

COVER STORY

Crisis of Confidence

Brands have long relied on social auditing companies to monitor their supply chains in China. But between the industry's own flaws and a changing political environment in China, many say social audits aren't reliable.

BY NITHIN COCA — JUNE 26, 2022



Illustration by Luis Grañena

In 2012, just as Apple was preparing to release the iPhone 5, the company found itself in a bind. A damning [series of reports](#)¹ was released that detailed troubling working conditions at the factories of a key supplier, Foxconn, in Chengdu and Shenzhen, China. Apple's supplier, the reports had found, had excessive overtime, crowded worker dorms, falsified records and even several worker suicides.

The California company vowed to do better. CEO Tim Cook [announced](#) that Apple would open its supply chain for independent evaluations to identify labor violations, and he promised not to “stand still or turn a blind eye to problems in our supply chain.”²

To help accomplish this, Apple turned to [Verité](#), a nonprofit organization that specialized in “social audits.” With both in-person and remote audits of factories and other facilities along Apple's supply chain, Verité and other independent third-party auditing organizations would collect data and determine if the global brand was living up to its labor and human rights standards.

Apple, by most accounts, was in good hands. Verité had been working in China since 1995 to improve supply



Parents of Foxconn employee Ma Xiangqian who committed suicide by jumping off a building outside the Foxconn plant in Longhua town, Shenzhen city, 29 May 2010. Credit: [Imaginechina](#) via [AP Images](#)

chain due diligence, and it was one of the only nonprofits doing this kind of work. While most of the big corporate auditors offered social auditing as one of many services — alongside regular quality and ISO certification auditing — Verité was focused exclusively on workers. By the time Apple reached out for its services, the organization had already been working with other global brands, such as Gap, Philip Morris and Hewlett Packard.

“Verité is the most independent and rigorous of all the auditing groups,” says [Simon Billenness](#), a supply chain transparency advocate and director of No Business With Genocide Coalition, in Washington, D.C. “Verité was founded just to monitor factories on their adherence to labor and human rights, and has no other purpose or business lines to distract from its core mission.”

Unfortunately, Apple and other global brands hoping to monitor their supply chain in China today can no longer choose Verité as a partner.³ In late 2021, Verité’s [Shenzhen affiliate](#)⁴ was suddenly raided and shut down by Chinese authorities. Eight members of the local staff were forced to undergo hours of interrogation. Although the Chinese government has not stated why the raid took place, many observers suspect it was related to research the organization had recently conducted on Uyghur forced labor.



A rally organised by the Uyghur Human Rights Project and Uyghur American Association outside the Lincoln Memorial, October 2021.
Credit: Kuzzat Altay via [Unsplash](#)

“The government doesn’t want business in Xinjiang to be disrupted by the growing reports of the genocide. So they went after Verité’s report,” says [Heather White](#), Verité’s founder who stepped down from her role at the organization in 2005 — before Apple came calling — and now works as a strategic advisor on supply chain ethics.

Verité’s current staff declined to speak with *The Wire*. But to observers, it’s the most dramatic and visible incident of a worrying trend for social auditing that has

been taking place for years. With a dwindling number of journalists and non-profit organizations allowed to operate in China,⁵ multinational corporations — and those hoping to hold them accountable — are increasingly reliant on for-profit third party auditors to keep tabs on the conditions in Chinese factories.⁶ At the same time, for-profit auditors — long beleaguered by questions of incentive bias, since they rely on brands and factories for their business — are facing a political environment in China that casts a long shadow of doubt over their work.

Four companies — [Bureau Veritas](#), [TÜV SÜD](#), [Sumerra LLC](#), and [RINA SpA](#) — essentially dominate the for-profit social auditing industry, representing billions of dollars of business and tens of thousands of staff around the world. China is one of their largest markets, with both major brands — like Sony, which uses Bureau Veritas — as customers as well as the owners of factories in China who want to be certified to supply global brands.

But in 2020, just a year before Verité's forced closure, the four firms [told](#) the *Wall Street Journal* they had stopped doing work in Xinjiang Uyghur Autonomous Region, where for years there have been [documented reports](#) about the use of forced labor. Observers say the decision by the auditing firms was an admission that the oppressive conditions on the ground — such as a lack of access to factories and heavy policing in the region — prohibited them from conducting accurate work there.⁷



Workers load cotton onto a truck at a sunning ground in northwest Xinjiang, 29 September 2015. Credit: *Imaginechina* via [AP Images](#)

That admission, however, now puts the auditing firms in a precarious position since it implies that the challenges that make their work impossible in Xinjiang are isolated to that region. Given the raid on Verité, the well-documented advancement of the surveillance state in China, and the labor transfer schemes that reportedly force Uyghurs from Xinjiang to work in other provinces, many say it is impossible to separate Xinjiang from the rest of China.

“ If some of the most prominent auditing firms in the world were unable to identify this problem, how confident should we be that they won't continue to miss these kinds of issues in the future? ”

— [Peter Irwin](#), a senior program officer at the *Uyghur Human Rights Project*

“The auditing industry has a very long track record of acting as if political circumstances in a particular locale do not bear meaningfully on the feasibility of an investigation,” says [Scott Nova](#), the executive director of the Workers Rights Consortium, a Washington, D.C.-based NGO. “But they have enormous implications for the viability of labor investigations, and the prevailing political circumstances in China are extremely negative from the standpoint of independent fact gathering.”

The result, experts say, is a growing crisis of confidence in the social auditing industry.

“Is it totally impossible to do any meaningful social auditing in mainland China?,” asks [Johnson Ching-Yin Yeung](#), a regional campaigner with the non-profit Clean Clothes Campaign. “I'm not confident to say you are 100 percent unable to do so, but I think it's getting very, very difficult.”

Of the big four auditing firms, RINA SpA declined to comment, while the other three did not respond to requests for comment. But Western companies, for the most part, are still pointing to social auditing as proof that their supply chains are free of forced labor. For instance, the [Uyghurs for Sale](#) report, which first identified labor transfer schemes and was published by the Australian Strategic Policy Institute (ASPI) in early 2020, listed 83 companies it suspected of using forced labor transfers in their supply chains. Of the 17 non-Chinese firms that had public statements readily accessible, 10 cited audits as proof that they weren't sourcing from any of the facilities mentioned in the report. Of the others, another 15 cited social auditing as a key component of their overall supply chain due diligence measures.

Nike, for example, [responded](#) to the report by stating that “an independent third-party audit confirmed there are no longer any employees from [Xinjiang] at the facility,” and that their “ongoing diligence has not found evidence of employment of Uyghurs, or other ethnic minorities from the XUAR, elsewhere in our supply chain in China.”

Nike does not have relationships with the Haoyuanpeng Clothing Manufacturing, Qingdao Jifa Group, Changji Esquel Textile or any of Esquel’s other facilities in the XUAR, as was inaccurately reported by the Australian Strategic Policy Institute. Related to the Taekwang Group, when reports of the situation in XUAR began to surface in 2019 Taekwang stopped hiring new employees from the XUAR to its Qingdao facility and an independent third-party audit confirmed there are no longer any employees from XUAR at the facility. Our ongoing diligence has not found evidence of employment of Uyghurs, or other ethnic minorities from the XUAR, elsewhere in our supply chain in China.

An excerpt from Nike’s [statement on Xinjiang](#).

More generally, the Atlanta-based children’s clothing brand [Carter’s](#) has said that “factory audits are a central pillar of our monitoring program. We regularly audit our suppliers to verify compliance with our policies, as well as to strengthen working conditions and labor practices in factories. We contract with accredited and internationally recognized third party auditors to perform these audits.”

A study published in the academic research journal *Globalizations* [estimates](#) that companies typically devote up to 80 percent of their ethical sourcing budget to auditing alone, and the global social auditing industry itself is [estimated](#) to be worth \$50 billion, according to the [Ethical Trading Initiative](#), a UK body that monitors member NGOs and supply chains. That number could very well grow in the coming year after the U.S. steps up enforcement of the recently enacted [Uyghur Forced Labor Prevention Act](#), which requires companies to provide “clear and convincing evidence” that no import was produced, either wholly or in part, with slave labor. In its guidance to companies on how to comply and provide evidence that goods originating in China were not made with forced labor, the State Department lists as appropriate documentation: “Credible audits to identify forced labor indicators and remediation of these if applicable.”



President Joe Biden signs H.R. 6256, an act “to ensure that goods made with forced labor in the Xinjiang Uyghur Autonomous Region of the People’s Republic of China do not enter the United States market, and for other purposes”, 23rd December, 2021. Credit: Official White House Photo by Adam Schultz via [Wikimedia Commons](#)

But [Peter Irwin](#), a senior program officer at the Uyghur Human Rights Project, an NGO based in Washington, D.C, is concerned that social audits, which have mostly failed to identify links between western brands and factories using forced labor of Uyghurs in Xinjiang and elsewhere in China, could be used to avoid compliance with the law.

“If some of the most prominent auditing firms in the world were unable to identify this problem,” he says, “how confident should we be that they won’t continue to miss these kinds of issues in the future?”

BACK UP

Social auditing is a relatively new [concept](#). While the first social audit may have taken place in [1988](#) in Sweden, its role really grew around the [anti-sweatshop campaigns of the 1990s](#), when NGOs found clear evidence of child labor and other human rights violations in Asia.

Sensing a business opportunity, many of the existing inspection and certification firms

started offering social audits as well. RINA SpA, for instance, is a 161-year-old company based in Genoa, Italy, that has traditionally focused on the maritime industry, offering ship classification and engineering and safety inspections. But in [2001](#), it became accredited to carry out SA8000 certifications, one of several internationally accepted frameworks for social auditors to use to evaluate labor standards in factories.⁸

“They were already doing quality audits in factories,” says [Renaud Anjoran](#), founder and CEO of [Sofeast](#), a Hong Kong-based supply chain consulting company, who has been working in the Chinese manufacturing industry since 2005. “They had a bunch of auditors, and how hard is it to train auditors, right? This is a gold mine — they could make a lot of money.”



A worker at the Huafu Fashion cotton yarn mill in western Xinjiang, April 2021. Credit: [Mark Schiefelbein via AP Photo](#)

An in-person social audit is usually conducted by staff based in-country who inspect the safety of the facilities, interview workers about their hours, wages and treatment, and inspect the factory’s documents to evaluate labor violations or forced labor risks. But almost immediately, there were signs the third party auditors, and the companies that hired them, would have an uphill battle in China.

“At this stage, it was pretty well understood that social auditing had limitations,” says [Justine Nolan](#), a law professor and director of the Australian Human Rights Institute at the University of New South Wales, in Sydney.

For instance, reports of suppliers bribing social auditors as well as data tampering and falsification ran rampant. Anjoran at Sofeast says he saw evidence of suppliers keeping multiple sets of books — one that is real, and one specifically prepared for social auditors.

“In China, it’s a common practice to have an official factory, the one the auditors go to, and have something like half or more manufacturing done elsewhere,” Anjoran says. “The auditor’s job is not to check if the capacity is sufficient.”

““ **When done well, we’ve found and remediated many cases of forced labor and labor rights exploitation in audit processes. But when done poorly, as perhaps 80 percent are, auditing will not work.** ””

— [Kate Larsen](#), founding director of [SupplyESChange](#)

Still, the rise of social auditing coincided with a general improvement in conditions for Chinese workers. Wages have increased significantly in China over the past 20 years, and there is evidence that child labor and health and safety violations have decreased over time as well.

“It’s hard to generalize, and the reality is that there are still real challenges on social, labor and environmental issues in China... however, in 25 years of working on this, of the countries that have progressed the most, China is at the top of the list,” says one executive at a leading social auditing company who requested anonymity.

But observers note that these successes in China are not due to auditing alone. The rise of supply chain advocacy also generated NGO attention and media interest in conducting independent research on labor and factory conditions in China. After the country’s entry into the World Trade Organization in 2001, local and international labor NGOs and media rushed to establish a greater presence in a nation that has come to be called the “world’s factory floor.”



Protesters from labor organizations hold banners and placards during a protest to support workers on strike at Yue Yuen Industrial (Holdings) Ltd, April 24, 2014. Credit: Vincent Yu via [AP Photo](#)

“Years ago, it was possible for researchers within China, working quietly, to be doing investigative work on behalf of organizations outside of China,” says Nova, at Workers Rights Consortium (WRC). In 2009, for instance, WRC worked with Crocs, K-Swiss and New Balance to secure back-pay and reinstatement for workers at a [Freetrend Group](#) shoe factory in Guangdong, China, after receiving complaints from

workers. In 2014, they engaged Nike and Adidas after their investigation uncovered widespread labor rights violations at a factory in the southern Chinese city of Dongguan controlled by [Yue Yuen Industrial](#), the giant Taiwanese footwear manufacturer.

Another nonprofit, [China Labor Watch](#) (CLW), which is based in New York City, hired local contractors to conduct investigations of factories supplying [Amazon](#), [Samsung](#), [Ivanka Trump](#) and others. (CLW believes their investigations of [Apple](#) led the company to hire Verité around 2012.) Notably, some of CLW’s most incriminating investigations — uncovering child labor, for instance — took place in factories that had been given passing grades by social auditors.

“We don’t have a huge budget, but still we were able to find those violations, so those auditors are just pretending they aren’t seeing these,” says [Li Qiang](#), CLW’s executive director.

Journalists have also been drawn to the subject, helping to both [uncover](#) and draw attention to labor [abuses](#). In 2019, for instance, [Amelia Pang](#), a freelance investigative journalist, spent a month around Shanghai doing research for her book, [Made in China: A Prisoner, an SOS Letter, and the Hidden Cost of America’s Cheap Goods](#). Herself Chinese-Uyghur American, she visited Chinese prisons and extralegal detention centers that were highly likely to produce goods made with the use of forced labor, and then followed trucks leaving these facilities to several manufacturers, including ones that were listed as suppliers to Kmart, Walmart, Amazon, Target and Apple.

The experience showed how China's vast prison labor system is implicated in the supply chains of western brands and retailers — and yet social auditors have no way to account for it.

“Social auditing is not designed to detect unauthorized subcontracting, and if you're going to weed out forced labor from your supply chain, that's the elephant in the room,” Pang says.

[Click here to read a Q&A with Amelia Pang by The Wire's Katrina Northrop](#)

Between Covid-19 travel restrictions, increasing AI surveillance, and Beijing's [crackdown](#) on foreign journalists, however, the research that Pang did just three years ago would be extremely difficult for a labor rights group or social auditor to replicate today.

NGOs have faced a similar crunch in recent years after Beijing passed a 2017 [law](#) that prohibited foreign NGOs from undertaking activities that the government deems to “endanger China's national unity, security, or ethnic unity” or “harm China's national interests and the public interest.” One well-regarded nonprofit, the [Fair Wear Foundation](#), which had conducted social audits for western brands, including the Netherlands-based retailer [Zeeman](#),⁹ declined an interview but told *The Wire* that it had left China after these and other restrictions were put in place.

The Workers Rights Consortium says that while it is still doing remote investigations in China, it has stopped sending staff or contractors for field investigations in the country.

“It is a practical impossibility even to go through the motions of a labor rights investigation all across China,” says Nova. “The combination of repression closing civil society space, the crushing of dissent, strict limitation of free speech, massive censorship, intensifying surveillance — all make it extraordinarily difficult to develop meaningful information about working conditions.”

Indeed, the exodus of foreign media and NGOs means that, for the first time in 20 years, when it comes to monitoring China's factories, social auditors are largely on their own.

CAN AUDITORS DO IT ALONE?

Pre-pandemic, [Kate Larsen](#) received a tip about forced labor at a factory sourcing western brands in southern China's Guangdong Province. Larsen is the founding director of SupplyESChange, a small sourcing consultancy based in the United Kingdom that provides supply chain risk analysis for brands such as Burberry, Puma, Nike and REI. During her unannounced audit of the factory, she found herself interviewing Uyghurs — roughly 2,000 miles from Xinjiang, which is in northwest China.

“There were about 100 Uyghurs at one factory out of the 5,000 workers there,” Larsen says.

“The rest were Han Chinese. It was the same at the next factory down the road, and in another factory.”

Larsen believes that the Uyghurs that her team found were part of the labor transfer schemes identified in the ASPI report.

“The Uyghur workers were not allowed to leave the premises,” she says. “They had their own dormitory building, which was locked at night, but the one for Han Chinese workers was not, and they could choose to live off site, as many did.”

This social audit, according to Larsen, was an example of one done right — unannounced, with local language translators, done in collaboration with several companies that were sourcing from the factory, and involving vetted auditors who knew how to identify signs of forced labor. It's proof, she says, that social audits can help address human rights and labor risks, even in China. But, increasingly she acknowledges, this is the exception, not the rule.

“When done well, we’ve found and remediated many cases of forced labor and labor rights exploitation in audit processes,” she says. “But when done poorly, as perhaps 80 percent are, auditing will not work.”

Bad social audits can happen for a variety of reasons — some of which, observers say, are inherent to the system, and some of which are becoming more common as the political situation in China changes.

First, inherent to the system, is the fact that for-profit social auditing companies rely on business from global retailers and factories, which creates incentives that can lead to abuses being ignored. In 2020, for instance, a major [investigation](#) in *The Nation* revealed systematic and widespread falsification of social auditing reports by major auditing companies across South Asia.



Pakistani men check a burnt garment factory in Karachi, Pakistan, 13th September 2012, after a fire broke out two days before. The previous month, August 2012, the factory was issued an SA8000 certificate by RINA SpA. Credit: Fareed Khan via [AP Photo](#)

“Oftentimes suppliers are forced to pay for audits,” says

[Allison Gill](#), the forced labor program director at Global Labor Justice-International Labor Rights Forum, an NGO based in Washington, D.C. “So if auditors are too diligent, too careful, then the suppliers may not want to hire them again, because this thing that is supposed to be helpful to them, ends up creating other kinds of problems.”

To some, the inability to put a check on these incentives taints the whole industry. “To me, it is a dirty business,” says Anjoran, the supply chain consultant running at Hong Kong-based Sofeast. “I don’t see how they can prevent bribery. If you do social audits, you are actually inviting corruption into your supply chain.”

But to others, it is simply a problem of intention: How badly do the social auditing companies want to find abuses?

“If they’re doing good auditing, they’re going to be publishing lots of messy reports,” Larsen says. “But if they’re doing bad auditing, they’re going to publish all these reports [saying] that everything’s fine.”

While there’s no way to know for sure, a good chunk of reports seem to be based off of “bad” auditing. A 2021 [investigation](#) by *The South China Morning Post* found an entire cottage industry devoted to falsifying data — including software that could create, in minutes, documents for a full team of seemingly legitimate factory workers — all aimed at tricking social auditors.

A 2021 [study](#) also compared audits conducted by different auditors at the same factories with each other and with other data sources in order to flag inconsistencies. It found that, out of 40,000 factory audits worldwide, 45 percent were based on “unreliable or falsified information.” Among 12 key exporting nations, China had the second highest proportion of audits with unreliable information, at nearly 55 percent — more than double the rate of Bangladesh, Vietnam or Cambodia. (India came in first, at just over 55 percent.)

“A lot of the time, when companies point to audits that say there is no evidence of labor violations, what that actually reveals is that the audit is itself insufficient,” says Nolan, at the Australian Human Rights Institute.

“ What it’s providing you with is a superficial level of comfort, not looking at the root causes of the problem. It’s almost like the audit is really acting as a cover-up. ”

— [Justine Nolan](#), social auditing expert and director of the Australian Human Rights Institute

To make matters worse, many now believe that good audits — like what Larsen’s team did in Guangdong — may no longer be possible in China. In addition to Covid-19 travel restrictions, many observers cite the suppression of labor and civil society in Hong Kong as a key turning point for the quality of labor rights investigations. The special administrative region had served as a base for labor research and organizing in mainland China, particularly for the industrial heartland just across the border.

“It used to be that brands and social auditing firms, who were more serious about their work, could reach out to civil society in Hong Kong to engage in dialogue and more accurately assess risk,” says [William Nee](#), who was previously based in Hong Kong and is now research and advocacy coordinator at the non-profit [Network of Chinese Human Rights Defenders](#). “That is now not possible.”



Freedom United’s Executive Director, Joanna Ewart-James, speak on Deutsche Welle about human trafficking, August 2019. Credit: Freedom United via [YouTube](#)

What is possible for brands and social auditing firms? Not much, says [Joanna Ewart-James](#), the executive director of Freedom United, a UK-based modern slavery NGO.

“In a situation where it is the government itself that is perpetrating the abuse, it is just totally out of the control of the company or social auditor to do anything about it,” says Ewart-James.

The irony, of course, is that social auditing companies and the brands they serve are being asked to do a lot more as the U.S. government mandates companies to investigate their supply chains at a granular level. It’s possible that the [Uyghur Forced Labor Prevention Act](#) has a positive impact on the industry — improving transparency, for instance, or changing incentives to conduct more rigorous audits.

For now, though, the new law is “a big conundrum for the companies,” says [Douglas K. Barry](#), vice president for communications at the U.S.-China Business Council, the nonprofit industry group that is made up of more than 200 American companies. Because of the issues facing social auditing, companies “are required to in effect prove a negative without the means to do so.”

Indeed, observers say audits will have to get a lot messier in order to restore trust in the industry.

“In high-risk sectors where there is widespread forced labor, if your audit says that there is none, that’s telling me that your audit mechanism is not working,” says Nolan, at the Australian Human Rights Institute. “What it’s providing you with is a superficial level of comfort, not looking at the root causes of the problem. It’s almost like the audit is really acting as a cover-up.”



[Nithin Coca](#) is a journalist who writes about human rights issues, climate change, technology and supply chains. He earned a bachelor's degree from the University of Southern California and a master's degree in international affairs from Columbia University. He is based in California and Japan. [@excinit](#)

● COVER STORY



Pole Position

BY EYCK FREYMANN

In public, Chinese diplomats and climate negotiators deny that they see any link between climate change and geopolitics. But there is a deeply cynical consensus within China's academic and policy communities that climate change creates geopolitical opportunities that China can exploit — and must exploit before its rivals do. Greenland was the proof of concept for this strategy. And it caught the U.S. flat-footed.

● THE BIG PICTURE



Transsion's Triumph

BY GARRETT O'BRIEN

A look at Transsion's monumental growth, unique marketing strategies and future growth potential.

● Q & A



Jörg Wuttke on China's Self-Destruction

BY ANDREW PEAPLE

The EU Chamber of Commerce in China president talks about China's self-inflicted problems; how he gets away with being so outspoken; and why he believes in China's comeback gene.



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