

China`s Employment Contract Law Forces Major Shakeout on Taiwan Companies

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The implementation of the Employment Contract Law in China on Jan. 1 this year is causing a major shakeout among Taiwanese-invested enterprises there. The 20,000 or so Taiwanese-invested firms operating in the Pearl River Delta area, mostly in traditional labor-intensive lines such as hardware, footwear, toys, and garments, have been especially hard hit.

Taiwanese chambers of commerce expect the new law to boost the production costs of Taiwanese firms by 20-25% due to its new rules for the protection of workers` interests, covering such aspects as paid leave, overtime work, leave for home visits, and layoffs. One new rule, for instance, requires employers to deposit 5,000 yuan per employee into a severance-pay reserve.

Workers have even been given the right to ask employers for one-off payments for overtime work performed during the past two years; this leads to serious disputes, since many employers have already made such payments in the guise of bonuses or subsidies instead of overtime, in order to sidestep the 36-hour monthly limit on overtime work.

In fact, a wave of factory transplantations and closures in the Pearl-River Delta region began in the second half of 2007, anticipating the implementation of the new rules.

The Asia Footwear Association (AFA) estimates that of the 5,000 footwear firms in Guangdong Province, 1,000 folded in 2007. The impact of the new law affects over 8,000 export-processing firms in the Shenzhen area, or 60% of the total operating there, which contribute US\$17.1 billion worth of exports annually. The Shenzhen export-processing industry association estimates that some 12,000 small and medium export-processing firms in the region will close up shop.

Other foreign-invested enterprises in the Pearl River Delta region are facing difficulties similar to those of the Taiwanese companies. Of 80,000 Hong Kong-invested firms there, 37% plan to withdraw all or part of their production from the area.

Dongguan is a major disaster area, due to its long-standing concentration on contract manufacturing featuring low added value. An official of the Taiwanese Chamber of Commerce in Dongguan estimates that at least 3,000 foreign firms in the area may go under this year.

The impact of the new law on Taiwanese enterprises in the Yangtze River Delta is lighter, since most of them are larger in scale or are high-tech firms that moved into the region at a later date. They have been accustomed to the labor regulations of municipal governments in the area, which from the outset were stricter than those of other regions. In addition, the new law leaves some incentives for high-tech firms, such as an exemption from the requirement to pay into a severance-pay reserve, so long as the municipal governments approve. Moreover, innovative and leading high-tech enterprises can continue to enjoy export rebates.

(By Philip Liu)

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