

**China's new labour law****Red flag**

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**Businesses in China seem not to have noticed that they face tough new rules****[Get article background](#)**

FOR the 2008 Olympics in Beijing, big foreign companies are planning to add swarms of temporary employees. They had better think again. A sweeping new labour law passed on June 29th intended to enhance workers' rights makes this and many other common practices illegal. The change has received little notice so far, possibly because it does not go into effect until January 1st 2008; possibly because firms do not realise that retroactive provisions in the law mean it has already begun to apply; but probably because companies do not realise how much the Chinese government is willing to change the legal standing of workers to advance the political mantra of a more "harmonious society".

The new law replaces one put into place in 1995, when early efforts at economic reform in southern China were bearing fruit and the country was eager to attract foreign companies. Since then China has emerged as an attractive manufacturing base, but concerns have grown over poor labour conditions. Hence the new law that, on its face at least, dramatically changes the balance of power between workers and employers, says Lesli Ligorner, a lawyer in Beijing with Paul Hastings, a big law firm.

Companies will need written contracts with all full-time employees, and anyone who works for more than four hours a day is likely to be considered a full-time employee. Once they are full-time, employees who are laid off must be bought out at a multiple of their average monthly salary. Making more than 20 employees or 10% of the workforce redundant is allowed, but must be done on the basis of seniority not merit.

China's trade unions could be transformed by the law. Previously they focused on social welfare; now they will be able to act more like Western trade unions, weighing in on discipline, safety, remuneration and working hours. The new law also grants them the right to litigate.

If that did not give companies enough to think about, businesses will also have to cope with a law that is full of inconsistencies. It does not, for example, apply to foreign representative offices, yet since these offices must hire their workers through official staffing agencies, it will apply to their employees. Worse, since foreign firms cannot hire directly, they are required to offer the kind of short-term contracts the new law bars. And although the new law should standardise practices throughout the country, it will inevitably be interpreted differently in every region.

Perhaps the best aspect of the new law is that it provides protection for people on the bottom rung of the ladder. That is good news not only for workers, but also for firms with high (or at least modest) standards which put them at a competitive disadvantage to more ruthless operators. But the law also imposes burdens on companies, and so increases the incentive to bribe corrupt officials to look the other way.