

# International Labor Rights Forum

---

**Bama Athreya**

**Summary of Testimony**

**Does China Have a Stability Problem?**

**Congressional-Executive Commission on China**

**February 27, 2009**

The global economic crisis has led to large-scale job loss in China, owing mainly to a sharp fall in global demand for the country's products. This has had a particularly severe impact on certain segments of the population, such as migrant workers and students. On February 2, 2009, Chen Xiwen of the Central Rural Work Leading Group, a government advisory body, said that as many as 26 million migrant workers "are now coming under pressures for employment." *China Daily* quoted Professor Chen Guangjin of the Chinese Academy of Social Sciences as putting the unemployment rate for new college graduates at "over 12 percent" on December 16, 2008. These numbers are rough, but China's statistics agency has committed to a comprehensive survey of China's labor market starting in big cities and extending to the whole country by the end of 2010.

There have been numerous strikes and protests. Last fall, taxi drivers in Chongqing, Sanya, Yongdeng, Shantou, Guangzhou and elsewhere went on strike over high rental fees, problems with police and competition from unlicensed drivers. Laid off employees at some of the world's largest toy plants have protested by the thousands for unpaid wages. Local governments have had to step in and pay workers some of the money owed them as employers disappear overnight. Workers have blocked roads and attempted to cross into Hong Kong to bring their complaints to factory owners based there. Small plant managers have, in turn, protested for money owed them by larger factories.

All this has put severe pressure on the implementation of China's labor laws, especially legislation enacted in 2008, such as the Labor Contract Law, Law on Labor Dispute Mediation and Arbitration, Employment Promotion Law, and the Draft Regulations on the Growth and Development of Harmonious Labor Relations in the Shenzhen Special Economic Zone. In January, Guangdong Province put limits on law enforcement's ability to freeze enterprise owner's bank accounts and detain enterprise owners for minor offenses. Already in November, the central government allowed local authorities to delay minimum wage increases. Meanwhile, companies have disingenuously cited stricter labor regulations as a contributor to factory closures. For example, *Bloomberg News* reported on February 11, 2009 that toymakers Mattell and Hasbro have complained of higher worker costs hurting their profits in China.

In fact, China's new workplace regulations are not to blame for layoffs. According to a sampling survey by Yao Xianguo, the Dean of the College of Public Management, Zhejiang University, companies that were in compliance with pre-existing labor legislation only saw labor costs rise 0.69 percent as a result of the Labor Contract Law.

Companies are really afraid of an empowered Chinese workforce—not the specifics of labor legislation. Layoffs are the result of global economic stress.

It is typical of businesses to take advantage of crises by intimidating governments into backing down on workers' rights and cutting taxes. But if China wants to kick-start its economy, it must both spur consumer spending by putting more money in the pockets of working people and make public investments in physical infrastructure and social services. The country has taken positive steps toward shoring up infrastructure in its stimulus package. China should also move forward on building a new national social security system as it is contemplating, because the difficulties migrant workers face in transferring social security payments home has become a major issue in labor law. It should strictly implement legislation like the Labor Contract Law. And it should allow government agencies, unions, workers' service centers, and universities to play their full roles in ensuring workers' rights are respected.

The U.S., in turn, should set a positive example by itself ratifying all the ILO's core labor standards and passing legislation like the Employee Free Choice Act. It should ensure that U.S. companies contemplating slowing production in China pay all wage arrears owed their Chinese workforces along with their legally mandated severance packages. The lively dialogue that preceded the passage of the Labor Contract Law in 2007 was healthy, but American multinationals must not force labor flexibility and other discredited practices on the Chinese. Improving working conditions in the U.S. and China should become a cornerstone of the Strategic Economic Dialogue. This conversation should include representatives of unions and civil society from both countries. Finally, the U.S. government should continue to support the growth of a healthy civil society in China, as it has in other parts of the world.