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Bloomberg: Hon Hai May Raise China Wages 20% as Suicides Mount (Update3)

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By Janet Ong

May 28 (Bloomberg) -- Hon Hai Group, the assembler of Apple Inc.'s iPhones, may raise wages in China by 20 percent after a series of suicides at the world's largest contract manufacturer of electronics.

The company plans to implement the plan soon, said Edmund Ding, a spokesman at Taipei-based Hon Hai Precision Industry Co., the flagship of the group that's also known as Foxconn Technology Group. He declined to specify why the Taiwanese electronics maker plans to raise wages.

At least 10 people have died this year at Hon Hai's manufacturing complex in Shenzhen and police are treating the deaths as suicides, prompting Chairman Terry Gou to recruit counselors, install nets in dormitories and open his factories to the media. Shenzhen police and customers from Apple to Dell Inc. are probing Hon Hai's working conditions after the deaths, half of which occurred in May.

"The increase seems to be quite high compared with what other Chinese manufacturers are awarding their staff, so it may be related to the recent employee issues," said Jenny Lai, who rates Hon Hai shares "buy" at CLSA Ltd. in Taipei. "The raise will have only a limited effect on resolving the employee issues, because the most important thing is for the company to improve the working environment."

Shares Fall

Hon Hai fell as much as 2 percent in Taipei trading as Citigroup Inc. estimated the wage increase may cost the company NT\$2.7 billion (\$84 million) a quarter and erode operating profit by 10 percent to 11 percent. The stock closed 1.2 percent lower at NT\$127. Citigroup reduced its 2010 earnings estimate for Hon Hai by 11 percent, according to a report dated May 27 and distributed today.

The minimum monthly wage in Shenzhen is between 900 yuan (\$132) and 1,000 yuan, according to the city government. Foxconn employees are paid about a base salary of about 900 yuan, according to China Labor Watch, a New York-based non-profit organization that promotes labor rights in China. Hon Hai declined to comment on the salaries in China.

The Shenzhen police are examining the suicides, said Li Ping, a spokesman for the municipal government in the southern Chinese city. Wang Rong, communist party secretary of Shenzhen Municipal Committee, other city officials and labor union officials went to the plant on May 26 to investigate, the government said in a statement on its website yesterday.

The central government, State Council and the Guangdong provincial government are taking the suicides very seriously and want the relevant authorities to "accelerate efforts and take appropriate measures and to support Foxconn to deal with the situation and prevent similar incidents from happening again," Wang said.

'Sweatshop' Claims

Gou has rejected allegations from labor-rights groups that Hon Hai is a "sweatshop" and opened the Shenzhen manufacturing complex to the media to defend the company's working conditions.

Foxconn employees who committed suicide may have suffered from "extreme pressure," calling into question the labor practices of manufacturers in China, S. Prakash Sethi, professor at the City University of New York's Baruch College Zicklin School of Business, said in a Bloomberg Television interview today.

"It is not only the minimum wage but also a question of an excessive number of hours and the actual working conditions," said Sethi, who says he has never been to Foxconn's plant. "In some factories I visited, workers are supposed to stand eight hours a day without any chair to sit, they have to ask permission to go to the bathroom."

Worker Wages

China needs to increase worker wages as a proportion of the nation's gross domestic product, the state-run China Daily said today in an editorial.

The Ministry of Human Resources and Social Security has made little progress in amending existing wage regulations because of "strong opposition" from employers, the Beijing-based English-language newspaper wrote. Inaction may further fuel the escalating tension

highlighted by the striking workers at a Honda Motor Co. plant in Guangdong province and worker suicides at Foxconn Technology Group, according to the editorial.

Apple, Hewlett-Packard Co. and Dell said this week they are probing Hon Hai following the deaths. Apple has a team evaluating Hon Hai's countermeasures, it said this week.

Japan's Nintendo Co., the world's largest video-game company, said it routinely carries out investigations on its production partners after the Nikkei English News reported the company has begun a probe on the Taiwanese company.

Migrant Workers

A group of nine sociologists, including academics from China's Tsinghua University and the sociology department of the Chinese Academy of Social Sciences, posted an online appeal to the central government to "immediately end the model of development that has sacrificed people's basic dignity."

The group also called for the new generation of migrant workers to value their own lives and respond in a positive way to the pressures of work.

A Foxconn employee surnamed Chen yesterday became the latest Hon Hai employee to attempt suicide when he cut his wrists in a dormitory at one of the company's factories in Shenzhen. The 25-year-old male is now in hospital and isn't in a critical condition, according to a statement by the city government on May 27.

A group of labor activists in Taipei today staged a protest outside Hon Hai offices, urging the company to improve treatment of its workers in China, according to footage shown on Unique TV.

"These problems aren't unique to Foxconn, they occur in lots of the factories, with rural employees working in these pressure-cooker environments with no social lives and no support networks," said Auret van Heerden, president of the Fair Labor Association, a labor monitoring group based in Washington. "The difference with Foxconn is that it's a tighter ship than most, they take a very muscular approach to security, which makes for Orwellian conditions."

Major mainland newspapers and websites said they received orders from the government to tone down reports of the suicides at Foxconn, the South China Morning Post reported in Hong Kong today, citing people it didn't identify.

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