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The financial crisis has reduced foreign orders in China

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Wages, employment and labor conditions of Chinese workers at export-oriented factories have suffered, slowing domestic consumption and perpetuating economic downturn. The recent ethnic brawl in Shaoguan and the murder of factory manager Liu Han Huang in Dongguan illustrate the gravity of deteriorating conditions in the export-oriented sector.

From February to May 2009, China Labor Watch (CLW) sent a task group to interview workers at 27 factories in Shenzhen, Dongguan and Zhongshan Cities, all in Guangdong Province including shoe, toy, electronics, clothing, stationary, packaging and furniture factories. 16 of the factories had 1,000 workers or more. In total, the factories employ around 50,000 workers and CLW interviewed around 300 workers.

The investigation identified four widespread trends:

- 1. Poor working conditions: Migrant workers cannot take the decision to leave their jobs lightly. Since the advent of the economic crisis, workers have had to tolerate increasingly poor working conditions. Workers at some factories in the investigation had to work 14 hours every day in order to retain their jobs, and at times, working hours extended through the night to the following day.
- 2. More Production, Lower Wages: Many medium-sized and small factories have increased production requirements in order to cut costs, and the intensity level for each worker has increased. At the same time, wages have decreased. Factories provide less overtime opportunities, and workers can only earn their monthly base salary with no extra overtime wages. Factories have thus reduced wages. In the case of one factory in Bao'An District of Shenzhen City, workers only received 80% of monthly salaries until eventually the factory management fled.
- 3. Migration, Layoffs and Bankruptcy Enterprises struggling with economic difficulties and rising prices are faced with the difficult options of migration to cheaper areas, layoffs and bankruptcy. In this process, workers' legal rights are often violated.

One very common problem is disguised lay-offs, that is, a major lay-off conducted through coercion to avoid paying severance to workers. In this situation, management forces workers to complete resignation applications.

Another common problem is for factory management to abandon factories. Although workers government agencies have paid back-wages to workers in this situation, workers rarely receive the entirety of their wages.

- 4. Strained Labor Relations Psychological pressure on workers has increased, and labor relations are strained. Management staff has been cut at many factories and workers are removed from management channels. Workers have passively slowed down production, and in some enterprises initiated strikes or even violent conflicts.

Companies face severe challenges, including the following:

- 1. Cost of implementing Labor Contract Law. The increased cost of severance for workers has raised the cost of employing workers by at least 5%. Adding the costs of medical insurance, worker's compensation insurance, and social security insurance, labor costs have clearly increased since January 1, 2008. Even with a decline in the price of raw materials, net profits are down. At the same time, competition for markets has increased. Many companies transfer part of the financial burden to workers.

- 2. Environmental issues: During the early phases of recruiting investment in the Pearl River Delta region, environmental regulations were relaxed. Local governments in these regions have since increased regulatory efforts. Although some enterprises in these regions, especially larger ones, strive to maintain good labor practices, environmental protection and social responsibility, increased industrial costs in these areas have compelled companies to migrate to less regulated areas in China's interior or other countries.
- 3. The financial crisis exacerbates existing difficulties. The migration of production, the new Labor Contract Law and environmental requirements have already raised production costs. In the crisis, multinational corporations seek lower prices for goods and reduce orders. In the resulting increase in layoffs, bankruptcy, and factory migration, workers' rights are vulnerable to abuse.

Implementation of the new Labor Contract Law

According to information released by several Shenzhen-based labor dispute arbitration organizations, since March of this year fewer workers are using legal means to resolve labor disputes. Work is difficult to find and workers cannot take the decision to leave a job lightly. The impact of the economic crisis has lowered companies' profits and workers have lost faith that the government can ensure proper management of labor complaints.

The results of labor arbitrations this year show a change in the strategy of arbitration compared with past years. For example, in Shenzhen it was ruled earlier that overtime wages should not be counted for minimum wage calculations and that base salary should meet the standard. Following the economic crisis, factories have withheld wages and instances of covert embezzlement from workers' wages have increased. Instances of collective action are on the rise, and rights protection through legal channels has decreased.

Corporate Responsibility

In many developing countries and particularly in China, the call for corporate responsibility is gaining momentum. Multinational brands are a particular center of attention, and the implementation of corporate responsibility in a brand's supply chain directly influences its corporate image. As a result, both factories and brands must consider long-term development and meet high standards in energy usage, labor and the environment. The best reflection of a corporate image is the condition of its labor force.

The following are important strategies for corporations to employ:

- 1. Ensure the implementation of existing standards. The total numbers of audits and unannounced inspections must increase. Preventative measures must limit the rampant bribery that allows factories with substandard conditions to pass audits. Corruption has created a competitive advantage for some factories and lowered labor standards for workers.
- 2. Hotlines must be set up to alleviate pressure in workers' lives and work, and to enable preventative solutions to unexpected problems or crises.
- 3. Training opportunities for lower management and workers must be expanded in order to improve the professional quality of workers and coordinate healthy industrial relations.

<http://www.chinalaborwatch.org/20090624speech.htm>