

Labor Rights in China¹

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A major debate is underway in China on a proposed law that would grant new rights to Chinese workers. The debate has not been widely reported outside of China; until recently it has been almost entirely ignored by media in the United States. But when the Chinese government opened a 30-day public comment period this spring, it received nearly 200,000 comments, the majority from ordinary workers. But some comments also came from big U.S.- and European-based global corporations and their lobbying groups. These powerful forces squarely opposed the new law.

Wal-Mart's recent agreement to recognize unions in China has made headlines worldwide. But Wal-Mart and other corporations, including Google, UPS, Microsoft, Nike, AT&T, and Intel, have acted through the American Chamber of Commerce in Shanghai (AmCham) and other industry associations to try to block Chinese legislation that would significantly increase the power and protection of workers.

This corporate campaign contradicts the justifications that have been given for public policies that encourage corporations to invest in China. U.S.-based corporations have repeatedly claimed to be raising human and labor rights standards abroad. For example, the American Chamber of Commerce in Hong Kong asserts among its "universal principles" that "American business plays an important role as a catalyst for positive social change by promoting human welfare and guaranteeing to uphold the dignity of the workers and set positive examples for their remuneration, treatment, health, and safety." But U.S.-based corporations are trying to block legislation designed specifically to improve the remuneration, treatment, health and safety, and other standards for Chinese workers.

At a time when China exerts a growing impact on the global economy, efforts to improve the conditions of Chinese workers are profoundly important for workers everywhere. As U.S. wages stagnate, many Americans worry that low wages and labor standards in China are driving down those in America. Improving labor conditions in China can thus help workers in the rest of the world resist a race to the bottom that threatens to bring global wages and conditions down to the level of the least protected.

China's proposed legislation will not eliminate its labor problems. The law will not provide Chinese workers with the right to independent trade unions with leaders of their own choosing and the right to strike. But foreign corporations are attacking the legislation not because it provides workers too little protection but because it provides them too much. Indeed, the proposed law may well encourage workers to organize to demand the enforcement of the rights it offers. And the prospect of independent, organized labor in China has pushed corporations to do some organizing of their own.

Corporate Campaign

The Chinese government released its Draft Labor Contract Law, whose proclaimed purpose is to protect workers' rights and interests, in April. The corporate campaign against

¹ This article originally appeared in [Foreign Policy in Focus](#).

the law began soon after, spearheaded by three major organizations representing foreign corporations operating in China: the American Chamber of Commerce in Shanghai (representing over 1,300 corporations, including 150 Fortune 500 companies), the U.S.-China Business Council (representing 250 U.S. companies doing business across all sectors in China), and the European Union Chamber of Commerce in China (representing more than 860 members). All three have sent the Chinese government extensive attacks on the proposed law. The statement of AmCham in Shanghai runs to 42 pages.

These organizations have also issued barely veiled threats that foreign companies will leave China if the new legislation is passed. According to AmCham comments on the draft legislation, the law may “reduce employment opportunities for PRC workers” and “negatively impact the PRC’s competitiveness and appeal as a destination for foreign investment.”

“Business is attracted to China not only because of its labor costs but also because of its efficiency,” states Dr. Keyong Wu, an expert for the British Chambers of Commerce. “If regulation starts to affect that and flexibility, then companies could turn to India, Pakistan, and South-East Asia.”

American corporations have so much affection for the status quo in China that they have gone out of their way to preserve current Chinese labor law. As the AmCham document proclaims, that labor law has “significantly promoted standardized operation of enterprises and establishment of modern enterprise system.” AmCham criticizes the proposed changes in the law for making it harder to fire workers and for “rigid” restrictions on “business administration of enterprises,” and concludes that “we doubt whether it is necessary to carry out such significant changes.”

Why the Opposition?

The extraordinarily rapid growth of the Chinese economy has depended a great deal on foreign corporations. According to Morgan Stanley’s chief economist Stephen Roach, 65% of the tripling of Chinese exports—from \$121 billion in 1994 to \$365 billion in mid-2003—is “traceable to outsourcing by Chinese subsidiaries of multinational corporations and joint ventures.”² The export surge blamed on China is primarily an export surge of global corporations using low-wage Chinese workers. Foreign corporations thus fear that the law protecting Chinese workers may eliminate their cheap labor costs.

Foreign corporations have another, less obvious, motive for opposing protections for Chinese workers. The ability to hire cheap labor in China has put downward pressure on wages and workers’ conditions around the globe. China plays a key role in setting global wage norms. It is the linchpin of what Morgan Stanley chief economist Stephen Roach has called “global labor arbitrage” in which corporations move from one labor market to another to take advantage of cheaper labor. The result is a global “race to the bottom” in which workers and their communities are put into competition with each other to see who can provide the lowest-cost labor and the most corporate-friendly conditions. According to Roach, this global labor arbitrage is also now acting as “a powerful structural depressant on traditional sources of job creation in high-wage countries such as the United States.”³

² Stephen Roach, “How Global Labor Arbitrage Will Shape the World Economy,” *Global Agenda*, 2005 Edition.

³ Stephen Roach, “False Recovery,” *Global Economic Forum*, Morgan Stanley, January 1, 2004.

China's downward pressure on the world's wages is enormous. Harvard economist Richard Freeman estimates that the entry of India, Russia, and China into the world economy in the past few decades has doubled the workforce employed in the global economy. China alone accounts for 50% of this increase. And because these countries did not add significant capital to the global economy, more workers are competing to be employed by essentially the same amount of capital. This unbalanced equation has increased the bargaining power of capital, decreased that of labor, and substantially contributed to wage stagnation or decline in countries around the world. Chairman Ben Bernanke of the Federal Reserve Bank recently stated that the rapid integration of China, India, and the former Communist bloc into the world's economy in the space of a just a couple of decades has "no historical antecedents."⁴

Andrew Ross of New York University, who recently spent a year in China studying how workers are coping with the rapid changes of the last decade, notes that foreign corporations can use the wages and working conditions in their Chinese operations to drive down labor conditions for workers at all levels worldwide:

No industrializing country has been able to compete for the top-end slot at the same time as it absorbs jobs lower down the production chain ... To command this spread—from the lowest assembly platform work to the upper reaches of industry and services—is to be in a position to set the global norm for employee standards as never before. Given the chronic disregard for job security and workplace rights in China's foreign-invested private sector, such a norm is a clear threat to the stability of livelihoods everywhere.⁵

U.S. Responses

The exposure of the role of U.S.-based businesses in trying to block new rights for Chinese workers—in a report by Global Labor Strategies—has struck a responsive chord. A front-page article in *The New York Times*, drawing largely on the report, triggered a widespread discussion in the media, on blogs, and throughout the labor movement.

Members of the U.S. Congress quickly stepped forward to address the concerns raised by the report. U.S. Representatives Lynn Woolsey (D-CA), Barbara Lee (D-CA), George Miller (D-CA), Barney Frank (D-MA), and 23 other House members sent a letter to President Bush "protesting the efforts of U.S. corporations to undermine the most basic human rights of Chinese workers and block proposed new worker rights and labor standards protections in the proposed new Chinese labor law."

According to Lynn Woolsey, "We are appalled that the American Chamber of Commerce in China and some of America's most-prestigious, brand-name corporations are leading efforts inside China to weaken, if not block altogether, significant worker rights and protection provisions in the proposed Chinese labor law. This shameful lobbying campaign is totally inconsistent with our country's long-standing commitment to promote respect for fundamental worker rights in law and practice everywhere. It is challenging enough for hard-working Americans to compete in the new global economy without having U.S. corporate

⁴ Krishna Guha, "Bernanke Calls for Fairer Globalization," *Financial Times*, August 25, 2006.

⁵ Andrew Ross, "A Fast Boat to China," delivered at the Cornell Global Labor Conference on February 10, 2006. Ross is author of the book *A Fast Boat to China: Corporate Flight and the Consequences of Free Trade; Lessons from Shanghai*, (Pantheon, 2006).

leaders seeking to play them off against the least-protected and lowest-wage workers in the world.”

Specifically, the congressional letter calls upon President Bush to instruct the U.S. ambassador in China and the U.S. Trade Representative to deliver letters to Chinese government officials in support of worker rights and protection provisions in the Draft Labor Contract Law; repudiate the efforts of any U.S.-based corporations and their representatives doing business in China to weaken such provisions; and urge pertinent U.S.-based corporations and their representatives doing business in China to reverse their opposition and make clear their commitment to the universal rights of all Chinese workers and to improve their working conditions and living standards.

Both major U.S. trade union federations, the AFL-CIO and Change to Win, are planning to make the opposition of U.S. corporations to expanded rights for Chinese workers a significant focus of attention in upcoming political battles over the response to globalization.

Linking Workers

The spread of globalization brought U.S. companies to China. The media has often focused on how the Chinese government was suppressing workers' struggles and not enforcing existing labor law. But in a globalized world, the Chinese government is no longer the only or even the major actor in this regard. Global corporations or their subsidiaries and suppliers are exploiting millions of Chinese workers. Indeed, nearly two-thirds of the increase in “Chinese” exports actually represents non-Chinese corporations and their subsidiaries and suppliers.

Public policy in the United States and other countries has allowed these corporations to realize immense benefits from the low pay and poor conditions under which their Chinese workers work. These policies have been justified largely on the grounds that foreign corporations operating in China would elevate labor and human rights standards.

But these corporations have not raised the standards. And it is, ironically, the Chinese government that now wants to improve the situation, albeit in incremental ways. By opposing a labor contract reform law that would elevate labor and human rights standards, American and other foreign corporations are aggravating the very conditions they claimed they would ameliorate. Their campaign against the law blocks protections for Chinese workers and continues protections for corporations that would exploit them.

China's new labor bill faces a third reading this fall. If passed, it will come into full effect in March 2007. U.S., European, and other global corporations have already weighed in on the bill. They want it gutted.

Corporations and business organizations in China, and their political allies, should hold to their original promises to improve the conditions for Chinese workers. They should immediately reverse their opposition to the draft labor code and publicly support further legislation to ensure the basic human right of Chinese workers to organize, choose their own leaders, bargain collectively, and strike.

Here is an issue that links the interests of workers not only in the United States and China but everywhere. Higher wages, better working conditions, and the right to organize independent unions help workers everywhere to draw a line against the race to the bottom.

There is no need to travel to Beijing to fight for the rights of Chinese workers. The headquarters of the corporations opposing reforms for Chinese workers are in New York and Brussels, Los Angeles and London, and other cities and towns around the world. Washington, too, must make a choice. Will it support the rights of workers in China or the profits of U.S. corporations?

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