

China prepares for historic labor law reforms – more rights and better protection for workers mark shift towards global standards

First-ever joint European-Chinese study on the Chinese Labor Market illustrates modernization and reveals severe skills shortage and ageing problem

Zurich, Switzerland – December 5, 2007. China is in the midst of its biggest ever modernization of labor laws and labor market regulation, starting to come into force on January 1, 2008. The labor reforms grant the individual worker more employment protection rights enforceable by law and mean more legal certainty for foreign employers. The reforms are getting underway while China is facing an increasing lack of skilled workers and a rapidly ageing workforce, threatening to be the biggest dangers in securing long-term economic growth. These are the findings of the first-ever joint European-Chinese research study on the Chinese labor market by the Shanghai Academy of Social Sciences (SASS) and the Adecco Institute (London), done in cooperation with the University of Warwick (UK) and published today in Zurich, Switzerland.

“We regard the planned Chinese labor law reforms as a breakthrough and big leap towards International labor market standards. Collective wage agreements, employment rights that are enforceable by law, and dismissal protection no longer remain taboos in China. The new labor laws have unmistakable German and British flavors. It is a good example of China’s increasing openness to adopt foreign best practices”, said Wolfgang Clement, Chairman of the Adecco Institute and former German minister for Economics and Labor.

China’s labor reforms focus on individual employment protection, emphasizing written labor contracts, employment promotion, labor dispute conciliation and arbitration, equal pay and long-term job security.

“While the new laws may contribute to raising unit labor costs over time in China, for example through salary rises, there will also be significant benefits to foreign firms, giving corporate leadership more clarity and certainty about the future direction of Chinese labor regulations,” said Peter Siderman, Managing Director of the Adecco Institute.

The new laws provide a strategic roadmap for the next 10-15 years. They will slow the rapid rate of workforce turnover and bring more procedural transparency to labor dispute resolution. They provide better protection for trade secrets and incentives for employers to invest in vocational training for workers. They also permit new forms of flexible work and third-party labor placement.

“Perhaps most importantly, the Chinese government will enforce new labor laws across all provinces in a more effective way than until now. This would be one of the most spectacular, confidence-building reforms in new China”, Siderman added.

Skill shortages slow growth

The reforms come partly in response to a growing skills shortage and a rapidly ageing workforce. While unemployment among unskilled workers is rising, the shortage of skilled workers leads to severe recruitment and retention problems for both foreign and local businesses. China faces a lack of qualified personnel across a huge range of activities, from manufacturing to professional services. Skills shortages in middle and senior management already begin to slow down growth in some areas.

The study shows that the labor market faces growing supply constraints in five key areas of skilled labor: management talent, English language skills, R&D personnel, senior and secondary technically skilled workers and holders of professional certificates. Despite nearly 5 million new university graduates annually (in engineering alone, China produces 600,000 graduates versus 70,000 in the US) foreign firms do not find job applicants of sufficient employability, and only 10% of graduates meet the English language requirements of foreign companies that now account for more than 20% of all local job opportunities.

“Higher education graduates’ employability would rise faster if China focused on equally improving education quality as well as quantity. In both Europe and China, governments, schools, universities and companies must start to build bridges from school into the world of employment. The hermetic seal between these two worlds is a big driver of skills shortages”, commented Wolfgang Clement.

Ageing Workforce

The study also illustrates that China’s workforce is ageing rapidly, as is also happening across Europe and Japan, but is unusual among big Asian countries. The Chinese workforce will grow by less than 5% from now until 2015. By then one third of the population will be over 50 (while 60% of India’s will be under 30). China’s labor pool aged 20-24 will fall after 2020. Just as in Europe, China will over the next 10 to 30 years face a large scale exit of experienced people from the labor force and extra fiscal burdens with fewer young people joining companies and continued huge numbers of unemployed low skilled people.

For the full version of the study please visit: www.adecco.institute.com

About the Adecco Institute

The Adecco Institute, based in London, is a think tank on the future of work. Its chairman is Wolfgang Clement, former German Minister of Economics and Labor (2002-2005); its Managing Director is Peter Siderman. The Adecco Institute is committed to facilitating discussions on the topic of work. Through primary and secondary research as well as white papers and forums for discussion, the Institute provides forward-looking approaches to help companies and economies raise employability, productivity and employee satisfaction at work.

About Adecco

Adecco is the world leader in human resources solutions with a turnover of 20.4 billion Euro in 2006. The Adecco network consists of 37,000 employees and 6,700 offices in more than 70 countries and regions and employs more than 700,000 people every day. The company is headquartered in Switzerland and provides a unique offer of flexible human resource solutions to its business clients and qualified partners.

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