in 2004 are 626,026 units, up 17.4 percent from 2003, of which 209,110 are passenger cars, up 16.8 percent; 419,916 commercial vehicles, up 17.7 percent and 368,911 units of one-ton pick up trucks, up 19.3 percent. In 2005 (through October) Toyota accounted for 40.0 percent of total car sales in Thailand (with Isuzu second at 25.3 percent); 49.4 percent of passenger car sales (Honda second at 28.3 percent); 36.8 percent of commercial vehicle sales (Isuzu second at 34.1 percent) and 38.2 percent of one-ton pick up sales, with Isuzu second at 35.0 percent.

In 2004 Toyota exported 52,682 units (16 percent of market share), up 92 percent from 2003. Combined with the export of 10,421 containers of OEM parts, the export was valued at 34,493 million baht. Toyota set an export target for 2005 at 150,000 units, a 285 percent increase.

*Kinds & Volume of Products:*

Current production is 240,000 vehicles per year. Expected total production in 2005 is 405,000 vehicles (272,000 at Samrong plant and 133,000 at Gateway plant). By 2007 TMT hopes to have a production capacity of 550,000 vehicles per year.

TMT produces pick-up trucks, passenger cars and commercial vehicles. Examples include Corolla, Hilux and Asian Utility Vehicles such as Tamaraw Revo. The new plant will produce the IMV series pick-up truck for export (from 2007).

*Parts Makers*

According to the Toyota Thailand Workers' Union (TTWU) there are 154 parts suppliers for TMT, mostly SMEs, some are owned by Toyota or are joint ventures with Toyota.

The Thai Auto Parts Manufacturers Association represents 418 local auto-parts manufacturers, 70 percent are SMEs and about 50 percent are Thai-owned (this figure includes joint-ventures) (The Nation, May 03, 2005).

*Executives*

A majority (14 of 17) of the executives of TMT are Thai in Thailand.

### 3. LABOUR IN TOYOTA THAILAND

The TTWU was established by 14 group leaders in the production line on 12 November 1981, and registered on 26 February 1982. One of the original group leaders and founding members is still the TTWU President, Mr Pongthep Chaiwan. He has been working with Toyota since they started producing in Thailand in the 1960s. In his first decade of work with Toyota in Thailand he was a line production worker for two years, then in the parts department for eight years.

According to Mr Pongthep, the TTWU and management had many problems and conflicts from the union formation until about 1994 to 1995. He said that for the 10 plus years prior to the mid-1990s both management and the company (presumably meaning Toyota Motors Corporation in Japan and local management) opposed the trade union and tried to curtail its activities. Mr Pongthep said, "We had many problems in the beginning as a trade union, there was no mutual trust and we made demands of the company to take and not to give, which caused problems for the employer so we had to find a solution. We decided we must give as well as take. After we realized this the company grew. [Since that time] We have used this working relationship as a guideline to other affiliates." He went on to say, "Toyota and the TTWU have found a win-win situation because capital needs cheap labour and Thailand needs the jobs." He also said that the problems facing the Toyota trade union in the Philippines is caused by a difference in 'culture': that the trade union there only wants to take and not give.

All the TTWU committee members interviewed stressed the harmonious relations between the union and management, and assert this as the cornerstone of the strength of both the union and Toyota in Thailand. Since the mid-1990s there have been few significant problems in labour relations between unionized members and management. The nearest incident came about three years ago when the TTWU almost broke into a dispute with management over the collective bargaining agreement (CBA); workers gathered in front of the factory, but they ended up settling before anything major happened. Mr Manit Promkareekul, a Vice President (VP) of TTWU, and President of the Federation of Thailand Automobile Workers' Union, said that several times the trade union had pressured management to accept their demands, but they have not had a strike. Prior to the mid-1990s he and other TTWU committee members said that labour-related disputes were fairly regular.

In Thailand there are two forms of trade unions in the private sector: enterprise and industrial trade unions. Currently the TTWU is an enterprise level union having changed its union charter status from industrial trade union four years ago. Mr Prommas Chuchomchuen, another VP of the TTWU said this change is because it is not Toyota's culture to negotiate with workers who are not from their 'family', such as Isuzu workers. In another interview, Buddhi Netiprawat from IMFmetal and The Solidarity Center said that TTWU was about to be dissolved because the government said that Toyota transport is not considered manufacturing so they cannot be in the same union. So, the TTWU was changed to enterprise level union. This is common

in Thailand, the Ministry of Labour, urged by the employers' associations, doesn't want national level unions.

TTWU has 3,975 members; the annual membership fee is 600 baht per year (deducted at source by the company).

- Somrong plant 1,785 P
- Gateway plant 1,106 P
- Thai Auto Works 294 P
- Toyota Auto Body 81 P
- Head office 320 P
- Bangkok office 120 P
- Bangplee (parts centre) 187 P
- Suwintawong (training centre) 62 P
- Bangpakong (logistic centre) 20 P

*Source: TTWU 2005a*

The TTWU has 40 officers, 11 work as trade union officials full-time. The length of terms are three years, the current term is from 2005 to 2008. According to Thai labour law trade union committee members cannot work full-time, but the CBA states that the TTWU can do so, and this has come without any interference from the Ministry of Labour. In fact, the TTWU received the award for outstanding labour relations from the Government and the Provincial Labour Protection Department.

#### ***Background of TMT workforce***

According to data provided by the TTWU, Toyota Motor Thailand (TMT) employs over 11,000 people in all of its operations.

#### **Box 3: Data on regular and flexible labour in TMT**

Permanent (regular) or long term basis: Blue collar 4,518 (100 percent men) White collar 1,390 (5.24 percent women) Total 5,908  
Temporary and fixed contract workers (including through labour agency): Blue collar 4,236 White collar 1,147 Total 5,383 (breakdown of male/female not available)

*Source: TTWU (unpublished document)*

TTWU estimates a majority of workers in the assembly plants are from the Northeast of Thailand (Isaan), which is the poorest region in the country. Three of the four TTWU officials interviewed have completed tertiary education, one is a lawyer, another is currently in law school (weekend and night courses), while a third is working on an MBA; with higher education comes better pay, higher positions and generally more opportunities with Toyota. The minimum requirement for employment at Toyota is a high school diploma, and given high competition for the jobs at Toyota a majority have some technical/vocational training. On-the-job training is provided at the assembly plants, but it is not policy to provide additional technical training for all staff.

### ***Wage System***

Starting pay for outsourced workers is a few baht over the legal minimum wage, which in late 2005 was 184 baht per day in the Samrong plant, and 153 baht per day at the Gateway plant<sup>12</sup>. The plant under construction will have the same minimum wage as the Samrong plant. The minimum wage for regular workers is 258 baht per day. Contract workers receive daily pay, regular workers receive monthly pay. Contract workers usually work 22 days per month. A regular worker receives the daily wage rate times 30 days/month, meaning wages of regular workers are much higher than temporary or outsourced workers. Both regular and contract workers receive a bonus twice a year, on 25 June and 25 December. Contract workers are paid by the labour agency, which is legally their employer, according to TTWU without any spurious deductions from their wage. The TTWU claims that they ensure that social security is actually paid to the state and not taken by the agency, which is a very common practice in Thailand.

The standard working hours according to Thai law is eight hours per day, six days per week. However, production workers normally work five days per week, sometimes six. OT is normally two hours, and workers reportedly work over-time (OT) nearly every working day. If work exceeds more than two hours OT workers are provided with a free meal. Regular workers receive 58 baht for meal allowance, while outsourced workers receive 30 baht. On Sunday or holidays the pay is two and three times the overtime rate, respectively. There are six days of vacation per year on national holidays, according to Thai law. The average yearly number of working days is roughly 250 days per year, or 2,000 hours.

The TMT production line has a two-shift system: 7:30 to 16:30 and 19:30 to 4:30. Workers on the night shift receive 185 baht more per day than the day shift, and 280 baht more per day for line leaders. The night shift also receives a free snack and coffee. Trade union officials work Monday to Friday from 8:00 to 17:00 and can work OT as well. Line leaders change from day to night shift every two weeks, if they choose, it is not mandatory, which is a part of the CBA.

At the Gateway plant workers receive 2,700 baht per month housing subsidy; line leaders receive 3,500 baht; and for supervisors it is 4,700 baht per month. The Gateway plant is located on the Eastern seaboard, while the Samrong plant is in the Bangkok vicinity, so workers at the Samrong plant do not receive a housing subsidy. TMT does not have any dormitories.

The meal allowance is 58 baht for regular workers, and 28 baht for contract workers. If either works over two hours of OT they receive an additional 58 baht for meals. There is a free bus service, and on Sunday there is no bus so workers receive an 80 baht transportation allowance.

### ***Flexible Labour and the TTWU***

One of the most significant problems for the workers at Toyota's manufacturing in Thailand, in addition to other auto manufacturers and industrial sectors, is the use of flexible labour. As is the case in most manufacturing sectors in Thailand, the use

of outsourced labour, often through labour agencies but also through in-house contracts, came to be used increasingly since the financial crisis of 1997 in efforts to lower costs. According to Mr Manit, prior to the crisis there were no outsourced workers used in the production lines, while currently the number of outsourced workers is equal to regular workers in TMT, including both blue and white collar jobs. Another rationale behind outsourced workers is they tend to work harder, according to Mr Prommas. He said that many line leaders prefer outsourced workers because they are more likely to listen and act upon orders, and they work very hard because they want to become regular. The Samrong plant uses three different labour agencies, the main agency is Samitya and Friends (SMA).

Currently, after two years being outsourced, a worker can become a regular worker, although it is not mandatory. According to TTWU, about 600 workers per year change from outsourced to regular, and due to the small number of spots available it is a competitive based system. Workers must be recommended by line leaders to become regular, and they must pass a test.

From the perspective of the TTWU, they have set a goal of zero percent contract workers in the future, but the percentage of outsourced workers is currently not a part of CBAs. In comparison, Isuzu manufacturing in Thailand has set a limit of 25 percent outsourced workers in their CBA. Following the financial crisis the TTWU made an informal agreement (based on mutual trust according to Mr Manit) with management to maintain low percentages of outsourced workers, though this has failed to materialize.

#### ***Case study 1: Interview with Outsourced Line Worker***

'Daeng' is from Roi Et (in Northeast Thailand) and has worked for TMT at the Gateway plant through a labour agency for two years and three months. He got the job through an agency, which had posted a job notice on the notification board outside the Toyota factory. Before working at Toyota he had worked for the CP Corporation as a machine controller in one of their many chicken processing factories. He was working directly for CP, not through an agency. He quit at CP and began looking for new job because his income at CP was not very good - minimum wage with very few bonuses or benefits. After the labour agency placement he had an interview and orientation on factory processes, it took three days to start working after the process began with the labour agent. His job is body accuracy confirmation, or quality control.

Daeng has graduated from a technical school (in Thailand a vocational school gives three years training and a technical school, five years). At Toyota on-the-job training is provided on the production line for every basic process, but there is no occupational safety and health training or other mandatory training sessions organized by the company.

Daeng works eight hours per day, five days per week and some weeks he works six days. He usually works two hours of OT per working day. When he is on sick leave he said that he is paid according to the law. If he is late his pay is cut by one

hour, but he said he has not been late. He only works the day shift so does not receive the higher wage rate offered to the night shift. He is paid directly by the labour agency once a month. He said there are no additional or hidden fees from the subcontractor

During his two years at Toyota his wage has increased three times by 10 baht per day twice, and 15 baht in the last raise. Pay is not based on incentives, but there is a bonus. Currently he is working about 22 days per month for 207 baht per day, plus OT. He gets a bonus twice a year; it is a cash bonus directly to a bank account. Toyota provides free transportation to the factory, a bus, which stops within walking distance of his apartment.

According to TMT regulation, after two years of work there he can become permanent, after passing a test, which he has not yet taken, though he plans to do so next year. Mr Prommas said the test is about the use of machines, safety issues etc.

Daeng is a part of a 10 person work team, evenly divided between outsourced and regular workers, who have a talk every morning for 10 to 15 minutes. These groups discuss issues such as safety before work and are also used as information exchanges from the company. The leader of each group is the line leader. Not surprisingly, it is not possible for an outsourced worker to be a line leader or in any kind of supervisory position.

Although he would like to be a regular worker, Daeng says that he accepts the system, since it is much better than the last job he had. Comparing Toyota with his past jobs, he said that it is the best job he has had, and plans to work with Toyota until retirement.

#### ***Case study 2: Interview with a Regular Worker***

'Tuk' is from Samut Prakarn, where the Samrong plant is located and has worked at Toyota since 1993. He began working with Toyota after direct application to the personnel department. Before working at Toyota he worked in a big casting factory in the auto sector. He didn't have formal training before working with Toyota, but graduated from a technical school. He has participated in several training sessions while working with Toyota, such as International Standards Organization, the Toyota system, quality control circle, safety, global positioning systems, computers and Japanese language courses. He is currently a problem analyst dealing with parts from suppliers, which is essentially quality control. He has been a team leader for three months. He likes being a team leader because of the higher salary.

Tuk earns a monthly wage, with bonuses twice a year. He also gets a housing and transportation allowance, in addition to a cost of living allowance. He only works on the day shift; he could work the night shift to earn more money but does not want to since he has a family, including two daughters.

He has been a member of the TTWU since he began working at Toyota. When asked if there are any differences in working at Toyota since the introduction of outsourced workers, he replied that working conditions and hours are the same,

other process are the same, but there are now different salaries, benefits and other pay-related factors. He thinks that the subcontract system is not good because it is unfair to the employee, but good for the company. He went on to say that if the union has no control of the percentage of outsourced workers then it would be a problem since members of the trade union would not have enough power to bargain with the company since outsourced workers cannot join the TTWU. He wants to change the process by which outsourced workers become regular from two years, which he said is too long, to one year. He noted that after only three or six months outsourced workers feel too much stress and pressure from trying to work hard so that they can become regular workers.

When asked what should be done about the problems of outsourced workers, he believes that it is impossible to abolish the outsourcing system in Thailand because investors and capitalist power is too strong to totally end the system. He went on to say that even though it is impossible to ban the system, it may be possible to provide outsourced workers with more rights based on law. He said that the government can do this, but it is the role of the trade union to advocate more on the behalf of outsourced workers.

On the changes in labour relations which have taken place in the TTWU since he's been working there, his perception is that today they have good relations with management and working there is better than before because Toyota is a very big company with a positive image and is quite famous in Thailand. He said, "If we have problems in labour relations with Toyota it causes problems for both sides." He concluded by saying that if the company loses then the union loses too, and if company profits then the union profits.

#### **Organising in and beyond the TTWU**

TTWU is one of the more influential private sector trade unions in Thailand for a number of reasons. As elucidated in previous sections, from the perspective of the government, Toyota is a highly desirable corporation in Thailand's industrial development, and the forms of industrial relations in Toyota are perceived as a model for many workers. This is also true of the government who have awarded TTWU for its labour relations. Also, as a leading member of the Federation of Thailand Automobile Workers Union and the Confederation of Thai Electrical Appliances, Electronic, Automobile and Metalworkers (TEAM, an IMFmetal affiliate<sup>13</sup> which has nearly 45,000 members), TTWU has significant influence on trade unions and labour relations in many of Toyota's 154 parts suppliers (of which there are 80 to 90 trade unions, according to TTWU) and the sector in general. As mentioned previously, a senior VP of TTWU is also president of the Federation of Thailand Automobile Workers' Union, which has 22,448 members from 30 unions.

Mr Pongthep, President of TTWU, claims that the TTWU is in the top five to 10 trade unions in the labour movement Thailand. He went on to say that relations between capital and labour in Thailand is not so well developed, and this makes the labour movement weak from the inside and outside in terms of relations with capital and the government. With that in mind he said that TTWU joined TEAM to show its

**Figure 3: Toyota Confederation Work Plan for organizing**

Step	2004	2005		2006		2007-2010
	Jul-Dec	Jan-Jun	Jul-Dec	Jan-Jun	Jul-Dec	
1. Affiliate	←→					
2. Japanese company		←→				
3. All part makers					←→	

Source: TTWU 2005b

system of labour relations to other unions. Another reason behind this, he said, is that under globalization, “We cannot stand alone”, so the Toyota Unions need to combine strength with other unions.

**Confederation of All Toyota Thailand Workers Union**

The Toyota Confederation was established on 1 September 2004 by five unions: TTWU, Siam Toyota Workers’ Union, Toyota Body Service Workers’ Union, Toyota Leasing Thailand Workers’ Union and Toyota Thailand Transport Workers’ Union.

The objectives of the Toyota Confederation are ‘being a role model and best practice for Thailand’s labour unions’ and to ‘expand labour relations system to the other employers, labour leaders and academic institutes’ in addition to acting as a consultant and mentor for other unions (TTWU 2005a).

A guiding principle behind these objectives and roles for the Toyota Confederation is to maintain Toyota’s competitiveness in domestic and export markets. The confederation has taken upon itself the role of preparing Toyota’s affiliate unions to ‘be prepared for this competition and be able to respond to the companies’ requirements through cooperation in order to produce a ‘win-win’ situation for the company and the union’ (TTWU 2005a).

The guiding course of action to achieve this is to reduce labour problems within the Toyota ‘family’ through ‘mutual trust and respect for people’ (TTWU 2005b). This philosophy of using the ‘Toyota Way’ of labour relations is pursued not only with all Toyota affiliates, but also parts suppliers to Toyota. The presentation by Mr Manit (TTWU 2005b) states that the goal of the Toyota confederation is, “All affiliates and parts makers have to [have the] same direction for labour relations with us.”

This vision of the Toyota Confederation is quite ambitious and surely challenging. Among a number of potential complications are the varying tactics of employers when addressing demands of workers, in other words what works for labour relations with Toyota may not work for other factory owners or corporations that do not subscribe to the ‘Toyota Way’, and may simply not want a union in their plant. Furthermore, employers often welcome a trade union only when it is ‘yellow’ (one that management is able to control or manipulate). However, as detailed in the following case study of a parts supplier producing for Toyota and a number of other companies, the Toyota Confederation has had an impact on trade unions in parts suppliers in the Toyota supply chain, although data is not available to ascertain whether it is part of a trend.

***Case study 3: Interview with Two Workers from a Toyota Parts Supplier, and an Electronics Auto Parts Trade Union Organizer***

The two work for the Japanese owned Saka Co Ltd, a producer of nuts, bolts and other equipment to some 30 customers including Toyota, Honda and NHK Springs among others. The organizer interviewed is Mr Bunjong Jaroenphol, of the Paper and Printing Trade Union Federation in Bangkok; he has been particularly active in organizing unions on Thailand's Eastern seaboard, an area with a high concentration of industry and industrial clusters including auto and electronics.

'Gaew' is from Sa-kaew province. His first job in Bangkok was as an air-conditioner technician in a small company. From there he moved to a Honda parts supplier factory. In 2002 he began work at Saka. He is 29 years old, single and is currently an undergraduate student (studying nights and/or weekends) in political science. He is waiting to have his own family since he is sending money home to his family, in addition to paying for his undergraduate school. In the future he plans to work in a provincial administrative office, or with a political party.

'Tik' is from Bangkok and has been working with Saka since 1999, where he is a raw materials controller. He has a vocational school certificate and completed a BA in human resource management while working at Saka. (He said that about 20 to 25 percent of Saka workers are studying either in undergraduate school or technical training). He is also single.

The trade union at Saka is called the May Flower Labour Union, which was registered in May 2005. Tik, who is one of its main organizers and a committee member, stated three primary reasons for organizing the union

1. Usually when workers want to negotiate with management they appoint representatives (including himself) and the negotiators and workers feel there is no security in this form of negotiation as they could get sacked at any time.
2. The company did not take care of or pay attention to rank and file workers, only those representatives.
3. Trade unions are the best way to raise the voice of workers and protect their rights.

According to Mr Bunjong, other issues led to the formation of the union. In the past the company adhered to minimum regulations according to the law but bonuses and salary did not increase for a long time. Workers' welfare and safety committees did exist before the trade union was formed, which appeared democratic but in fact workers could not vote since the 'winners' had already been chosen by management. The ineffectiveness of the welfare and safety committee became a big issue due to its ineffectiveness when injuries took place. Additionally, the occupational safety and health committee did not take steps to prevent injury in a workplace which is quite dangerous due to the nature of the work.

*Organizing process*

When asked how Tik and other organizers within the factory became interested in trade unions, he said that he had heard of them and found books about trade

unions at his university library. Shortly afterwards, a friend introduced him to Bunjong and began discussions trade unions in more detail with him. A third motivating factor is that his factory, when it was located in Chonburi, was next to a factory with a trade union, which further generated interest. One member of that union lived in the same apartment complex as him, so they got to know one another and talked more about unions.

The first step taken by the organizers was to conduct a survey among workers, and they found that 90 of 350 workers were interested in the trade union, so they recognized the potential. This survey was done secretly by passing around a paper saying 'if you are interested in a union please check here'. Next they found 12 workers to register the union, which took three months. During this time Tik said it was quite difficult as he was beginning to feel pressure and that he may be fired and 'sacrificed' for trying to form the union. During this time he reports working and communicating quite often with Mr Bunjong, as he was the only external support during this time.

He found it difficult to educate his colleagues, since some heard from neighbouring factories that trade unions can cause difficulty and suffering. So, he made a leaflet to explain the benefits of unions, based primarily on books he found on organizing in addition to help from Mr Bunjong. Another fear of workers is that some did not trust him and suspected that he would get money from the company and leave after threatening them with a union. He replied that it is very easy for him to get fired due to his position in the waste treatment department, where management could easily find excuses to fire him.

After registering the trade union Tik reported no resistance from the Japanese owner, who is reportedly a former trade union member in Japan, but strong resistance from the Thai line leaders and supervisors. Apparently line leaders and supervisors were afraid they would lose control of rank and file workers if they formed a union, and said that those who join it would be sacked. Shortly after the union was registered Ministry of Labour officials came to the factory to 'train' management on labour relations, but Mr Bunjong believes it was more of training on how to bust unions, as elucidated in the CBA process.

Despite threats and resistance the union submitted its first CBA on 8 August 2005. Management used a number of legal tactics to make it void, and then offered a challenge to the union by essentially asking, 'What can you do to us?' Following this the union went to the labour protection department to file a complaint, and after two more rounds of CBA negotiations it was concluded on 22 September. The CBA agreed upon actually had more demands including higher bonuses and better benefits than the first CBA. According to the interviewed organizers, the first rounds of negotiations were essentially the management testing the workers' capacity. Mr Bunjong said that the union responded well with increased demands and navigating legal channels. They got more support from workers, thus were able to raise their demands. During the second round the union was prepared for management's manipulation of the laws, which Mr Bunjong said are biased in the favour of capital.

Also, management claimed that they couldn't find better wage and welfare in their industrial zone. To counter this claim the union got information from the TTWU and the Auto Workers Federation on other factories in the estate. The May Flower Union made a table of wages and welfare in the industrial estate, and proved to management that Saka was not the best in those terms.

However, the wage, bonus and benefits at Saka are better than other industries in Thailand such as textile and garment and food processing, but still not particularly high compared to more advanced industrialising countries such as Korea. Wages in Saka range from 6,500 to 8,000 baht per month. Bonuses for perfect attendance etc, after the CBA, are 150, 350 and 600 baht per month for the first, second and third months respectively. Prior to the CBA it was 150, 300 and 450 baht per month. Workers also get an allowance for transportation and food, and the night shift is paid 50 baht per day extra. The most significant bonus is the yearly bonus, paid at between 1.8 and 2.5 months of the yearly salary (Toyota pays 7.5 months for the bonus; six to 6.5 is the norm in other auto producing factories in Thailand).

The Saka case highlights the positive role the TTWU and the Auto Federation can play in assisting workers in auto parts producers in the Toyota supply chains. During the interview Gaew referred to Mr Prommas, the senior VP of TTWU as his *ajarn* (professor) for his assistance with the May Flower Union and the training sessions the TTWU had provided for them. Mr Bunjong also reported that the TTWU, since it is quite strong and has good relations with their management, was able to pressure suppliers into accepting workers' demands. He also cited a few cases where Toyota stopped supplying from certain companies due to poor labour relations.

TTWU's influence with the May Flower Trade union was confirmed when at the end of the interview, Gaew stated that the union's future goal is to create a win-win situation with the company, and to create mutual success for the workers and company through cooperation and harmonious working relations. This was already put to the test when three of the May Flower Trade Union committee issued a letter condemning a line leader and supervisor for 'forgetting where they came from' (as former rank and file workers). The case led to the sacking of the entire May Flower Committee, 14 workers, but they were all reinstated after a positive ruling from the tripartite labour relations committee.

#### 4. CONCLUSIONS

The auto and auto parts sector is a primary component of Thailand's current industrialization strategy, and has certainly played a role in past strategies. The most recent phase of Thailand's economic development is characterized by continuing shifts away from ISI and EOI models which dominated in the past, to engaging the neoliberal global economy. This shift entails promoting Thailand as a production, design and development hub in autos and auto parts comparable to more advanced economies in the region such as Korea and Taiwan. Whether Thailand can make this

shift is an open question; given competition within the industry it will be difficult to achieve. Existing signs point out that Thailand is not ready for increased competition on the global market given a lack of capacity outside of assembly and parts suppliers.

Furthermore, with this strategy, which includes signing and in the future implementing FTAs and EPAs with the world's two biggest economies, it may not be possible to create widespread benefits for both workers and SMEs (i.e. backward linkages). The potential of the industry to develop beyond production for local sales is a key consideration in this debate, and unimpeded access to Thailand's auto market is certainly the primary reason behind industrial aspects of the trade deals.

Bearing that in mind, the 'Toyota Way' of harmonious industrial and corporate relations, both in Japan and in countries such as Thailand that choose to adopt it, will come into question. In less than a decade Toyota's employees in Thailand have gone from nearly 100 percent regular to 50-50 percent regular-flexible (outsourced) workers. This, surely, is not a win-win situation for labour, yet it is a big win for TMT and its parent company TMC. The TTWU is all too aware of this. If the proportion of flexible workers exceeds that of regular workers at TMT, the gains of the Toyota trade unions in Thailand over the past 25 years could be negated. While it is possible for a number of workers directly linked to Toyota in Thailand to weather the storm that a Thai economy fully exposed to the global economy will bring, there will certainly be disruptions for a number of workers in the auto and auto parts sector.

From a theoretical perspective it is quite easy to say that workers should organize against mobile capital across borders to protect their interests as a class, yet the reality is often far removed. Nationalism and more specifically national development is one major complication, as are, most importantly, the day to day concerns of workers struggling for a decent living. Bearing this in mind, promotion of the 'Toyota Way' of harmonious capital-labour relations and win-win arrangements for capital and labour as an industry-wide strategy in Thailand is perhaps equally far-removed from the reality of global capitalism, which produces a higher proportion of losers than winners. Striking an advantageous balance between the two is certain to be a difficult venture for trade unions in the auto sector in Thailand, for those who choose to do so, as ever increasing numbers of workers are educated on and cognizant of their rights in the global economy. It is doubtful whether harmony will become the defining characteristic of the auto and auto parts sector in the coming decade given the uncertainty ahead. Yet it is encouraging that that sector is relatively well organized and actively engaging the process of the development of Thailand's industry.

#### REFERENCES

- Arnold, Dennis 2006, 'Free Trade Agreements in Southeast Asia', *Journal of Contemporary Asia*, Vol. 36, No. 2.
- Bangkok Post 17 May 2006, 'Thailand-Japan FTA off until 2007'.
- Board of Investment 2005, 'BOI Import Duty Exemptions Expanded to Non-Promoted Suppliers of Plastics, Electronics and Automotives', *BOI Press Release No. 48, 9 December 2005*, [http://www.boi.go.th/english/download/hot\\_topic/40/Raw.pdf](http://www.boi.go.th/english/download/hot_topic/40/Raw.pdf)

- Brown, Andrew 2004, *Labour, Politics and State in Industrializing Thailand*, London: RoutledgeCurzon/City University of Hong Kong Southeast Asian Studies.
- Brown, Andrew 2006, *Thaksin and Managing Wage-Labour*, unpublished paper.
- Brown, Andrew and Kevin Hewison 2005, 'Economics is the Deciding Factor: Labour Politics in Thaksin's Thailand', *Pacific Affairs*, Volume 78, No. 3, pp. 353-75.
- Chang, Dae-oup 2004, 'Asian Workers Organising in Global Supply Chains', working paper, Asian TNC Monitoring Network/Asia Monitor Resource Centre.
- Charoenloet, Voravidh 2002, 'Thailand and Industrial Restructuring: Government Policies and the Labour Situation since 1997', *The Journal of Comparative Asian Development*, Vol. 1, No. 2.
- Doner, Richard F. 1991, *Driving a Bargain: Automobile Industrialization and Japanese Firms in Southeast Asia*, Berkeley: University of California Press.
- Hewison, Kevin 1989, 'Bankers and Bureaucrat: Capital and the Role of the State in Thailand', New Haven: Yale University Southeast Asia Studies.
- Kate, Daniel Ten 2005, 'Automobiles Seal Free-Trade Deal with Sweetener to Follow', *ThaiDay*, 2 August.
- Mingsarn Santikarn Kaosa-ard 1993, 'TNC Involvement In the Thai Auto Industry', *Thailand Development Research Institute (TDRI) Quarterly Review*, Vol. 8, No. 1, pp. 9-16.
- Mingsarn Santikarn Kaosa-ard 1991, 'A Preliminary Study of TNCs' Hiring and Localization Policies in Thailand', *TDRI Quarterly Review*, Vol. 6 No. 4, pp. 11-8.
- Ministry of Commerce 2005, Auditing Data on Toyota Motor Thailand Co. Ltd, 2005, Bangkok: Royal Thai Government.
- Minister of Foreign Affairs, Japan-Thailand Economic Partnership Office 2005, 'Joint Press Statement: Japan-Thailand Economic Partnership Agreement', [http://www.mfa.go.th/jtepa/asset/sep01\\_joint\\_press\\_statement\\_en.pdf](http://www.mfa.go.th/jtepa/asset/sep01_joint_press_statement_en.pdf)
- Pongvutitham, Achara 2005 'Industry Fears it will be wiped out by Trade Deal', *The Nation*, 3 May.
- Sivalo, Piyanart, Wichit Chaitrong and Nongluck Ajanapanya 2005, 'Thai-Japanese FTA: Thaksin blasts pact opponents', *The Nation*, 7 May.
- Thai Auto Parts Manufacturers Association (n.d) 'Detroit of Asia in the 21st Century', <http://www.thaiautoparts.or.th/fileupload/Detroit%20of%20Asia.doc>
- Thai Auto Parts Manufacturers Association (n.d.) 'Trends and Developments in Thailand's Auto Market' <http://www.thaiautoparts.or.th/eindonfocus.html>
- TDRI 2003, *A Study on the Impacts of: Thailand-US Free Trade Agreement*, report submitted to the Thailand-US Business Council and the American Chamber of Commerce.
- Toyota Motor Thailand 2005a, 'History in Thailand', <http://www.toyota.co.th/red/en/history.asp>, accessed 15 November 2005.
- Toyota Motor Thailand 2005b, 'Toyota Motor Group', <http://www.toyota.co.th/red/en/motorgroup.asp>, accessed 15 November 2005.
- Toyota Motor Thailand 2005c, 'Toyota Foundation', <http://www.toyota.co.th/red/en/foundation.asp>, accessed 15 November 2005.
- Toyota Thailand Workers' Union 2005a, *Toyota Thailand Workers Union*, power point presentation, unpublished.
- Toyota Thailand Workers' Union 2005b, *Confederation of All Toyota Thailand Worker's Union*, unpublished power point presentation.
- Toyota Thailand Workers Union 2003, *TTWU Journal*.

Tsuneishi, T. 2005, *The Regional Development Policy of Thailand and its Economic Cooperation with Neighboring Countries*, Discussion Paper No. 32, July. Chiba, Japan: Institute of Developing Economies-JETRO.

Weiler, Stefan (Draft, n.d.) 'Competitiveness in Thai Auto Parts & Automotive Industry', *Lean Manufacturing Consulting*, <http://www.thaiautoparts.or.th/eindonfocus.html>

## INTERVIEWS

Interview with Toyota Thailand Workers' Union No. 1, Manit Promkareekul, Senior Vice President of TTWU and President of the Federation of Thailand Automobile Workers' Union, 22 October 2005.

Interview with Toyota Thailand Workers' Union No. 2, Pongthep Chaiwan President of TTWU, Ekarat Tarnsiriskul Deputy General Secretary of TTWU and Prommas Chuchomchuen Senior Vice President of TTWU 11 November 2005.

Interview with Toyota Thailand Workers' Union No. 3, Prommas Chuchomchuen Senior Vice President of TTWU, 1 December 2005.

Interview with Toyota workers at Samrong Plant No. 1, one regular and one outsourced worker, 1 December 2005.

Interview with Buddhi Netiprawat, IMFmetal-Thailand, No. 1, 15 October 2005.

Interview with Bunjong Jaroenphol, Paper and Printing Labour Federation of Thailand, No. 1, 11 January 2006.

Interview with Bunjong Jaroenphol No. 2, 18 January 2006.

Interview with Saka Co. Ltd. Workers (May Flower Trade Union), No. 1, 27 January 2006.

## APPENDIX 1

### Board of Investment Promotion

Investment promotion privileges are accorded by region as follows (note additional privileges for locating within an industrial estate or export promotion zone):

Zone 1 - Approved projects in Zone 1 shall be granted:

1.1.1 50 per cent reduction of import duty on machinery that is subject to import duty of not less than 10 per cent;

1.1.2 Corporate income tax exemption for 3 years for projects located within industrial estates or promoted industrial zones, provided that such a project with capital investment of 10 million baht or more (excluding cost of land and working capital) 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 1 year;

1.1.3 Exemption of import duty on raw or essential materials used in the manufacturing of export products for 1 year.

Zone 2 - Approved projects located in Zone 2 shall be granted:

1.2.1 50 per cent reduction of import duty on machinery that is subject to import duty of not less than 10 per cent;

1.2.2 Corporate income tax exemption for 3 years, increased to five years for projects located within industrial estates or promoted industrial zones, provided that such a project with capital investment of 10 million baht or more (excluding cost of land and working capital) 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 1 year;

1.2.3 Exemption of import duty on raw or essential materials used in the manufacturing of export products for 1 year.

Zone 3 - Approved projects in Zone 3 (including 58 provinces) shall be granted:

1.3.1 Exemption of import duty on machinery;

1.3.2 Corporate income tax exemption for eight years provided that a project with capital investment of 10 million baht or more (excluding cost of land and working capital) 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 1 year;

1.3.3 Exemption of import duty exemption on raw or essential materials used in the manufacturing of export products for five years;

1.3.4 A project located in one 36 provinces<sup>14</sup> shall be granted tax and duty privileges under 1.3.1, 1.3.2 and 1.3.3 and further privileges, as follows:

(1) A project located within industrial estates or promoted industrial zones is entitled to the following privileges:

(1.1) 50 per cent reduction of corporate income tax for five years after the exemption period;

(1.2) Double deduction from taxable income of transportation, electricity and water costs for 10 years from the date of first revenue derived from promoted activity;

(2) For a project located outside industrial estates or promoted industrial zones, a deduction can be made from net profit of 25 per cent of the project's infrastructure installation or construction cost for 10 years from the date of first sales, and net profit for one or more years of any year can be chosen for such deduction. The deduction is additional to normal depreciation.

1.3.5 A project located in one of 22 provinces<sup>15</sup> shall be granted tax and duty privileges under 1.3.1, 1.3.2, 1.3.3 and further privileges as follows:

(1) 50 per cent reduction of corporate income tax for five years after the exemption period;

(2) Double deduction from taxable income of transportation, electricity and water costs for 10 years from the date of first revenue derived from promoted activities;

(3) Deduction can be made from net profit of 25 per cent of the project's infrastructure installation or construction cost for 10 years from the date of first sales, and net profit for one or more years of any year can be chosen for such deduction. The deduction is additional to normal depreciation.

Where specific privileges are specified for an industry, a project in that industry will generally receive those privileges as well as those accorded to it based on location. Where there is a conflict between these two sets of privileges and conditions, the industry specific criteria prevail.

Source: <http://www.boi.go.th>

## NOTES

1 Thanks to Premjai Jaikla, Prommas Chuchomchuen and Buddhi Netiprawat, for their assistance in both organizing meetings and interpreting.

2 On the history of Thailand's labour, industrialization and political economy see an extensive study by Andrew Brown (2004).

3 See Brown and Hewison 2005 for a detailed study of Thaksin and labour politics, among other articles by those authors listed in the References.

4 In March 2005 Thai courts ruled that privatisation of EGAT must be halted, among other reasons cited were the lack of transparency in the process. This represents a serious blow to Thai Rak Thai's neo-liberal policies.

5 Japan usually uses the term 'Economic Partnership Agreement' rather than Free Trade Agreement (FTA).

6 For analysis of the correlation between FDI and FTAs in Thailand and Southeast Asia, see Arnold 2005.

7 Korea has recently signed an FTA with ASEAN, the US is pursuing FTAs within ASEAN under the Enterprise for ASEAN initiative, among other ASEAN FTA negotiations with China, New Zealand and Australia.

8 See TAMPA, 'Development of Thailand's Automotive Standard to be the Detroit of Asia' n.d.

9 The following section is based on an excerpt from an article by the author, see Arnold 2006.

10 \$US1 = 38 to 40 Thai baht.

11 All following info is from [www.toyota.co.th](http://www.toyota.co.th) - website of Toyota motor company Thailand and [http://www.toyota.co.jp/en/about\\_toyota/manufacturing/worldwide.html](http://www.toyota.co.jp/en/about_toyota/manufacturing/worldwide.html)

12 Minimum wage varies according to province and is set by wage committees which, in theory, are set by tripartite committees. At the time of writing there are seventeen different minimum wages in Thailand, from 184 baht per day to 140 baht per day. The 'progressive' portion of the Thai labour movement has been calling for a nation-wide minimum wage at 233 baht per day for several years; TTWU is a part of that campaign. US\$1 = 38 - 40 Thai baht.

13 TEAM members include: 1. Thai Automobile Workers' Federation 22,448 people, (30 unions). 2. Thai Electronics & Electric Appliances Workers' Federation 18,744 people, (13 unions). 3. Thai Metal Workers' Federation 1,512 people, (3 unions). 4. Thai industries metal & alloyed Workers' Federation 1,280 people, (3 unions).

14 Krabi, Kamphaeng Phet, Khon Kaen, Chanthaburi, Chai Nat, Chumphon, Chiang Rai, Chiang Mai, Trang, Trat, Tak, Nakhon Ratchasima, Nakhon Si Thammarat, Nakhon Sawan, Prachuab Khiri Khan, Prachin Buri, Phangnga, Phattalung, Pichit, Phitsanulok, Phetchaburi, Phetchabun, Mukdahan, Mae Hong Son, Ranong, Lop Buri, Lamphang, Lamphun, Loei, Songkhla, Sa Kaew, Sing Buri, Sukhothai, Surat Thani, Uttaradit, and Uthai Thanishall.

15 Chaiyaphum, Kalasin, Nakhon Phanom, Narathiwat, Nan, Nong Khai, Buri Ram, Pattani, Phayao, Phrae, Maha Sarakham, Yasothon, Yala, Roi Et, Si Sa Ket, Sakhon Nakhon, Sathun, Surin, Nong Bualamphu, Amnat Charoen Udon Thani, and Ubon Ratchathani.

## CHAPTER 8

### TOYOTA IN THE PHILIPPINES: DRIVE YOUR DREAM OR DRIVE TO THE BOTTOM?

*TONO HARUHI*

#### INTRODUCTION

Toyota Motor Philippines (TMP) is not a huge company as a strategic site of Toyota Motor Co. Ltd. in Southeast Asia. This is because the car market in the Philippines itself is quite small. However, TMP is gathering worldwide attention through its labour dispute.

In March 2001, the management of TMP unlawfully dismissed 233 workers on the basis of an 'illegal strike' the workers had organised. After five years, 136 Toyota Motor Philippines Corporation Workers Association (TMPCWA) members out of the 233 dismissed workers still continue to struggle in the courts demanding reinstatement of the dismissed, union recognition, criminal cases against them withdrawn, and to start negotiating a Collective Bargaining Agreement (CBA). In the process of their struggle, the International Labour Organisation (ILO) issued a recommendation to support the workers; this brought to light the unjust nature of labour control by Toyota, a global enterprise.

Such incidents are critical issues to Toyota Headquarters as well as to TMP but neither have shown a sincere attitude to solve the problem nor dealt with the rightful demand of TMPCWA. The government of the Philippines has also been protective of the multinational company despite facing criticism from inside and outside the country. Why should they behave like this?

Section 1 below describes the policies on the car industry and labour law of the Philippines Government; Section 2 examines the overall situation of TMP; Section 3 looks at the labour management of the company including employment and working

conditions. In Section 4 we change the tone and look back at the history of the TMPCWA in order to shed light on TMP's collective labour relations. This report is based on first-hand interviews with the members of TMPCWA but also refers to secondary material such as the *TMP Rules and Regulations*, or *Team Members' Handbook* and the court documents.

## 1 GOVERNMENT POLICIES

### 1.1 Government Policies on the Philippines' Car Industry

Car manufacturing in the Philippines started in the 1950s. This was an industrial move along the lines of the import substitution policy, in which the importation of completed cars was restricted by foreign currency allocation, thus the manufacturers needed to import parts and then assemble cars inland.

During the 1970s under the Marcos regime, the policy was geared towards the export oriented industrialisation model with the emphasis on cheap labour and large-scale foreign capital introduction was implemented. The main policy for the car industry was the Progressive Car Manufacturing Programme (PCMP), set up in 1971: the introduction of a progressive increase of the domestic production ratio of car parts (gradual transfer of imported parts to domestically produced parts) and of obligation to export major parts such as the transmission, the engine, and the pressed parts. In response, there was a trend towards intensification of many small-scale car manufacturers, and as a consequence, there were five makers left: General Motors, Ford, CARCO (a joint venture of Chrysler and Mitsubishi), Delta (Toyota), and DMG (Volkswagen). In 1977, the Progressive Truck Manufacturing Programme (PTMP) was also established with nearly the same content.

This economic policy by 'development dictatorship' also realised temporary economic growth by improving infrastructure. However, the country's economy as a whole became chaotic after oil shocks in the 1970s and debt crises in the 1980s; it became impossible to implement an export-orientated policy for industrialisation. In the first half of the 1980s, industrial output went downhill as well as the car market. The number of annual car sales increased from 30,000 in 1970 to 70,000 in 1978 but sharply decreased to below 10,000 in the mid-1980s. In 1983, the importation of car parts stopped all together due to the debt crisis inducing Toyota and Ford's, and GM and Chrysler's withdrawals from the Philippines in 1984 and 1985 respectively.

When the Aquino administration was established after the collapse of the Marcos's in 1986, new policies on the car industry were launched one after another, such as the Car Development Programme (CDP) in December 1987 and the Commercial Vehicle Development Programme (CVDP) in February 1988. Along with these programmes, Japanese car manufacturers including Mitsubishi, Nissan, Toyota, and then Honda and Daihatsu advanced into the Philippines.

President Ramos who took the power in 1992 keenly promoted rural development plans in order to spread the dense population concentrated in Manila. In addition to the ones already there since the Marcos's time, the Ramos administration built

industrial estates on land hitherto used as US bases, after Subic and Clark were returned at the beginning of the 1990s. Especially emphasised was the development of an area called CALABARZON embracing five states (Cavite, Laguna, Batangas, Rizal, and Quezon), a one-hour drive away from the central business district. This area was the centre of the Philippines' industrialisation to which the Japan International Cooperation Agency (JICA) drew the map of development and the Overseas Economic Cooperation Fund (OECF) offered a yen-loan at the end of 1980s. By this comprehensive development plan, 12 industrial estates were built after a super highway, thermal power stations, and harbours were constructed from the start of the 1990s. Laguna State, in which TMP is situated, has the largest number of estates. Laguna Technopark is the largest among them developed by a joint venture of the Ayala Group, a home-grown conglomerate, and Japanese *shosha*, or trading firms. Japanese car manufacturers then built factories in this area one after another, especially in Laguna State.

From 1990, the IMF initiated structural reform, and together with the Association of South East Asian Nation's (ASEAN) policy of regional integration and the World Trade Organisation's (WTO) liberalisation plans, was the basis for the car industry policy of the Philippines to be transformed from protectionism into free competition. The restriction on importing complete products was eased at the same time as exporting car parts was encouraged. However, the car market was not growing without hindrance; annual sales gradually recovered from below 10,000 in the mid-1980s to 160,000 by 1996 but decreased again due to the effect of the Asian currency crisis of 1997/8. In 1999, output went down to the 70,000s but has gone up slowly since then although never recovering to the level before the Asian Crisis, recording around 97,000 in 2005. In comparison, Thailand, Malaysia, and Indonesia recorded car sales in the 700,000s, the 500,000s, and 500,000s respectively in the same year all recovering to the pre-crisis level. The Philippines' car market is notably sluggish among ASEAN counterparts. By looking at this year's car market by makers' share, Toyota occupied 36.6 percent, Mitsubishi: 13.4 percent; Honda: 10.1 percent; Isuzu: 9.9 percent; and Ford: 8.6 percent, demonstrating Toyota's large scale.

The Philippines' car production per year is 50,000 or so in total, however; the difference between this and the number of sales is due to sales of imported cars. Unlawful importation of second-hand cars never stops and is said to impede expansion of the sales of new vehicles.

The Philippines and Japan Free Trade Agreement (FTA), officially called Economic Partnership Agreement (EPA), was largely agreed in November 2004. By this, the car market and the car parts market in the Philippines will be almost fully open to Japanese counterparts in the near future. The Philippines voiced some resistance against the plan for a complete open market but was suppressed by plans to open the labour

**Table 1. Domestic sales of automobiles**

Year	Number of Sales
1996	162,000
1997	145,000
1998	80,000
1999	74,000
2000	84,000
2001	77,000
2002	86,000
2003	92,000
2004	88,000
2005	97,000

Source: <http://www.ama.or.jp>

and agricultural markets in Japan. As a result, the car industry in the Philippines will be incorporated more deeply into Japanese car manufacturers' strategy for Asia.

## **1.2 Labour Policies**

Labour codes in the Philippines are strongly influenced by the labour laws of the US, which was a former colonial power in the Philippines. There is a legal process for organising trade unions, obtaining collective bargaining rights from the Certification Election, and solving labour disputes. There is also a system in which labour disputes are brought to governmental institutions and courts. Therefore, political decisions made by the government affect court rulings, causing disadvantages for workers.

Labour policies in the Philippine Government are closely related to development policies. Marcos (President, 1965-1986), who led the 'developmental dictatorship', declared martial law in 1972, which among other things banned public demonstrations and strikes. The Labour Code, which was enforced in 1974, stipulates that a labour dispute must be solved through compulsory arbitration, and that a tripartite body made up of Government, the Employers Confederation of Philippines (ECOP), and the Trade Union Congress of the Philippines (TUCP) be institutionally established. Obedient labour was needed to encourage foreign capital through low wage wages that appealed to investors. Under martial law, a militant labour union, *Kulusang Mayo Uno* (KMU) was organised in 1980. The labour movement, organised by the KMU, expanded along with the anti-Marcos movement and grew into one of the main drives for People Power.

Aquino (President, 1986-1992) appointed a human rights lawyer as Labour Minister and assured workers the freedom to organise unions, legalisation of strikes, and the democratisation of labour laws. The 1987 constitution guaranteed three primary rights to labour and removed the system of compulsory arbitration. However, due to the increasing number of strikes (581 in 1986), policies restricting strikes had already begun. The 1989 New Labour Relations Act introduced voluntary arbitration for grievance procedures to strengthen government intervention in labour disputes. At the same time, the policy for harmonious labour/management relations was also promoted and companies were recommended to build Labour Management Councils (LMC) to achieve harmonious relationships in their plants. In 1990, three parties created the Industrial Peace Agreement (the government, employers' organisations, and workers' organisations) and formed the Tripartite Industrial Peace Council (TIPC) in order to suppress labour disputes. After that, the government continued to promote the policy for harmonious labour/management relations and compulsory arbitration.

The Second People Power movement, which overthrew the Estrada (President 1998-2001) administration in January 2001, had active participation from trade unions such as the KMU, and it contributed to the birth of the Arroyo administration. Therefore, workers had high expectations for Arroyo's policies. However, as will be discussed in Section 4, the Arroyo administration later revealed its standpoint: that labour relations had to be stabilised in order to protect transnational corporations (TNC) and to attract foreign capital. This was shown through its response to the

TMP labour dispute, which occurred immediately following her assumption of the presidency. In April 2002, President Arroyo appointed a committee at the Department of Trade and Industry and the Department of Labour and Employment (DOLE) to deal with labour disputes. In 2003, the DOLE requested a Memorandum of Agreement (MOA), which focused on countermeasures for labour issues, with the Japanese Chamber of Commerce in the Philippines. They now exchange an MOA every year. Thus, the Arroyo administration is acting in favour of TNCs, and in particular of Japanese TNCs. The labour policies of the Arroyo administration promote flexible and irregular employment as well as further cooperation between employers and workers.

TMPCWA is involved mainly in three court cases:

1. Recognition of the union;
2. An illegal strike; and
3. A criminal case. The struggle behind these lawsuits is deeply related to the current situation of the Labour Code in the Philippines.

In the Philippines, the Constitution and the Labour Code guarantee the workers' rights to organise and to collective bargaining. The government has even ratified ILO Convention No. 87 on Freedom of Association and Protection of the Right to Organise and Convention No. 98 on the Right to Organise and Collective Bargaining. However, the process from registration to election is complicated. There are also many hurdles to overcome in order to organise a genuine trade union and to become an exclusive bargaining agent to create a CBA. None of these challenges are in the corporations' favour.

In the Philippines, supervisors and rank and file employees are required to unionise independently. In organising a union for rank and file employees one must submit paperwork along with a list of union members' names and signatures, with more than 20 percent of all rank and file employees participating, in order to register with the local DOLE office. Once it is registered, the union leaders' and members' names are publicly available, meaning the company is free to harass the union or break it up, either by offering bribes or promoting individual union members. At the same time, a company can file various objections to union registration with the government in order to prevent the union from being registered.

Once the registration is approved, the next step is Certification Election (CE). The union must submit a Petition for CE along with the signatures of at least 25 percent of the rank and file union members. Until the DOLE approves the CE or even after it is approved, the company could attempt to cancel it through various legal actions and carry out union busting activities at the same time. Even if the union obtains the CE (by winning 50 percent or more votes from all rank and file employees) and becomes the exclusive bargaining agent, the company may postpone making the CBA. It is not rare for a company to decline the CBA's contents, forcing the union to strike. The strike notice has to be issued to the National Conciliation and Mediation Board (NCMB), which is an agency attached to the DOLE, for approval 15 days in advance for unfair labour practices, and 30 days in advance for a collective

bargaining deadlock. However, in the case of a strike for an industry deemed indispensable to the national interest, the Secretary of Labour and Employment can issue the Assumption of Jurisdiction (AJ) to stop the strike and force compulsory arbitration. This is possible due to Article 263(g) of the Labour Code, which is well known as a bad law. When the order to stop the strike is issued, they send police and forcibly disperse pickets. Trivial actions by workers, such as bad language or glowering, could become criminal cases and are often prosecuted.

From 1998, it took two years for the TMPCWA to obtain the CE in March 2000 due to numerous court cases taken by TMP. Further, it took one more year to get the CE legitimately approved. The strike, which lasted two weeks, was broken by an AJ issued by the DOLE Secretary. 18 union members are being prosecuted in criminal cases due to trivial actions during the strike. TMPCWA experienced various kinds of union busting activities from the company and the government, similar to the experiences of many organising unions.

## **2 TOYOTA IN THE PHILIPPINES**

### **2.1 The General Condition of TMP**

Toyota's advancement to the Philippines goes as far back as the 1960s. Under strict regulations for importing cars, Toyota was establishing sales bases through what is called the Complete Knocked Down (CKD) scheme in cooperation with Philippines' capital. Toyota's partner was Delta Motor run by Ricardo Silverio who was a businessman with political contacts in the Marcos government. Hiroshi Okuda, who later became the president of Toyota Motor Corporation (TMC), was dispatched to the Philippines from the (then) Toyota Motor Sales in the 1970s and worked in Manila for nearly seven years. The initial capital of Delta Motor was 43 million pesos and Toyota's investment share was 40 percent in 1982. However, as the Marcos government approached its end, importation of car parts was halted by a currency crisis causing Toyota to withdraw from the country in 1984.

In 1986 as the new Aquino government was formed and issued a renewed motor car development plan, Toyota started to seek the right timing for its re-entry, and in August 1988, set up TMP in collaboration with Metropolitan Bank and Trust Co. and Mitsui & Co., Ltd. Metropolitan Bank, the local business partner, was established by George S. K. Ty, a Filipino Chinese, in 1962 and grew rapidly by dealing with remittances from overseas Filipino workers. Toyota produced and sold while the bank took care of financial affairs and Mitsui functioned as an international trading company; they each had a considerable role in the business.

At first, TMP was located in Bicutan, Paranaque City, Metro Manila where Delta Motor's factory was. It started operating on the 61,000 square metres of the Bicutan factory in February 1989. As shown on Table 2, the current capital is 2,423 million pesos, with 34 percent of it shared by TMC. The others: Metropolitan Bank & Trust Co., Titan Resources Corp. and others including Mitsui & Co., Ltd. share 30, 21, and six percent, respectively.

Into the 1990s, as the Philippines' economic growth as well as car market expansion was predicted, Toyota planned to build the second factory in Santa Rosa in Laguna state south of Bicutan. Santa Rosa factory was on 780,000 square metres of land alongside the South Super Highway. It opened in April 1997 making passenger cars such as Corolla and Camry as well as Asian utility vehicles such as Tamaraw FX Revo in Bicutan. The estimated production capacities were 30,000 vehicles per annum in Bicutan and 25,000 in Santa Rosa. In Table 2, we can also see that the number of workers was 2,089 in 1996.

**Table 2. Managerial trend of TMP**

Year	Capital (100 mil. Peso)	Investment Ratio of Toyota (%)	No. of employees	Sales (100 mil. Peso)
1988	2.2	25	130 (8)*	n/a
1989	2.2	25	N/A	25.44
1990	2.2	25	1027(8)	46.84
1991	3.85	25	940(9)	41.16
1992	4	25	1400(12)	58.2
1993	13.17	25	1700(11)	87
1994	13.17	25	1760(n/a)	113.45
1995	13.17	25	1890(17)	139.36
1996	13.17	25	2089(19)	163.89
1997	13.17	25	2024(20)	117.42
1998	13.17	25	1787	n/a
1999	15.49	34	1446	n/a
2000	15.49	34	1446	n/a
2001	15.49	34	1198	n/a
2002	24.23	34	1566	164.41
2003	24.23	34	1242	n/a
2004	24.23	34	1242	n/a

Source: *Toyo Keizai Shimposha, Kaigai Shinshutsu Kigyo Soran, various issues*

\*The number of Japanese employees

However, the Asian economic crisis hit the Philippines' economy immediately after the opening of the Santa Rosa factory, dragging down the car market. Some ASEAN car markets eventually recovered their capacity but the Philippines' lagged behind. Toyota Motor Philippines Co. invited voluntary retirements several times in order to reduce production capacity. A top-up scheme on retirement allowance called the Voluntary Separation Programme (VSP) reduced its workers to 1,446 and, as we will discuss below, a further 233 were fired with the claim that they took part in an 'illegal strike' in March 2001 leaving the number of regular employees at 1,198. Also, the company planned to merge the Bicutan factory with Santa Rosa and moved the main office in the former to the latter only to finally close Bicutan in December 2005. In the 17 years from starting operations until then, TMP had produced about 400,000 vehicles in total, and selling 35,513 in the year 2005.

Aside from the factories already mentioned, Toyota established Toyota Autoparts Philippines Inc. in August 1990 with the aim of producing car parts. It was situated next to the Santa Rosa factory and on a huge area of land Toyota had purchased.

The initial capital was one billion pesos shared between Toyota's 95 percent and the TMP's 5 percent. It started operating in September 1992 with TMC's facility in the Kinuura plant and its new employees had been to Japan for on the job training. Currently, this plant has 500 employees and produces transmissions and constant velocity joints of which 90 percent are exported to ASEAN countries, South Africa, Portugal, and Japan. In October 2002, it celebrated the tenth anniversary, attended by both TMC's President Cho and Manuel Roxas Trade and Industry Minister of the Philippines.

Vehicles produced at TMP are for the domestic market and sold by Toyota dealers with 24 sales branches across the country. Ever since foundation except 1998, TMP has occupied the top place of domestic sales competition achieving 'triple crowns' for selling passenger cars, commercial vehicles, and total sales in 1994, 1995, 2002, and 2003.

## **2.2 The Hierarchy of TMP**

TMP's chairman of the board/CEO is Chairman George S K Ty of the Metropolitan Bank. The president/CEO is someone dispatched from Toyota itself. The former/third president, Nobuaki Tabata, for example, was a president 'loaned' from TMC as chief of the Asian section after being stationed in the US and Indonesia; Tabata was president of TMP from January 2002 to February 2006 before the current president Hiroshi Ito. Executive Vice President is David Go who is said to have strong ties with Mr Ty. Then there are divisions under the vice president: General Administration Division (GAD), Treasury, Manufacturing, Marketing, Engineering, Production Control, and Comptrollership. GAD and the Treasury Division have the vice president Go, a Filipino, as the concurrent division manager; other divisions are topped by Japanese. The exact number of workers loaned from TMC is not shown in Table 2. But according to the workers around 20 Japanese constantly work in TMP and also temporarily sent from Japan when troubles occur. The above divisions have departments that are divided into sections. We will discuss about manufacturing organisation in section 3.1. Company policy is passed from the president to all the focused team members in a general assembly, or through the house journal, *Dateline*, distributed monthly. It is also passed in monthly birthday lunch working meetings to which executive officers, headed by the president, attend or in regular seminars for the workers.

## **2.3 Toyota Production System at TMP**

The *Team Members' Handbook*, distributed to all employees, explains the Toyota Production System (TPS) with key terms in Japanese. The handbook starts the story of TPS with the history of the Toyota family. It emphasises that the workers are a team with secures company lifetime employment. The central pillars of TPS are *Jidouka* or automation and Just-in-Time with the principles of reducing *Muri* (goals or ways that are not realistic), *Mura* (unevenness), and *Muda* (waste) to achieve high quality products and production. *Kaizen* is also an important concept, meaning to pursue constant improvement to production. To know how far this TPS is realised in TMP requires more detailed research. But TPS is still undergoing various trials. I will explore workers' anecdotes below.

JIT is applied to TMP also with the same principles as in TPS. The imported parts from factories abroad including ones in Thailand, Indonesia, and Japan are carried in by trucks from warehouses to Material Handling Section together with domestically produced parts directly from their makers, frequently everyday. Workers press a button to call maintenance staff if there is any trouble, without touching the machinery themselves and however small the problem is. Welding, Painting, and Assembly departments have maintenance staff whose areas of coverage are defined according to degree of trouble. If there is a large problem, the line can be stopped. A maintenance worker for Painting said that he was called every single hour. Maintenance staff work on Sundays to thoroughly check the machinery.

Workers are taught TPS through seminars which have been held under various titles, such as 5S, TPS, *Kaizen*, QC Tools, *Kiken Yochi* (predicting dangers), Leadership Training, Team Building, Values, *Jiritsuka* (becoming autonomous) and so on, using key terms of TPS. The duration of these seminars varies from half a day to a week, overlapping work hours. But a line manager chooses only two or three members from his team to send to each seminar to avoid causing delays. Thus, not all the workers attend the seminars at the same time. In addition, *Kaizen*, *Genchi-Genbutsu* (on the spot supply), *Jiritsuka*, *Houshin Kanri* (policy control), *Kiken Yochi*, *Jishuken* (right to self-governance), *Hiyari-Hatto* (fear of small accidents), *Andon* (type of visual control that displays the current state of work), among other key TPS terms in Japanese, took root in the line work.

TPS is also deeply related to issues such as efficient labour management, utilisation of contract workers or the union for harmonious labour/management relations, discussed later in relevant sections.

### 3. LABOUR MANAGEMENT

#### 3.1 Employment

As of January 2005, the total work force at TMP was 1,659, consisting of 1,231 regular workers and 428 irregular workers. Of these, 87 percent were male, average years in service was 10.8, and average age was 32.4. Among the regular workers, rank and files numbered 867.

How do rank and file workers become regular workers in TMP? First of all, multinational companies operating in the Philippines prefer to recruit young new graduates from technical colleges or school leavers, often from conservative Catholic vocational schools or high schools trained to certain levels of technical skill. This is because these young people are said to be obedient, highly capable, and anti-union. TMP follows the line. TMP is moreover affiliated to some vocational schools and colleges around Manila in which on the job training is incorporated into the curricula; the students are sent into TMP as trainees and TMP donates machinery and facilities to these schools in turn. To become a trainee, passing exams in English and maths, and passing an interview and a health check are required. If accepted as a trainee after three to six months' work, the student is admitted to the company as a

probationer after leaving school, then, after up to another six months, he or she is evaluated by the supervisor and has to pass a final last interview to become a regular worker. There is no special training after starting the job except on the job training, to learn the duties from regular workers. The company, on the other hand, can filter workers who cannot adapt to line work.

Since the firing of 233 workers in March 2001, few regular workers have quit the job at TMP the workers say. In May 2001, 300 trainees were employed. But after leaving school only a chosen few became probationers and then regular workers. Others become five-month contract workers. Workers say, 'The way they choose them is rather through *bata-bata* (very close relationship: Tagalog) than measuring their capability. If they form a very close relationship with their supervisor, accompanying him for a drink, supporting TMPCLO, the company's preferred union, and do not become close to the members of TMPCWA, the workers' union, then they are chosen for probation.'

It is probable that the number of employees in Table 2 includes contract workers. The workers' account that not many have been employed as regular workers since the strike is also confirmed by this Table. Contract workers do the same job as regular workers but are distinguished by the colour of their uniform, making a visible difference in their status. Regular workers wear T-shirts with blue hems around the neck and sleeves whereas the contract workers' have green hems.

### **3.2 Groups on the Job**

Table 3 shows the organisational hierarchy in lines in the Manufacturing Department. There are four levels among rank and file workers who are called 'team members' working on the lines. A line, the smallest unit, consists of five to 10 regular, contract, and trainee workers depending on the content of the work. The numbers of regular and irregular workers change depending on the quality of work they are required to do. There also are skilled offline regular worker who substitute for absentees. A Team Leader, or Junior Group Chief manages this smallest unit, at levels five to six, situated at the bottom of the ladder of the line organisation. A Group Leader, or Senior Group Chief, at levels seven to eight supervises several Team Leaders. Above several Group Leaders is a Foreman; above the Foremen is a Section Manager. If there are absentees in the lines, offline workers replace them; if there are more absentees than offline workers, Team Leaders do the line work and also assist when the lines lag behind schedule.

Team members make up a group of 50 to 60 working under Foremen and a Group Leader. For 10-15 minutes before 'working hours', the group has a meeting as a circle activity in which revising the day before as well as the day's schedule ahead are passed from the Group Leader or the Foremen. The company policy is sometimes passed to the workers at this meeting. Personal Touch (PT) is conducted in this group. The supervisors and managers bring their team members to high grade restaurants or hotel bars in order to forge *bata-bata* relationships.

Workers are assessed once a year in November, before the year end season, for

performance to decide promotion, pay rise, and bonus amount. Supervisors conduct the assessment before the manager at the Manufacturing Division decides the final outcome. There is a promotion usually every three to five years according to the assessment that is based on a 'closer the better' relationship with one's boss rather than one's working capacity. The promotion, though contingent on availability of posts, is dependent on *bata-bata* relationship, not the worker's ability. Members of TMPCWA are often evaluated poorly but, at the same time, active members particularly are sometimes promoted to move them out of the union.

### 3.3 Working Hours

Each worker at TMP, like their Japanese counterparts, carries a name card-size 'Toyota calendar' that shows their scheduled working days for the year. Working days are 254 per year with eight hours a day and one to two Saturdays a month, according to the 'Toyota calendar'. There are 10 holidays and two special holidays. Working hours are usually eight hours a day. But workers are actually on duty nine hours as there is a one-hour unpaid lunch break. Nine hours might not seem too hard, however workers say that the fatigue accumulates everyday as for some of them commuting takes another two hours or more one-way, including the time from home to the pick-up point and to the firm site by shuttle bus. Workers can leave the factory premise during the meal time, and have two (15 and 10 minutes each) paid breaks a day. The line starts moving at 7:00 sharp and stops at 16:00. A caution card is given for five accumulated five-minutes tardiness. Pay reduction and suspension from work can happen.

Working hours are from 8:30 to 17:30 for office workers and for fixed-shift workers, from 7:00 to 16:00 for the day shift, and from 19:00 to 4:00 the next morning for the night shift. The day and night shifts alter every two weeks on the 8th and the 23rd, the pay days, of the month. From February 2005, after the merger of Bicutan plant with Santa Rosa plant in January, the hitherto single shift system changed to double shift. The divisions related to maintenance of the machinery are run by triple shift. Overtime work is reduced recently but in the boom years from 1996 to 1997, there was overtime every day, from Monday to Saturday, which usually increased from October to December, and April to June.

### 3.4 Wages

Wages are shown in Table 3. After tax, Social Security System, and Philhealth, the health insurance, are paid, the net income is transferred to the workers' bank accounts on pay days. The overtime wage is 1.4 times the base hourly wage for a weekday, 1.5 times for a Saturday, and 1.6 times for a Sunday. For the night shift, from 19:00 to 4:00, the six hours from 22:00 until 4:00 are considered overtime with the payment 1.3 times the base hourly wage. Six months' attendance without absence and tardiness is rewarded by Perfect Attendance Allowance of 500 pesos. If the attendance record goes on for one year, the allowance increases to 1,000 pesos.

The major part of the wage consists of basic pay; if a worker is promoted, the wage increases. Up to the Level 4, it is only the length of employment that makes a worker's position, and thus the wage, to go up. As production has levelled off, there

**Table 3. Wage system**

General Staff	Line	Level/Category	Wage	Tax	Social security system
Manager		16	n/a	n/a	n/a
		15	n/a	n/a	n/a
		14	n/a	n/a	n/a
		13	n/a	n/a	n/a
	Manager	11	n/a	n/a	n/a
Supervisor	Foreman	10	n/a	n/a	n/a
		9	n/a	n/a	n/a
Group Head	Group Leader	8	32,000-35,000	n/a	n/a
		7	30,000-32,000	n/a	n/a
Staff	Team Leader	6	27,000-2,8000	n/a	n/a
		5	25,000-26,000	n/a	n/a
	Team Member	4	21,000-24,000	3,000	400
		3	18,000-20,000	2,000-2,400	400
		2	10,500-15,000	1,800-2,000	360
	1	9,000 1,800	360		
Probationer	6,000	1,000	200-300		

*Source: Interview with TMP Workers*

is not much overtime work required and the top-up part of the wage has been small recently. There are fixed bonuses three times a year: a mid-year bonus equivalent to one month's wage for all in May, December bonus equivalent of 1.25 months' wage for rank and file workers, and 1.5 months for supervisors, and the '13th month' bonus according to law is paid at the beginning of December. Considering that many people work irregularly earning the minimum wage of 280 pesos a day in the Manila metropolitan area, the TMP wages between 9,000 to 24,000 pesos for rank and files seem to be high as well as stable. However, the workers say they are not enough to be comfortable. The unemployment rate published by the government in 2004 was high: 11.8 percent. And the reality is that there are many dependents, not only direct family members but also relatives, on one worker's income.

Contract workers, meanwhile, operate on a different daily wage system in which they are paid 300 pesos a day, near to the minimum wage, and with a year end bonus of only 500 pesos.

### **3.5 Work Environment**

A former worker at Bicutan factory stated, "The talk was that it was a good company but it was really hard once I started working there. Because there was Tact Time, even going to toilet was restricted. And, it was so hot that I was soaked with sweat as I was working as painter near to the oven to dry the paint. Once at home, I drank beer like going on a binge and just went to bed. It was like that every day."

Generally, the work place has too much noise and sometimes not enough ventilation. The company issues earplugs for the noise. But many workers just leave

them at home. Back pain is a common industrial hazard as they lift a lot of heavy material. The pressing exposes workers to both noise and lifting heavy weights. Welding gives the workers lung, eye, and throat pains among other hazards, because of smoke and dust. It also involves lifting heavy weights causing back pain as well as the risk of burns. Painting also is harmful to lungs due to smoke and gases, and to the body because of vibrations. Assembly also involves vibration and relates to back pain. But they say, “The company does nothing if we fall ill because of industrial hazards. It’s just that they treat us and give us drugs for free as there is the health insurance certificate though we go to hospital outside.”

A TMPCWA member said, “They let TMPCWA members go to toilet at any time. The management came to respect regular workers’ rights after the union was established.” However, the conditions surrounding contract workers are harsh; one said, “There are some Team Leaders who discriminate against contract workers. For instance, while a regular worker can go to the toilet by asking his Team Leader to substitute him for a while, a contract worker finds it difficult to do the same. Contract workers cannot complain even if the work is too hard. They have to follow any order as they would just be told that there are so many jobless people to replace you.”

### **3.6 QC Circle Activity**

As mentioned above, the company holds seminars regularly for educating about TPS. At the same time, there are QC circle activities organised by the workers themselves. The *Kaizen* Circle Competition started at the beginning of the company itself, conducting thematic presentations and regular contests in QC circles. If one circle wins a contest within the Philippines, it becomes a representative of the country for the international contest held at the Toyota headquarters in Japan.

There also is a Suggestion System in which workers are required to submit a suggestion form twice a month, with their names and written suggestions for improvement. The suggestions are marked and rewarded with 30 to 80 pesos if considered to be excellent. There is a system in which workers submit an evaluation form just like a suggestion form. Nevertheless, whether these systems function as in Japan is another question. Another worker said, “It is required to submit the form but I don’t do that properly. The Team Leader always presses and it affects promotion. So, I do that once in three months or so.”

### **3.7 Education and Training**

Work place education is dealt with through On the Job Training. The workers interviewed have experienced relocations due to the mergers mentioned above. But many of them have been doing the same job in the same kind of section; it does not appear that the company is geared towards multi-skilled training.

Contract workers train newly assigned contract workers to the same position. The company appoints new contract workers to work places where there are workers with only one month contract left, and let them teach the newcomers. For instance, if 60 workers have a contract from January to May, the company employs 60 new contract workers from April; the old and the new work together for one month and

smoothly hand over the job. In some jobs, contract workers can acquire the same level of skill as regular workers within one or two months. And, “This is,” as one of the workers remarked, “Against the company’s rule that states that supervisors train the newly employed.”

AS TMP aspired to brush up the production skills of its team members, it conducted an Overseas Training System from 1989 to 1996. Volunteers were sought and the trainees were chosen by managers. The duration of each training session was one to six months, sending 20 to 30 workers at a time, though on one occasion 100 workers went together. A former trainee stated that he lived in a dormitory in Japan, was given a month of seminars and worked in the same line as Japanese workers in the Takaoka plant producing Corollas.

After this, in 1996, maintenance workers were sent to Japan to learn how to handle new machinery to set up the Santa Rosa plant. Another training programme started in 2005 for managers and was conducted in Thailand. One session of this lasted for two weeks with three to five members despatched as a group to learn how to make production systems, about line improvement, *housinkanri* (policy management), safety, and quality control among other issues related to TPS.

### **3.8 Welfare Programme**

Holidays: workers have 15 days paid ‘vacation leave’ a year, which can be bought back by the company day by day at the year end if not used. They also have 15 days sick leave, six months workers’ compensation, 45 days maternity leave, and so on. Unpaid leave called ‘personal leave’, whereby workers take days off for personal reasons with permission for up to 15 days a year. There are other official leaves such as schooling leave and military duty leave.

Social insurance: a public Social Security System covers retirement allowance, compensation for death, disability, illness, and industrial accident, and housing loan. The company and its workers participate in this system and share the contribution. As shown in Table 3, contributions from workers are deducted at source from their wages. There is also a national health insurance called Philhealth, which issues health certificates for access to medical treatment. Fixed numbers of safety equipment such as protective gloves and safety shoes are distributed to appropriate work places.

The housing loan is also a governmental project; the company does not lend money itself. TMP is however affiliated to a financial company, SLAI, which deals with various loans. Some workers borrow from SLAI at three percent interest when they become hard up before pay day. The maximum loan is 2,000 pesos and is deducted from the next pay with interest.

Meal allowance is 45 pesos daily for lunch and *milienda* (snack in between meals), and a sack of rice once every two months.

Transportation: there is a shuttle bus service; workers can ride on the bus to commute from pick-up points. But, because they still need to use other means of transportation such as Jeepneys, the company pays 400 pesos a month transportation

allowance. Workers say this is not enough, however, as Jeepney fares increase with the price of petrol.

At the end of each month, there is a 'lunch on birthday' meeting. The president, the vice president, the board members, and all employees who were born in the month attend this meeting held at the canteen during ordinary daily lunch. There are usually 60 to 70 people excluding trainees and contract workers. The occasion is for employees to question management freely about issues of importance or about the company's policy, thus working as a direct communication between the two parties.

There are also organised recreations: a day outing in April or May every year, most of the time going to a nearby beach; and events, such as sports, to which the company provides a shuttle bus service and 200 pesos or so food allowance. In 2005, they went to Cavite Island. Sporting events and club activities are popular. In September, there are basket and volleyball competitions by 10 to 12 teams from the sections. Clubs are participated in voluntarily, organising many activities including mountaineering.

#### **4. COLLECTIVE LABOUR RELATIONS**

##### **4.1 The Birth of TMPCWA**

Let us look at the history of the reality of industrial relations in TMP from the birth of TMPCWA to the present legal struggle. In 1989, TMP started operations and immediately drew up a 'road map' of harmonious labour/management relations by setting up LMCs consisting of the management, managers, and supervisors as the workers' representatives. In 1992, when the first trade union of TMP called Toyota Motor Philippines Corporation Labour Union (TEMPCLU) was established, the vast majority of the workers were young - from late teens to early 20s. "The job was hard and long with much overtime. Many of us were frustrated by the arrogant attitudes of supervisors and managers. So, although we didn't have a real sense of what a trade union was, we registered wanting to improve our working conditions," a worker told us as his motivation for becoming a union member. The then chairperson was Angel Dimalanta, a macho sort of union leader with a talent for public speaking and who was also a sportsman and led the basketball team. The company filed a legal appeal to cancel TMPCLU's registration asserting that it could not recognise the union as rank and file because of the membership included supervisors. According to the work 'levels' assigned to the workers by the company, levels five to eight were for supervisory work and the membership of TMPCLU consisted of levels one to eight. Thus, despite the establishment of the first trade union, time passed without any union activity except the legal battle.

In 1996, Ed Cubelo, the union coordinator of the Customers' Satisfaction line in the Painting Section started gathering information about the union that had been silent and found out that TMPCLU was judged to be incompetent as a rank and file union as it included members at the job levels of five to eight. He then began with five friends to organise a new underground union that would later become Toyota

Motor Philippine Corporation Employee and Workers Union (TMPCEWU). While gathering petitions to set up the new union, the young men also met Angel to ask him to be their chair again. Angel replied negatively; he was against establishing another union and said TMPCLU made a 'compromised agreement' with the company.

TMPCEWU elected Ed Cubelo as the president and was registered in June 1997. Then, an incident made TMPCEWU's name with Ed the president in which a drunken Angel brandished a knife at Ed when they were at a company outing. Talk of this incident spread like wildfire among the workers and garnered sympathy towards the new union. The company, however, did not reproach Angel but started using him as a key person to form a 'harmonious' trade union after this.

At the first meeting that launched the TMPCEWU in autumn 1997, 700 union members gathered. Meanwhile the company was planning to bust the union by taking advantage of Asian currency crisis of the time. Management invited early retirement under the Voluntary Separation Program (VSP) with top-up retirement allowance. The targets were union members, especially activists. The company picked on them, not giving any job using the recession as an excuse or used them as cleaners so as to wound their pride and make them leave. 300 rank and file workers and 100 office workers quit at the first VSP offer, with most of the 300 consisting of TMPCEWU members. The company also solicited seven workers who had signed to register as union members to file a case against the union demanding cancellation of their membership claiming that the signatures were forged. Upon considering that this law suite would take some time again, the union executives decided to form yet another new union TMPCWA.

#### **4.2 The Certification Election**

TMPCWA was registered as an independent trade union without any umbrella organisation on 15 April 1998 and applied for a Certification Election (CE). However, the company appealed to DOLE against the union. As a result, the application was turned down on grounds that the court cases involving the two former unions had not been settled and the new union, TMPCWA, was not equipped with enough legal knowledge to deal with this situation. After this, from the end of 1998, the union received legal advice and organisational support from the Young Christian Workers of the Philippines (YCW). With help of renowned labour attorney, Atty Maravilla, the counsel of YCW, the union applied for CE again in February 1999 and, after a legal battle, held the election to recognise the union or not on 8 March 2000.

The election campaign was fierce. As the union members had already been drastically reduced to 444 by VSP, the key to the victory was how many votes were to come from sympathisers. TMP on the other hand held seminars to advocate harmonious labour/management relations during working hours and distributed flyers to denigrate the union. TMP also carried out the *bata-bata*, or Personal Touch, strategy in which supervisors and managers took the workers to restaurants or bars to persuade them not to support the union. TMPCWA replied with seminars and distributed flyers with the support of YCW.

TMP submitted the list of voters among 1,100 rank and file workers in a hearing for the CE. TMPCWA argued against it asserting that 120 of them were not rank and file workers. But in the end, as the company's effort to split the union members was becoming harsher, it decided to go for the election on condition of recognising 105 among the 120 voters as challenged voters whose votes would be segregated. TMPCWA was confident that the 105 challenged voters' votes were unauthorised as they were at the job levels of five to eight, the point upon which the Supreme Court had judged that the TMPCLU was not a rank and file union.

The result was as follows: among the total vote of 1,063, 503 said Yes to the union; 440 said No; 10 were challenged votes; and 15 were spoiled votes. Because the challenged votes were segregated, the valid total vote was 943, making Yes votes the majority by 29. TMPCWA was thus recognised as the exclusive bargaining agent that could consolidate a CBA. However, the company demanded the segregated ballots be opened and appealed again; this case is still pending in the Court of Appeal.

Meanwhile, TMP aided the birth of a trade union that would cooperate with the company in order to pursue harmonious labour/management relations; Toyota Motor Philippines Corporation Supervisor Union (TMPCSU) was established as the supervisors' union with 200 members and Angel Dimalanta as president in 2000, gaining bargaining rights in 2001. The company was also trying to form a rank and file union, named KASAMA, with LMC members at its core contesting the TMPCWA.

Since around the beginning of 2001, TMPCWA had been informed of various disquieting moves. Sto. Tomas, the Secretary of DOLE accepted the company's claim and ordered an unusual 'clarificatory hearing' to re-examine the jobs of the 105 challenged voters. There was a rumour that a bribe was offered to DOLE officials. Faced with this, the union issued a notice of strike in January 2001 preparing for the worst and established the right to strike by holding a strike vote on 15 February.

21 February was the day of the clarificatory hearing. The union requested its members to attend only if they could take a day off. 63 of the members who applied for a whole day's leave gathered at the Bureau of Labour Relations (BLR) of DOLE, and observed the hearing attended also by the representatives of the company and the union executives. What was going on in the hearing was passed almost live by the executives to outside and to the union members at work via text messages. The union held a spontaneous lunchtime gathering as it considered that the hearing on 22 and 23 February would be the prime of this legal battle in which the content of the 22 witnesses' jobs from the company's side was going to be questioned. Accusing the company of violation, the youth was tough, burning with a sense of justice. The next day, their will and voice to also witness the hearing at the BLR by taking leave grew. Individual union members applied for leave to their supervisors but were rejected. Then, the General Secretary submitted an official document certifying that the members would be absent from work, substituting it in future without payment. The company received it. On the morning of 22 February, 300 union members met in front of the local post office and marched to BLR. This was their first experience of

protest action; all were anxious about what would happen in the future but they were also excited with the sense of justice demanding workers' rights. The company meanwhile brought 22 of the challenged voters by shuttle bus to BLR in order to make them stand as witnesses for the job contents. They claimed that it was up to the level six should be included in rank and file workers with the new wage structure. On the next day, 23 February, with anxiety disappeared, more union members gathered in front of BLR. On 24 February, however, all workers went back to work as usual. But the company pushed each union member to submit a reason for the absence of two days 'without authorisation' in order to join an 'illegal strike' led by TMPCWA. The union, representing its members, submitted the explanation again to the company at the same time as filing another notice of strike.

The situation swiftly changed on 16 March; the Secretary of the DOLE rejected the company's appeal against the union and said that it would not accept any more appeals. On the same day, the company fired 227 and suspended 70 union members who had joined the two days' action on ground of 'absence without authorisation'. On that morning, the shuttle bus stopped at the gate on which the names of those fired were on display. The guard checked the workers' ID cards and prevented the dismissed workers from going through the gate. Those who took two days off were dismissed. Those who took one day off were suspended, however, the suspensions were not actually enforced; it was only the means to split the union members. Both dismissals and suspensions were obviously unlawful actions on the company's side, anyhow as the *Team Members' Handbook* stated that workers would be fired if they were absent for six consecutive days without authorisation. The dismissed workers say that this was the worst and the saddest day of their life.

#### **4.3 Strike as a Political Issue**

The union immediately picketed in front of Bicutan and Sta. Rosa plants and eventually, from 28 March, went on strike demanding withdrawal of the dismissals as the situation did not improve. Production stopped completely for two weeks in the two plants where approximately 700 workers including 578 union members participated in the strike.

The labour dispute rapidly grew into a political one when the strike began. TMP threatened President Arroyo, who was in the course of development planning that depended on foreign investments and loans from the US and Japan, that the investments would leave the Philippines unless the dispute was swiftly resolved. President Arroyo despatched Sto. Tomas to the two strike sites. Many of the union members are said to have shaken hands with the Secretary and believed that she would handle the matter properly as she promised. They were holding onto the hope that the Arroyo administration which was shaped by the Second People Power movement in January the same year would stand by the workers. But this hope was smashed into pieces soon.

On 9 March, just before Easter, Toyota's counter-attack started. At dawn, about 5 a.m., when the workers had gone back home, 100 of the Southern Luzon Command of Philippines National Police together with company guards disrupted the picket

line completely. The strike breakers on the bus entered the plants and Toyota declared the restart of production. On the same day, the mass media released one item of news stating that 11 Japan-based companies including Toyota threatened DOLE and the Department of Trade and Industry that they would withdraw investments if the labour dispute was not resolved. The next day, 10 March, DOLE issued an order, Assumption of Jurisdiction (AJ), that the workers stop the strike immediately and go back to work on 16 April, after the Easter holidays starting the following day. This is the infamous Article 263 (g) of Labour Code. On the morning of 16 April, the workers turned up at work worrying whether they could go back to work, and saw an announcement on the wall saying that the dismissed 227 would not be allowed to return to work but paid their wages. The dismissed were prevented from going into the work sites.

The Japanese TNCs continued to pressure the Philippines Government. On 6 August, the Japanese Chamber of Commerce and Industry in the Philippines hosted a meeting to gather the Japanese delegation of 200 business persons and high ranking governmental officers of the Philippines such as the Secretaries of DOLE, Department of Trade and Industry, and Interior and Home Office. The Japanese companies' attention was on the labour issue and they demanded the Philippines Government to strengthen mediation into the dispute. This was the first occasion for both parties to hold such a large scale official meeting. But the managements' sense of crisis was at its peak as there were other labour disputes in Japan-based companies such as Yokohama Gum and Nissan under the KMU. For Japanese companies that had invested large sums especially into Southern Tagalog centred around Laguna State where TMP was situated, the labour dispute of TMP was a big issue that could happen to any of them.

The Philippines Government started issuing decisions disadvantaging the union one after another, changing its previous judgements. The company appealed to the Court of Appeal claiming that it would pay a bond of 500,000 pesos against the final decision of the DOLE Secretary on 16 March, which defined TMPCWA as the exclusive bargaining agent so as to gain the preliminary injunction on the final decision on 11 July. Since this move, the TMPCWA was unable to demand collective bargaining. On 9 August, the National Labour Relation Commission (NLRC), an attached agency of the DOLE, made a decision that the union's protests such as the ones on 22 and 23 February were 'illegal' strikes. By this, the payments to the dismissed workers were stopped. Then, in the mid-September, people from the company's side, two LMC members and four members of Loss Control Office (LCO), a section in Toyota responsible for company security, filed three criminal law suites against the workers. Their claim was that the workers' actions of staring at and using offensive language against company personnel, such as when guards broke a strike in front of Bicutan plant, had committed 'grave coercion' that was illegal under the Philippines' Criminal Law. This would not usually become a criminal case. But Toyota employed numbers of shrewd attorneys and succeeded in indicting the union members in February 2002, forcing them to pay annual bail to avoid being jailed. This is the reality of the criminal cases of TMPCWA.

#### **4.4 After the Dismissal**

After the NLRC judged that the strikes were illegal, the dismissed workers were not paid. From 21 to 23 February when the hearings were held, Ed Cubelo, the union president and another five union executives were granted days off. But they were also judged by this as leading illegal strikes and dismissed, bringing the number of those fired to 233. The union lost its leaders at the work site and they were banned from even entering the site. The company at the same time promoted some union activists to supervisors making rendering them ineligible for union membership. Others were dismissed from the production line and harassed into other jobs such as garbage gathering or toilet cleaning in order not to make contact with other workers.

It is difficult for the dismissed workers to get a new job as their participation in the labour dispute is on their CV. Even if they gained another job via some connection, such as in construction, a factory or a restaurant, employment would be irregular and the income would be less than a half of what they were earning while working in Toyota. Thus, there are many who seek jobs abroad. Those who became unable to make out went back to their home communities. But unemployment or poverty brings uneasiness within the household when it is over a long period. The company then dispatches their bosses to their homes to persuade them to accept retirement allowance. There were many former workers who accepted the money especially before Christmas. The company also contacted the union to make a money deal. Union activism faced such acute difficulties and suffered.

TMP propelled its harmonious labour/management relations with this chance. After the strikes, it made a CBA with the TMPCSU as the collective bargaining agent for supervisors, and supported the establishment of rank and file unions that stood with the company: Toyota Workers Labour Association (TWLA) and Toyota Motor Philippines Corporation Labour Organisation (TMPCLO). Many of the officers of TMPCLO registered on 4 December 2001, used to be core members of TWLA but formed the new union. They also were in close relationships with Angel the president of TMPCSU and receiving his advice on union activities through playing basketball, a popular game in the company. TMP changed the structure of LMC after forming company-friendly unions, organising it into selecting the chairman from TMPCLO and from TMPCSU alternately year by year, and made the memorandum of agreement to create a space to negotiate part of working conditions such as welfare for all the workers including rank and file workers. It aims to cushion the workers' frustration by the agreement of LMC and to avoid making CBA with TMPCWA.

The company also filled the labour shortage created by the massive job cuts by employing more contract workers. It changed the employment policy, in which trainees become probationers and then regular workers, to introducing irregular employment of 300 workers with a five-month contract. To realise the Toyota Production System, it is essential to have 'harmonious' trade unions and irregular employees. The latter can be safety valves to balance the employment according to the economic climate of the time, unlike their regular counterparts who hold the legal rights to be protected from sudden changes in their status.

TMPCWA sought a way out of the situation it was stuck in through solidarity with friends and supporters in and out of the country. TMPCWA had acted as an independent union without any umbrella organisation but started feeling the limitation of this policy, and began to actively participate in networking with likeminded organisations. In 2003, it became a member of Solidarity of Labour for Rights and Welfare (SOLAR), an alliance against the Iraq war and for labour rights in the national capital region. In 2004, it became a member, and the core member, of the Alliance of Workers in the Enclave (AMEN) and also of Coalition of Auto Workers and Related Industries Against Imperialist Domination (CAR-AID) in the southern Tagalog region where the Santa Rosa plant was situated.

The international solidarity network widened as well. TMPCWA had been receiving support from Japan via a network of Christian labour since 2000. In October 2001, this network in Japan bore 'Support Groups for TMPCWA' among trade unions and citizens' groups in Kanagawa prefecture, near Tokyo. Support Groups and TMPCWA now visit each other every year and continue protesting against Toyota Headquarters in Tokyo as well as in Toyota city, in the midland of Japan. They publish *Protest Toyota Campaign Newsletter* to let the world know their struggle, together. The international network of support began to spread further from Japan to French trade unions and *Peuples Solidaires*, a human rights organisation, to ATNC (Asian Transnational Corporation) Monitoring Network in Asia, and to the world.

TMPCWA appealed to the ILO Committee on Freedom of Association (CFA) saying that the Philippines Government had been unfair to the workers and breached ILO Conventions 87 and 98 in February 2003. In November the same year, CFA ruled in favour of TMPCWA and issued a recommendation pointing to the violation of the conventions by the Philippines Government. The ILO recommendation accepted almost all the claims by the union regarding the three court cases against the company, and demanded that the government amend domestic laws. ILO has since been continuing to issue recommendations on this matter as in 2004, in 2005 and in 2006.

However, the key actor to solve the dispute is after all Toyota Headquarters, which has not shown any intention of taking responsibility but repeated the same reply, 'solve a problem in a local company in the locality', to numerous proposed negotiations by TMPCWA and the support groups. Thus, in March 2004, the union and the support groups together filed a complaint to the Japanese Government as the national contact point of OECD against TMP for its violation of the OECD Guidelines for Multinational Enterprises. In September 2004, TMPCWA also joined ZENZOSEN (All Japan Shipbuilding Labour Union Kanto Region/Kanagawa Regional Union), one of the core members of Support Groups. Then, in February 2005, ZENZOSEN filed another case to Kanagawa Regional Labour Commission that Toyota's rejection of collective bargaining with TMPCWA is an unfair labour practice.

Prior to one of the ILO's recommendations, on 24 September 2003, the Supreme Court of the Philippines issued a resolution that the injunction of the Court of Appeals in 11 July 2001, was set aside and nullified. By this decision, TMPCWA was enabled to propose collective bargaining with TMP. The union members found new

hope in this judgement as well as in the ILO recommendations and found also that the numbers of those who received the retirement allowance decreased to only a few.

#### **4.5 New Challenges**

In January 2005, TMP completed a large project of consolidating two plants; since several years previously, the company was transferring the work of Bicutan plant to Santa Rosa; Bicutan was then closed. On the former Toyota land in Bicutan, a new dealer moved in. In Santa Rosa plant, the change was that it began operating double shifts as the workers from Bicutan moved in. In this change, TMPCWA has faced a new challenge: the CE of the union. In February 2005, TMPCLO gathered petitions of 174 workers and applied to conduct a new CE to DOLE. However, in the Philippines' law, a CE cannot be held during the collective bargaining or the dispute over it. TMPCWA thus objected by announcing going on strike and conducting other legal actions. It also held an action of long protest to mark the fourth anniversary of 3.28 strike in front of the renewed Santa Rosa plant. The allied network in the southern Tagalog area including AMEN and CAR-AID cooperated to push the number of participants up to 300. Despite these protests, DOLE announced on 30 June its decision for TMP to hold the election, choosing from three options: 1) TMPCLO, 2) TMPCWA, or 3) no union. TMP then carried out the *bata-bata* strategy as in five years before in which supervisors and managers took workers to restaurants or bars to persuade them to support TMPCLO. TMPCSU also held a campaign to vote for TMPCLO before the election campaign started.

This would be an election under an unfairly disadvantaged condition as all the board members of TMPCWA were dismissed and banned from even entering the firm site. TMPCWA thus appealed against this decision. At the same time, it launched a campaign against TMP and the Philippines Government with its support groups locally and abroad, including one in Japan. TMPCWA, however, also decided to participate in the predicted election and started preparation as it would lose its position as the exclusive bargaining agent if it boycotted the election.

In July 2005, the headquarters of the International Metalworkers' Federation (IMF) became concerned about the situation. TMPCWA had been seeking support from IMF since the outbreak of the strike on 28 March 2001, and been in touch with the internationally known organisation on and off. But, as IMF does not have an affiliate in the Philippines, and as TMPCWA is an independent union, the contact or support was not necessarily smooth. However, since the ILO recommendation in November 2003, motivation to support TMPCWA started maturing. IMF held a meeting in Tokyo with TMPCWA under the leadership of its general secretary, Marcelo Malentacci, in order to find a toehold to the solution. The negotiation between TMPCWA and the company began with the Japan Council of Metalworkers' Unions (IMF-JC) mediating on condition that no party would conduct attacks, especially by means of international campaigns, against the other. Tears were shed by some of the dismissed upon hearing the news that the bargaining would start after more than a four year long bitter struggle. The negotiation meetings were held in Tokyo and Manila in October, November, and December. But TMP was on one

hand indecisive about proposing a concrete plan and on the other aiding TMPCLO to play the game of leveraging to win the votes.

The decisions of the Philippines Government seemed to have been working closely with the company's manoeuvres. At a meeting on 11 December 2005, TMPCWA confronted TMP with a firm stance to press for a response, then, on 17 December DOLE announced the final decision in favour of holding the CE. Immediately after the start of 2006, the hearing for the CE became inevitable, and the election date was decided for 16 February in the last of such meetings held on 1 February 2006, when there was no attendance by TMPCWA.

Three days later, on 4 February, the company offered a package including compensation payment, skill training after passing an examination, and outplacement. But these answers were not what the union was demanding - returning to the original work - and were different from the ILO recommendation by far. Mr. Tabata, the former president of TMP, who attended the bargaining for the first time and for 15 minutes only, declared that it was the company's final response. Infuriated by this, those who had been dismissed rejected the offer. Thus TMPCWA re-launched an international campaign to demand that TMP cancel the election, inciting a stream of protest e-mails from all parts of the world against TMP, Toyota Motor Japan, and the Philippines Government.

In the midst of this worldwide protest, the CE was held on 16 February. The result was: 424 votes for TMPCLO, 237 votes for TMPCWA, eight votes for no union, 15 invalid votes, 121 challenged voters (Levels five to eight) and another 89 challenged voters (illegally dismissed). Legally, those dismissed were employees until the court decision was issued, thus they had the right to vote in this election. But all the dismissed workers including the officers of the union, considered to be challenged voters, were separated from other workers when voting and their votes were segregated. It was an odd election which did not count the votes of the officers of one side of the two unions, TMPCWA and TMPCLO, from which the voters were supposed to choose one. According to TMPCWA, the result meant that TMPCLO was not recognised as the sole union with bargaining rights under the Philippine's labour law without gaining the majority, therefore, TMPCWA remained with the right as exclusive bargaining agent. The practice of CE made the legal argument over the dispute more complicated.

The IMF was also infuriated by the company's attitude meanwhile, and decided to move the communication point with TMP from IMF-JC to the IMF headquarters. It then called for all Toyota's trade unions to attend a meeting in Manila on 16 March when they agreed to demand that TMP reinstate those dismissed. The next day, 16 March, they attempted to bargain with the company but the latter again rejected reinstatement. On 11 April, however, DOLE issued a judgement that marked TMPCLO as the winner of the election despite protest from TMPCWA. Faced with such a deplorable situation, the IMF, in its Executive Committee meeting in Oslo on 18 and 19 May, made an official decision to launch its own global campaign to demand that TMP reinstate the dismissed workers. TMPCWA also started its own campaign against TMP.

## 5. CONCLUSION

TMP is considered to be a business of good standing. But its working conditions cannot be evaluated as 'decent work' as we saw in Section 3 above. Japan based TNCs usually adjust their experiences of labour management to the newly developing sites in accordance with the local situation. Toyota is no exception. In the Philippines where the wage is low and the production capacity has not increased the company cannot be said to have fully introduced its characteristic Production System and multi-skilled workers. Instead, it is still undergoing various trials to introduce TPS together with irregular employment and harmonious labour union.

TMP is in a way trying to create an environment that encourages introducing TPS by exploiting the very existence of TMPCWA, the union with a confrontational policy. In the economic crisis of 1997, it drove 300 union members to quit by means of the so-called Voluntary Separation Programme. In 2001, it again dismissed 233 union activists by claiming that they went on 'illegal' strike. The company then succeeded in introducing 300 contract workers and gave birth to 'harmonious' unions standing on the company's side: TMPCSU and TMPCLC. In order to realise TPS, it cannot accept TMPCWA; this is thought to be part of the reason for Toyota not resolving, or being able to resolve, the labour dispute with the union.

The Philippines Government's intervention in this dispute is firmly embedded into its development policy that relies on the foreign capital earning from Japan as well as the yen loans and Official Development Aid. At the same time, the Japanese Government enhances overseas advancement of TNCs, especially to Asian countries with strong development potential, as Japan itself has a gloomy vision on domestic economic development. Japan-based multinational companies fear the dispute spreading to the region of South Tagalog where they have invested a large amount. It must have made them feel even more threatened that this region is also the base of a militant unionist movement initiated by KMU. However, it is no mistake to think how this labour dispute, which is now globally known, will be settled is a big issue for Toyota as well as for the Philippines Government.

TMPCWA was formed on the basis of reasonable hope of young workers who wanted decent work. The cause of this dispute stemmed from the fact that TMP would not obey the Philippines Government's decision and didn't start to negotiate CBA with TMPCWA. The youths who could not allow this injustice to happen, decided to take action, and were judged to have organised an illegal strike, and dismissed for only two days' absence. Youth is fighting against the company believing that its struggle will also lead to rights for other workers like them in the world. Inspired by their hard work, in turn, organisations and people across the globe send their support beyond political standpoints. We should not let their struggle be a premise of mere legal battle; it is important to drive the company to go along the path towards finding a fair solution by our solidarity movement in and out of the Philippines.

Is it 'Drive Your Dream' the Toyota Way, or is it 'Drive to the Bottom'? The workers of Philippines Toyota are making it clear for us.

## REFERENCES

- Asia Monitor Resource Centre 2004, *Automobile Workers and Industry in Globalising Asia*, Hong Kong: AMRC.
- Firipin 2003, *Kaigai Rodo Jiho (Overseas Labour News)*, No.336.
- Kamio, Machiko 1996, 'Firipin Rodo Ho (Labour Law in the Philippines)', *Kikan Rodo Ho (Quarterly Labour Law)*, No.174.
- Kimura, Hirotsume 1998, *Firipin: Kaihatsu, Kokka and NGO (Philippines: Development, State and NGO)*, Tokyo: San'ichi Shobo.
- Nakanishi, Toru; Kodama, Toru; Niitsu, Koichi (eds.) 2001, *Ajia no Daitoshi 4 Manira (Asian Big Cities 4 Manila)*, Tokyo: Nihon Hyoronsha.
- Nihon Rodo Kenkyu Kiko 1994, *Firipin no Rodo Jijo (Labour Situation in the Philippines)*, Tokyo: Nihon Rodo Kenkyu Kiko.
- Quintos, Paul L 2003, 'A Century of Labour Rights and Wrongs in the Philippines', in Stephen Frost et al. (eds.) *Asia Pacific Labour Law Review: Workers' Rights for the New Century*, Hong Kong: Asia Monitor Resource Centre.
- Saruta, Masaki 1995, *Toyota Shisutemu to Romu Kanri (Toyota System and Its Labour Management)*, Tokyo: Zeimu Keiri Kyokai.
- Tabata, Nobuaki 2003, 'Jidisha Sangyo kara Mita Firipin (Philippines from the viewpoint of the automobile industry)', <http://www.asahi.ph/jbcp/dec-03koenkai.htm>
- Toyota Motor Philippines Corp., *Team Members Handbook*.
- Kanagawa Regional Labour Movement Exchange, *Firipin Toyota Roso to Tomoni (Together with TMPCWA)*, Tokyo: KRLME.
- TMPCWA and Protest Toyota Campaign, *Protest Toyota Campaign Newsletters*.
- Toyo Keizai Shimposha, *Kaigai Shinshutsu Kigyo Soran (Directory of Japanese Transnational Corporations)*, Tokyo: Toyo Keizai Shimposha.
- Toyota Motor Philippines Corp., *Dateline: TOYOTA Phils*.

## WEB SITE REFERENCES

- <http://www.tmpcwa.org/>
- [http://www.green.dti.ne.jp/protest\\_toyota/index.htm](http://www.green.dti.ne.jp/protest_toyota/index.htm)
- <http://www.imfmetal.org/>
- <http://www.imf-jc.or.jp>
- <http://www.jccipi.com.ph>
- <http://www.jil.go.jp/jil/kaigaitopic/>
- <http://www.jama.or.jp>



## CHAPTER 9

### LABOUR PRACTICES AND WORKING CONDITIONS IN TNCS: THE CASE OF TOYOTA KIRLOSKAR IN INDIA

*KRISHNA SHEKHAR LAL DAS & SOBIN GEORGE*

#### 1. INTRODUCTION

The study on the working conditions and labour practices in Toyota Kirloskar in India is part of the network research on Transnational Corporation Monitoring in Asia. Since 2002 the Asian Transnational Corporation (ATNC) Monitoring Network has been operational to build up a regional network through which labour organisations in different Asian countries can pursue concrete solidarity actions to improve working conditions of workers employed in transnational corporations (TNC). Against this backdrop, it is aimed to have a closer look at the labour management and forms of employment in automobile and electronics sectors invested by Asian TNCs in Asia. As part of this endeavour, the Centre for Education and Communication (CEC), New Delhi collaborated with the network research coordinated by Asia Monitor Resource Centre (AMRC), Hong Kong to observe the labour practices of Asian TNCs invested in India. In the first phase the network research focused on the movement of capital and its impact on labour by engaging desk research on foreign direct investment (FDI) flows and related aspects. In the current phase, emphasis is on specific cases of labour practices and labour conditions in selected ATNCs.

#### **1.1 Methodology**

The present study is situated in the wider context of the dichotomy between labour and capital. The changes of production organisation and resultant labour practices and labour unrest at the micro level are seen as responses to macro level ramifications of trade patterns and subsequent policy level rearrangement in the nation states. The case of Toyota Kirloskar is studied in this framework at large. This

is network research in which all network partners follow similar methodology and structure of report writing, which we also tried to follow as far as possible. The study is qualitative in nature and involves both primary and secondary research. Case studies and discussions are the methods used for primary research. 18 workers were approached and interviewed in which nine case studies from the main line production in Toyota Kirloskar Motors and Toyota Kirloskar Auto Parts are conducted to obtain information regarding wage structure, working conditions, labour practices, collective activities and labour disputes in Toyota Kirloskar. Four case studies, in the form of narration, are included in the text on specific issues of intensification and overwork, occupational safety and health, harassment and victimisation of workers. Apart from that, incidents of labour disputes and actions and reactions of the management are included chronologically in the form of specific related events and narration in the text for reflecting the ground realities. Discussions were held with trade union leaders from the Centre of Indian Trade Unions (CITU), the All India Trade Union Congress (AITUC) and the Indian National Trade Union Congress (INTUC) and the Deputy Labour Commissioner, Bangalore to gather information pertaining to general working conditions, the Toyota system of production, labour disputes and settlement and company practices.

Information pertaining to the history of the unit, market share, details of investments, Government policies etc are gathered through secondary research, largely by reviewing the relevant available literature. Sources of secondary information include policy documents of the Ministry of Commerce and Industries, Government of India (GOI), Government of Karnataka province and Japan Information Cell, labour laws, Register of Dispute Settlements, newspaper reports, published research works and websites related to auto industries in India.

### **1.2 Organisation of the Study**

The study is organised into two sections. The first section gives general information about investment of foreign capital in India's automobile industry and government policies and incentives to attract investment to the sector. The second section tries to analyse the impact of production organisation and flexible production in labour conditions, citing the case of Toyota Motors. It also gives an account of the general background of the workers, wages and working conditions and collective labour actions.

## **2. INDIAN AUTOMOTIVE SECTOR: CAPITAL INVESTMENT AND GOVERNMENT POLICIES**

As part of the strategic move to reduce costs of production to combat the threat of competition globally, automobile companies have begun relocating manufacturing bases to countries where production cost is comparatively low. India has emerged as one of the much-preferred destinations for automobile TNCs to meet the need of cost minimisation in both sourcing components and research and development. The conducive environment in terms of investment promotion and labour market flexibility

subsequent to the introduction of the specific policies of trade liberalisation and labour market deregulation, have facilitated foreign investment in automobile enterprises in India to a certain extent. This indeed is in tune with the larger interests of foreign capital to minimise labour and other production costs. India eventually has become a low cost production base for TNCs.

Cut-throat competition in the automobile industry, specifically in the motorcar sector, across the world demanded 'cheaper production' for the manufacturers. India's cost advantage stems primarily from its abundant availability of skilled manpower at a relatively cheap wage level. Besides, world class quality standards, technological competencies and proven competitive strengths in design and development at low cost make India a preferred production base for car manufactures from other countries (Way2Wealth: 2005). According to a study by Automotive Component Manufacturers Association of India (ACMA) (2000, <http://acmainfo.com/contactus.htm>), India ranks second to Germany in the availability of skilled labour and ranks first in the availability of engineers, followed by Brazil, the US, Mexico, Germany, the Czech Republic and China. Labour costs in terms of wages as a percentage of sales in the forging industry in India are 9.4 percent of the labour costs in US automobile companies. While labour costs in India's automobile sector are 15 percent of total production costs, they are 40 percent in the West (ACMA: 2000, <http://acmainfo.com/contactus.htm>). A skilled operator's salary in India's automobile industry is \$200 (on average) a month whereas it is \$3,200 per month for US workers (Saripalle: 2005). Major automobile and auto parts manufacturing units from the US, Japan, Europe and Korea such as Ford, GM, Delphi, Visteon, Toyota, Honda, Suzuki, Daimler Chrysler, Volvo, Hyundai, and Daewoo etc relocated or started a production base in India eyeing this comparative advantage in the region.

### **2.1 The Indian Automotive Industry: A Brief Overview**

The Indian automotive industry is diverse, encompassing a wide spectrum of segments such as commercial vehicles, multi-utility vehicles, passenger cars, two wheelers, three wheelers, tractors and auto components. India ranks second in the production of two wheelers and fifth in commercial vehicles. India manufactures about 3,800,000 two wheelers, 570,000 passenger cars, 125,000 Multi-utility Vehicles (MUV), 170,000 Commercial Vehicles and 260,000 tractors annually (ACMA: 2000 to 2004, <http://acmainfo.com/contactus.htm>). India's automobile industry is highly labour intensive, employing 450,000 people directly and 10,000,000 people indirectly in auto manufacturing and about 250,000 people in the auto parts industry as of January 2005 (Ibid.). The data obtained from the Ministry of Commerce and Industry, shows a high growth rate since 2001-02 in automobile production continuing in the first three quarters of 2004-05. Figures over the year show that the share of Indian exports of automobile and auto components is on an upward trajectory (Table 1 and 2). The automobile industry grew at a Compound Annual Growth Rate (CAGR) of 22 percent between 1992 and 1997. After 1997, the industry witnessed a steady increase in production and export and relatively low growth in domestic sales. Total production of automobiles rose in the period 2002-04 by 15 percent, from 6.28 million in 2002-03

to 7.23 million in 2003-04. Similarly exports also recorded a quantum leap to 480,000 in 2003-04 from 307,000 in 2002-03. Domestic sales also marked a marginal growth in 2003-04. Data on production by segment over a period of six years from 1998-99 to 2004-05 shows that the two wheeler and passenger car markets are growing in India (Table 3). Among various segments two wheelers recorded highest level of growth. Production of passenger cars doubled between 1998-99 and 2004-05.

## 2.2 Government Policies

Since 1991, the GOI has liberalised restrictions on FDI in various sectors. As part of the shift from import substitution to export promotion, the Government brought about investment promotion policies pertaining to licensing, finances, import and

**Table 1: Production and export of automobiles (by year)**

Year	Production (No)	Domestic Sales (No)	Export (No)	Change Production (%)	Change Domestic Sales (%)	Export (%)
2000-01	4,759,392	4,643,422	168,283	-2	-2	21
2001-02	5,316,302	5,225,788	184,680	12	13	10
2002-03	6,279,967	5,941,535	307,308	18	14	66
2003-04	7,229,443	6,794,812	479,350	15	14	56

Source: [http://www.directories-today.com/auto\\_ind.html](http://www.directories-today.com/auto_ind.html) accessed on 8 November 2004

**Table 2: Indian auto components production/export, 1996-97, 2004-05**

	Indian Auto Components (\$ million)			
	Production	Investment	Exports	Export (%)
1996-97	3,278	1,705	N/A	
1997-98	3,008	1,813	330	11
1998-99	3,249	1,850	350	11
1999-00	3,894	2,000	456	12
2000-01	4,100	2,300	625	15
2001-02	4,470	2,300	578	13
2002-03	5,430	2,645	760	14
2003-04	6,730	3,100	1,020	15
2004-05	8700	3,950	1,400	16

Source: Compiled from ACMA statistical report and Way2Wealth research report

**Table 3. Automobile production by category in India, 1998-99-2004-05 (No.)**

	1998-1999	2004-2005
Passenger Cars	390,709	699,082
MUVs	113,328	178,187
Commercial vehicles	135,891	247,797
Two Wheelers	3,374,508	4,758,639
Three Wheelers	209,033	271,983

Source: Annual Reports, Ministry of Heavy Industries and Public Enterprises

investment incentives. Following are some of the major steps undertaken towards facilitating FDI.

- FDI up to 100 percent except strategic sectors
- All items/activities for FDI up to 100 percent by Non-Resident Indians (NRI)/ Overseas Corporate Bodies (OCB) fall under the Automatic Approval Route except those that expressly require prior Government approval
- Permission under the automatic approval route, under which there is no need to obtain prior approval of the GOI, for a fresh investment to be made into an Indian company except procedural filings with the Reserve Bank of India (RBI), India's central bank
- Exemption from industrial licensing requirements except industries reserved for the public sector, retained under compulsory licensing, reserved for small scale sector and reserved under restrictions of location

Along with that, the corresponding State Governments<sup>1</sup> have specific investment incentives with regard to entry tax, power and water supplies and pollution and safety for attracting FDI. Following are some of the state incentives.

- Power Tariff Incentives such as exemption from the payment of electricity duty, freeze on the tariff charged for new units for a few years after commencement of production, assurance of uninterrupted electricity supply, concessional rates of billing subject to certain conditions and fiscal incentives for purchase and installation of captive power generation sets.
- Concessional loans for industries in priority sectors
- Exemption from the payment of entry tax for a certain specified period and preferential allotment of land
- 'Green channel' facility for speedy processing of applications
- Relaxation and simplification of restrictions pertaining to pollution control under the Air and Water Acts.

The removal of quantitative restrictions and the cap on FDI along with the specific state investment incentives have brought about remarkable changes in the automobile sector in India. Initially foreign firms were required to satisfy norms such as establishment of actual production facilities, minimum indigenisation of 50 percent in the third and 70 percent in the fifth years (Auto Policy: 2002, <http://dipp.nic.in>). Presently there is no restriction on FDI in India's auto industry. The investment promotion measures to attract FDI in the automobile sector by the GOI under Auto Policy, 2002 are as follows:

- Address the emerging problems and make the auto sector World Trade Organisation compatible.
- Automatic approval for foreign equity investment up to 100 percent of manufacture of automobiles and components
- The incidence of import tariff will be fixed in a manner so as to facilitate the development of manufacturing capabilities as opposed to mere assembly without

giving undue protection; ensure balanced transition to open trade; promote increased competition in the market and enlarge purchase options to Indian customers

- Periodic review of automobile tariff structure to encourage demand, promote the growth of the industry and prevent India from becoming a dumping ground for international rejects

- Adequate accommodation to indigenous industry to attain global standards in respect of items with bound rates viz. buses, trucks, tractors, completely built up vehicles (CBUs) and auto components.

As a result the share of automobile FDI has steadily increased. Amongst it, a special focus is given to Japanese investment as Japanese TNCs manufacturing automobile and auto parts form a significant share of FDI in the automotive sector in India. FDI outflow from Japan to India has been on an upward flight in the post liberalisation period, though there was some sluggishness at the end of 1990s (Table 4). The economic cooperation as part of the ‘Eight-fold Initiatives’ between India and Japan with reference to the comprehensive economic engagement through expansion of trade in goods and services, investment flows and exploration of India-Japan economic partnership have further facilitated the FDI inflows to India (Japan Cell: 2005, [http://dipp.nic.in/japan/japan\\_cell/index\\_japan.htm](http://dipp.nic.in/japan/japan_cell/index_japan.htm)). Japan’s total direct investment in India between 1991 and 2005 was US\$1,914 million on actual basis. This was four percent of the total FDI, making Japan the fourth largest investor in India after the US, Mauritius and England. Japanese investments have been

concentrated mainly in fields like automobiles, home electronics and chemicals. Among these sectors the larger share of FDI outflow to India from Japan is to automobile by the investments of companies such as Suzuki, Honda, Nissan and Toyota. In addition to existing investments, six new FDI projects in the auto sector amounting to 125.7 billion yen (\$1.1 billion) from Japan are in the pipeline. These include Maruti-Suzuki with an investment of 82.8 billion yen, Honda Motorcycle and Scooter with 12.5 billion yen, Hero Honda Motors with 12.5 billion yen and Toyota Motor Corporation with an investment of 15 billion yen (Business Line, Nov. 23: 2005).

#### **Labour Policies**

Both central and state governments have amended many labour laws to facilitate foreign investment subsequent to liberalisation. In addition to the removal of the cap on FDI, central and state governments have taken

**Table 4: Japanese FDI in India**  
(US\$ million)

	Approved FDI	Actual Inflow
1991	16	2
1992	214	27
1993	84	26
1994	128	88
1995	482	72
1996	433	88
1997	532	165
1998	325	198
1999	380	151
2000	193	229
2001	152	221
2002	154	413
2003	75	94
2004	32	116
2005	9	24
Total	3,209	1,914

Notes:

1. August to December

2. January to March

Source: Ministry of Commerce and Industry

many policy and legislative initiatives to facilitate FDI in automobile and auto parts sectors. Both central and state governments have amended many existing laws pertaining to industries and labour for flexible production (Despande: 1999). The central and state governments included automobile and auto component industry in the high priority sector. Amendments in existing labour laws pertaining to industrial disputes and retrenchment and migrant and contract labour have been made by the state governments to facilitate foreign investments.

Most of the State governments granted mandatory permission for restructuring, retrenchment and closure of large firms by amending respective laws. The government of Karnataka, for example, through a notification, amended Schedule 1 of the Industrial Dispute Act, 1947 and included automobile and auto parts in the list of public utility services in 2001. Under the provisions of sections 22-25 of the Act, workers are not allowed to engage in activities like strikes in public utility services<sup>2</sup>. Also, relaxation in the Contract Labour Act would facilitate outsourcing of activities without any restrictions and enable companies to offer a greater extent of contract appointments.

This situation has created an environment conducive for violation of labour rights by firms. Special provision such as public utility status, priority categorisation and amendments in trade union laws pertaining to Special Economic Zones (SEZ) in India limit core labour rights such as freedom of association and collective bargaining.

In short, there have been significant changes at policy level; both industrial and labour, for facilitating FDI into the country. But, a survey of literature reflects that policy interventions in most situations have serious repercussions on the labour force as they curtail much of the basic rights of workers. The next chapter attempts to study how these policy changes appropriate the capital-labour relations in TNCs by citing the case of Toyota Motors, a Japanese automobile company invested in India.

### **3. LABOUR PRACTICES AND WORKING CONDITIONS IN TNCs: THE CASE OF TOYOTA KIRLOSKAR IN INDIA**

This section analyses the case studies and discussions conducted among the workers of Toyota Kirloskar, trade union leaders and labour officials regarding the general information of the unit, background of the workforce, labour practices, working conditions, collective activities and labour disputes. The analyses are based on case studies and discussions cited in the form of narratives.

#### **3.1 Toyota in India**

Toyota Motor Corporation of Japan in collaboration with Kirloskar Group in India established its motorcar-manufacturing unit, Toyota Kirloskar Motors in Bangalore, Karnataka with a capital investment of Rs. 7 billion in October 1997. The state government granted scores of incentives pertaining to entry tax, pollution control, land acquisition, investment subsidy and power and water supplies for the company to invest in the state. Under the provisions of the new Industrial Policy 2001-2006 of Karnataka, industrial units with an export effort of a minimum of 25

percent of total turnover are eligible for investment subsidy and refund of entry tax and sales tax. Similarly many restrictions pertaining to pollution control under the Air and Water Acts have been relaxed and simplified for foreign investors. In addition the state government introduced the 'green card' facility for TNCs to move their export/import consignment freely without any hindrances (Government of Karnataka, NIP: 2001-06). Along with these incentives, Karnataka Industrial Areas Development Board (KIADB) arranged for 450 acres of land worth around Rs. 2,300 million on a lease-cum-sale basis for Toyota Kirloskar (KIADB: 2005, <http://labour.kar.nic.in>). Furthermore, the state government exempted the unit from entry tax for some period of time under the Mega Project scheme.

Toyota Kirloskar Motors in Bidadi village, Karnataka has been operational since 1999. Initially both Toyota and Kirloskar held equal shares, later changing to 79:21 in 2001 and to 99:1 in 2003 respectively, resulting in a complete takeover by Toyota Motors. Toyota in collaboration with Kirloskar manufactures mid-size and large-size luxury motorcars of Corolla and Innova at present. The unit has the capacity to make 60,000 units annually. The current production level of Toyota Kirloskar is estimated to be 42,000 and 11,000 units for its large size Innova and midsize luxury Corolla respectively. Other products of the Toyota Kirloskar joint venture are Sports Utility Vehicle (SUV) segment, 'Prado', mid-size segment 'Camry' as well as auto parts such as axles, propeller shafts and transmissions for export and domestic assembling. The market share of Toyota segments in India is less than five percent. However the company aims to capture 15 percent of the Indian car market by 2015 (Business Line 25 March 2005). The investment of Toyota Motors in India is largely market-seeking and the share of Toyota Kirloskar in automobile export is comparatively low. Nevertheless the export of auto components, especially gearboxes has been significant for Toyota Kirloskar.

Besides the present investment, the company proposes to set up new plants for models in the volume segment, which presently accounts for over 50 percent of the Indian passenger vehicle market. Toyota and its subsidiary, Daihatsu Motor, plan to set up a small car assembling factory in Bangalore by the end of 2007 with a capacity to produce 1,00,000 cars a year with an additional investment of Rs. 1.5 trillion (The Hindu: 28 Sep. 2005).

#### ***Unit and Production Organisation***

The Toyota Kirloskar joint venture has three units, comprising one assembly mother plant and two ancillaries in Bidadi, Bangalore. The mother plant, which is referred to as Toyota Kirloskar Motors Ltd (TKML) henceforth, is the main assembling unit. Toyota Auto Parts Ltd. (TKAPL) and Toyota Techno Park are the manufacturing units of auto parts of which the former supplies axles, propeller shafts and transmissions and the latter produces auto parts for export. In addition there are five supplying units, which are not managed by Toyota Kirloskar, attached to the mother plant (Table 5).

The major assembling work in TKML is organised in five lines. The press shop is the first section in the main assembly line where the materials are pressed into

**Table 5: Organisation of units**

No	Unit	Managed by	Share holding	Production
<i>Mother plant</i>				
	Toyota Kirloskar Motors Ltd.	Toyota Kirloskar	Toyota: 99 Kirloskar: 1	Assembling Motor Car (Innova and Corolla)
<i>Suppliers</i>				
1	Toyota Kirloskar Auto Parts Ltd.	Toyota Kirloskar	Toyota: 90 Kirloskar: 10	Axles, propeller shafts, transmissions
2	ARACO India Ltd.	ARACO	-	Seat covers
3	IFB	IFB	-	Air conditioners
4	Toyota Techno Parks (six units)	Toyota, Kirloskar, STTI, SLC, Stanzeu	Toyota: 100	Accessories
5	Delphi	Delphi	-	Accessories
6	Denso Kirloskar	Denso Kirloskar	-	Electrical goods
7	Mothers San Sumi	-	-	Electrical goods

shaped. The welding shop is the next section of the assembly line. Body parts such as under body, body shell and main body are assembled in this section. Other sections in main line assembly of TKML are paint shop, final assembly and quality checking. Production in TKAPL is also organised into a line system. There are mainly two production lines in TKAPL separated for rear and front axles and gearbox. The companies follow the Toyota Production System (TPS), whereby the work is based on TACT time, which is a ratio of total available task time and total demand<sup>3</sup>. This time requirement is increased or decreased based on market demand.

### 3.2 Background of the Workforce

There are three categories of employees in TKML and TKAPL. The major categories are managerial staff starting from higher management officials such as Managing Director and other senior staff to supervisors and general workers. The third group comprises contract labourers, appointed through contractors for certain periods of time for specific tasks such as transportations, housekeeping and computer-related works such as data entry and typing.

General workers on the main line are further categorised as team member trainees or probationary and team members. They are initially absorbed as team member trainee or probationary both in TKML and TKAPL and afterwards confirmed as team members. The workforce in both units is very young, the ages ranging from 21 to 29 and 20 to 32 in TKML and TKAPL respectively. Both units discourage women employees on main line production/assembly. All workers on the main line are technically trained to the requirements of the unit.

There are both regular and contract workers on main line production/assembly of Toyota Kirloskar (Table 6). It is reported that the majority of workers are from nearby areas of Bangalore city or neighbouring districts. The share of interstate migrant workers is nominal and all are from the bordering state of Tamil Nadu. The major chunk of contract workers, engaged in the activities of transportation,

housekeeping, gardening, construction works etc are from the locality; most of them were residents of the place where the company is presently situated. They gained employment through agreement with the Karnataka Industrial Areas Development Board (KIADB) and the company as an incentive for surrendering their land to KIADB. Some of them are from the state of Tamil Nadu and the suburbs of Bangalore. The rest are reportedly from the districts of North Karnataka and Hassan. They reside in rented houses with their fellow workers near to the company.

**Table 6: Workforce composition up to the level of supervisor**

		No	Units
		TKML	TKAPL
1	Permanent workers *	1,519	410
2	Contract labourers *	300	90
3	Age range	21-29	20-32
4	Sex	All male	All male
5	Education	Secondary/ HSC +Technical	Secondary/ HSC +Technical

\* As of July 2005

Sources: 1) Office of the Deputy labour Commissioner, Publicity and Statistics, Bangalore

2) Documents from TKML and TKAPL employees' Trade Union

### 3.3 Labour Processes and Labour Relations

Management practices in the automobile sector in India are mainly aimed at reducing production costs. The foremost thrust therefore is upon reducing labour cost in the share of total cost of production. The surplus labour market coupled with contract employment provisions in India helps the management to reduce labour costs substantially. Like other companies, Toyota Kirloskar employs contract labour on main line production. Labour in the company is clearly distinguished as core and periphery. The core structure includes senior management officers and workers up to the level of team members and team member trainees. The periphery consists of contract labourers for tasks such as transportation, housekeeping, security services, gardening, construction, computer-related works and main line production/assembly jobs. Core and periphery workers are distinguishable on the basis of employment contracts with the company - there are considerable differences in the labour processes including recruitment, employment contracts and wages among these workers.

#### **Recruitment**

The company uses direct recruitment for permanent workers generally by advertising in newspapers and other media. The workers are initially absorbed as trainees or probationary and are given training for one month. Subsequent to that they are positioned on main line production or assembly line. Trainees and probationary are likely to be confirmed as team members, which is a permanent status, generally after two years. Contract workers, on the other hand, have no

direct work contract with the principal employer and are recruited through contractors for verified tasks according to company requirements. Contract workers on the main line are utilised or kept as a reserve workforce without any formal obligations and are hired and terminated according to demand of work. The duration of contract for contract workers is six months and might be renewed on the recommendation of the company.

#### ***Employment Contract and Wage System***

There are considerable discrepancies in employment contracts and wages within units in Toyota Kirloskar. The company signs direct employment contracts with regular workers. Conversely, contract workers have no direct employment contracts with the company and are recruited through contractors. The contract for regular workers is formally established through the appointment letter, which is served after confirmation. Contract workers engage in contracts, normally for six months, with the contractor who fixes the terms and conditions pertaining to their employment and wages. The practice is the same in both units of Toyota Kirloskar.

Fixing and revision of wages for regular workers in Toyota Kirloskar is largely based on experience and performance. Though fixing and revision of wages is at the discretion of the management, collective negotiation through the employees' union plays a major role in wages revision in both TKML and TKAPL.

Wages for workers vary across tasks and units in Toyota Kirloskar, which has different wage structures for mother plant and ancillary units. The basic salary for confirmed workers in TKAPL, which is an ancillary unit, is reported to be 15 percent less than the basic salary of counterparts in the mother plant. Wages for full-time confirmed workers in TKML and TKAPL are distributed under the heads of DA, FDA, washing allowance, medical allowance, education allowance, conveyance

**Table 7: Monthly salary break down of confirmed workers in TKML and TKAPL<sup>4</sup>**

SI No.	Details	TKML <sup>5</sup>			TKAPL		
		8A	8B	8C <sup>6</sup>	Y3 <sup>7</sup> & above	Y2	Y1 <sup>8</sup>
1	Basic Salary	5,400	5,100	4,300	3,110	2,560	2,095
2	DA/VDA	1,200	1,150	1,100	153	153	153
3	FDA	1,500	1,450	1,400	1,306	1,306	1,306
4	Washing	400	400	400	400	400	400
5	Medical	-	-	-	100	100	100
6	Education	-	-	-	200	200	200
7	Conveyance	800	800	800	800	800	800
8	House rent	2,900	2,800	2,700	3,000	2,700	2,500
9	Good attendance	400	400	400	350	350	350
10	Canteen	335	335	355	-	-	-
11	Other	1,250	1,225	1,200	1,993	1,473	976
Total		1,4185	1,3660	12,655	11,412	1,042	8,880

allowance, house rent allowance, good attendance appreciation and other allowance along with the basic salary (Table 7).

The company does not keep any yardstick for increment or salary revision of the workers. Increments in TKML are fixed on the basis of a performance appraisal system. Nevertheless, union intervention has been the single effective instrument for facilitating salary revision in both TKML and TKAPL. The settlement between the employees' union and management of TKAPL in October 2005, for instance, was instrumental in revising wages and other facilities for workers. Under this memorandum of settlement, management revised salary, leave benefits, shift allowance, ad hoc payments, medical allowance, emergency advance and death relief and introduced incentives for good attendance for regular workers (Registrar of Settlement: 2005, pp. 2-6).

There is no common criterion for wage fixing for contract workers in Toyota Kirloskar. It is reported that contract workers normally get 40-50 percent of the salary of the regular employee on main line production. Wages for work other than production are determined by the contractors. These are fixed on consolidated terms and contract workers are not eligible for provisions and incentives such as wage revision, leave benefits, ad hoc payments, medical allowance, education allowance, house rent allowance and emergency advance. Provisions such as double wages for overtime, shift allowance and night allowance are equally provided for both regular and contract workers.

The wage structure for regular employees in Toyota Kirloskar more or less conforms to market rates. However, contract workers are getting wages far below market rates. It has been noted that there are no mechanisms for regulating wages for contract workers in heavy industries in Karnataka. Labour laws pertaining to regulation of wages such as Payment of Wages Act and Payment of Bonus Act are irrelevant for the contract workers in the auto industry as the company does not officially keep contract workers' records. Though there are provisions in the recent state amendment of the Contract Labour (Regulation and Abolition) Act, 1970, for fixing wages at more than 125 percent of the minimum wage of the specific task, they are not enforced in TKML and TKAPL. Since the contract workers are not part of the employees union in both TKML and TKAPL, scope for negotiation is also limited for this section of workers.

### ***Management Practices***

The production system in the automobile industry in India is reported to contribute to the intensification of work (Shrouti: 2004). Toyota Kirloskar follows the TPS in Toyota Kirloskar Motors and Auto Parts in India. TPS is well documented and widely referred to in different contexts. The *kanban* or just in time<sup>9</sup> is a universal production strategy for Toyota and its ancillary units as the company finds it useful for minimising wastage of resources. The system envisages a higher level of quality production with less resources and manpower. Research studies conducted in Toyota factories and ancillary units across the world showed that TPS is associated with higher levels of workload and stress. Kaneko Fumio argues that TPS forces workers

to be overloaded, referring to the report on Toyota by the Labour Standards Inspection Office, Japan in 2001 (Fumio: 2004).

A major aspect of Toyota system of production or pull production in TKML and TKAPL is TACT time, which is the time fixed for the production/assembling per employee per piece. TACT time, is the time given for an individual worker to perform an assigned specific task on a single piece. It is a ratio of total available task time to the total demand or output produced. The setting of TACT time primarily depends on market demand and availability of workers. Taking the customer demand and availability of workers into account, TACT time is adjusted through TACT UPs and TACT DOWNS.

TACT time is found to be responsible for multi tasking and overwork in both units. It often gets translated into overwork through TACT DOWNS without increasing the number of workers. The process of fixing TACT time is unscientific as it is done on the basis of a rough calculation made on the time taken for producing a single piece. Aspects such as fatigue and exhaustion of workers from continuous speedy work are not taken into account when fixing TACT time. The worker has to comply with TACT time throughout the total production of a day, which varies between 100 and 125 units in TKML. Complying with TACT time, implies that the workers have to stick strictly to this standard for total share of production of the day. Since any delay in TACT time affects the targeted production, the workers are forced to conform to these requirements irrespective of their physical exhaustion.

TACT time in Toyota Motors is less than that of other automobile companies in India (Table 8). While TACT time for manufacturing a car is 87 seconds in Toyota, it is 282 seconds in Ford, 112 seconds in Hyundai, 90 seconds in Maruti Suzuki and 109 seconds in Tata Motors. The striking thing here is that Toyota keeps a lower TACT time with comparatively fewer workers than all other mentioned companies except Ford India. While the employee/product ratio is 11 in Toyota, it is 78 in Maruti Suzuki, 42 in Tata Motors, 40 in Hyundai and 17 in Ford. A lower TACT time obviously leads to higher workload. Therefore it could be inferred that workload is higher for main line workers in Toyota Motors as compared to other major automobile companies in India. In short, TACT time in Toyota Kirloskar limits the freedom and control of workers over their work and the working environment, which are important social determinants of workplace health (Wilkinson: 2001).

**Table 8: TACT Time in selected automobile companies**

Company	Capacity	Sales	Employees (secs)	TACT time	Cars/day	Car/employee
Ford India	50,000	15,000	900	282	44	17
Hyundai	150,000	102,044	2,700	112	700	40
Maruti Suzuki	350,000	359,960	3,700	90	1,700	78
Tata Motors	150,000	104,000	2,500	109	500	42
Toyota India	50,000	25,050	2,300	87	-	11

Source: Saripalle, M. (2005)

The management is austere following Toyota practices such as *kanban*, Standard Work Combination (SWC), ad hoc jobs, *kaizen*<sup>10</sup>, suggestion scheme and quality circles<sup>11</sup> in the units. In addition to that TKML has a system for performance appraisal for team members and team member trainees aiming at constant supervision and monitoring. Workers are given performance allowances on the recommendation of the supervisor. Under this system, performance of the workers is evaluated using variables such as attendance, teamwork, attitude, quality, cost reduction, behaviour and adaptability. Evaluation is done on a four-point scale: poor, average, good and very good. Management uses performance appraisal as a tool for controlling and monitoring the workers in TKML. Except attendance and quality, five out of seven criteria taken for performance appraisal are acquiescent for manipulation of workers by the immediate supervisor. It vests an additional power in the supervisor to appropriate the practices of management. Consecutive fall in performance points, for instance, even leads to the termination of services.

Management practice related to the organisation of work is also an important issue of concern here. Main line production in both TKML and TKAPL are supported with a considerable quantum of contract workers. Contract workers constitute one fourth of the production line in Toyota Kirloskar. By doing so management not only keeps a reserve labour force for times of crises due to labour unrest but significantly reduces the cost of production also. This in effect is the actual labour demand of the unit, which ought to be filled by the regular workers.

Management enjoys support from state machinery, police, local government bodies and media for appropriating the labour practices in the company. It is notable that Toyota Kirloskar alone was given public utility service status by the state government in 2001, which later extended to all automobile and auto parts enterprises in the state. The public service utility status of the automobile industry enables management to curtail all forms of agitation of workers in the company. Therefore strikes and protests in Toyota Kirloskar leads to the suspension and sometimes dismissal of workers. Since the state categorised the automobile industry as a high priority sector, as the industry is accountable for a considerable chunk of FDI, the government does not allow any labour practices against the interest of the management. There is constant police alert in the vicinity of the company for every immediate intervention. It is also noted that media do not give adequate attention to the struggles and agitations of the workers.

### **3.4 Working Conditions**

Working conditions in Toyota Kirloskar Motors and Toyota Kirloskar Auto Parts are more or less similar. Nevertheless there are differences in working conditions for regular and contract workers. We found considerable discrepancies in working hours, wages, work environment and labour conditions between regular and contract workers in TKML and TKAPL.

#### ***Working Hours and Shifts***

The working hours in TKML and TKAPL are determined and regulated by TACT time under the Toyota system of production. All team members are liable to work

under the SWC within cycle times to meet targets, which are set by customer demand. Higher demand in the market decreases TACT time (TACT DOWN) and leads to compulsory overtime. Management generally reduces the TACT time to increase production when market demand is high, which ultimately leads to excessive hours of work.

Work in both TKML and TKAPL are carried out in shifts. There are three shifts in TKML and two in TKAPL (Table 9). The normal duration of work in both TKML and TKAPL is eight hours but extends very often up to nine hours and to compulsory overtime. There are six days of work in a week and total hours of work is thus 54 hours in a week under normal conditions, going up to 55 to 56 hours including compulsory overtime, far exceeding the provisions of hours of work under the Factories Act<sup>12</sup>. Workers get two breaks of 10 and 20 minutes, one for breakfast/tea and another for lunch in each shift.

**Table 9: Shifts and work times**

No	Shifts	Unit			
		TKML		TKAPL	
		Reporting	Leaving	Reporting	Leaving
1	1st	5.15 am	2.35 pm	5.30 am	3.00 pm
2	2nd	3.05 pm	11.35 pm	2. 40 pm	11.40 pm
3	General	9.00 am	5.30 pm	-	-

It is reported that most of the workers in both TKML and TKAPL stay more than 50 kilometres away from the unit, normally travelling around three hours a day. Therefore the total time spent for work in a day becomes more than 12 hours. The burden is not limited to the time of travel and hours of work as it seizes a considerable amount of time from their social lives since workers prepare their day for travel and work well in advance. In order to report at 5.15 am for the morning shift one has to get up by 3 am. It is notable here that a worker reaches his place of residence after the first shift only by 5 pm and gets very limited time for his personal life and even for sleep. All the workers whom the research team interviewed reported that they get less than five hours of sleep a day. The situation is similar for all shifts. The case cited below gives an account of the impact of workload and resulting excessive hours of work on the family and social life of the workers.

The case of this worker reflects many unnoticed aspects of work in TNCs. Overwork and workload in many situations seriously hamper workers' personal, family and social lives. This has far reaching sociological implications as well. All workers in TKML and TKAPL whom the research team interviewed reported that their personal and social lives were disturbed because of the busy work schedule.

The burden of overwork varies for regular and contract workers. It is observed that, though working hours and shift system is equally applicable for contract and permanent workers, contract workers often bear the additional burden of overwork when there are instances of labour shortage and 'ad hoc jobs'. The intrinsic job

### Case Study 1

Lokesh Chand (changed name), aged 31, has been working with TKAPL since January 2000. He works as a machine operator on the main line assembly. Lokesh stays on the outskirts of Bangalore, around 50 km away from the factory along with his family including father, mother, siblings and wife. Work in TKAPL is organised in two shifts and the workers have to work in both shifts on a rotation basis. Lokesh has to get up by 3.00 am to catch his company bus that reaches his place by 3.30 am for the first shift. He usually sticks to this time as missing the bus often leads to loss of a day and reduction of leave. Travel to the company from his home takes around two hours and he reaches work by 5.30 am. The first shift begins at 5.30 and actual work starts by 6.00 am after morning exercise and breakfast. There is one break of 20 minutes for lunch. The first shift is over by 2.30 pm and he reaches home by 5.30 pm. He sleeps less than five hours a day. Similarly the second shift also involves nine hours of work including overtime, four hours travelling and one hour of preparation. Lokesh has to maintain this time schedule six days a week. The total hours of work, travel and preparation therefore amount to 84 hours for Lokesh in a week. Sunday is the only day, therefore, available for his personal, family and social life. However he finds more time for sleeping on Sundays because of tiredness after the week's work. The hectic time schedule and highly demanding nature of work have serious ramifications on the family and social life of Lokesh. He says, "My wife is always unhappy about my behaviour and work. She once even asked me why did you get married if you cannot spend time with your wife and family?" He seldom finds time for visiting relatives and friends, attending ceremonies like marriages and maintaining social relationships. His family and social relationships are at stake because of the busy work schedule.

insecurity and lack of organisation put them in a more disadvantageous situation than the regular workers.

The present system of work shift and hours of work in TKML and TKAPL is therefore unfair and exploitative for both permanent and contract workers. It is unambiguously clear that the workers are overstrained by working hours. One notable thing is that working time for the shift is only eight hours for the workers. Thus the company adheres to the provisions of the Factories Act in principle. Nevertheless, in actual practice, it exceeds eight hours excluding overtime in every situation. The total time spent for work by the workers generally comes to around 14 to 15 hours a day including preparations for the day, work, travel and compulsory overtime. It is therefore inferred that working hours under the provisions of the law is not enforced in Toyota Kirloskar.

### **Occupational Safety and Health**

The Central Safety Monitoring Cell of the Department of Labour, Government of Karnataka categorises Toyota Kirloskar Motors as one of the Major Accidents Hazard Units (MAH) in the state (Government of Karnataka: 2004). All Factories having the chemicals stored, used and manufactured in excess of the threshold quantities specified under the Control of Industrial Major Accidents Hazard CIMAH Rules, 1994 are categorised as Major Accident Hazard units by the Cell. Exceeding this limit, Toyota Kirloskar unit in Bangalore stores/handles 60 megatons of liquefied petroleum gas, with associated risks of fire and explosion. Other occupational risks associated with the production/assembly lines as reported by the workers are injuries, burns, sprains and other work-related physical ailments. Chances of accidents such as injuries, breaks and sprains from the pressing machine and conveyor line and burns in the welding section are reported to be high in the units since the work has to be performed quickly.

Additionally work related ailments such as chronic backaches, shoulder pains, muscle pains, respiratory problems and skin allergies are reported to be prevalent in these units. All the workers the team interviewed reported that they are suffering from some of these problems. The problems are multiple in many of them. The common health problems reported by the respondents were backache and muscle pain (Table 10). Shoulder pain and respiratory diseases were ranked second and third respectively. There were also cases of skin allergies and eye diseases, especially for workers in the paint and welding shops; and chronic digestive disorders.

**Table 10: Work-related health problems**

No	Health problems	No. of Responses	Rank
1	Backache	09	1
2	Respiratory Problem	04	3
3	Skin allergy	02	4
4	Shoulder pain	08	2
5	Muscle pain	09	1
6	Digestive disorder	01	5
7	Ophthalmologic disorder	02	4

The workers are provided with protective equipment such as masks, gloves, aprons, helmets, spectacles and shoes at the work place. Workers thought these safety measures to be helpful to limit respiratory problems and skin allergies to a certain extent. Nevertheless, other work-related health problems, especially physically dangerous and psychologically stressful situations of work are found to be prevailing at the work place. The case of Srinathan S. Kulkarni, a team member in TKAPL, gives a fair account of the physically dangerous and mentally stressful conditions of work in the unit.

The case of this worker reflects many aspects pertaining to working conditions and health in the unit. Concerns for occupational safety and health in the unit are confined merely to industrial accidents and injuries. Exclusion of long-term work related morbidity from insurance coverage reflects that the management does not

### Case Study 2

Srinaththan (changed name), aged 28, has been working as a team member for more than five years in TKAPL. Completing a technical training course from one of the Indian Technical Institutes (ITI) from Bangalore, he joined TKAPL as a trainee in 1999 and was confirmed as a team member in 2001. Srinaththan, since the time of joining, has been working as a machine operator on the assembly line. Machine operation involves frequent lift and drop of heavy axles manually. It is roughly estimated that one worker in this section of the assembling line has to lift and drop axles that weigh 11 kg around 2,000 times a day. Srinaththan says, "Everything was all right for me initially but the problems started after one year. My right hand is weakened now because of the continuous action of lifting and dropping the axles. I do not know how long I can work like this." The problem is found to be multi-faceted for Srinaththan as he suffers from all the common work-related problems such as chronic back pain, muscle pain and respiratory problems along with weakness of his right hand. In addition to that every worker on the assembly line is reported to be suffering from high levels of stress due to workload and pressure at the time of TACT DOWN, inherent job insecurity and the anxieties related to the deteriorating conditions of their health. He observed, "TACT time set by the management under the Toyota System of Production brings in higher workloads for the workers and accounts for the long-term occupational hazards of the workers." The company provides health insurance coverage for all regular employees in principle. Nevertheless, adding to his agony, Srinaththan was denied this facility, as the provisions for health insurance were limited only to accidents and other casual diseases. He could not consult a medical practitioner outside the company as it involves huge cost for him. The problem is reported to be aggravating for Srinaththan.

recognise long-term physically dangerous and psychologically stressful conditions as a problem of work-related health. This is one of the larger concerns of health by the workers. Another pertinent aspect the case reflects is the health-seeking behaviour of the workers. Most workers do not opt for outside medical check-ups due to constraints of leave, opportunity cost and money. Since the company's medical claim policy does not cover many of their health needs, most of the workers are reported to be neglecting their problems. It could therefore be argued that working conditions in Toyota Kirloskar appropriate the health-seeking behaviour of the workers to a large extent, which has far reaching repercussions for their health. Another grave issue worth mentioning pertaining to workplace health conditions is the association between workload and stress. An empirical case control study is

required for establishing the degree of association between these variables. Nevertheless, out of the nine case studies, a general observation regarding the relationship between workload and stress could be drawn.

Though the risks of occupational hazards are similar for both regular and contract workers, the vulnerability is higher for contract workers. While the regular workers are covered for medical claims for accidents and casual diseases, medical care provision for contract workers is limited to industrial injuries and accidents. Since there is no formal contract with company, medical care even for accidents and injuries is a matter of 'discretion' of the contractor and the company. Incidents in TKML and TKAPL reveal that medical support for contract workers are limited to hospital expenditure. They are also not provided compensation or further rehabilitation, in case of irreversible impairments.

Work-related stressful conditions are also higher for contract workers than regular workers. Though working conditions are similar, contract workers are more susceptible to pressure from management at times of labour shortage and TACT DOWN for overwork. Job insecurity is yet another factor reported as responsible for stressful conditions for contract workers. It is reported that workers are constantly under the threat of frequent suspensions, termination of contract and harassment.

### **3.5 Collective Labour Relations**

Collective labour relations in TKML and TKAPL are limited to the regular workers only. Regular workers in TKML are organised under the Toyota Kirloskar Motors Employees Union, which is affiliated to a central trade union. The union was registered in July 2001 and has a membership of 1,380 workers out of 1,590 including team members and team member trainees. Likewise regular employees in TKAPL were organised under Toyota Kirloskar Auto Parts Employees Union in 2001. The union in TKAPL has a membership of 400 workers from 410 and is not affiliated to any central trade union.

The employees' unions in TKML and TKAPL have been instrumental in containing many unfair practices in the units (Table 11). Major union engagements that found results in TKML were wage revision and increment. The union fought on various issues like removal of suspension of workers, good working conditions and removal of contract labour system on the main production line.

Employees union in TKAPL have also taken up many issues pertaining to the suspension of workers, wage revisions, allowances, working conditions and unfair labour practices in the unit. Union interventions were successful in reducing the period of traineeship from three to two years, scrapping the performance appraisal system, wage revision, leave allowance and medical claim.

It was due to the critical union engagement, that the management revised the salary of the confirmed workers, which had not been done for two years in TKAPL. Introduction of good attendance allowance is yet another achievement of the union. Since the Bidadi industrial area, where the company is situated, is not an Employee State Insurance (ESI) notified area, the union demanded separate medical allowance in lieu of ESI. The management agreed to pay Rs. 100 per month and revised existing mediclaim benefits towards this along with the salary. Another significant achievement

of the employees union in TKAPL is the introduction of death relief (allowance). Upon demand, the management agreed to pay a sum of Rs. 300,000 to the nominee of the employee on production of a valid death certificate. Other significant achievements made by the union are advance, emergency advance and enhancement of earned leave from 45 days to 75 days.

Collective union actions are found to have considerable impacts on the wages and working conditions of the regular employees in both TKML and TKAPL. Bargaining through the union has been instrumental in wage revision and introduction of death relief, mediclaim and shift allowance. Though many of the struggles by the union were not successful, the resistance could make qualitative changes in the work environment in terms of employer-supervisor relationship. Many employees reported that episodes of harassment and victimisation had declined after the consolidation of union activities. Over and above, union activities diverted much public attention to the problems of workers. The perceptible impact of unionisation in Toyota Kirloskar is the increase in dignity and confidence levels of the workers. It could also contain threats and victimisation to some extent. Nevertheless the union could not make inroads into many pertinent issues of job security, control of working situations and decision-making pertaining to labour practices.

**Table 11: Major union engagements in TKML and TKAPL**

Union	Demands/Negotiations	Results
TKML	Scrapping of workers suspension in 2004	Not yet resolved.
	Wages of suspended workers	Resolved and are getting 75% of the monthly salary
	Wage revision in 2004	Revised the wage structure and included shift allowance
	Increment	Increment based on performance appraisal introduced.
	Good working conditions	Cases of harassment decreased. No other significant changes
	Abolition of contract labour system on main production line	No changes
TKAPL	Period of traineeship	Reduced to two years from three
	Scrapping performance appraisal system	Scrapped
	Scrapping of suspension of two workers in 2001	One worker was taken back
	Working conditions	No significant change
	Wage revision	Revised
	Good attendance appreciation	Resolved
	Ad hoc payments	Workers now receive
	Medical allowance	Workers now receive
	Mediclaim benefits	Agreed
	Leave accumulation/ death relief/ emergency advance and shift allowance	Agreed
Removal of contract labour system on main production line	Not resolved	

Contract workers and apprentices in both TKML and TKAPL are not organised. The scattered nature of the workforce, uncertain employment and fear of loss of job are reported to be the factors limiting unionisation. It is notable that no initiations from the existing unions or any central trade union have been made towards organising contract workers hitherto. As reported by the union members of TKML, TKAPL and the leaders of central trade unions, the uncertainty of employment is the major limiting factor among many in organising the contract workers.

Lack of organisation has significant repercussions on wages, working conditions and labour relations for the contract workers in TKML and TKAPL. There are considerable wage differentials between regular and contract workers on the main production line who perform similar tasks. It is reported that contract workers get 40-50 percent of the salary of the regular worker in Toyota Kirloskar. There is no common criterion for wage determination in Toyota Kirloskar for contract workers and it is often done by the contractors whom the workers are obliged to. Workload, work pressure, harassments and stressful conditions are also found to be higher for contract workers.

### ***Labour Unrest***

This section attempts to shed light on the struggles of employees in Toyota Kirloskar facilitated through organised activities.

#### *Timeline of Toyota struggle in TKML*

##### **2001**

**30 Mar** Management announced Rs. 300 nominal wage hike

**2 Apr** This nominal increase made employees upset and they boycotted lunch for one day as a protest

**2 Apr** Management ordered and pushed the workers outside the factory

**2 Apr** About 25 leaders were asked by management to come inside for questions and discussions and no progress was made

**3 Apr** Sit in (Dharna) started by workers

**16 Apr** One employee terminated on the charge of instigating workers

Management also started targeted all 20 persons who went for discussion

**Apr** TKM management announced establishment of a Team Member Association (TMA) with the limited purpose of communicating between manager and workers and not for collective bargaining

An active leader and contesting candidate for the TMA was terminated before the result was declared

Election of TMA was over and 15 members were elected

**Jun** TMA elected committee members; decided to register it as a trade union, which management threatened with dire consequences

TMA committee member Mr Renka Prasad terminated on the charge of non-performance

TMA asked management to explain the reason for termination.

Management responded that TMA is only for work ware issue, canteen issue, or safety issue; refused to discuss termination

- Jun** Employees provoked and immediately went for strike. Major demands were:  
 job security, taking back retrenched three employees, and to reduce the training period from three to one year  
 Strike continued for 12 days  
 While on strike they applied for registration under TU Act to the TU Registrar  
 Tripartite meeting: a settlement in which trainee period was reduced to two years from the existing three years  
 No decision of taking back retrenched workers
- Dec** A trainee was terminated though he completed two years with good performance  
 Tool down strike against termination

## 2002

- Jan** First week union gave strike notice
- 9 Jan** Two union officials, General Secretary Mr Shiv Kumar B and Joint Secretary Mr Raghu R were terminated  
 Workers immediately went on strike  
 Strike went on for 52 days with the only demand to take back their two union leaders
- Mar** First week, Karnataka government declared Toyota as an essential service  
 Strike was banned with this order and workers returned to work
- Apr** A good settlement and Rs 2,500 increase of wage after negotiation

## 2003

- Sept** Election took place and seven office bearers and 20 Executive Committee (EC) members were elected

## 2004

- Jan** During the process of making the charter of demands two union members of EC terminated on false charge of threatening supervisor.  
 In protest workers refused to work OT  
 Presidential candidate Ravi R for the next coming election was suspended by management  
 Union gave notice to management to boycott morning meeting and physical exercise which was normal practice.  
 They stopped meeting and exercise in the morning  
 Within a week 12 members were suspended  
 Within 20 days another four member suspended, among them two office bearers, five EC members and others were councillors  
 Suspension letter given in a simple sheet: 'You committed serious misconduct', without any specific charge

## 2005

- Oct** On TU appeal in the Karnataka High Court against declaring automobile as an essential service, Union lost the case
- Nov 05** TKMEU appealed to the Division Bench against Karnataka High Court's own decision and proceeding is going on

## 2006

- Apr** 15 employees still outside factory as the domestic enquiry was started in Dec 04 and completed in Mar 06. The matter was referred to the Labour Court.

Labour unrest in Toyota Kirloskar started with discriminatory labour practices of the management in terms of salary revision, irrational disciplinary actions and non-confirmation of team member trainees. Salary for the confirmed team members in TKML was Rs. 3,000 per month in the beginning and it continued unaltered till 2001. Toyota Kirloskar Motors in 2001 announced a salary hike of Rs. 300 for team members<sup>13</sup> in response to the long-standing demand of salary revision of the workers. This nominal increase was unacceptable for the employees and they boycotted lunch for one day as a token protest on 2 April 2001. Protesting workers subsequently were pushed out of the site. Management finally agreed to discuss the issue with some of the representatives of the employees and had solved the problem temporarily by granting an additional shift allowance of Rs. 5 per shift for every worker. Nevertheless the majority of employees were not satisfied with the decision of the management and they decided collectively to go on with protest. Management started disciplinary actions against the leaders to demoralise the protesting workers. After two weeks of protest management suspended three workers on charges of non-performance and instigating violence. Protest of the workers continued regardless of the pressure tactics of victimisation, suspension and harassment by the management.

Management in order to destabilise the collective actions of the workers and curtail the formation of employees' union, suggested constituting a Team Member Association (TMA) in the unit. Though there were differences of opinion, workers responded positively to the idea of constituting a TMA. Subsequently the TMA was formed in TKML with 15 elected members. In the meantime one of the team members, who was very active in the struggle, was terminated on the charge of non-performance. The instances of disciplinary actions on the workers continued despite the formation of the TMA and even extended to the termination of an elected TMA member. Workers through the TMA sought explanations from the management with reference to the suspension of workers. Management was not ready to entertain the TMA at the level of a body for bargaining and negotiation since, as envisaged by management, functions of the TMA were restricted merely to the issues of workers safety and welfare. This led to another strike, which continued for 12 days. Repeated disciplinary actions of management and the incapability of the TMA to counter it prompted the workers to register the TMA as a trade union. The employees union in TKML, subsequently, was formally registered in July 2001. Workers organised under the banner of Toyota Kirloskar Motors Employees Trade Union and submitted a charter of demands comprising revoking the decision of suspensions and terminations and reduction of training period to one year from two to the management.

Some demands of the union were settled in a tripartite meeting organised by the Assistant Commissioner of Labour. The tripartite meeting resulted in a settlement in which the training period was reduced to two from three years and some proceedings were chalked out pertaining to the confirmation of trainees. However, the demand to revoke the suspensions and dismissals was not settled in the meeting. Management went on with terminations of workers. In December 2001 a trainee was terminated

though he had completed two years of traineeship. The trade union agitated against the suspension and served a notice of strike in the first week of January 2002. This led to further disciplinary actions and two of the office bearers of the union including the general secretary and joint secretary were terminated. Upon their terminations, workers immediately turned to strike. The strike went on for 52 days on a single point agenda of 'reappointment' of the two union leaders. It was at this juncture the Government of Karnataka categorically included Toyota Kirloskar in Public Utility Services, under which workers cannot engage in any forms of strike. As a result the strike was called off and the workers returned to work.

Victimisation and disciplinary actions were thereafter took their worst toll and the management started selectively suspending the union leaders on charges of non-performance. In January 2004 two employees, who were executive members of the union were suspended without any notice or enquiry charging non-performance and 'threatening of supervisor'. Though the union approached management for fair enquiry on the action it did not bring any results. The union, against the decision of the management, refused compulsory overtime as a token protest and gave notice to the management about boycotting the morning meeting and physical exercise, which was part of the work. This led to the suspension of many union members. Within a period of three weeks 16 members of the union were suspended on the charge of 'intimidating' team members into boycotting the morning meeting and exercise. Out of the sixteen workers, one member went back with some punishment.

The employees union, in 2004 June, submitted another charter of demands comprising issues of the suspended workers, wage revision, shift allowance and leave allowance to management. Among these, except wage revision, management discarded all workers' demands. Protest continued peacefully in the forms of boycotting lunch and wearing black badges at the workplace. The employees' union in March 2005 submitted a new charter of demands to management including fair enquiry and re-examination of the disciplinary action on 15 suspended workers. Management discarded the demands of employees in total and the union subsequently served a strike notice in May 2005. Since Toyota Kirloskar was included as a public utility service, strikes were not allowed on company premises. The employees protested outside the premises of the company in the form of demonstrations and campaigning. Protest and demonstration rallies extended to the city of Bangalore. The pressure mounted upon the administration and the Minister for Labour, Government of Karnataka, held a discussion with the union members and management for resolving the issue. Nevertheless, the management did not revoke the suspension of workers. Discussions with the Deputy Labour Commissioner also brought no results. Protests and practices of victimisation are still going on in TKML. The case studies on the opposite page give an account of the victimisation and harassment of workers in TKML.

These case studies and commentary of the incidents of labour disputes in TKML reflect how capital manipulates labour and labour relations to facilitate low cost production in developing countries. It also indicates how collective actions

### **Case Study 3**

Deepak Kumar (changed name), aged 27, had been working as a team member in Toyota Kirloskar Motors from September 2001 to February 2004. Deepak joined TKML as a team member trainee in 1999. He was confirmed in 2001 after two years of traineeship. He was suspended from service in February 2004 on the charges of 'threatening the supervisor', non-performance and instigating protest and violence. Among many, Deepak played a very active role in the formation of the union in TKML. The ineffectiveness of the Team Members Association (TMA) in resolving workers' problems with the management had made the employees in TKML register an employees' union. Deepak was one among the 20 team members who had participated in the discussion with management subsequent to the 'lunch boycott protest'. Management henceforth started targeting the 20 team members who represented the employees in TKML and had taken disciplinary actions against them. Deepak, being an office bearer of the union, had not been dealt with seriously in the beginning. In January 2004 when the union was about to submit a charter of demands, Deepak was suspended along with another union leader. This was aimed to threaten the workers and the union. Though the management accused him with threatening supervisor, non-performance and instigating protests and violence verbally, the actual charge as mentioned in the letter served to Deepak was for serious misconduct. They could not serve a charge sheet to Deepak regarding the nature of misconduct he committed in the unit. Management started an enquiry after seven months and could not bring out any serious charges against Deepak. Discussions and negotiations at different levels did not produce any favourable results for Deepak and colleagues. The case is now before the Labour court.

### **Case Study 4**

Ravisankar (changed name), aged 28, has been working with TKML since January 2000. He is working in the capacity of team member in paint shop. Ravisankar has been an active member of the employees union ever since its inception in 2001 and assumed the post of president of the employees union in 2002. In response to the irrational suspensions and victimisation by the management, workers in TKML refused to do overtime as a token of protest in January 2004. Ravisankar, the ex-president of the union and the presidential candidate for the year 2004, organised and led the strike. He was suspended subsequently in February 2004 for a period of 15 days charged with 'violating company rules' with reference to an incident that occurred two months before. The charge against him was found to be false and he was taken back after 25 days.

and rights of the workers are curtailed through stringent labour practices in a highly flexible system of production organisation. Over and above, it elucidates the actions, counter actions and negotiations between labour and capital as well as the changes it can make on wages, working conditions and the status quo of the workers.

TNCs investing in developing countries do not encourage any forms of organised activities of the workers. Toyota Kirloskar, correspondingly, manipulates labour relations in its manufacturing unit in India. This operates at various levels. Toyota Kirloskar in Karnataka, India is in a position to pressurise the state government to deregulate existing laws, which may hinder their production. The categorical inclusion of Toyota Kirloskar as a Public Utility Service by the state government, for instance, was at a stage when production was seriously hampered due to a strike. The arrival of Toyota Kirloskar in Karnataka originated from negotiations of the state government with the corporation. To retain the investment in the state the government flexibilised regulations in the forms of labour laws in tune with the requirements of the company. Deregulation in many situations in Toyota Kirloskar is unfavourable to the workers as it leads to precarious conditions of work and restricted collective actions. In addition to deregulation through dismantling labour laws and formulation of special provisions for Toyota Kirloskar, the state government provides support through police machinery and industry protection forces to deal with labour unrest. The company itself took the initiative to build a police station by spending Rs. 5 million in its vicinity soon after the registration of the employees' union in the unit. Local administration also unequivocally supports the management and discourages union activities in the locality for their services of development of infrastructure facilities such as roads and streetlight and village beautification. Media manipulation is also reported to be practised by management to curtail union activities. In short, management operates union-busting practises through a network of state machinery, local administration and media.

Labour practices within the unit are appropriated in a way to discourage collective activities among workers. Shift time in the unit was organised in such a way that workers in one shift cannot interact with workers of other shifts. It affected the interpersonal communication between workers initially. Along with such labour practices, management used pressure tactics such as threatening, harassment and victimisation of workers in order to discourage unionisation in the unit. With the intention to fetter the unity of the workers, management instituted labour practices within the unit. The performance appraisal system, which was introduced as a criterion for incentives and promotion for workers, for instance, was aimed more at developing a hierarchy among workers of the same status. Irrational promotions on the basis of performance and loyalty to management are deliberately organised to weaken the class consciousness of ordinary workers. It is reported that the management provides special incentives or promotion to the workers who support the management at the time of labour disputes.

#### 4. CONCLUSION

In the current phase of imperialist globalisation, capital through its TNC agents, is on the march to curb the rights of workers and exploit them optimally. In this context the present study has attempted to examine the labour practices, forms of employment, working conditions and collective labour activities in ATNCs in Asia in the milieu of flexibilised production regime with special reference to Toyota Motors in India. The case of Toyota Motors in India reflects many pertinent aspects of capital labour interactions in which capital has complete control over the labour process and workers rights.

Labour market deregulation aiming to attract FDI is one of the major contributing factors of unfair labour practices in TNCs in India. The investment attracting measures with reference to labour market flexibility are very often translated into precarious conditions of work in TNCs. The case of Toyota showed that practices of numerical, functional, temporal and wage flexibilities negatively affect labour conditions. Dismantling labour laws with regard to retrenchment, closure, contract labour and collective labour activities by Central and State Governments have a negative impact on labour conditions in general.

Production organisation is another aspect of concern in TNCs with regard to the labour conditions. Flexible production organisation enables the employer to keep a peripheral workforce on contract basis, thereby helping management to keep a reserve workforce for time of crisis and to minimise the cost of production. There are considerable discrepancies in labour processes including wages, recruitment and welfare provisions between core and periphery workers. Other production practices like TPS, based on TACT time are incongruent with the production environment and responsible for multi-tasking, overwork and stressful conditions for workers. Exclusion of fatigue and exhaustion out of continuous speedy work in fixing TACT time brings about more workload. The production system based on *kanban* in Toyota Kirloskar limits the freedom and control of workers on their work process and the working environment.

Though working conditions in the automobile industry are better compared to other industries, the Toyota case reflects many of the practices in automobile TNCs. The company complies with all provisions in the labour laws pertaining to hours of work, occupational safety and health, overtime, medical allowances and other welfare provisions in principle. Nevertheless, it is understood that the company violates all said norms in actual practice. Total weekly hours of work in Toyota Kirloskar are 54 to 55 hours, infringing the provisions of the Factories Act and ILO standards. The workers are provided with protective measures such as masks, gloves, apron, helmet, spectacles and shoes at the work place as per the legal provisions. These safety measures were found to be helpful by the workers to limit some of the health hazards like respiratory problems and skin allergies to a certain extent. Nevertheless, our research found that major health concerns of the workers in Toyota Kirloskar are physical disabilities and stress, out of excessive work and work related anxiety, and

are totally neglected in the health provisions. It is also found that the health behaviour of the workers depends largely on the work conditions.

Labour practices in TNCs are appropriated towards weakening the collective activities of the employees. Practices like performance appraisal system and discriminatory treatments for promotion and increment in Toyota is aimed more at dividing the unity and class consciousness of the workers. Practices of victimisation, threatening and selective disciplinary actions are found to be prevalent in Toyota for destabilising the collective activities of the workers.

Like other TNCs, job insecurity is found to be rampant in Toyota Kirloskar. The identified sources of insecurity such as absence or reduction of control over work and absence or reduced probability of upward mobility in status (Standing: 1999, p.38) are corroborating with the labour practices in Toyota Kirloskar. Major contributing factors of job insecurity in the unit are performance anxiety, demoralisation, victimisation, irrational disciplinary actions, ill health and higher levels of stress. Job insecurity is found more among contract workers. However, there were instances of terminations of confirmed workers charged with non-performance. Though the foremost charge for terminations of regular workers was non-performance, most of the terminations in Toyota Kirloskar were aimed at destabilising union engagements.

Unionisation in Toyota Kirloskar has made considerable impact on the labour conditions. Union activities in the units have been influential in revising wages and increments and regulating working conditions to a certain extent. There are substantial qualitative changes in terms of employee-supervisor relationship and the confidence of workers in Toyota Kirloskar after unionisation.

The research throws light on various pertinent issues of capital-labour interactions in TNCs invested in developing countries in general and automobile TNCs in India in particular. It is observed that, in most of the situations, labour problems in TNCs are not noticed or neglected because of the preference given to attracting and retaining foreign investment in host countries. Stringent production and labour practices of the companies together with limited state regulation lead to higher levels of job insecurity, precarious conditions of work and breaches of human rights in the workplace. In short, labour, which is an integral part of the production chain, is systematically exploited and undermined in the TNCs in the flexibilised regime of production.

The case of Toyota Kirloskar, therefore, points to further action with reference to challenging priority treatments, advocacy and negotiation, support and education of workers. Following could form the concerns of future actions.

- There is a great need to challenge the irrational priority treatment of Central and State governments for TNCs like public service utility status that curtails the right of workers to protest. In this specific case, Toyota Kirloskar has been given public utility service status by redefining the norms of public utility service by the state of Karnataka.

- Though workers are organised in Toyota Kirloskar, it is found that in many cases collective actions do not translate into effective negotiations or settlements. Therefore there is a great need to empower the unions through education and advocacy.
- Since there is an alarming concern and preferential treatment for foreign investment in the state, the struggles of the workers for their demands are often neglected in the public sphere. Therefore there is a need to bring the issues of workers to the public sphere through media and other campaigning.
- Since the burden of unfair and exploitative labour practices is more on contract workers, there is a need to educate, empower and organise them in TNCs.

### REFERENCES

- Business Line, 25 March 2005.
- Dept. of Labour Govt. of Karnataka 2005, 'Memorandum of Settlement between Toyota Kirloskar Auto Parts Employees Union and Toyota Kirloskar Auto Parts Private Ltd', *Register of Settlements*, No. 12, pp. 3-6.
- Despande, L.K. 1999, 'Labour Market and Structural Adjustment', *The Indian Journal of Labour Economics*, Vol. 42, No.1, pp. 59-69.
- Fumio, Kaneko 2004, 'World Investment in Japan's Automobile Industry – The Case of Toyota', in Dae-oup Chang and Ed Shepherd (ed.) *Automobile Workers and Industry in Globalising Asia*, Hong Kong: Asia Monitor Resource Centre.
- Government of Karnataka, Department of Labour 2005, Report of Central Safety Monitoring Cell, <http://labour.kar.nic.laour/default.htm>
- Ministry of Heavy Industries and Public Enterprises 2002, *Auto Policy 2002*, New Delhi, Government of India.
- Registrar of Settlement, *Memorandum of Settlement, O No. 12, Date 5/ 10/ 2005*, Bangalore, Karnataka.
- Way 2 Wealth 2005, 'Indian Automotive Component Sector: Going Global', <http://www.way2wealth.com/research/research.php>
- Saripalle, M. 2005, *Competing Through Cost Versus Capabilities, Organisational Transformation of the Indian Automobile Industry*, Dept. of Agriculture and Resource Economics, Connecticut: University of Connecticut.
- Shrouti, Arvind 2004, 'New Management Strategies and Automobile Workers in India', in Dae-oup Chang and Ed Shepherd (eds.) *Automobile Workers and Industry in Globalising Asia*, Hong Kong: Asia Monitor Resource Centre.
- Standing, G. 1999, *Global Flexibility: Seeking Distributive Justice*, London: Macmillan.
- The Factories Act, 1948, as amended by the Factories (Amendment) Act, 1987, Government of India.
- The Hindu Daily, 28 September 2005, Bangalore.
- The Industrial Disputes Act of India, 1947.
- Government of Karnataka 2001, *The New Industrial Policy 2001-2006 of Karnataka*, Karnataka: Government of Karnataka.
- Wilkinson, C. 2001, *Fundamentals of Health at Work*, London: Oxford University Press.

### WEB SITE REFERENCES

- <http://acmainfo.com/contactus.htm>
- <http://www.cmie.com>
- <http://dipp.nic.in>

[http://dipp.nic.in/japan/japan\\_cell/index\\_japan.htm](http://dipp.nic.in/japan/japan_cell/index_japan.htm)  
<http://labour.kar.nic.in>  
<http://www.thehindubusinessline.com/2005/11/23/stories/2005112303330900.htm>  
<http://www.way2wealth.com/research/research.php>

## NOTES

- 1 In India, Provincial Governments are known as State Governments.
- 2 Schedule 1, sec. 22-25, The Industrial Dispute Act, 1947.
- 3 Optimum level of automation, in automobile manufacturing, depends on TACT. It is determined by dividing the total available task time by total market demand or output produced. This sets the targets to be achieved in a production line.
- 4 As per the latest wage revision in 2005.
- 5 Allowances based on performance appraisal and shift are also applicable.
- 6 8A, 8B and 8C are similar categories corresponding with Y3, Y2 and Y1 in terms of year of joining.
- 7 Y3 is workers who joined before 31 March 2000 or between 1 April 2000 to 31 March 2001.
- 8 Y2 is 1 April 2001 to 31 March 2002; Y1 is 1 April 2002 to 31 March 2003.
- 9 Just in time (JIT) is associated with Japanese methods of organising production. It is a system, which ensures that components or raw materials of the exact quantity and quality are delivered to the appropriate place in the production process at the right time. The adoption of JIT enables companies to avoid stockpiling costly components and raw materials.
- 10 *Kaizen* is the Japanese concept of continuous improvement.
- 11 Quality circles (QC) are generally small groups of employees, usually volunteers, who meet periodically to discuss ways of improving quality and productivity in their work areas. QCs were particularly popular in manufacturing in the United Kingdom in the late 1970s and early 1980s but have become less so now. QCs, based on *kaizen* principles, develop shop-floor staff problem-solving skills and encourage their suggestions to eliminate waste.
- 12 Under provisions in the Factories Act, no adult worker is required or allowed to work in a factory for more than 48 hours in any week. For details, see Chapter VI, The Factories Act, 1948, as amended by the Factories (Amendment) Act, 1987, GOI.
- 13 All regular and probationary workers are called team members in TKML.

**PART 3**

**TATUNG**



## CHAPTER 10

### TATUNG: FROM TAIWAN NUMBER ONE NATIONAL BRAND TO MOVING OUT

*TSAI, CHIH-CHIEH*

#### ABSTRACT

In the 1960s and 1970s, Taiwan's interior market was protected by government for local industries to share with little competition. Under this situation, Tatung Company rose sharply to Taiwan's number one national brand in home appliance production. Tatung implemented conservative labour practices and dismissed unionists if there was any resistance. In the 1980s, Taiwan's government opened the market. Since then, local industries had to face strong challenges from outside; traditional sectors like home appliances have moved out seeking cheaper labour costs and gradually turned to 3C-related productions<sup>1</sup>. Tatung not only moves production lines but also management style to the invested countries; union busting comes again but in different nations. In Taiwan, unionists got certain resources from the outside labour movement to keep the unions operating; in Thailand, unions still struggle under hardship. As the company keeps changing face, unions confront a new business structure in this global age.

On 30 March 2006, Tatung Banciao Plant Union mobilized 200 members to demonstrate in front of Ministry of Economic Affairs (MOEA) building because Tatung intends to move the main instruments of Banciao plant to Vietnam. This means production in Banciao plant would finish soon, endangering the job security of 600 workers there. The union chose MOEA as its demonstration object because Taiwan's government encourages Taiwanese businesses to move investments abroad. The union also demanded that the government takes serious action to support 'traditional' industries. Events like this are often seen in recent years; there are many factory closures and Tatung is not an unusual case. Several media companies interviewed people on the demonstration, which became a hot topic on news channels

that day, as Tatung is a famous national Taiwanese company. In the past when air conditioners were uncommon, many Taiwanese used electric fans during summer, many of them came from Tatung. In Taiwan nearly 90 percent of rice cookers are made by Tatung. Furthermore, almost all the students take a rice cooker with them when they study abroad. Along with the government's slogan 'Value the national products!' in the 1970s, Taiwanese people over the age of 25 grew up with Tatung products. And the Banciao plant is the very place manufacturing these appliances. But now the products would not be made in Taiwan anymore.

Tatung Boy (For background about this mascot, see <http://www.tatung.com/en/mascot.asp>) first appeared on TV commercials in 1969 accompanied with the Tatung Song. They were so popular that most Taiwanese over the age of 25 could sing the Tatung Song. Now that Tatung intends to move production out of Taiwan there is no wonder the media paid attention to that demonstration. This report thus tries to show how Tatung strengthened itself under the government's economic protection policy before the 1980s, and started economic liberalization in the 1980s. Finally we will show you the working conditions and labour situation of Tatung in Taiwan and Thailand, and how workers react.

## **1. THE POST-WAR INDUSTRIAL DEVELOPMENT POLICY OF TAIWAN'S GOVERNMENT AND TATUNG**

### **1.1 Tatung in the Early Years**

In 1918 when Taiwan was a Japanese colony, Tatung founder Lin, Shan-Chih set up the Hsieh-Chih Business Association focusing on the construction business. To supply iron reinforcement bars for construction works, Lin set up the Tatung Iron Works in 1939. In 1942, Lin established the Tatung Junior Vocational School (now the private Tatung Junior High School) appointing his eldest son T S Lin as 'unique trinity': Professor and President of Tatung School, and Chairman of Tatung Company.

In 1945, Taiwan was ceded to Republic of China (ROC) from Japan after World War II. Tatung Iron Works changed its name into Tatung Steel and Machinery Manufacturing Company the same year. During the war, railway cars were bombed and destroyed. Tatung was contracted to repair 577 railway cars and input much money, but when the contract was finished, the fixed assets had no work. That left Tatung in heavy debt but marked a very important turning point. First, by the contract Tatung began a close relationship with the ruling Kuomintang Party (KMT). T S Lin was elected as a national legislator, and appointed Chairman of Taiwan Electric Appliance Manufacturers' Association<sup>2</sup>, and Chairman of the Taiwan Association of Machinery Industry. Second, Tatung changed its infrastructure to produce electric fans, creating the base for the later Taiwan number one national industry in home appliances.

### **1.2 Industrial Development Policy during the Horizontal Import Substitution Era (1946-1959)**

After the destruction of World War II, agricultural and industrial production in Taiwan fell seriously. The KMT lost a civil war to the Chinese Communist Party

(CCP) in 1949 and moved the ROC regime to Taiwan, facing deficiencies in production and lack of foreign exchange. The first priority of economic policy was to recover productivity levels and try to supply daily needs locally to save on foreign exchange. We call this time the Horizontal Import Substitution Era. The focus of this era was ‘cultivate industry from the resources of agriculture, while developing agriculture from industrial forces’. Taiwan’s government launched land reform to increase agricultural productivity and shifted agricultural resources to industry. Thus industrial forces could keep agriculture productivity moving forward. Table 1 shows policy contents to restrain imports, save foreign exchange and protect local industries.

**Table 1. Industrial policy contents during the Horizontal Import Substitution Era**

<b>Policy</b>	Tariff protection	Import regulation	Limitation on new factories	Domestic-made ratio rules	Foreign exchange rates
<b>Content</b>	High import tariff	Import items differentiated into permitted, regulated and prohibited	Temporary limitation on new factory establishment	Component parts for production had to meet domestic-made ratio, specially for electronic and machinery industries	Low rate for industrial equipments, high rate for luxuries

*Source: author*

Taking the electrical industry as an example, electric fans were important products protected during the Horizontal Import substitution Era. Import tariff on electric fans in 1948 was 80 percent and usually 60 percent during the 1950s and 1960s. Thus electric fans were in the import-regulated sector in this era (Duan 1999, p.345). During this era, another important issue for Taiwan’s economic development was US Aid, since Taiwan didn’t have enough foreign exchange at that time. Parts of US Aid directly subsidised the private sector; Tatung was one of the supported private enterprises (Lee 1999, p.41).

### **1.3 Tatung in the 1950s**

Tatung began to produce electric fans in 1949 with only 98 employees. Tatung started technical cooperation with Toshiba to produce electric meters in 1954 and cooperation with Westinghouse to manufacture electric motors in 1956. Electric fans, meters, and motors were the three major products of Tatung in the 1950s. In 1956, Tatung established Tatung Industrial College (now the Tatung University) with T S Lin as the first President. Tatung cooperated with NEC to set up Taiwan Telecommunication Industry Company (TTIC) in 1958 to produce telecommunications equipment. At that time, Tatung lacked money and tried hard to collect capital to invest, even thinking about how to get more from the employees. Firstly, from 1946 Tatung began to encourage employees to buy shares in the company. From 1957, Tatung’s shares went public. When the Taiwan Stock Exchange Corporation opened in 1962, Tatung was one of the first companies on Taiwan’s stock market. But even though employees bought shares in the company, the shares were still collectively reserved by the company. The employees couldn’t sell their shares and couldn’t

attend the annual shareholders' meeting unless they quit the company. Tatung did this to collect capital from the employees, and to consolidate control of shares by the Lin family. This issue later became an important point of dispute between the labour and the company. Secondly, Tatung deducted four percent of employees' salary every month as enforced savings for the Annuity Fund (*Tatung Semi-Monthly*<sup>3</sup> 47:13, p31). From 1957, Tatung started to collect savings from employees and the general public, in the name of Tatung Employees' Saving Account. Tatung was not a bank but collected savings from people. Actually it was informal and unlawful banking.

#### **1.4 Industrial Development Policy during the Export Oriented Industrialization Era (1960-1972)**

As mentioned above, Taiwan's economy in the Horizontal Import Substitution Era was sustained by US Aid. Entering the 1960s, US Aid was coming to an end. To ensure continuous capital accumulation of Taiwan's economy, the US Aid agency in Taiwan directed Taiwan's government to draft the Nineteen-point Financial and Economic Reform Programme in 1960. One important dimension of the programme was to change the import substitution policy into an export oriented one. The same year, the programme was embodied in the Statute for Investment Encouragement. The international situation at that time on one hand was the Cold War confrontation between the Soviet Union and the US. The US had to open its domestic market to support East Asia's economy to compete with the Soviet bloc. But inside the US were emerging voices to move industries abroad, taking advantage of cheaper labour forces in developing countries and sell the products in the US. With this trend, Taiwan became one of the assembly and export bases of US and Japanese capitals, using the export trade to stimulate economic growth and was known as 'improving economic growth by international trade, using the growth to extend trade. Table 2 shows the policy contents to improve exports.

**Table 2. Policy content to improve export in Export Oriented Industrialization Era**

<b>Policy</b>	Foreign exchange subsidy	Refunding tariffs for exports	Low interest loans for exports
<b>Content</b>	Use foreign exchange earned from exports to import raw materials	Refunding tariffs of imported raw materials after assembly and export	Through industrial associations to set up Cooperation Funds

*Source: author*

The Statute for Investment Encouragement tried to attract capital by tax advantages. Local capitals were still small, thus foreign capitals became important. In 1964, US company General Instrument came to Taiwan to invest. This was the first 100 percent foreign investment and totally export oriented company that supplied electronic parts to international markets. Besides using Taiwan's cheap labour force, this investment had nothing to do with Taiwan's domestic market. This symbolized that Taiwan had entered the international division of labour by export orientation (Chen 2004). In 1966, the first export processing zone in Taiwan was established<sup>4</sup>.

That was just a continuation of export oriented policy and extension of the export sector.

Now many people think the export oriented policy was the key element in the success of East Asian economic development. So, people emphasized the role of exports too much. In fact, even in this era, import substitution and protection of local markets were still going on in Taiwan. Take the home appliance sector as an example, during 1963 and 1964, Taiwan's government temporarily refused to register new TV set factories (Tu 1999, p.98). And the domestic-made ratio regulation was set up especially for electronic and machinery industries. From 1964 to 1973, the domestic-made ratio of the home appliance sector was around 60 to 70 percent (Duan 1999, pp.349-50).

Except for foreign investments supplying the international market, import substitution and export orientation continued simultaneously. For example Tatung electric fans, which were once protected items during the Import Substitution Era, transformed into important export commodities during the Export Oriented Era. We may say that the possibility of big scale exports was established on the base of the protected inner market since the import substitution era. Only when the inner market was protected did Taiwan's private sector have the chance to obtain adept labour, manufacturing skills, and reproductive capitals through local sales, at the same time getting ready for the opportunity to export. Another big issue relating the export was the break-out of Vietnam War. Taiwan was an important platform to supply the needs of the US army. *Tatung Semi-Monthly* (48:24, pp.4-5) ever had reports very proudly that the company defeated Japanese corporations to win the contracts from the US army.

### **1.5 Tatung in the 1960s**

The 1960s was the first decade of Tatung's big expansion. Two main production sectors emerged in this era: home appliances (rice cookers from 1960; radios and refrigerators, 1961; black & white TVs, air conditioners, and compressors, 1964; colour TVs and wire and cable, 1969; heavy electrical apparatus (power transformer), 1963. The technique source was mostly from Toshiba.

Regarding international trade, Tatung started to export in 1954. The five big exports in the 1960s were electric meters, electric fans, power transformers, electric motors, and rice cookers. But excepting electric fans and later TVs, most products were domestic market oriented. In addition, Tatung began to develop a component parts sector, which was totally export oriented. In 1966, Tatung had technical cooperation with IBM to set up Tatung Electronics, manufacturing parts for mainframe computers. Tatung technically cooperated with General Instrument and Japanese Alps to set up Forward Electronics in 1970, producing parts for TVs and other home appliances.

Through technical cooperation with transnational companies, Tatung also obtained investments from those companies. In 1968, about 15 percent of Tatung's shares were held by foreign capitals. Tatung productions started to export to Japan in 1969. It was well documented in the newspapers meaning that the quality of

Taiwanese products was good enough to ship to the technique resource state. The expansion of production led to the expansion of employment. In 1964, Tatung only had 2,529 employees. In 1967, there were 4,500 employees with average wage of US\$50 per month. At the same time, the price of a 16-inch Tatung TV was \$138, the cheapest refrigerator was US\$142, and a big rice cooker was US\$9.5 (*Tatung Semi-Monthly* 50:4, p.4). In 1969, there were 8,000 employees with average wage of US\$87.5 per month (*Tatung Semi-Monthly* 51:21, pp.6-7).

The 1960s was also the exaltation decade of Tatung in business and politics. In 1967, T S Lin served on the KMT's Central Standing Committee; in 1969, he was elected as Speaker of Taipei City Council and three years later for a second term. The company changed its name from Tatung Steel and Machinery Manufacturing Company to Tatung Company in 1968, representing that the company has crossed the border from steel and machinery to electronics. In 1970, Tatung became the biggest private company in Taiwan, with the total proceeds of US\$55 million.

#### **1.6 Industrial Development Policy during Vertical Import Substitution Era (1973-1979)**

After 10 years of export orientation, demand for middle materials had increased. The basic infrastructures like transportation couldn't meet the needs of economic development. In 1973, Taiwan's government changed policy to vertical import substitution, meaning 'backward integration', developing upper stream sectors of the industries. Later, the Ten Big Constructions policy was implemented, focusing on petrochemicals, heavy industries, and transportation infrastructures, to 'adjust economic structure, improve industries upgrading'. Regarding the policy of this era, vertical import substitution is more obvious in two industrial chains: synthetic fibres and plastics linking backward to petrochemicals; and home appliance and machinery linking backward to steel and metal industries. In other words, the focus of vertical import substitution was heavy and petrochemical industries. Because the upper stream sectors could guarantee supply of enough materials, the goal of vertical import substitution was to maintain and expand exports (Yeh 1984, pp.693-4). The Ten Big Constructions policy also provided much business for private companies; Tatung got huge contracts from it, like all the power transformers of the new international airport.

#### **1.7 Tatung in the 1970s**

The popularity of Tatung Boy and Tatung Song, announced that the 1970s was the second decade of Tatung's expansion. Tatung's manufacturing plants from Taipei city had extended to Taipei county: Banciao plant was established in 1970 and Sanshia in 1973. Others would come to Taoyuan county later. Expansion also happened overseas. Tatung had set up overseas offices since 1971 to improve international trade. The Singapore office transformed into Tatung Singapore Electronics in 1972. Tatung US was set up the same year, Tatung Japan in 1975 and Tatung UK in 1980. Some of the overseas subsidiaries implemented small-scale manufacturing besides trade. Backward integration was tried inside Tatung Group. In 1970, Tatung together with several Taiwanese home appliance companies technically cooperated with US company RCA to invest in Chunghwa Picture Tubes

(CPT). Main products were picture tubes supplying TVs and monitors. But as time went on, quality couldn't meet expectations. Later, RCA and other Taiwanese investors dropped out. Only Tatung supported CPT independently. Eventually Tatung again found Toshiba to transfer the technique. Then after 16 years, CPT began to make profits in 1986. In 1972, T S Lin's eldest son W S Lin followed his father's footsteps as President General of Tatung Company; T S Lin remained Chairman. In 1975, T S Lin was elected as Chairman of the Chinese National Federation of Industries.

### **1.8 Industrial Development Policy during the Economic Liberalization Era (1980-now)**

In the Vertical Import Substitution Era, the ratio of heavy and petrochemical industries in Taiwan total industrial production values indeed increased. But two oil crises in the 1970s warned not to rely on petrochemicals too much. In 1980, Taiwan's government turned from heavy and petrochemical industries to 'strategic industries'. The establishment of Hsinchu Science Park in 1979 led to the most important strategic industry: information technology (IT). This era was to 'speed up industries upgrading, aggressively develop strategic industries'. In 1984, for first time total export values of electronics were more than textiles. The policy of this era was embodied in the Statute for Upgrading Industries, 1991.

Internationally, advanced capitalist states faced serious economic decline after the two oil crises. They gradually conducted economic protectionism after the 1980s. For example, the US government started limiting Taiwanese imports including steel, rice, textiles, colour TVs, and so on. Furthermore, the US asked Taiwan's government to open the domestic market to foreign goods and revalue the Taiwanese dollar (Duan 1999, pp.293-7). In September 1985, the devaluation of the US dollar led to a sharp revaluation of the Taiwanese dollar. Four years later, the Taiwanese dollar hit the highest point at 25.5:1. Through almost all the 1990s, the exchange rate of the US and Taiwanese dollars stayed under 30:1, until 1997. The revaluation of the Taiwanese dollar made export prices higher, reducing exports (Lin et al 2000a, p.8).

In this sense, Taiwan's government announced the economic liberalization policy in 1983, loosening regulations on import and capital mobility (Lin et al 2000a, pp.11-6). At that time, the protectionist policy since the Horizontal Import Substitution Era went totally. Policies like tariff protection, import regulation, and rule of domestic-made ratio expired. Foreign products come in more easily than ever. Taiwan's government even opened the gate for foreign investments. At this stage, Taiwan products faced serious competition not only in international markets, but also in the domestic market beyond the deregulations. Taiwan industries in the Economic Liberalization Era are much more involved in the international division of labour than ever. Taiwanese companies must be more flexible in the global world, to survive.

**Table 3. Deregulation on capital mobility in the 1980s**

Date	Implementation
May 1985	Loosening limitations on investing abroad
June 1986	Loosening limitations on foreign investments
Aug 1990	Partly permission on investing in mainland China

*Source: Lin et al 2000a, p.14*

Loosening limitations on investing abroad and loosening limitations on foreign investments, are two sides of one thing. Because competition increases, Taiwanese corporations must go abroad seeking cheaper labour to reduce costs, and find other export places to avoid trade barriers. And because of Taiwan's diplomatic isolation in international society, Taiwan's government encourages businesses to invest abroad, trying to use investment as a bargaining chip to consolidate diplomatic relationships (Nee 2002, pp.142-56). The goals of Taiwanese overseas investment are listed below. Investment has more and more concentrated on mainland China in recent years.

**Table 4. Taiwan investment abroad, 1996-2005** (Unit: US\$1,000)

Year	Mainland China		Other areas		Investing values in mainland China/ total investing values
	Cases	Value	Cases	Value	
1996	383	1,229,241	470	2,165,404	36.21%
1997	728 (7,997)	1,614,542 (2,719,771)	759	2,893,826	35.82%
1998	641 (643)	1,519,209 (515,412)	897	3,296,302	31.55%
1999	488	1,252,780	774	3,269,013	27.71%
2000	840	2,607,142	1,391	5,077,062	33.93%
2001	1,186	2,784,147	1,388	4,391,654	38.80%
2002	1,490 (3,950)	3,858,757 (2,864,301)	925	3,370,046	53.38%
2003	1,837 (8,268)	4,594,985 (3,103,799)	714	3,968,588	53.66%
2004	2,004	6,940,663	658	3,382,022	67.24%
2005	1,297	6,006,953	521	2,447,449	70.62%

Note: Numbers in brackets are remedial applications. Remedial values are excluded from ratio measures.

Source: Department of Investment Services, Ministry of Economic Affairs, Taiwan

Due to political tension between Taiwan and China, Taiwan's government tries to divide capital flow to China. In 1993 and 1998, Taiwan's government proposed a South Bound Policy, hoping businesses would go to Southeast Asian countries to invest. Since the mid-1990s, Taiwan's government identifies Central America as another target. By then Central American countries had diplomatic relationships with Taiwan, so the government lobbied businessmen to invest there (Nee 2002, pp.119-23). But as Table 4 shows, the real effect is little. Most businessmen still like to invest in China.

### 1.9 Tatung after the 1980s

Although the export value of Tatung was number one in Taiwan's electronics industry by 1980, Tatung met big risks in the mid-1980s. First was saturation of the domestic market. Entering the 1980s, home appliances were common for most Taiwanese families leaving only little space for the growth of home appliance sales. Second was international competition. Taiwan companies faced strong challenges

from Korean electronics companies and still can't compete with them (Lin et al 2000b, p.37). Taiwan's government opened the market completely to the import of home appliances in 1986. Since then, even in domestic market there are more and more competitions. Tatung's exports raced to number one in all Taiwanese companies by 1985, but it seems like a last blossom before the downfall of the home appliance sector.

In 1985, a financial scandal happened in Taiwan. Many people withdrew money from insecure banks, including Tatung Employees' Savings Accounts. Tatung suddenly lost US\$75 million of circulation capital, more than 10% of total assets. Taiwan's government asked state-owned banks to provide financial support for Tatung. So that Tatung hardly passed the difficulty (Lin et al 2000b, p.37-8). The only thing cheerful for Tatung during the hard time was that CPT began to make profits. Facing serious damage in the mid-1980s, Tatung transformed itself to meet the changing situation.

***Main Production from Home Appliances and Heavy Electrical Apparatus to 3C***  
*Home appliances and heavy electrical apparatus are domestic oriented, 3C are export oriented*

In 1992, the sale of Tatung's 3C productions for the first time outstripped home appliances and heavy electrical apparatus combined. 3C productions are export oriented, contrasting to domestically oriented home appliances and heavy electrical apparatus (See Table 5). In 1999, Tatung's stock on Taiwan's Stock Market Exchange changed from the electrical sector to the electronic sector, declaring that Tatung had transformed and its income was mainly from 3C productions now. In 2005, the ratio of 3C in all sales reached 77.5 percent; heavy electrical apparatus, 8.59 percent; wire and cable, 7.04 percent; home appliances were lowest at 6.87 percent (2005 Annual Report of Tatung Company, p.35).

**Table 5. Sales of Tatung products, 1992** (Unit: NT\$1,000; US\$1 = NT\$25)

<b>Computer, communication, and consumer production (50.11%)</b>				<b>Home appliances (23.87%)</b>			
Domestic market		Export		Domestic market		Export	
Value	%	Value	%	Value	%	Value	%
1,238,202	3.74	15,351,284	46.37	7,278,835	21.99	620,907	1.88
<b>Heavy electrical apparatus (20.67%)</b>				<b>Others (5.35%)</b>			
Domestic market		Export		Domestic market		Export	
Value	%	Value	%	Value	%	Value	%
6,567,997	19.84	276,230	0.83	1,658,534	5.01	111,703	0.34

*Source: 1994 Annual Report of Tatung Company, p.9*

*Home appliances and heavy electrical apparatus have own brand, 3C are original equipment manufacturing (OEM) for mainly western brands*

Tatung started to produce personal computers (PC) in 1984. In the beginning, the brand on the products was Tatung. But later, there were more and more OEM productions. Especially after 1993, with the price reducing wave of PCs on the

international market, Taiwanese computer manufacturers turn to grab OEM orders from big western brands (Wang 1999, pp.34-6). Taking the example of Tatung, PC orders were mainly from HP and Compaq; monitor orders were from IBM. In 1985, Tatung had a huge order from IBM of one million monitors (Wang 1999, p.32). In 1999, 45.72 percent of Tatung's total income came from HP (1999 Annual Report of Tatung Company, p.13). In 1989, TTIC produced public phones for AT&T. In recent years, Tatung had orders for PCs from Haier, monitors from IBM, and Palma display panel (PDP) TV with thin film transistor-liquid crystal display (TFT-LCD) TV orders from HP, JVC, and Wal-Mart.

#### *Manufacturing plants move abroad, especially China*

Appendix 2 shows that Tatung Group has many investments abroad. Two points can be highlighted here about the overseas investments.

#### *Most investments concentrate on China*

Tatung set up overseas subsidiaries since the 1970s. Because of the nearby export market, some subsidiaries also launched small scale manufacturing. Up to the mid-1980s, Tatung also established factories in the US and Southeast Asia but not many. The investment boom happened in China from the late 1980s. Almost all companies in Tatung Group have factories in China. Tatung also set up factories in the countries around the US and in Europe like Mexico, Netherlands, and Czech in the past 10 years.

Comparing investment of Tatung Group in 2004 and 2005, FDK-Tatung Thailand (electronic parts), Tatung Indonesia (electric motors) and Cambodia Lan-Sung International (lumber) were already removed from the list. In addition, when CPT Scotland plant was established in 1997, it was such a big event that the UK Queen attended the ceremony. T S Lin was also there. He must be proud that he set up a factory in the homeland of Adam Smith. But the Scotland plant has already closed. All these things make the investments more concentrated in China.

#### *Investments in China are all indirect through companies in third places*

Tatung sets up investing companies in tax-free paradises like Singapore and the British Virgin Islands, and then invests in China through these investing companies. Because the subsidiaries in China are indirect investments, Tatung doesn't need to declare the company information in the annual reports.

#### *The segmentation of the company and technique integration*

In 2000, Tatung's Information Communication Department was transformed into a new company named Tatung System Technologies. Similarly the same year, the Sales and Service Department and service outlets became Tatung Consumer Productions. It seems that Tatung tried to operate the production and service sectors separately. Since the 1970s, Tatung invested in many subsidiaries (see Appendix 1). The subsidiaries distribute in many industries. It's hard to say that there is any linkage among them. But nowadays Tatung has launched its integration of 3C productions, through outsourcing and mergers. It puts particular products to particular manufacturers in order to specify the skills and reduce the burden of the parent company.

In 2005, Tatung sold its PC department to Elitegroup Computer Systems (ECS), in exchange for 30 percent of ECS shares. Tatung outsourced its PC OEM orders to ECS and transferred all 180 workers in the PC department to ECS. Now Tatung is the biggest shareholder of ECS and the Chairwoman of ECS is W S Lin's wife, the eldest daughter-in-law of Lin's family. Originally the sales of computer systems occupied 70 percent of Tatung total 3C sales in 2004. But due to the outsourcing of the PC department, the percentage was only 14 in 2005; the percentage of flatscreen TVs and monitors increased from 23 to 80 (2005 Annual Report of Tatung Company, p.37). Originally ECS focused on main board production, later extending to PC and laptop manufacture. In July 2006, ECS announced its merger with Uniwill Computer, the laptop manufacturer. In other words, although Tatung itself doesn't conduct computer production anymore, it has outsourced production and integrated the producing technique of main board, PC, and laptop by merger. A similar strategy occurred in CPT. In 1997, CPT got technical cooperation from Mitsubishi Electric's subsidiary Advanced Display Inc. (ADI) to manufacture TFT-LCD and PDP monitors. Since then, CPT once the biggest cathode ray tube (CRT) manufacturer in the world, changed to mainly produce flat monitors. We can see in Table 6 that from 1999 to 2004, the percentage of CRT sales in CPT dropped from 78.80 to 34.12; the percentage of TFT-LCD rose from 14.79 to 63.00.

**Table 6. Sales percentage of CPT main productions, 1999 and 2004**  
(US\$1 = NT\$33)

1999			2004		
Product	Value NT\$1,000	%	Product	Value NT\$1,000	%
CRT	28,437,390	78.80	CRT	39,958,974	34.12
STN-LCD	148,153	0.41	STN-LCD	856,688	0.73
TFT-LCD	5,338,470	14.79	TFT-LCD	73,774,362	63.00
Others	2,165,123	6.00	PDP	2,440,983	2.08
-	-	-	Others	71,212	0.06
Total	36,089,136	100	Total	117,102,219	100

*Source: 2000 Annual Report of Chunghwa Picture Tubes, p.23; 2004 Annual Report of Chunghwa Picture Tubes, p.129.*

In terms of technique integration: Forward Electronics the Tatung subsidiary produces monitor module; CPT invests to set up Toppan Chunghwa Electronics in 2003, focusing on photo-mask the monitor parts production; also in 2003, CPT closed the CRT production lines of its Yangmei plant in Taiwan, moving them to Malaysia and China plants. July 2006, CPT bought shares of Sintronic Technology to be its biggest shareholder. Sintronic mainly supplies parts for LCD manufacturing.

*The attempt of the second own brand*

In 2004, Tatung launched its second brand named 'elio'. The first product is called Photo Jukebox, a personal audio and video player like Apple's iPod. Since then, Tatung was the traditional brand for home appliances and heavy electrical apparatus; elio is for fancy 3C products.

### 1.10 Some consequences: from protection to open, from domestic oriented to export, from national products to moving-out, from home appliances to 3C

If we put the history of Tatung in the context of Taiwan economic policy, we find:

- a) Although home appliance and heavy electrical apparatus sectors have played an important role in exports, basically they are domestic oriented.
- b) The domestic market came from Taiwan's protectionist policy.

The reason why Taiwan national made home appliances in the past could occupy the domestic market completely because of protectionism. Thus, after the economic liberalization policy of the 1980s, Taiwan home appliance firms have to seek more exports. Thus they produce more 3C productions and move the factories overseas. W S Lin once said that he thought the governmental protection of the past was not enough, and that if the government didn't allow Japanese home appliance companies to invest in Taiwan and share the domestic

**Table 7. Taiwan yearly top 1,000 manufacturer rankings of Tatung Group companies, 1983-2005**

Year	Tatung		TTIC		Forward Electronics		CPT	
	Ranking	No. of employees	Ranking	No. of employees	Ranking	No. of employees	Ranking	No. of employees
1983	7	22,398	112	3,000	138	2,351	-	-
1984	9	22,350	127	340(?)	163	2,233	104	2,500
1985	9	19,717	156	1,800	204	1,778	74	2,750
1986	8	13,000	222	1,450	152	2,160	40	2,950
1987	7	14,139	220	1,471	136	1,925	57	3,833
1988	6	12,386	175	1,472	200	1,613	41	4,558
1989	6	21,346	182	1,365	212	1,357	38	5,584
1990	7	21,346	131	1,350	242	1,289	31	5,956
1991	7	19,967	208	1,160	262	1,310	26	5,921
1992	6	11,000	350	847	-	-	25	5,327
1993	6	10,320	322	775	304	1,181	23	5,327
1994	8	10,353	401	713	318	1,120	28	4,657
1995	8	11,105	362	722	329	1,141	29	5,543
1996	13	11,377	358	772	360	1,082	26	6,430
1997	18	N.A.	376	760	403	1,003	34	N.A.
1998	13	19,200	329	767	341	937	35	6,482
1999	11	18,633	-	-	557	859	24	6,259
2000	11	11,355	-	-	499	1,109	26	6,345
2001	12	6,809	-	-	320	970	30	5,188
2002	18	N.A.	-	-	333	1,021	30	4,980
2003	15	6,000	-	-	359	1,013	28	5,520
2004	18	5,492	-	-	362	974	20	7,605
2005	30	N.A.	-	-	301	3,457	24	22,594

Notes: 1. The ranking is according to the yearly sales.

2. Compared with the statistics from Tatung, the numbers of employees here are very strange. It seems that they use different statistical bases. It's more reasonable here if the numbers between 1992 and 1996, and the numbers after 2000 only refer to the headquarters factory.

3. The income statistics in 2005 include subsidiaries and the employee statistics include the workers in overseas factories.

Source: *Common Wealth, Yearly Corporation Ranking Special Issue, from 1984 to 2006*

market, then maybe Taiwan could have several *chaebols* like Korean Samsung and LG now that they are big enough to compete on the international market (Yu 1994, p.174). That's another argument but we can't deny the governmental protectionism in the past.

c) Seeking technique integration and new own brands represent the limitation of OEM.

The scale of Taiwan companies can't compete with other transnationals so they turn to get OEM orders. But more and more countries go for OEM and profits gradually decline. Companies like Tatung try to integrate technique to save costs and develop new brands to create new outlets. These all show that OEM couldn't be a long term strategy. In addition, let's look back at problems inside Tatung Group. As mentioned above, Tatung has many subsidiaries<sup>5</sup> but it's hard to see the linkage among them. If we look into the scales, most of them are small. In the most famous Taiwan yearly top 1,000 manufacturer rankings by *Common Wealth*, usually there are only four companies from the Tatung Group: Tatung, TTIC, Forward Electronics, and CPT<sup>6</sup>.

Even though Tatung began to transform itself from the 1980s, the statistics show that the growth of Tatung couldn't reach the companies that concentrate on 3C productions. 1996 was the first time Tatung dropped out of the top 10. 2001 and 2002 was the lowest point for Tatung. The finance of Tatung was minus US\$430 million in those two years and more than minus US\$625 million for all the Tatung Group. The Common Wealth uses combined data of the parent company and its subsidiaries for the 2005 ranking. By the new statistics, Tatung has dropped to number 30, even lower than CPT's number 24.

## 2. STATE POLICY AND LABOUR LAWS BEFORE THE AUTONOMOUS UNION MOVEMENT

1945, Japanese colonial rule ended with the finish of World War II. Taiwan returned to China after 50 years. But the civil war soon broke out and the KMT, defeated by the CCP, the KMT transferred ROC regime to Taiwan in 1949. Since then there are two Chinese governments beside the Taiwan Strait. In Taiwan, the KMT practiced one party rule and implemented Martial Law to avoid the collective power of workers and peasants. Under Martial Law, strikes were strictly prohibited. The right to strike was recovered in 1988 when the labour movement rose.

### 2.1 Trade Union Law

After coming to Taiwan, KMT's policy towards labour unions first appeared in 1951, encouraging companies to set up fake unions to prevent workers from authentic organizing. KMT set up official unions not only to control workers but also to mobilize workers to support it (Lee 1999, pp.53-5). In the beginning, the unions were most likely set up in state-owned enterprises. Tatung Union was established in 1959, a very early union in the private sector. Of course it was controlled by the company. The Trade Union Law regulating unions was legislated in mainland China. The

revised edition of 1949 shaped the face of Taiwanese unions until now. Here are some characteristics of this law:

- Single union in a workplace and single official confederation

According to the law, there could only be one union in one workplace. At the same time, there was only one lawful confederation, the Chinese Federation of Labour (CFL). Before the end of Martial Law, every union had to affiliate with the CFL, which was controlled by the KMT. In other words, all the unions were under the control of KMT. At that time, because the union was set up by the employer the union always listened to management not the members. Sometimes the union officers even came from the management. So we call it official union. In workers' folklore, it's called a 'caponized-cock union', meaning useless. Some better unions could demand welfare for workers, but didn't have any right to full collective bargaining. Thus, sometimes we also call it 'welfare union'. Around the end of Martial Law, the labour movement tried to take back the union from the government and the employers. That was the 'autonomous union movement': In the workplace where there was already a union, workers tried to take it back during elections; in the workplace where there was still no union, workers tried to set up one by themselves.

- Differentiation between industrial union and craft union

There are two kinds of unions in Taiwan: industrial craft. In a workplace with more than 30 employees registered in union, that's an industrial union. The craft union is for the self-employed and the employees without a stable job to join the Labour Insurance scheme. Usually craft unions are controlled by the owner of small enterprises. Thus, they couldn't collectively bargain, until now. But the total members of craft unions are much more than the total members of industrial unions. So, generally speaking, the regional federations and CFL were controlled by craft unions. The federations and CFL couldn't represent rank-and-file workers.

- The factory-based 'industrial' union

The industrial union is not really industry-based, but factory-based. According to the law, even in the same enterprise, workers can't organize a union across city or county borders. Because in Taiwan more than 80 percent of enterprises are small-and medium-sized, in general the members of industrial unions are few; unions are weak. But Tatung Union is a special case. The early factories of Tatung were only distributed in Taipei City, and the union was set up very early. As the company extended to other counties gradually, the workers in the outer factories joined the same union. Thus, the union has members across county borders<sup>7</sup>.

## 2.2 Factory Law

Regulations of labour standards and employment relations in early days came from the Factory Law. Like the Trade Union Law, the Factory Law was legislated in mainland China. According to the law, factories should set up Factory Councils,

**Table 8. Resolutions of the first 100 meetings in Tatung Factory Council**

Category	No. of resolutions	Percent
Research on improvement of work efficiency	25	5.3%
Improving the relationship between factory and workers	19	4.2%
Implementation of collective bargain agreement, labour contract, and work rules	20	5.0%
Agreement on working hours extension	11	2.8%
Improvement of labour health & safety	44	11.1%
Suggestions for factory reformation	47	11.8%
Workers' welfare	155	39.2%
Other issues	78	19.6%

Note: The category classifications are according to the Factory Law

Source: *Tatung Semi-Monthly* (47:15, pp.8-13)

composed by half management and half workers to discuss the affairs in the workplace once a month. Tatung called the first Factory Council in the end of 1956. By July 1965 there had been 100 meetings in total. At that time *Tatung Semi-Monthly* concluded the 399 resolutions made in those meetings.

Table 8 shows that the Factory Council's role was most like an Employees' Welfare Committee. Nearly 40 percent of the resolutions were linked to workers' welfare. Some resolutions were even about researching to improve work efficiency. The Factory Council was just like a Quality Circle meeting, and shows the employee-employer relation in general.

### 2.3 Employees' Welfare Fund Act

According to the Employees' Welfare Fund Act also from mainland China, companies should set up Employees' Welfare Funds and Employees' Welfare Committees. The Funds should be collected from company income, employee salary, and the selling of the waste materials. The Committee should be composed of 2/3 labour and 1/3 company together governing the Fund. Because the Committee has lots of money, workers on the autonomous side like to lead the Committee. By that, if the labour side led the Committee, workers could get more resources to consolidate organizing. But since financial administration is controlled by the management, if the management doesn't transfer the money into the Fund, workers have little recourse to respond. So usually the Chair of the Committee is company, even though labour has most seats. Some parts of the Fund came from employees' salary anyway. If the company always manages the Fund, the issue very easily becomes a burning point between the management and the labour. As an example, Tatung's Employees' Welfare Fund was set up in 1948. The employer encouraged workers to buy shares in the company, even using the Fund to buy shares. In other words, the Committee was a big Tatung shareholder. In this sense, the Committee Chair not only has the power to use the Fund, but also play an important role as company shareholder. Definitely the Committee would become a battlefield between management and labour.

### 3. ADMINISTRATION AND MANAGEMENT STYLE OF TATUNG

Chinese scholar Duan mapped characteristics of Taiwan business groups as: a) collect money, defend money and pinch money; b) family rule; c) weak characteristic of the company (Duan 1999, pp.206-13). These all describe Tatung. Besides, T S Lin on the one hand grew up under the Japanese style of education, and had deep relationships with Japanese corporations; on the other hand he understood that Taiwan's technology was far behind western countries'. Thus he showed two characteristics in his business operation: Japanese style of management and respect for national industry.

#### 3.1 Collect Money, Defend Money, And Pinch Money

The first generation of post-war Taiwanese capitalists liked to collect, defend, and pinch money, because usually they built up their enterprises from nothing, or just small business (Duan 1999, p.206). T S Lin's portrayal in the media reflected the image of a frugal family. Lin's car was locally made, echoing the national products of Tatung. Lin disliked golf because he thought it a lavish sport. But if he treats employees like his property, then the virtue of frugality becomes a shortcoming. As mentioned above, Tatung ever encouraged workers to buy company shares. There are more cases to show that the company ignores the rights of workers. In 1983 and 1989, Tatung didn't pay any Labour Insurance for employees and was fined by the government (Lin et al 2000b, p.49; p.109). Before October 1998, Tatung never remitted enough money to the Employees' Retirement Reserve Fund (Lin et al 2000b, p.41). And the accounting of the Employees' Welfare Fund was always unclear, and became an argument between labour and the company (Lin et al 2000b, p.121).

Tatung has vocational schools to train students as future managers and skilled workers. Sometimes the students became a source of cheap labour. In 1987, it even declared that Tatung asked the trainees to work continuously for 14 days without any holiday, and some people worked up to 11 hours overtime in one day (Lin et al 2000b, p.49-50).

#### 3.2 Family Rule

According to the 2005 Annual Report of Tatung Company, there are 17 members on the board, six from the Lin family. The rest come from the two Tatung schools as the representatives of juridical persons. In Tatung and CPT, the positions of Chairman and President General always belong to the Lin family. Family ruling not only means that the important positions in Tatung Group are controlled by Lins, but also that all power is concentrated in the patriarch. W S Lin, the eldest son of T S Lin, served as the President General of Tatung for 34 years, in the shadow of his father. Even though he was President General since 1972, many of his decisions were denied by his father. T S Lin was always the final decision maker, when he was still active. The characteristic of patriarch also represented his 'affection for being the preacher'. T S Lin lectured every week in company and schools. All managers and students had to attend. His beloved textbooks are *The Wealth of Nations*<sup>8</sup> by Adam Smith and Confucian classics. The lectures have continued for more than 40 years. Now W S Lin takes his father's job as preacher. T S Lin insisted that he should be the President

of Tatung Industrial College. But according to law, he couldn't be chairman of a company and president of a school at the same time. His insistence delayed the process for the school to become a university (Lin et al 2000b, p.42). In March, 2006, T S Lin stepped down from the position of Chairman and gave it to his eldest son. Two months later, he passed away.

Most first generation post-war Taiwanese capitalists have more than two wives. T S Lin had two wives and five sons. Which son would take his place after him was often a news topic. There is a special role in the family. W Y Kuo, the eldest daughter-in-law, W S Lin's wife originally went to Tatung as T S Lin's secretary and then married W S Lin. Since 1998, she served as the Administrative Deputy President General of Tatung Company in charge of the 3C department. Compared to the mild W S Lin, she is much more aggressive. In the famous yearbook on Taiwan business Business Groups in Taiwan (2006 edition), the key person of Tatung Group is listed as W Y Kuo not W S Lin.

### **3.3 Weak Characteristic of the Company**

It's usual that Taiwan business groups don't have enough capital and rely on bank loans. The debt ratio is commonly high. In the mid-1980s, the debt ratio in most of the top 15 enterprises was over 50 percent. The ratio of Tatung at that time was 78 percent (Duan 1999, pp.209-11). In 1985, people withdrew much money from Tatung Employees' Saving Account; the company lost 40 percent of its total assets. In that year, the debt ratio of Tatung was 360 percent, the ratio of self-owned capital only 21.7 percent (Lin et al 2000b, pp.37-8). In 2005, the debt ratio of Tatung was 50.9 percent, CPT 61.34 percent, and Forward Electronics 69.93 percent.

### **3.4 Incentive and Profit Centre**

The first characteristic of Japanese style management in Tatung is the incentive in the wage system and the Profit Centre. We will discuss details of Tatung's wage system in section 5.2. The main point is that basic salary is low and full salary depends on the incentive. When the incentive goes down, full salary is much affected. During the summer time in 2005, several student clubs investigated the working conditions of Tatung Banciao plant by interviewing union members. As quoted in their report, one worker said that the wage in Tatung was as good as Japanese investments in Taiwan during the 1970s and 1980s, "Tatung's operation and employees' wage was the same as Mitsubishi and Panasonic 25 years ago. But it's completely different now." Another worker who entered Tatung in 1986 said, "At that time the economy was good. Although the basic salary was low, the incentive was high. I could even earn US\$240 to 270 of incentive in a month. So I thought it's quite good at that time." (Practice Notes of Taiwan University et al 2005, p.8)

In terms of incentive, there is a very complicated formula to calculate. In an issue of *Tatung Semi-Monthly* (45:3, p.7-9) in 1963, there was an article entitled "Briefly Introducing the Enforcement of Productivity Index Incentive Payment in Tatung". It

claimed that through the index calculation, if the productivity increases in one month, the company would use half of the increase for re-investment, and use the other half to increase the wage.

In the spring of 1968, T S Lin announced the 'Planning for Double Incomes in Two Years' to the workers. He was planning to double the company sales in two years, and promised that the wage would be also doubled. Nearly two years later, in another article of *Tatung Semi-Monthly*, he expressed that the goal of double sales had been reached. But the number of the employees grew by 78 percent, so the wage increase percentage was only 75 percent (*Tatung Semi-Monthly* 51:21, p.6)<sup>9</sup>. The economic boom in home appliance sector was never like that again after the mid-1980s.

A related issue is the Profit Centre system. Tatung started Profit Centres in 1966. Coming to recent years, there are some Profit Centres in each workplace. The employee's wage would be affected by the income of the Profit Centre that the employee belongs to. If the Profit Centre makes less profit than others, then the workers there would have less incentive. According to this system, Banciao plant lost money in recent years, so there was a wage-cut of 10 percent salary for all workers in Banciao plant in 2001. The Profit Centre system divides the interest among workers, leading to uncertain workers' collective action.

### **3.5 Trying to Make the Union a Part of the Company**

The second characteristic of Japanese style management in Tatung is that the employer is always trying to make the union a part of the company. This term 'Tatung' in Chinese came from a Confucian classic. The meaning is 'great commonwealth', referring a utopia in which people live in harmony. Under a vision like this, actually T S Lin had a very conservative political ideology. When still under Martial Law, as a minority Taiwanese elite in the KMT, he overwhelmingly supported the anti-communist policy of the ruling party. He was very proud that he could get orders from the US army to support them to set Vietnam 'free'. In labour issues, he implemented the enforcement to encourage workers to buy company shares, and loaned money to workers for housing. He believed that 'worker has his own shares' and 'worker has his own house' responded to the 'Principle of People's Livelihood' in Dr Sun Yat-Sen's 'Three Principles of the People'. He hoped using the Chinese style 'cooperation and harmony' would replace the class struggle of Marxism. T S Lin looked on his employees like a part of his family, the union like a part of the company. In 1989, after the trade unionists set up the new and autonomous unions, he accepted that but led the unionists to the grave of his father-the founder of the company-to worship. He wished that through such an action the unionists would be loyal to the company (Lin et al 2000b, p.71). T S Lin didn't allow anyone to obey his authority. He alone stood for the company to negotiate with unions. He liked to use transference or dismissal to treat unionists who didn't listen to him, no matter how the labour laws were regulated.

Because unions in Taiwan are basically factory-based, even organized labour only has solidarity with the co-workers in the same workplace or the same company.

Workers tend to think that the welfare of the workers depends on the company making profits or not. Workers like to cooperate with the management to raise the production efficiency to compete with other companies, so that company could make more money and then workers could share more. Usually the company identity is stronger than labour identity. Sometimes even the trade unionists have accepted the ideas of ‘cooperation and harmony’. In April 2006, the ex-president<sup>10</sup> of Tatung Union ran for the next term but failed. He soon accepted a position that was provided by the management as a personnel manager in the information plant. He turned his face from the labour to the management very quickly. The new board of the union issued a statement to express the regret. Maybe we could take this as an example that the ideas of ‘cooperation and harmony’ have already invaded the labour movement.

**Table 9. Technical cooperation objects of Tatung**

Company	Technical cooperation	Main product
Tatung	Toshiba (Japan)	Home appliances, heavy electrical apparatus
	Westinghouse (US)	Electric motor
	Furukawa (Japan)	Wire and cable
	Philips (Netherlands)	Laser players
	ITOKI (Japan)	OA furniture
	Schneider Electric (France)	Heavy electrical apparatus
	Roku (US)	Digital media
TTIC	NEC (Japan)	Telecom equipment
Tatung Electronics	IBM (US)	Computer components
Forward Electronics	Alps (Japan), General Instrument (US)	Electronic parts
CPT	RCA (US), Toshiba (Japan)	CRT
	Mitsubishi Electric-ADI (Japan)	TFT-LCD, PDP
Tatung Chugai Precious Metals	Chugai Electric (Japan)	Contact materials
Tatung Die Casting	Mitsui Kinzoku (Japan)	Moulds
Tatung Precise Meter	Nippon Seiki (Japan)	Speedometers, tachometers
Tatung Fine Chemicals	PPG (US)	Industrial coatings
Tatung Otis Elevator	Otis (US)	Elevator
Tatung FDK	FDK (Japan)	Power supplier
Tatung FANUC Robotics automation	FANUC (Japan)	Robotics for factory
Tatung SM-Cyclo	Sumitomo (Japan)	Speed reducers, speed variators
Tatung Okuma	Okuma (Japan)	Machine tools
Toppan Chunghwa Electronics	Toppan (Japan)	Photo-mask
Green Energy Technology	GT Solar Technologies (US)	Poly silicon wafer
SeQual Technologies	SeQual (US)	Medical instruments

*Source: Web sites of above companies, annual reports of Tatung Company*

### **3.6 Contradiction between the Self-respect of National Industry and Technical Dependency on Transnational Corporations**

Like other home appliance and heavy electrical apparatus companies in Taiwan, Tatung's technical resources are most likely from Japanese corporations. Tatung's main resources are listed in Table 9. Although we call it 'technical cooperation', in fact Taiwanese companies must pay lots of money to buy the techniques. And for the monopoly on technique, Japan always provides outdated techniques, or keeps key techniques secret. In this sense, Taiwanese companies still have to buy the key component parts from Japan when assembling finished products. This leads to Taiwan's technical dependency on Japan (Duan 1999, pp.263-4).

For Japanese corporations, selling outdated techniques to Taiwan not only makes money, but also finds a place to assemble Japanese products and export them to the US. As mentioned above, since the 1980s the US government conducts trade protectionism. The US government sets up many import barriers to Japanese products. It's easier to sell them to the US from Taiwan. It's said that every one dollar export from Taiwan to overseas, would lead to 0.28 dollar import from Japan to Taiwan; every percentage point growth of Gross National Product in Taiwan, would lead to import growth from Japan of 1.82 percent. Most imported products from Japan are machinery, heavy industrial, and petrochemical products.

Under the technical dependency, T S Lin still had some ideas about the self-respect of national industries. In all Tatung's factories, you see the slogan 'Industries contribute to the state!' As Tatung's achievement in exports was very good, the company always publicized the news of how its products were sold to Japan. One time, one Taiwanese corporation was accused as a business spy in the US. One student in Tatung University asked T S Lin what he thought about that. He answered, "Weak nations should take care and hold the technique independently, to avoid the oppression from strong nations." (The editors of *Common Wealth* 1997, p.48)

Another example is CPT. As mentioned above, in the beginning at CPT production was not good and investors dropped out. Tatung alone supported CPT for 16 years and the accumulative loss reached US\$30 million. But the single case couldn't defend the trend. Even in the CPT case, Toshiba's involvement was to improve the quality of the production. Tatung had a machine tools centre before, but couldn't make profit. Eventually after Tatung entered a joint-venture with the Japanese, the centre was transformed into a much bigger scale (Huang & Cheng 2003, pp.55-6). In the 1990s, the line of 'national industries' was completely abandoned. Tatung turned from number one national brand to OEM for western brands. In addition to being in Japanese enterprises' interests one reason why Taiwan has technical dependency on Japan is the very low research input of Taiwanese businesses. According to Duan's research, the budget of Taiwan's government on technology research and development was only less than one percent, and most parts of the research belonged to military use but not business use. In enterprises, the research budget usually doesn't reach 0.5 percent of the total income. And the scale of Taiwan enterprises is small. In general, the research budgets of US and Japanese corporations are 10 times the budgets in Taiwanese enterprises (1999, p.131).

#### 4. THE AUTONOMOUS TRADE UNION MOVEMENT IN TATUNG

Entering the 1980s, the one party rule of the KMT began to lose control. The social movements were emerging at that time together with the democracy movement. Gradually the democracy movement got some power from the mobilization of people. At the beginning when the democracy movement got some seats in the parliament, the opposing politicians had the will to use the new resources to support social movements. Thus, the social movements were much linked with the democracy movement. On May Day 1984, the first labour movement organization in post-war Taiwan was established by the Taiwan Labour Legal Aid Association (TLLAA). Later different wings in the labour movement all originated from TLLAA<sup>11</sup>. In 1986, the biggest opposition party, the Democratic Progressive Party (DPP), was set up. In 1987, the first labour oriented party, the Workers Party<sup>12</sup>, was established. Most labour disputes in the 1980s were wage and lay-off related (Lin et al 2000a, pp.27-8).

In 1984, the Labour Standards Law was legislated to replace the Factory Law. At that time the labour movement was still a baby. So the legislation was not from the pressure of labour movement but the pressure of US trade protectionism. As mentioned above, the US government conducted trade protectionism since the 1980s. One of their conditions forced Taiwan's government to legislate the Labour Standards Law. The trade protectionism was in trying to raise labour cost in Taiwan through the implementation of labour standards, thus Taiwan would reduce the export to US by higher labour cost. Actually the Labour Standards Law is similar to the Factory Law, but Factory Law only regulated manufacturing and mining industries, therefore Labour Standards Law extended coverage to construction and partly service industries.

##### 4.1 First Year of the Annual Bonus Dispute

At that stage, Taiwanese workers faced the problem of long working hours and delayed overtime pay. Because there is clear regulation in Labour Standards Law about overtime pay, after the enforcement of Labour Standards Law, workers began to demand overtime pay, together with the annual bonus. In January and February, 1988, before the Lunar New Year, labour disputes broke out all over the island, demanding back pay of overtime and higher annual bonus. On 2 February, Tatung main plant worker Tseng, with the assistance of Workers Party organizers, distributed flyers to co-workers and other Tatung plants saying that the annual bonus of Tatung was much lower than other home appliances companies. Earlier Tatung had announced for only half a month of bonus, but other companies paid at least two months. Tatung workers got very angry. Sabotage soon broke out in almost all plants of Tatung, TTIC, and CPT. The sabotage in Banciao plant lasted for five days. On 10 February, the company announced bonus increase, and the sabotage stopped gradually (Lin et al 2000b, pp.24-6). This sabotage was not the first time. The most serious case was in 1969, over the same demand for higher annual bonus. That sabotage ended with riot police intervention (Lin et al 2000b, pp.55-61).

#### **4.2 The Establishment of Tatung Autonomous Trade Unions**

The sabotage gave a good chance for the workers to organize. Workers in the Sanshia plant had already contacted TLLAA for months. Some activists linked with the sabotage leaders applied for the registration of Sanshia Plant Union. On the eve of the preparatory meeting, the company transferred one of the union originators to south Taiwan. On 14 April Sanshia plant workers launched a wildcat strike to support the union and the originator. The still yellow Tatung Union took a grievance to the government to stop the set up of Sanshia Plant Union but failed. On 25 May the union was recognized by the government. On 11 July, the Banciao Plant Union was set up<sup>13</sup> (Lin et al 2000b, pp.63-73).

At the same time, the unionists had linked with activists in the main plant. On 25 April five workers in main plant including Tseng were transferred to positions out of Taipei. The five didn't accept and made complained to the government. The Labour Bureau of Taipei City judged that the transference was unlawful and the five could get back their former jobs. But T S Lin shut down the electric fan plant completely and laid off all 300 workers, so that the five didn't have 'former jobs' to return to. After negotiations, the five were transferred to other positions in Taipei. During the dispute, organizer Wang was dismissed in August for distributing flyers. The five started to organize workers after going back to the company. On 30 December Tatung Union held elections and the labour side won all the seats of board members (Lin et al 2000b, pp.79-97). In 1989, workers in TTIC set up their union.

#### **4.3 Company Lays Off the Union Board Members**

1989 was the second year of annual bonus disputes in Taiwan. But unlike the first year, the government and the capitalists had cooperated together to oppress the labour movement in the second year. In the beginning of 1989, Tatung unions conducted sabotage again but the company was not moved at all. The labour action failed in vain (Lin et al 2000b, pp.106-9).

On 16 May, the Chemical Fibre Plant Union of Far Eastern Textiles, the most famous autonomous union at that time, launched a strike that was violently oppressed. It represented the highest point of Taiwan labour movement, which then declined gradually (Ho 1990). On 25 May, Tatung Union met with T S Lin to discuss the wage increase, but the two sides couldn't agree and conversation ended in argument. On 30 June, the company issued a dismissal notice for union executive board member Chang. On 9 January 1990, union President Pai was also dismissed. Three days later, the company demolished the union office inside the company; the union had to rent a space outside<sup>14</sup>. Supporting the dismissed unionists, the autonomous unions decided to push the re-election of the Employees' Welfare Committee and elected off Committee members from labour side on 15 January. On 23 January, union executive board member Tseng was also dismissed. On 3 June, all unionists of the autonomous unions attended the annual shareholders' meeting of Tatung and dominated the microphone. On 7 June, three executive board members of Sanshia Plant Union-Liu, Chiang, and Huang-were dismissed the same day (Lin et al 2000b, pp.110-59).

In southern Taiwan, another unionist was dismissed at the same time in Formosa Plastics. The unions in Formosa Plastics linked with Tatung unions on a relay hunger strike to protest. Formosa Plastics unionists in the south began the hunger strike for 72 hours. Then starting from 18 July, the seven dismissed Tatung unionists launched another 72-hour hunger strike in front of Tatung headquarters. The unionists of Formosa Plastics who had just finished their own hunger strike went to Taipei in solidarity. On the day all the hunger strikes ended, more than 300 labour activists from all over Taiwan gathered to protest against the unlawful dismissals. During the hunger strike, both T S Lin and W S Lin went abroad to avoid the demonstration (Lin et al 2000b, pp.160-9).

The Tatung autonomous unions also kept attending the annual shareholders' meeting and sued in court over Tatung's unlawful banking practice, trying to pressure the company (Lin et al 2000b, pp.184). Because of so many labour disputes and the unlawful banking scandal, T S Lin resigned from the KMT's Central Standing Committee in 1991 (but was soon engaged as National Policy Advisor to the President). In 1994, the unlawful banking case declared Tatung guilty but sentenced probation. It hit the public image of Tatung. In October 1997, the unions launched the re-election of Employees' Welfare Committee. President Pai of Tatung Union was elected Chair of the Committee. But the company refused to co-sign. From the other side, since July 1992, the dismissed unionists took back their jobs through law suits. Most cases were finished within three years, but the longest lasted for eight years. In July 1998, the last one, Pai, went back to Tatung. So far, his case is the longest in unionist dismissal law suit of Taiwan's history. During the law suits, the unions were still operating, and the dismissed unionists lived by donations from union members and labour organizations.

#### **4.4 The Changing Situation in Politics and Economy**

After the unionists took back their jobs, relation between the unions and the company improved. The Employees' Welfare Committee chair is still management. At the same time, the outer political situation was changing sharply. Due to people's discontent towards the KMT, the DPP began to have the possibility to win a general election. To attract votes, the DPP adjusted its strategy from street demonstration to negotiations. It also withdrew support from social movements. To get support from the capitalists, the DPP encouraged the ideas of 'cooperation and harmony' which in the past only the conservatives would use. Under this situation, labour movement organizations and trade unions (TU) had to choose between following the steps of the DPP cooperating with bosses, or keeping the autonomous and opposing line. In 2000, the DPP won the Presidency Election. On May Day that year, the so-called 'autonomous confederation' - the Taiwan Confederation of Trade Unions (TCTU) - was formally established. But ironically, the contradiction among the autonomous union movement became more intense. The labour movement organizations and TUs split according to different party identities or strategy lines. The TCTU has taken the legitimacy of the 'autonomous

union movement' and new political resources but follow the DPP policy like any other official confederation. The rest outside the TCTU keep struggling but only maintain a loose alliance, trying to replace the TCTU.

In such an atmosphere, there were different opinions among Tatung unions about the Employees' Welfare Committee and other issues towards management. Tatung Union thought that it's not necessary to take the chair; but three unions - Sanshia Plant Union, Banciao Plant Union, and TTIC Union - thought that labour should take the chair. During 2004 and 2005, when Tatung Employees' Welfare Committee held its annual meeting, the three unions launched a demonstration outside the venue to protest about unclear accounting of the Welfare Fund. The different attitudes among the unions led to the difficulty of union cooperation. A newsletter was originally edited by the four unions together but in 2004, Sanshia Plant Union, Banciao Plant Union, and TTIC Union dropped out of the editing. Now the editing and publishing only takes place in Tatung Union. In 2006, the four unions in Tatung elected new board members. Nowadays the four new boards are seeking the opportunity for new cooperation.

**Table 10. The changing labour force in Tatung (1987-2005)**

Year	Number	Averageage	Average service years	Total labourforce in Tatung Group
1987	15,380	-	-	21,480
1988	16,470	-	-	21,108
1989	17,800	-	-	21,346
1990	18,300	27	7	21,254
1991	19,967	26	6.5	25,109
1992	19,168	25.5	6.5	26,550
1993	18,690	25.4	6.4	27,254
1994	17,869	25.0	6.3	28,000
1995	19,491	25.8	6.8	30,700
1996	20,671	26.0	7.1	33,588
1997	19,575	25.6	7.0	32,278
1998	19,719	27.1	7.6	35,100
1999	18,633	28	8.6	35,164
2000	19,039	26	8.4	35,164
2001	6,809	37	12.9	36,125
2002	6,367	37	12.7	-
2003	5,787	38.03	12.3	-
2004	5,492	38.07	12.7	-
2005	5,322	38.08	12.7	-

Note: Numbers before 2000 refer to total Tatung labour. Numbers after 2001 refer to labour in HQ factory.

Source: Annual Report of Tatung Company (1994-2005); The Editing Committee of Hsieh-Chih Tatung Establishment & Development History 2003, p.73.

## 5. THE WORKING CONDITIONS OF TATUNG TAIWAN WORKERS

### 5.1 The Changing Number of the Labour Force

When we tried to figure out the total number of Tatung workers, we found that there were different calculations according to statistical bases used. Sometimes the figures referred the number of workers in the whole Tatung Group. According to the statistics from Tatung publications, the changing number of Datung's labour force is listed in Table 10. Through interviews with the unions, we know that there were two high points of the labour force: One was in the early 1980s. At that time there were more than 3,000 workers in both Banciao plant and Sanshia plant. TTIC had 3,500 employees. We may say that it's the highest point of the 'traditional' sectors. The other was in middle and late 1990s. At that time most workers concentrated on the 3C sector.

From the other side, when the company met its biggest management risk in 2001 and 2002, the numbers in Tatung dropped sharply<sup>15</sup> but those of Tatung Group kept increasing. That shows that the scale in the 3C sector has expanded while the traditional sectors shrank. From 1994, in general factories of traditional sectors didn't hire new workers and dismissed workers from time to time. Besides the downfall of the traditional sectors, export of production lines also results in decrease. In the beginning of this report, we mentioned that the company tried to move home appliance production to Vietnam. TTIC only has 190 employers in Taiwan now. All the production lines have moved to China. The move-out is also happening in the 3C sector. Production with lower level techniques is more easily moved. CPT laid off workers in Yangmei in 2001 and 2003. CRT productions have all moved to China. In Taiwan, CPT only has LCD production lines now.

### 5.2 Recent Working Conditions

The three major productions in Tatung are home appliances, heavy electrical apparatus, and 3C. We only had the opportunity to interview the working conditions in the traditional sectors (home appliances and heavy electrical apparatus).

**Table 11. Working conditions in Tatung Banciao and Sanshia plants**

	<b>Banciao</b> (home appliances)	<b>Sanshia</b> (heavy electrical apparatus)
Formal worker	650 (450 male, 200 female)	800 (730 male, 70 female)
Informal worker	150 short-termed contractors wage = NT\$750/day on three month contracts	100 dispatched & outsourced workers dispatched wage = NT\$800/day Outsource refers to Tatung retired workers renting machines from Tatung and work inside the factory
Migrant worker	0	130 (from Indonesia & Thailand)
Average seniority	About 20 years	About 18 years
Average age	40	40-45
Average salary (US\$1= NT\$32)	More than NT\$20,000/month	About NT\$30,000/month
Shifts	3 shifts	Only day shift

*Source: Tatung Banciao Plant Union and Sanshia Plant Union*

Table 11 shows that workers' average age in traditional sectors is high; female employees are few. Most females work in offices not factories. Female production line workers concentrate on small home appliance products. There are some informal workers, about 20 percent of the total workforce. The wage system for common working conditions in Tatung, is:

Full salary = A+B+C+L9

A = basic salary, decided by worker's schooling and skill when entering the company. It's fixed so young workers' basic salaries could be more than those of older ones

B = position pay

C = special allowances, like skill and danger allowances

L9 = performance based incentive

In general, basic pay is low and full salary depends on incentive. From 2000 to now, there was no wage increase except a small one when W S Lin became Tatung Chairman. Every worker could receive NT\$1,000 bonus at both Dragon Boat Festival and Mid-autumn Festival. Usually the annual bonus is one month of salary, depending on the negotiations between the unions and the management. Comparing average wages in Banciao and Sanshia plants, the salary in home appliances sector is the lowest of Tatung. Because of the Profit Centre system, company cut wages 10 percent in Banciao plant in 2001, in the name of profit<sup>16</sup>. Student clubs reports concluded four main problems of workers in Banciao plant: overtime pay, annual leave, wage increase, and gender inequality (Practice Notes of Taiwan University et al 2005, p.32).

*Overtime pay.* Company asked workers to take more leave instead of paying them overtime pay to reduce retirement pay (Practice Notes of Taiwan University et al 2005, p.3).

*Annual leave.* In some departments, work intensity is high due to few labourers. Workers don't have enough chances to take annual leave. In some departments, workers are forced to take annual leave because of no work in the low season (Practice Notes of Taiwan University et al 2005, p.6).

*Wage increase.* No increase (Practice Notes of Taiwan University et al 2005, p.2).

*Gender inequality.* Equal work doesn't have equal pay (Practice Notes of Taiwan University et al 2005, p.5).

Workers in Banciao face the lowest wage in Tatung and factory closure threat. Maybe that's why Banciao Plant Union cares much about the Employees' Welfare Committee issue. The Union wants clear accounting in the Employees' Welfare Fund and workers to have more welfare from the Fund.

## 6. TATUNG WORKERS IN THAILAND

During August and September of 2005, we interviewed the conditions of Tatung workers in Thailand. We visited some union committee members and rank-and-file members at Tatung Thailand and FDK Tatung Thailand.

## 6.1 Tatung Thailand

Tatung Thailand was established in 1989 in Chonburi, a Southeast province about two hours by car from Bangkok. The main products are color TV sets and computer monitors.

### *Basic Information of Working Conditions*

a. Wage: It's usual in Thailand for two kinds of wage systems in one factory. One of them is called direct employee, which means line operator; the other is called indirect employee, which means white collar worker. For direct employees, the wage is daily paid and only covers 26 days per month-Sundays are not paid. Workers get their pay every two weeks. For indirect employees, the wage is monthly paid and Sundays are paid. In August, 2005, there were 264 direct employees and 145 indirect employees at Tatung Thailand. In 2005, the minimum wage in Chonburi was 163 baht per day (US\$1 = 40 baht). So the minimum wage for the direct employees was 4,238 baht per month (163 baht x 26 days). The union told us that the average wage of direct employees at that time was about 4,990 baht per month. Besides, direct employees have extra allowances for skill, environment, night shift, and attendance. For monthly-paid employees, the wage is 145 baht per day and they have more allowances than direct employees.

There is a small annual bonus for workers. In general, the wage system of Tatung Thailand is similar to the parent company in Taiwan. But the average wage of Thai workers is one fifth or one-sixth the average wage of Taiwan workers.

b. Working hours and shifts: The normal working time is 48 hours over six days per week. In the past there were two shifts, but now only a day shift due to not enough orders. The company concentrates weekly working hours in five days, so they work more than eight hours per day.

c. Gender division of labour: In total 409 employees, only 50 are male. Compared to female workers, males are more highly educated and usually skilled workers like engineers, technicians, and supervisors, are monthly-paid. The educational level of male workers is usually high vocational and females only ninth grade. No doubt male receive higher salary than female workers. Although most employees are female, both the president and ex-president of the union are male.

d. Occupational safety and health (OSH): According to the workers, the machines are OK; the company provides health checks once a year by law. But there are many other problems in OSH, like fuel and chemicals are not well managed and exposed to the air, Materials Safety Data Sheets only provide limited information like unsafe lifts, not enough toilets, broken fire alarm, and locked emergency exits. Even though female workers had to work night shift before, there wasn't any dormitory.

### *Job Insecurity and Union Busting*

The trade union of Tatung Thailand finalized registration in 2000. When the company wanted to change the bonus, workers organized the union. Numbers of workers and union members after 2000 are listed in Table 12:

Right after the establishment of the union, the company fired all 15 committee members immediately. Because they were founders of the union and protected by

**Table 12. Numbers of workers and union members and issues in Tatung Thailand**

Year	No. of workers	No. union members	Important issue
2000	2,000	50	Company laid off all 15 union committee members.
2002	3,000	2,000	Company had lots of orders. union committee members were line leaders, so, it was easy to persuade workers to join TU.
2003	-	-	Company lay-offs. Manager said: "Monitor lines go to China." Under Article 75, company paid workers only half salary; many resigned.
2004	700	-	Company sued union President and refused him entry to factory for six months. Company forced him to accept money and leave in June.
2005 08/27	409	100	Company sued union President and committee members again.
2005/ 9/17	325	-	

*Source: Trade Union of Tatung Thailand*

law, they got back their jobs after three months. But union busting was still going on. The management warned unionists that Taiwanese bosses don't like unions. The company denied unionists overtime work, monitored their behaviour and prevented them from talking to workers. 2002 was the year of union organizing density high peak. Almost all formal workers joined the union. In 2002, due to the need for labour, the company hired 1,000 temporary workers out of the total 3,000 workers. Temporary workers only received the minimum wage, with no other allowance.

The next year, the company laid off workers. By law, if the company wants lay-offs, it should inform workers in advance by at least one wage-payment period. For daily-paid workers, the period should be two weeks and for monthly-paid employees, one month. But Tatung never followed the rule. The management just tells workers about the lay-offs and pays the compensation. In 2004, another wave of union busting began. The company again dismissed all the committee members. But the union President Somsak at the time was a member of the Committee of Employees. So the company needed to apply for court permission first, otherwise the lay-offs were illegal. The company still filed a case to dismiss Somsak. During the process, management didn't allow him to enter the factory. Somsak asked other committee members to plead in court to get back their jobs. But they gave up because it took too long. In court, the officers suggested Somsak negotiate with the boss himself. At last, they told him to accept the situation because the factory was moving. If he didn't agree, the company could give him the compensation only by law. But at that time, the company agreed to compensate him double. Since other committee members had already left the company, eventually Somsak accepted the compensation.

In May 2005, workers elected seven members to form a new union committee. But again the company attacked the committee. When we visited new union President Chanet in September, four of the seven had already accepted lay-off. Because Chanet is also a member of Committee of Employees, company again filed a law suit to apply

to dismiss him. The company didn't allow Chanet into the workplaces, just put him in a small empty room to monitor him. Although the union had five sub committee members two of them were also laid off. The other three didn't dare to serve as formal committee members. By law, active committee members should be more than half of the seven to operate union affairs, but there were only three. So, the union should set up a meeting to elect. But Chanet was sued by the company, so he worried that once he called a members' meeting, the company would lay him off immediately and the union would be totally destroyed. Chanet said that workers also didn't want to stay in such a factory. They preferred to be laid off and got money, so the committee could do nothing.

We can conclude that whether in Taiwan or Thailand the management of Tatung uses dismissals as a strategy for union busting. In Taiwan, the company failed and the unionists got back their jobs. In Thailand, it seems that the company received some effects. In August 2006, Tatung Thailand is still operating on a small scale, but never closed like the management mentioned. The union keeps struggling, in hardship.

#### ***Management***

There are five members on the board of Tatung Thailand, but only one stays in Thailand. Before, it was Chen-Hui Chang, the Deputy Manager General. He took charge of Tatung Thailand for daily operations. Besides Chang, there were several top managers from Taiwan. According to the workers, these managers are notorious. They look down on Thai workers, often shout at them and point at workers with their feet (considered very impolite in Thai culture). The union identified that Chang had to take the responsibility of many bad labour practices, like union busting and sexual harassment of women workers. The union requested the victims of harassment to make a grievance. No one stood out because they feared losing their jobs. There were also many rumours about Chang's corruption in the company. Workers told us that there were some Chinese workers in the factory. Maybe they went to the Thai plant to learn the technique and try to transfer it to plants in China. Chang was removed from the board of Tatung Thailand and the position of Deputy Manager General in 2006.

#### ***Union***

In Thailand, like Taiwan, usually the unions are factory based. Thus, the members are not many so that the union has limited resources. Under this situation, independent unions tend to join actively regional and national labour alliances to demand their rights to the government. The union of Tatung Thailand joined the Eastern Seaboard Trade Union Centre, a regional union alliance of Southeast provinces near Bangkok. The Eastern Seaboard Trade Union Centre is a member of the Thai Labour Solidarity Working Committee, a national alliance of union federations and labour organizations. Another similarity between Tatung Taiwan and Thai union plants is that when the management uses dismissal as a strategy for union busting, usually the response from the unions is legal action. Workers face pressure from the management and don't want to lose their jobs, so it's not easy for them to stand out to fight. But does only legal action mean that the unions cannot mobilize the rank-and-file workers?

Besides, in Taiwan the company only dismissed union executive board members but in Thailand the company had dismissed the whole committee. And in Taiwan the dismissed unionists could get enough resources like donations to sustain their lives but in Thailand there was little resource from outside. That's why the unions in Taiwan could keep operating even under union busting but in Thailand the union was almost not functioning.

### 6.2 FDK-Tatung Thailand

FDK-Tatung Thailand is a joint venture by Tatung and a Japanese company FDK. It was established in 1991 and is also located in Chonburi. Its main products are similar to Tatung Thailand, such as TVs, computers, small home appliances, and parts for Tatung and Samsung Thailand.

#### *Basic information of working conditions*

Before the factory closure at the end of September 2005, the total number of workers of FDK-Tatung Thailand is listed in Table 13:

**Table 13. Total number of workers in FDK-Tatung Thailand**

	Formal workers		Subcontractors	
	Women	Men	Women	Men
No. of workers	216	54	5	25
No. of union members	193		0	0
Average pay	7,000 baht/month, with OT: 10,000 baht/month (including attendance pay)		Chonburi minimum wage is 163 baht/day	

*Source: union of FDK-Tatung Thailand*

Most formal workers are female. Subcontractors means dispatched labour. Usually they work for the stove section, which is a very hot workplace. In this sense, most of them are male. The average wage of formal workers is about 7,000 baht per month, if overtime is worked it could reach 10,000 baht, almost double the wage of workers in Tatung Thailand. Subcontractors are paid daily and only receive minimum wage. Besides basic salary, formal workers receive other allowances, such as attendance pay, medical fees and annual bonus of two months salary. Shift style and time: In mould and stove sections, there are two shifts. Day shift from 8 a.m. to 5 p.m.; night shift from 8 p.m. to 5 a.m.; shifts change once a week. In other sections it's one shift: 8 a.m. to 5 p.m., if OT to 8 p.m. The normal working time is eight hours per day, 48 hours per week. In the busy season, they work OT to 12 hours per day. The age of the workers is between 28 and 35. Average service years are above eight years.

#### *Factory Closure and the Union Response*

The union was established in July 2000. At the beginning of the union, the company fired two committee members because they were founders of the union. Through lawsuits they returned to work. After that the company kept good relations with the union. Before union establishment, the working conditions were not good but after that the working conditions improved.

**Table 14. Differences after the set up of the union in FDK-Tatung Thailand**

Before July 2000	After July 2000
Daily pay up to the service years	Monthly pay
	Attendance pay up from 250 baht/month to 650 baht/month)
	More annual-leave pay
10 coupons of food	Free food
Only social insurance	Life insurance
	Savings fund (From deducting 3% of the salary each month; company adds 3%. If workers are dismissed or retire, they get all. But if they resign, they only get their own 3%.)
	Medical fees for parents and children: 10,000 baht/year
	Workers think they get more after the establishment of TU
	TU and management have improved relationship. The Japanese manager often talks with TU

*Source: Union of FDK-Tatung Thailand*

According to the Union of FDK-Tatung Thailand the Japanese are management and the Taiwanese takes charge of accounting. Basically workers feel like working in a Japanese company, not a Taiwanese one. The unionists think that their working conditions are not as good as auto companies but better than other electronics companies. Several years ago, management told the union that the company has another branch in China, and labour cost there are cheaper. So, company decided to move the Thai plant to China. On 14 July 2005, the company informed workers that the factory would be closed by the end of September and workers would receive the compensation according to law. The union was surprised that it happened so quickly but accepted the decision. The Union of FDK-Tatung Thailand was also a member of Eastern Seaboard Trade Union Centre.

## **7. CONCLUSIONS: CHALLENGES THAT TATUNG UNIONS HAVE TO FACE**

### **7.1 How to Resist the Ideas of ‘Cooperation and Harmony’**

As mentioned above, Taiwan workers tend to think that their welfare depends on the company making profits or not, so they cooperate with the management to improve productive efficiency to compete with other companies. Workers believe that if the company makes more money then workers could share more. Maybe such doings during a flourishing economy could really exchange some welfare. But after the 1980s, global competition was more and more serious. How much ‘cooperation and harmony’ could exchange now, it’s really a question. In fact, the way the company improves productive efficiency is usually to cut labour costs and intensify working conditions. Nowadays Taiwan is facing the most serious unemployment problem in the past 30 years. The government policy asks workers to ‘share the hardship with the employer’, meaning that workers should accept working conditions cut-backs, otherwise they may lose their jobs. It encourages workers to follow the ‘cooperation and harmony’ line, no matter how much could be exchanged. Under this situation, how the autonomous unions mobilize the collective power of the workers to defend labour rights becomes a very important issue.

## 7.2 How the Old Union Scheme Confronted the New Business Structure

As mentioned above, there were certain autonomous unions organized during the labour movement high tide in the late 1980s. Most of those unions were in 'traditional' industries like textiles and home appliances. So, many unions have already disappeared with the factory closure or transfer. In newly emerging industries like 3C, there are almost no unions. It's a fatal shortcoming for the labour movement. Taking Tatung as an example, although traditional sectors like the Banciao and Sanshia plants are organized, they keep downsizing and face closure. There is a Tatung Union in the 3C sector, but the company is changing its shape very soon through merger and outsourcing. In terms of CPT, there are two factory-based unions located in the Yangmei and Taoyuan plants, but they are not active and never have cooperation with Tatung unions. The workers in the 3C sector are young and not aware of the labour movement. They view themselves as professionals and feel it unnecessary to join a union. That's why union organization rate in the 3C sector is low all over the world. But the foundation of Taiwan's union movement is much weaker than other industrialized countries. If the Taiwan union movement only stays in traditional industries and does not go forward, then it will be almost impossible to negotiate with the capitalists in the future. In fact, workers in Tatung have more advantage than others. Maybe because the Lin family sees the Tatung Group as a whole, workers in Tatung subsidiaries where Tatung has more than half the shares join the Tatung Union, except solitary ones like Banciao Plant Union, and Sanshia Plant Union<sup>17</sup>, TTIC Union and CPT unions. In other words, Tatung Union is not only one of the few cross-border unions in Taiwan, but also the only consortium-based union in Taiwan. This gives Tatung Union a very good position to expand. If Tatung Union can consolidate the organizing to the unorganized and cooperate with unions within Tatung Group, then the strength of the unions would be unpredictable.

Another burning issue for the unions is international solidarity. As the company keeps moving out, labour organizing in Taiwan is far below the strength needed to negotiate with the employer. Tatung not only takes the production lines but also the management style to the invested countries. The company provides poor working conditions and conducts union busting everywhere it goes. If labour doesn't find a good resolution to confront the company, then the working conditions will race to the bottom. Tatung unionists in Taiwan should put the topic of how to link with labour in Tatung's overseas factories on the unions' meeting tables.

### REFERENCES (ENGLISH)

- Ho, Shuet-Ying 1990, *Taiwan—After a Long Silence: The Emerging New Unions of Taiwan*, Hong Kong: Asia Monitor Resource Centre.
- Lin, Ching-Yuan 1973, *Industrialization in Taiwan, 1946-72: Trade and Import-Substitution Policies for Developing Countries*, New York: Praeger.

## REFERENCES (CHINESE)

- Annual Report of Chunghua Picture Tubes 2000, 2004, and 2005.
- Annual Report of Tatung Company 1994 –2005.
- Chen, Hsin-Hsing 2004, 'Creating the First Global Assembling Line: Taiwan General Instrument 1964-1990', *pipon yu zaizao* (Critique and Transformation) No. 10, pp. 12-25.
- China Credit Information Service 2006, *Business Groups in Taiwan*, 2006 edition, Taipei: China Credit Information Service.
- Common Wealth, Yearly Corporation Ranking Special Issue 1984-2006.
- Duan, Cheng-Pu (ed.) 1999, *Post-War Economy of Taiwan*, Taipei: Renjian Publishing.
- Huang, Hui-Chuan and Cheng-Huang Cheng 2003, 'W. S. Lin Takes the Position: Creating Next Golden Key', *Business Weekly* No. 821, pp. 54-6.
- Lee, Kuo-Ting 1976, 'The Growth of Taiwan Private Industries', in W. T. Tu (ed.) *Collecting Papers on Taiwan Industrial Development*, Taipei: Linking Books.
- Lee, Yun-Chieh 1999, *The Political and Economic Analysis of Taiwan Union Policy*, the second revised edition, Taipei: Shang-Ting Publishing.
- Lin, Sheng-Chou et al. 2000a, *The Era of Economic Liberalization and Big Scale of Unemployment: From 1980 up to Now*, the third volume of *Taiwan Economic History for Workers*, Kaohsiung: The Labor Bureau of Kaohsiung City Government.
- Lin, Tsung-Hung et al. 200b, *Fighting for the Respect: The Struggling History of Tatung Unions*, Taipei: Taiwan Labor Front.
- Nee, Shih-Chieh 2002, *The Relationship between the State and the Capital Out-moving under Capitalist Globalization: The Critique on the Economic and Trade Strategy of Taiwan Pragmatic Diplomacy*, unpublished master dissertation of Department of Political Science, National Chengchi University.
- Practice Notes of Taiwan University, University Forum of Taiwan University, and Black Runnel of Fu-Jen University 2005, *How the Union Confront the Impact of Factory Closure: 2005 Report on Tatung Banciao Plant Investigation*.
- Tatung Company and its Subsidiaries' Combined Financial Report 2004 & 2005.
- Tatung Semi-Monthly, 1963-1975.
- The Editing Committee of Hsieh-Chih Tatung Establishment & Development History 2003, *Hsieh-Chih Tatung Establishment & Development History*, Taipei: Hsieh-Chih Industrial Library Publishing.
- The Editors of Common Wealth 1997, 'Some Questions for Professor, President of Tatung School, and Chairman of Tatung Company T. S. Lin', *Common Wealth* No. 198, pp. 47-8.
- Tu, Wen-Tien 1976, 'Industrialization and Industrial Protection Policy', in W. T. Tu (ed.) *Collecting Papers on Taiwan Industrial Development*, Taipei: Linking Books.
- Wang, Cheng-Fen 1999, *The Information Technology Industry @ Taiwan*, Taipei: Wealth Press.
- Yeh, Wan-An 1984, 'The Research and Implementation of Taiwan Industrial Development Policy', in Tsung-Hsien Yu and Ke-Chih Liu (eds) *The Industrial Development of Taiwan*, Taipei: Linking Books.
- Yu, Chang-Shan 1994, 'Interviewing the President General Of Tatung Company W. S. Lin: Anyway We have to Develop New Roads', *Common Wealth* No. 159, pp. 173-4.

## WEB SITE REFERENCES

- The web site of Chunghua Picture Tubes: <http://www.cptt.com.tw/>
- The web site of Tatung Company: <http://www.tatung.com/en/index.asp>

## APPENDIX 1

### Tatung and its subsidiaries in Taiwan

#### Computer, communications & consumer products

Company	Main product	Year established
Tatung	Home appliance, heavy electric apparatus, wire & cable, and 3C productions	1945
Chunghwa Picture Tubes	PDP, TFT-LCD	1971
Tatung System Technologies	3C instrument wholesale & software service	2000
Forward Electronics	Electronic components	1970
Taiwan Telecommunication Industry Company	Telecom equipment	1958
Central Research Technology	Testing and certifying electronic products	1997
San-Chih Semiconductor	Semi-conductor	1995
Green Energy Technology I	Poly silicon wafer	2004
Toes Opto-Mechatronics	Data saving equipments	2004
Toppan Chunghwa Electronics II	Photo-mask	1997
Dahwa Optronics II	PDP	2003

#### Home appliances

Company	Main product	Year established
Tatung Consumer Productions	Sales and service of 3C productions & home appliances	2000

#### Heavy electric apparatus & industrial equipment

Company	Main product	Year established
Tatung Otis Elevator	Elevator	1984
Tatung FANUC Robotics	Robotics for factory automation	1994
Tatung SM-Cyclo	Speed reducers, speed variators	1996
Tatung Okuma	Machine tools	1997

#### Chemical products

Company	Main product	Year established
Kuender	Plastic injection molding	1977
Shang-Chih Chemical Industry	Plastics	1979
Tatung Fine Chemicals	Industrial coatings	1980

### Real estate

Company	Main product	Year established
Shang-Chih Real Estate Developing	Real estate developing	1966
Tatung Forestry & Construction	Construction	1950

### Others

Company	Main product	Year established
Chunghwa Electronics Development	Investing company	1970
Tatung Die Casting	Moulding	1971
TIS Net Technology	Software design & development	1996
Tatung Horticulture	Trees and flowers plantation	1972
Shang-Chih Investment	Investing company	1990
Tatung Atherton	Sales of imported red wines	1996
SeQual Technologies	Medical equipment	2004
Shang-Chih Container Terminals	Transporting, loading & unloading cargo	1973
Tatung Chugai Precious Metals	Contact materials	1973
Hsieh-Chih Industrial Library Publishing	Publishing	1959
Tatung Precise Meter	Speedometers, tachometers	1977
Taipei Industrial	Ready mixed concrete	1950

Notes I: indirect investment of San-Chih Semiconductor; II indirect investment of CPT  
*Appendix 1 sources: 2005 Annual Report of Tatung Company;*  
*2005 Annual Report of Chunghwa Picture Tubes Company*

## APPENDIX 2

### Tatung and its subsidiaries abroad

#### Asia

Company	Main product	Year established
Tatung Electronics (Singapore)	Sales and service of Tatung products	1972
Tatung of Japan	Trade office	1975
Tatung Thailand	LCD TV & monitors	1989
Chunghwa Picture Tubes (Malaysia) X	CRT	1989
Chunghwa Picture Tubes (Malaysia) Kampar X	CRT	1995
Tatung Singapore Electrics	Investing company	1998
Tatung Singapore Information	Investing company	1999
Tatung Thailand Wire & Cable (Thailand)	Wire & cable	2000
Tatung Vietnam	Home appliances	2005
Makolin Electronics (Malaysia) X	CRT	N/A

### Mainland China

Company name	Main product (location)	Year established
Taiwan Telecom Fujian III	Wire telecom instruments (Fujian)	1989
CPTF Optronics X	CRT (Fujian)	1994
Changzhou Shan-Chih Precise Meter V	Speedometers, tachometers (Jiangsu)	1997
Tatung (Shanghai) II	Heavy electric apparatus (Shanghai)	1998
Tatung Coatings (Kunshan) IX	Industrial coatings (Jiangsu)	1998
Tatung Information Technology (Jiangsu) I	Electronics (Jiangsu)	1999
Forward Electronics Equipment (Dongguan) IV	Computer components (Guangdong)	1999
Shan-Chih (Wujiang) Chemical VIII	Plastics (Jiangsu)	2000
Tatung Home Appliances (Wujiang) I	Home appliances (Jiangsu)	2001
Kuender (Wujiang) Plastic Technology VI	Plastics (Jiangsu)	2001
Fujian Fujia Electronics X	Optronic instruments (Fujian)	2001
Chunghwa Picture Tubes (Wujiang) X	LCD module (Jiangsu)	2001
Suzhou Forward Electronics Technology IV	Optronic instruments (Jiangsu)	2002
Chunghwa Picture Tubes (Fuzhou) X	PDP (Fujian)	2003
Tatung Compressors (Zhongshan) I	Compressors (Guangdong)	2004
CPT Display Technology (Fujian) X	LCD module (Fujian)	2004
Tatung Wire & Cable Technology (Wujiang) I	Wire & cable (Jiangsu)	2005
Wuhan Forward Electronic Technology IV	LCD module (Hubei)	2005
CPT TPV Optical (Fujian) X	LCD module (Fujian)	2005
CPT Display Technology (Shenzhen) X	LCD module (Guangdong)	2005
Huaichieh (Wujiang) Plastic Technology VI	Plastics (Jiangsu)	2005
Kuender (Wujiang) Electronic Parts VI	Computer components (Jiangsu)	N/A
Tatung Beifang Telecommunications Technology (Beijing) VII	Wire telecom instruments (Beijing)	N/A
Jiangsu Tatung Telecom Equipment VII	Wire telecom instruments (Jiangsu)	N/A
Wujiang Shanhwa Plastic VIII	Plastics (Jiangsu)	N/A

### America

Company	Main product	Year established
Tatung of America	Sales and service of Tatung products	1972
Tatung Science & Technology	Sales of information products (US)	1983
Tatung Telecom	Public phones (US)	1985
Tatung Electric of America	Electric motors (US)	1988
Tatung of Canada	Sales of information products	1997
Tatung Mexico	Information productions	1997
Tatung Monitor Mexico	Monitors	1997

### Europe

Company	Main product	Year established
Tatung World	Strategy planning office for European sales (Luxemburg)	1980
Tatung UK	Information productions	1980
Tatung Netherlands	Information productions	1996
Tatung Czech	Electronic instruments	2003

Notes:

I indirect investment of Tatung Singapore Information; II indirect investment of Tatung Singapore Electrics; III indirect investment of TTIC; IV indirect investment of Forward Electronics; V indirect investment of Tatung Precise Meter; VI indirect investment of Kuender; VII indirect investment of Tatung Telecom; VIII indirect investment of Shang Chih Chemical Industry; IX indirect investment of Tatung Fine Chemicals; X indirect investment of CPT.

The indirect investments listed here only include manufacturing and sales company, some investing companies are excluded.

Appendix 2 sources: 2005 Annual Report of Tatung Company; China Credit Information Service 2006, p401-12; Tatung Company and its Subsidiaries' Combined Financial Report 2004 & 2005

### NOTES

1 3C means computer, communication, and consumer production, similar to information technology.

2 The name was changed to Taiwan Electrical and Electronic Manufacturers' Association in 1994, in order to include high technology.

3 *Tatung Semi-Monthly* was first published in June 1947 as a Tatung internal journal. In the early days there was rich company information inside the journal. But since the 1970s, it turned to be a literary journal. *Tatung Semi-Monthly* was entitled *Tatung Magazine* and became monthly in 1981.

4 In 1966, Kaoshiung Export Processing Zone was set up; 1971, Taichung Export Processing Zone and Nantzu Export Processing Zone.

5 When interviewed by journals, W S Lin often mentioned that Tatung takes General Electric as a model for an evergreen company with diverse production lines.

6 After the independence of Tatung System Technologies from Tatung, Tatung System Technologies was listed in the yearly top 500 service industries.

7 Cross-border unions also happened in other home appliance companies. From this example we can say that if unionists are willing to organize workers across borders, the limitation from the law is breakable.

8 Inside every issue of *Tatung Semi-Monthly* and *Tatung Magazine* are selections and translations from Adam Smith's *The Wealth of Nations*.

9 Japan's government raised 'Planning for Double National Incomes' in 1961 and declared that it would be achieved in 10 years. It only took seven years. We are not sure that whether Tatung's planning was influenced by the Japanese. But you can see how hot the East Asian economy was in the 1960s.

10 This man served as an executive board member of the union since the autonomous movement began. He was always an executive board member of the Taiwan Labour Front and the Taiwan Confederation of Trade Unions. He is already a senior in the labour movement. But he couldn't help being a manager of the company now.

11 TLLAA changed its name to Taiwan Labour Front in 1992. The Labour Rights Association

(LRA) was established in 1988. Committee for the Actions of Labour Legislation (CALL; the secretariat is known as Information Centre for Labour Education, ICLE) was set up in 1993. These three are widely considered the 'Big Three' labour movement organizations in Taiwan.

12 Workers Party split in 1988. The leadership of Workers Party mainly only took legal action to support workers. That resulted in discontent from parts of its members. The radical wing set up the Labour Party in 1989.

13 These two unions soon affiliated with National Federation of Independent Trade Unions (NAFITU), the first nationwide autonomous confederation in post-war Taiwan which was established on May Day 1988. NAFITU is an affiliation of the Brotherhood of Asian Trade Unionists (BATU) and the World Confederation of Labour (WCL). When the first regional autonomous federation in Taiwan, Taipei County Federation of Trade Unions, was set up in 1994, both Banciao Plant Union and Sanshia Plant Union were founding members.

14 Due to the element of factory-based union, unions in Taiwan lack resources. Usually the union office is provided by the company and located inside the factory. If the union has to rent a space by itself for the office, then it's a big burden for union finance. In the beginning when Sanshia Plant Union set up, the company didn't recognize the union so the union rented a space outside the factory for a period of time. Tatung Union moved the office back to the company in 1998.

15 Another issue is that Tatung System Technologies and Tatung Consumer Productions were separated from Tatung.

16 According to Banciao Plant Union, Banciao plant has to pay lots of money to the company every year for the land rental fee. Besides, sales of home appliances was given to Tatung Consumer Productions. Tatung Consumer Productions takes the products from Banciao plant at a very low price. Thus, we can reasonably assume that Tatung tries to shift profits from the production sector to the service sector, so that the profit of Banciao plant in the accounting is negative.

17 Tatung Die Casting, Tatung SM-Cyclo, Tatung Okuma, and Tatung Otis Elevator are located in Sanshia plant. The workers in Tatung Die Casting, Tatung SM-Cyclo, and Tatung Okuma all join Sanshia Plant Union. But workers in Tatung Otis Elevator don't have a union.

## ABOUT THE AUTHORS

**Dennis Arnold** is currently a PhD candidate in the Department of Geography at the University of North Carolina at Chapel Hill, US. His research interests include the political economy of development, global production networks, labour, labour migration, and trade. Previously, he was the International Coordinator of a Bangkok-based NGO, the Thai Labour Campaign while concurrently pursuing an MA in Human Rights at Mahidol University in Bangkok. He has also participated in the Asian TNC Monitoring Network since 2004 as a researcher and activist. His published work includes articles on Burmese migrant workers in Thailand and free trade agreements in Southeast Asia, which appear in the *Journal of Contemporary Asia*, 'Transnational Migration for Work' (K. Hewison and K. Young, eds. RoutledgeCurzon) and the *ATNC Outlook 2004*.

**Dae-oup Chang** is an academic activist and currently the research coordinator of the Asia Monitor Resource Centre (AMRC) based in Hong Kong. His articles on the labour movement and critical political economy appeared in *Historical Materialism*, *Labour, Capital and Society*, *Journal of Contemporary Asia*, and a number of publications of AMRC. He is currently working on a project that addresses the informalisation of labour in globalising Asia. He is currently the campaign coordinator of the Asian TNCs Monitoring Network that aims to contribute to organising increasingly informalising labour in face of mobile capital in Asia.

**Kaneko Fumio** is a professor in the Faculty of Humanities and International Studies, Yokohama City University, Japan, as well as a member of Yokohama Action Research Center. He is currently researching Japanese FDI and TNCs, Tobin Tax and FTAs in Asia.

**Sobin George** is associated with the Trade and Labour Rights programme of the Centre for Education and Communication (CEC), New Delhi, India. He is a research scholar of Jawaharlal Nehru University, New Delhi and his areas of work include trade and labour rights, work and health, informalisation of labour and trade and health.

**Tono Haruhi** is the director of the Yokohama Action Research Center, Japan, and a secretariat member of Support Groups for TMPCWA (Protest Toyota Campaign). Her research focuses on the investment and labour practices of Japanese TNCs. She holds a master's degree from Tokyo University.

**Krishna Shekhar Lal Das** is currently working with the National Centre for Labour, an apex body of the unorganised/informal sector of labour. He earned his MA in Employment and Labour Study from Institute of Social Studies at The Hague in the Netherlands, and a PhD in Soviet Politics and Administration from J.N.U. New Delhi, India. He has been responsible as a South Asia Researcher for the ATNC Network from 2003 to May 2006. Currently he is directly involved in organising casual, contracts and unorganised labour in India. Also at present he is the editor of NCL Journal (English), NCL Patrika (Hindi) and the International Journal of Disability Studies.

**LRC (Labour Resource Centre)** is a labour research and networking institute, based at Kuala Lumpur, Malaysia. It provides legal consultation for workers as well as working with trade unions in various labour research programmes. LRC aims to serve as a site of discussion for workers, unionists, labour NGO activists, and academics to bring innovative concepts and ideas for more democratic unions and effective worker organising.

**Chih-Chieh Tsai** previously worked for Ching-Jen Labor Health & Safety Service Center in Taiwan. The main focuses of the centre included labour health and safety, monitoring Taiwanese TNCs, and international labour solidarity. After the centre closed down, the original work has moved to the Taiwan Labour Information and Education Association (TLIEA).

**Monina Wong** is currently the executive director of Labour Action China and the research coordinator of Asian TNCs Monitoring Network. She has been doing research on the supply chain and labour conditions in the garment, footwear, toy, and computer industries in China and Asia. She has been also deeply involved in various labour campaigns, such as the Clean Clothes Campaign, the Anti-Sweatshop Campaign, the Clean Up Your Computer Campaign and the International Toy Campaign, as well as multi-stakeholder projects such as the Ethical Trading Initiatives, the Workers' Rights Consortium, and the Fair Wear Foundation. Her current research interest is Chinese workers laid off from state-owned enterprises as well as China's international dispatched workers.