

China Finds Modern Labor Laws Come with a Price

New Laws Gave Many Workers More Rights than in US, but could be Accelerating the Pace of Factory Closures

SCDigest Editorial Staff

Many activists still regard China as a place that treats workers poorly, but the reality is that in recent years the country has passed some of the most progressive workers' rights laws of any country on the planet.

Whether they ever were or could be well enforced is another question, but some are now saying these laws, in combination with the contraction in the Chinese economy, are actually accelerating the pace of factory closures there, as owners look to escape paying the promised benefits.

As the economy in China has boomed, international and some domestic pressures to improve work place protections led the central Chinese government to pass several measures which gave workers – on paper at least – a strong list of new rights.

For example, the 2008 Labor Contract Law made firing workers more difficult and mandated that laid off employees receive a month of severance pay for each year of employment at a firm, terms that would be seen as very progressive even by European standards in many cases. Subsequent laws made it easier to file discrimination and other lawsuits against employers.

As with the rest of the world, China's economy has slowed dramatically. According to government statistics, its manufacturing sector has shrunk for the past five months, a condition hard to imagine until just recently, as the country has seen its economy grow by about 10% for many years.

With tens of thousands of factories in China simply shutting their doors, the government's ability to en-

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force such provisions has simply been overwhelmed. 8500 businesses were closed in the Guangdong province alone in the month of October.

The backlog of employee complaints is overwhelming. In many cases, the factory owners have simply disappeared back into the countryside, or even if found simply haven't the money to pay the severance or other mandated costs.

But of most interest to Western companies may be the fact that the laws in some cases are driving factory owners to close down operations.

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"Pressures from the labor law may encourage factories to close rather than pay what they owe to workers under the law," says **Liu Kaiming**, executive director at the Institute of Contemporary Observation, a Shenzhen-based labor group, according to a recent article in the Wall Street Journal.

Many business and some local officials are calling for a suspension of the Labor Contract Law until times improve.

But, these dynamics are already causing labor unrest, with many recent reports of various worker demonstrations and other incidents stemming from the layoffs and in some cases unpaid wages. China officials may be reluctant to stoke further anger by suspending the laws, and let the inability to handle the volume of complaints locally achieve the same result.

The Wall Street Journal story says that in some cases, workers want just enough dollars to be able to return back to their relatives in the country.



Meanwhile, **Peter Ford**, the Christian Science Monitor's Beijing bureau chief, recently said that, "I have heard, though not been able to confirm, that provincial governments have been quietly telling employers for several months that if they do not abide by the provisions of the Labor Contract Law they need not worry, and this seems perfectly plausible."

However, it is also possible that the operations of Western companies will be especially singled out for enforcement in some cases.