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Legal Challenges in Regulating Transnational Corporations Social Responsibility: Protecting Workers and the Environment under Chinese Law

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Abstract. In the context of global economic integration, multinational corporations have become a significant force in driving global economic growth. However, the issue of their social responsibility in host countries is becoming increasingly prominent. This article focuses on two key issues: protecting the interests of multinational company employees and addressing environmental responsibilities. In practice, some multinational companies have engaged in labor rights violations, such as underpaying wages, excessive overtime, and neglecting occupational health and safety, as well as environmental pollution and ecological destruction. Although China's Company Law clearly requires enterprises to assume social responsibilities, there are still legal loopholes in practice, including double standards on environmental issues, lack of transparency, inadequate labor protection, and the gig economy's evasion of responsibilities. To address these issues, this article proposes a multi-level legal regulatory system: implementing mandatory environmental liability insurance, refining environmental information disclosure, adding a special chapter on cross-border employee rights protection, standardizing labor relations in the gig economy, and strengthening cross-border law enforcement cooperation and social supervision mechanisms. The aim is to achieve a balance between the economic benefits and social responsibilities of multinational companies, thereby ensuring the sustainable development of host countries.

Keywords: Corporate social responsibility, host country legal regulation, protection of workers' interests, environmental responsibility, Chinese Company Law

1. Introduction

Driven by the strong tide of economic globalization, multinational corporations, as key players on the international economic stage, have seen a significant increase in both their numbers and economic share, becoming a crucial driver of global economic growth. However, there are often discrepancies between the social public interest goals of these corporations and those of the host countries.

In terms of employee protection, some multinational companies, driven by profit maximization, have engaged in practices such as lowering wages, extending working hours, and neglecting occupational health and safety. According to a 2024 report by the U.S. Department of Labor, the

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Dongguan branch of Microsoft and the second-largest mouse manufacturer in the world, Dongguan Kunying Computer Products Co., Ltd., have committed numerous violations of employee rights. The factory has not signed labor contracts with workers, has forced them to work longer hours, and has reduced their wages [1]. Moreover, the working and living conditions at the factory are poor, and there is evidence of illegal child labor. These practices seriously infringe upon employees' legal rights and confront the host country's goals of protecting workers' rights and promoting social equity.

In terms of environmental responsibility, some multinational companies have neglected environmental protection during production. They cause significant damage to the local ecological environment. A 2021 report by Oxford University's "Data for the World" project shows that one third of the global Marine plastic pollution comes from the Philippines, mainly due to the extensive use of cheap disposable plastic packaging [2]. Multinational corporations like Coca-Cola sell a large volume of plastic packaging locally. The plastic packaging will ultimately be thrown away into rivers and oceans, causing severe ecological damage [3]. The 'small bag economy' phenomenon driven by poverty makes local residents tend to buy small-packaged products, further increasing the generation of plastic waste. This phenomenon conflicts with the host country's goals of sustainable development and environmental protection.

The concept of Environment, Social, and Government (ESG) is increasingly emerging. The public's attention to the social responsibility of multinational companies is constantly increasing. Article 20 of China's Company Law stipulates that companies must fully consider the interests of stakeholders such as employees and consumers, as well as social public interests like environmental protection, when conducting business activities, and bear social responsibilities [4]. This provision applies not only to domestic enterprises but also provides significant guidance for the development of multinational companies in China.

This article aims to explore the legal issues surrounding the social responsibility of multinational companies in their host countries, analyze the conflicts between multinational companies and their host countries in fulfilling social responsibilities, and discuss how to establish a comprehensive legal framework to guide and regulate the social responsibility behaviors of multinational companies in their host countries. This research not only enriches theoretical studies in the field of corporate social responsibility but also provides practical references for host countries to improve relevant laws and regulations and strengthen the supervision of multinational companies, which is of significant practical importance for promoting harmonious coexistence and sustainable development between multinational companies and host countries.

2. Analysis of the current situation of Chinese multinational corporations' social responsibility

2.1. Laws and regulations on the performance of multinational corporations' social responsibility under Chinese Company Law

2.1.1. General provisions

The Chinese Company Law sets out the independent liability of multinational corporations. Article 3 states that a company is a legal entity, and it has independent property rights. The company enjoys these rights, and the company is responsible for its debts with all its assets. Article 13 further states, A company may establish subsidiaries. These subsidiaries have legal status and are legally responsible for their civil liabilities.

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The Chinese Company Law also sets out the obligations for multinational corporations to take their social responsibilities. Article 20 states: "When engaging in business activities, a company must fully consider the interests of stakeholders such as employees and consumers. A company should protect public interests like environmental protection and assume social responsibility. The state encourages companies to participate in social welfare activities and publish social responsibility reports." This provision marks the recognition of the Chinese government and legal community to the concept of corporate social responsibility. This also indicates that companies should assume certain social responsibilities while generating profits. This principle sets the basic framework for multinational corporations in China. It requires them to balance economic interests with social ethics and business ethics and accept public scrutiny.

2.1.2. Environmental responsibility

In terms of environmental responsibility, the Chinese Company Law and related environmental protection regulations set clear requirements for multinational corporations. Article 6 of the Environmental Protection Law states: "Enterprises, institutions, and other producers and operators should prevent and reduce environmental pollution and ecological damage. They should bear legal responsibility for any damage caused [5]." When operate in China, multinational companies must comply with China's environmental protection laws and regulations and take effective measures to prevent environmental pollution and ecological damage.

2.1.3. Employee rights protection

Article 17 of the Company Law includes' protecting the legitimate rights and interests of employees 'as a legislative goal, stipulating that companies must protect the legitimate rights and interests of employees. It further specifies that companies must sign labor contracts with employees, participate in social insurance, enhance labor protection, and ensure safe production, thereby forming a comprehensive guarantee for employee rights [6].

The protection of employee rights is also reflected in the institutional design of employee participation in corporate governance. Companies need to establish and improve democratic management systems, primarily through the Employee Congress, which participates in major decisions and the formulation of rules and regulations. In the board and supervisory system, it is clearly stipulated that in state-owned sole proprietorship companies, the board of directors should include employee representatives [7]; the proportion of employee representatives on the supervisory board of state-owned sole proprietorship companies must not be less than one-third to ensure direct employee participation in corporate governance.

In the liquidation procedures prescribed by the Bankruptcy Law, employee rights are given priority. During company liquidation, employee wages take precedence over national taxes and creditor debts, reflecting special protection for employees' right to survival.

2.2. Issues in the social responsibility performance of Chinese multinational companies

2.2.1. Problems in environmental responsibility performance

Some multinational companies fail to strictly adhere to local environmental protection laws and regulations during investment or operations and even adopt environmental management measures that fall below the standards of their home countries. This double standard not only harms the environmental interests of the host country but also severely damages the company's international

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image. For instance, some companies fail to follow local environmental protection procedures during the process of resource exploitation. They ultimately cause ecological damage, land degradation, and water pollution. These short-sighted actions may reduce operational costs in the short term, but they pose significant long-term risks. They may lead to legal disputes, reputation damage, and market share loss.

According to the Company Law of host country, companies should disclose their environmental impact information and accept the public supervision [8]. While some multinational companies fall short in this regard, failing to disclose their environmental activities and impacts [9]. This lack of transparency makes it difficult for the public to effectively monitor corporate environmental behavior. This leads to companies ignoring environmental issues and continuing harmful activities. In practice, some companies do not disclose emission data or control measures when discharging pollutants. This kind of behavior makes it hard for local residents and environmental organizations to learn the company's environmental impact and to effectively supervise and urge improvements.

In some host countries, due to weak environmental regulation or lax legal penalties, Chinese multinational companies often face lower costs for environmental violations. This low cost further encourages environmental violations. Even when companies violate environmental laws, the cost is far less than the potential gains, leading them to continue damaging the environment. If this continues, it will not only cause irreversible damage to the local environment but also disrupt the environmental order of the entire industry, hindering sustainable development.

2.2.2. Issues with employee rights protection

Some multinational companies, when investing overseas, fail to adequately protect the labor rights of local employees, leading to numerous issues in wage payments, working hours, and safety and health [10]. These issues not only violate international labor standards but also infringe on the legitimate rights and interests of employees. For example, some companies delay wages, pay overtime without compensation, and have poor safety and health conditions in the workplace, posing a threat to the health of employees.

The role of trade unions in supervising multinational companies and protecting employee rights is limited, which makes it difficult for Chinese multinational companies to effectively organize their local employees to protect their rights [11]. When employees face unreasonable behavior from companies, they lack effective channels to voice their concerns and can only passively accept, making their rights more vulnerable to infringement.

With the rise of the gig economy, some multinational companies operate using a gig model, classifying drivers and delivery personnel as 'independent contractors' rather than formal employees, and not entering into formal labor contracts with them, thereby avoiding the responsibility to pay social security and medical insurance [12]. This practice seriously damages employee rights, leaving employees without adequate protection when facing risks such as illness and unemployment.

3. Addressing the challenges of multinational corporations' social responsibility

In the Globalization Era: Environmental Responsibility and Employee Protection Issues in the Overseas Operations of Multinational Corporations. These issues not only impact corporate sustainability but also test the international adaptability of host country legal systems. From the perspective of the coordination of corporate law, labor law, and social security law, establishing a multi-level legal regulatory system is crucial to addressing these challenges.

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3.1. Enhancing the legal framework for environmental responsibility

3.1.1. Clarifying the mandatory obligation for environmental liability insurance

Under the current Chinese Company Law, there is a lack of provisions regarding environmental liability insurance for multinational corporations, leading companies to reduce operational costs by avoiding such insurance. Article 99 of the Solid Waste Pollution Prevention and Control Law explicitly requires that entities involved in the collection, storage, transportation, utilization, and disposal of hazardous waste must purchase environmental pollution liability insurance [13]. Based on legislative practices, host countries can require multinational corporations to buy environmental liability insurance. This applies when they enter ecologically sensitive areas or carry out high-risk projects. For example, companies operating near marine ecological protection zones should be obligated to purchase specialized insurance. This insurance should cover the cost of ecological restoration. The insurance certificate should be a mandatory requirement for project approval. A risk-based insurance system can strengthen supervision. In this system, insurance premiums would reflect the company's level of environmental risk. This would encourage companies to improve their environmental management practices.

3.1.2. Strengthening legal constraints on environmental information disclosure

The current laws on environmental information disclosure are overly general and lack practical operability. To improve this condition, the host country can strengthen its disclosure standards. They can require companies to release real-time data on pollutant emissions. Companies should also disclose environmental risk assessments and any corrective actions. A cross-border platform should be created to share environmental information among multinational corporations. Companies would need to submit annual environmental reports. Companies ought to provide this report to both the regulatory authorities of the home country and the host country. Independent third-party institutions should be responsible for conducting audits of these reports. Companies that refuse to disclose or provide false disclosures should face substantial fines, and their executives should be held criminally liable. This approach will serve as an effective deterrent against companies that attempt to minimize pollution costs, ultimately leading to high penalties, thereby ensuring the primary responsibility of multinational corporations in environmental governance.

3.2. Improve the legal mechanism for protecting workers' interests

3.2.1. Establish a legal framework for cross-border protection of workers' rights

In response to the labor chaos exposed by incidents like the Microsoft contract factory in Dongguan, a special chapter on' cross-border protection of workers 'rights' could be added to the company law, clearly stipulating that companies must comply with the core conventions of the International Labor Organization and the labor standards of the host country. The mechanism for workers' redress should be improved, allowing employees to seek unpaid wages, overtime pay, and other entitlements through Chinese courts or international arbitration institutions [14]. Furthermore, multinational companies should be required to establish trade unions in their overseas branches, granting them collective bargaining rights, and including the establishment of trade unions in the corporate social responsibility assessment system.

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3.2.2. Standardizing the legal relationship of gig economy employment

The current labor law is lagging in regulating gig economy employment, leading to significant rights violations for gig workers [15]. The legal status of 'quasi-employee' could be established, clearly stipulating that if a platform enterprise and a worker have 'economic, organizational, and personal subordination,' they are considered to have a legally recognized labor relationship, requiring the signing of a written contract and social insurance contributions. Additionally, a fund for protecting gig workers' rights could be established, with platform enterprises contributing a certain percentage of the order amount as special funds to cover expenses such as work injury compensation and unemployment benefits [16]. Furthermore, gig workers should be granted the right to form industry unions, allowing them to negotiate collective agreements to set minimum service remuneration standards.

3.3. Strengthening the mechanism for implementing and supervising the law

3.3.1. Establishing a cross-border law enforcement cooperation mechanism

Given the transnational nature of illegal activities by multinational companies, a' cross-border law enforcement assistance 'clause could be added, authorizing regulatory authorities to conduct joint investigations and evidence recognition with host countries [17]. For example, multinational companies with environmental violations could be required to provide their parent companies with key evidence such as financial statements and production processes; meanwhile, a corporate social responsibility' blacklist' system could be established, imposing joint punitive measures such as market access restrictions and government procurement bans on companies with multiple violations.

3.3.2. Enhancing legal protection for social supervision

The current legal framework is insufficient in protecting social supervision entities, resulting in environmental organizations and trade unions facing retaliation risks when exposing corporate illegal activities. To fully utilize the public interest litigation provisions in the Civil Procedure Law, it should be allowed for qualified environmental organizations and trade unions to file lawsuits against corporate environmental violations and labor rights infringements [18]; it is also necessary to establish a whistleblower reward and protection system, offering material rewards to whistleblowers who provide key evidence, and encrypting their identity information through technical means [19].

The systematic construction of these legal pathways aims to form a complete closed loop of 'prevention, supervision, and relief,' promoting a balance between economic benefits and social responsibilities for multinational companies operating in host countries. This balance helps multinational companies make fair use of host country resources to meet their economic objectives. It can promote local economic growth and create job opportunities for workers. It also prevents them from using their powerful position and legal loopholes to cause ongoing environmental harm or violate workers' rights.

4. Conclusion

The economic strength of multinational companies is increasing at the background of globalization. With this growth, their environmental responsibilities and the protection of employee rights have become key concerns in global economic cooperation. This article explores the main challenges multinational corporations face when operating abroad. It gives specific cases to analyze legal

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practices in host countries and offers possible solutions to solve these problems based on the findings.

From an environmental standpoint, the activities of multinational corporations often have serious effects on the ecosystems of host countries. The above pollution incidents have shown how corporate actions can damage the environment. It highlights the urgent need for host countries to regulate these environmental matters. They also show the importance of creating punishment mechanisms for environmental harm. On the one hand, requiring companies to disclose environmental information is crucial. Because it allows the public to monitor corporate behavior and helps prevent violations. On the other hand, strict penalties such as administrative fines, civil compensation, and even criminal charges can deter corporations from harming the environment. Such measures also push them to improve their environmental practices.

Cases like the Dongguan Microsoft contract factory have drawn public attention to employee rights. These include the violation of workers' rights and unsafe or unfair working conditions. To address this, countries can introduce cross-border labor protection clauses. They can also standardize legal frameworks for workers in flexible or gig employment. It is also essential to clearly define which international labor standards multinational corporations must follow. At the same time, host countries should ensure their local labor laws are upheld. Giving workers more rights and better access to legal remedies can improve their treatment and working environment.

However, legal regulation is a continuous process of exploration, improvement, and innovation. Different countries have different legal systems, cultural backgrounds and levels of social development, which bring challenges to the legal regulation of transnational corporations' social responsibility. Therefore, it is very important to strengthen international cooperation and coordination and encourage transnational corporations to restrain themselves and actively fulfill their social responsibilities, so as to realize the unity of economic benefits and social benefits.

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