

Christoph Scherrer (Ed.)

# China's Labor Question



Rainer Hampp Verlag



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Picture on cover: *Workers are seen inside a Foxconn factory in the township of Longhua in the southern Guangdong province May 26, 2010*

(reproduced by permission of REUTERS/Bobby Yip)

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Christoph Scherrer

Berlin

June 2011

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# Introduction: The many Challenges of Chinese Labor Relations

Christoph Scherrer

China has become the manufacturing hub of the world. While mediated by currencies and other State policies, globalization ensures that industrial workers around the globe are affected by Chinese labor relations. But its impact is not only via direct competition. The example of the USA teaches us that the state of labor relations in an important location influences multinational corporations' expectation of their workforces around the world. The successes of union avoidance and anti-union campaigns have emboldened U.S. corporations to export these strategies to their foreign locations. Thus, another channel is the expectations multinational corporations harbor vis-à-vis their workforces around the world on the basis of their experiences in China. These reasons should suffice for workers, wherever they are, to be interested in the evolution of labor relations in the Peoples Republic of China. Observing Shenzhen will teach scholars of labor relations more about the future of these relations in general than in Wolfsburg, pace German industrial sociologists.

China differs from previous manufacturing hubs in many respects. Unlike Manchester in the middle of the 19<sup>th</sup> century, the communist vision is in chronological terms not ahead but behind today's Chinese working class. After three decades of enforcing a command economy inspired by communist ideology, China has been moving towards a capitalist economy ever since the economic reforms of 1978. This move, although organized by a dictatorial party-state, seems to enjoy broad-based consensus among the Chinese population. While there is wide spread dissatisfaction with many of the phenomena associated with marketization, few Chinese seem to want to return to Maoist practices (The Star 2011). In contrast to Detroit, the "arsenal of democracy" in the middle of the 20<sup>th</sup> century, Chinese workers' militancy has not yet been channeled into collective bargaining; it is politically suppressed and remains fragmented.

Nevertheless, China's workforce shares an important aspect with the previous workshops of the world. Especially in the rapidly expanding industrial belt in Southern China, peasants have quickly become industrial workers. However, unlike in most other countries, the peasants are not coming from broken feudal ties and nor are they pushed out by corporate cash crop farming, but from state regulated communal farming (see the contributions of Sum and Pan/Wang in this book).

In sum, these differences should caution against historical generalizations à la Beverly Silver which assume recurring workers' uprisings (Silver 2003, for a more detailed critique see, the contributions of Hui and Wenten). Or positively stated, they should inspire research about the challenges that current Chinese labor relations pose for those being part of these relations: the workers, the corporations, the official trade union confederation as well as the heavily involved Chinese government on various levels of the political system. The contributions to this volume also speak of the challenges for academia in terms of data and field access as well as concerning how to classify the fragmented, dynamic system of labor relations (see, esp. Lüthje, Hui, Zhang).

Chinese workers, of course, suffer foremost from the current state of labor relations. For a majority of these workers, it is a system of super-exploitation marked by wage increases that trail productivity increases by a wide margin (see, the contribution of Herr) and which

leaves many exposed to hazardous working conditions and social insecurity. Their challenge rests in the task of strengthening their bargaining position while independent collective action is mostly curtailed or even forcefully suppressed (see, the contributions esp. of Hui and Wenten as well as the interviews).

While on the whole, corporations benefit from super-exploitation, the legitimacy of their business model has increasingly come under public scrutiny, not only in the West but also in China. They have responded with Corporate Social Responsibility initiatives that look great on paper but have little impact on the shop floor (see, the contributions esp. of Chahoud, Weikert).

The All China Federation of Trade Unions (ACFTU) faces the challenge of transforming itself from being a workplace based social welfare agency to becoming a representative body for workers without calling into question the rule of the party-state (see, the contributions of Luo and the interviews with Weiguang, Wong and Leung). While the challenge to unions around the world concerning the issue of how to deal with the party-state-controlled trade union federation ACFTU will not be explicitly addressed, hopefully the book will help trade unionists around the world in their quest to find answers to this question.

Finally, the current extremely asymmetric power relations in the workplaces are also a challenge to the governing Communist Party which has yet to change its name. It struggles with the question of how to contain labor unrest emanating from this situation which calls into question its legitimacy and may ultimately threaten its hold on power (see, the contributions esp. of Luo, Zenglein; Sum).

While the contributions to this book reflect their authors' various theoretical perspectives and concrete experiences, they share the view that the Chinese party-state takes the protest against social inequality very seriously. It has enacted many laws aimed at mitigating inequality and channeling dissatisfaction into safe channels, but implementation of these laws lags behind. More importantly, these laws do not include the right to freedom of association. Without this right, super-exploitation will stay and the system of labor relations will remain prone to eruptive forms of protest. The resulting widening wage gap threatens future growth.

### **Structure of the book**

The book is divided into four parts. The first part, titled "The Basic Setting", sets the stage for the ensuing case studies by providing an overview of the economic context of Chinese labor relations, of the transformation of class-relations, the evolution of labor law, and government policies intended to set a wage floor.

*Hansjörg Herr's* contribution titled "Perspectives on High Growth and Rising Inequality" provides extensive data on China's high growth path and the accompanying trend of rising inequality. For the neoclassical mainstream the unequal income distribution is the driving force behind China's high growth rate because the wealthy segment of the population's higher savings rate is supposedly stimulating investment. Herr rejects this reasoning. He explains in detail the short-comings of this theory and its more elaborate cousin the so-called New Growth Theory. In their place, he drafts a Schumpeterian-Keynesian development model and applies it to China. His main conclusion is that growth has been fueled by a politically induced credit expansion and that investments were driven by a dynamic domestic and foreign-owned private sector. External protection was secured by strict capital controls and central bank interventions to prevent current account deficits. In

contrast to the neoclassical claim, Herr identifies the extremely unequal income distribution as a threat to further economic development because it not only undermines social cohesion but also domestic consumption demand.

In “Restructuring Class-Relations since 1978”, *Frido Wenten* similarly challenges mainstream assumptions about causality in China’s development since 1978. While for mainstream sociology, changes in social stratification reflect economic trends, Wenten argues, in his historical materialist account of the last thirty years, that the extreme social stratification was a product of the State led gradual commodification of urban labor and the semi-proletarianization of the peasantry. This process developed in stages, in which the new capitalist class became a major driving force in the creation of a labor market. The gradual and incomplete process left its mark on the class consciousness of the workers. As already mentioned above, the domestic migrant workforce which proved so vital for the low-skilled export strategy in the Coastal Areas had recourse to social protection – at an admittedly low level – in their rural homes but not in the location where they worked for wages (because of the *hukou*-system). This link to the land limited the development of a working class consciousness despite their experience of super-exploitation in the world market factories. According to Wenten, the return to the countryside of the second generation of migrants’ has become less feasible and their “complete” proletarianization leads to more open protest regarding their working conditions. In response, the State perceives a need to pacify workers by re-regulating labor relations and developing new forms of social protection.

A detailed account of the re-regulation of labor relations is given by *Siqi Luo* in her contribution “Collective Contracts, but no Collective Bargaining”. She does not just trace the evolution of the different laws on labor relations, but examines their actual implementation. While the laws led to the signing of millions of collective contracts in the last few years, they left hardly any mark on wages and working conditions. The contracts basically contain only general principles, a fact that Luo ascribes to the lack of involvement of workers in their drafting. They are signed either by trade union officials on the enterprise level in order to fulfil quotas stipulated by the union federation or by employers in response to requests from local labor administrators. The lack of workers’ involvement is intended as labor laws and regulations avoid strenuously the words “bargaining” or “collective”, not to mention the “right to strike”. While the government wants the ACFTU to pacify workers, writes Luo, it is unwilling to loosen its control.

Instead of allowing collective bargaining, writes *Max J. Zenglein*, the government tries to meet the rising expectation of workers with State mandated minimum wages. His contribution, “Fragmented Minimum Wage System”, begins by recounting the evolution of the minimum wage laws, then goes on to explain the methods of setting the minimum wage and finishes with a look at the actual practice. Zenglein identifies non-transparent methods of setting minimum wages, great regional disparities, and a widening gap, despite recent substantial increases in minimum wages in a number of provinces, between average wages and the minimum wage. While the minimum wage laws and their – though imperfect – implementation do set a wage floor, they fall short of the government stated objectives of boosting demand and of reducing social inequalities. Since they keep trailing average wage increases they have not led, either, to a boost in demand through increases in wages at the lowest end or to greater income equality in and between provinces. Nevertheless, Zenglein concludes on a positive note; over the years the minimum wage regime has been significantly strengthened and further advances can be expected.

Part II, “Heterogeneous Industrial Relations”, contains a number of contributions that take a close look at the evolution of labor relations at the level of industries and firms based on extensive field research. This section begins with a general overview of the heterogeneous landscape of labor relations, proceeds to detailed accounts of the current situation in two important industries and ends with two interviews with labor activists; one of them is an official representative of the ACFTU in Guangzhou, the other are activists from Honk Kong.

The contribution, “Regimes of Production and Industrial Relations”, of *Boy Lüthje* provides a compelling classification of the diverse forms of labor relations on the basis of the concept of “regimes of production”. This concept, pioneered by Michael Burawoy, refers to the politics in- and outside the factory. Workplace politics are embedded in modes of production, management systems, work organization, the contractual foundations of employees’ rights etc. Outside the factory, the extent of a social wage plays a major role in the bargaining position of workers. On the basis of extensive research on China’s modern core manufacturing industries, i.e. steel, chemical, auto, electronics and textile and garment, Lüthje distinguishes five regimes of production: State bureaucratic, corporate bureaucratic, corporate high performance, flexible mass production and low-wage classic. They differ in the types of workers they employ, the career prospects they offer, and the relations to trade unions. These differences in Chinese core industries, Lüthje states, contribute to the production and reproduction of inequality among workers. Establishing socially accepted labor standards for all of China has become increasingly difficult. They make China’s centralized system of labor relations, embodied in the unified structure of trade unions and national government policies, look increasingly hollow.

*Hao Zhang* also takes up Burawoy’s regimes-of-production concept for his contribution titled “Hegemonic Authoritarianism: The Textile and Garment Industry”. Based on extensive field work in the coastal areas of China, Zhang characterizes the labor relations in the textile and garment industry as a mixture of what Burawoy called the hegemonic regime and rational authoritarianism. Under a hegemonic regime, social insurance legislation and the recognition of trade unions break the ties binding the workers’ livelihood to the workplace. This allows for consent over the basic content of the labor contract despite conflicts over its specificities. The possibility for many migrant workers to switch jobs or to return to their farmland, rather easily, as well as the relatively comprehensive, though not sufficiently enforced, work and labor relation laws and directives, are interpreted by Zhang as fulfilling the minimum requirements of a hegemonic regime. But since the control of the labor process as well as over hiring-and-firing is in the hands of management, backed up by government, authoritarianism is at the core of the regime of production in the textile and garment industry. The resulting exploitation of the mainly female migrant workers in this industry is, according to Zhang, however, not solely a product of Chinese labor politics. In great detail, he shows the subordinated integration of this industry in buyer-driven global production chains. While the buyers call for the respect of core labor standards, they are not willing to pay for it. As long as this asymmetric power relation remains, the current hegemonic authoritarianism will not evolve into a truly hegemonic regime of production.

The successful Chinese Honda workers’ strike in May 2010 came as a surprise for many. The booming automobile industry, with its comparatively better working conditions, was for long considered to be exempt from the rising tide of workers’ unrest. In her contribution, “Understanding Labour Activism: The Honda Workers’ Strike”, *Elaine Sio-ieng Hui* provides, on the basis of extensive interviews, a concise account of the Honda workers’ strike, and examines the socio-economic and political context from which the strike

emerged as well as explaining why it had strong repercussions throughout the industry. In assessing its implications for Chinese labour relations, Hui contributes to the debate between Beverly Silver and Lu Zhang over the prospects of the development of strong trade unions in the Chinese auto industry. She agrees with Zhang that without independent trade unions this kind of isolated strike cannot be transformed into broad based collective struggles. Nevertheless, based on the experience of this very strike and its repercussions throughout the industry she does not want to rule out a “Silver” outcome, i.e. the emergence of independent trade unions in the struggle over better pay and working conditions.

The implications of the Honda strike are the very subject of two interviews titled “Insider Views of Labor Struggles in Southern China” with prominent trade union activists. For the Chairman of the Guangzhou Federation of Trade Unions, *Chen Weiguang*, who also serves as the Vice Chairman of the People’s Congress of the City of Guangzhou, the strike wave in the spring and summer of 2010 proved that the framework of handling disputes within factories is working. For all the conflicts, negotiated settlements were achieved and no striking worker was dismissed. He distanced himself from the initial lack of support from the official trade union vis-à-vis the Honda workers’ grievances. Nevertheless he articulates a need for reform. Priority is given to the democratization of the selection of shop floor trade union representatives, though the bottom-up process should be complemented by top-down supervision to ensure that “responsible people” become leaders.

*Monina Wong* and *Parry Leung*, both from Hong Kong, call in their interview for more radical steps. Wong is director of the Hong Kong Liaison Office of the international trade union movement (IHLO) and Leung is chairperson of Students and Scholars Against Corporate Misbehavior (SACOM). They credit the ACFTU and the government for fastening the pace of trade union reform, but criticize that the proposed collective bargaining legislation still does not allow workers to elect their own bargaining representatives. Trade unions should also break their financial dependence on companies or the government. Furthermore, the federation is said to monopolize trade union education at the expense of State-independent agents such as international trade unions and labour NGOs. Democratic participation, they argue, requires the possibility to engage with many perspectives.

In Part III the focus shifts to the Companies in the government proclaimed “Harmonious Society”. Two contributions deal with the reception of the Corporate Social Responsibility agenda by the Chinese state and the Chinese firms.

In her contribution, “Policies on Corporate Social Responsibility”, *Tatjana Chahoud* interprets the current state of the Chinese Corporate Social Responsibility (CSR) agenda as a supplementary way of the government to enforce and implement labour rights and environmental law. It underlines the urgent need for a stricter enforcement of hard law and regulations. However, the implementation of official CSR guidelines lags far behind the declarations and a typical component of a Western CSR catalogue, human rights issues, is excluded. Besides State-led CSR initiatives, non-governmental watchdog activities are emerging. Focused on environmental matters, they enjoy to some extent, China’s central government support. Interestingly, not only Chinese firms which are a subordinated part of global value chains adopt CSR memoranda, but also firms with ambitions of investing abroad.

*Jochen Weikert* picks up on this new development in his contribution, “Chinese Companies’ Response to Corporate Social Responsibility”. Some Chinese global players are aligning their policies with procedures practiced at Western multi-national corporations. Others, however, choose a strategy of variance. They pursue a clear-cut alternative for “good” business conduct to Western standards. Weikert interprets this behavior as a way of enhancing bargaining power within global value chains and as an expression of the desire for emancipation from Western prescriptions.

The last part of the book, titled “Commodification of Land”, turns to a seemingly unrelated topic, the issue of land reform. However, a closer look reveals that the steps towards making land a tradable commodity are tightly connected to the rise of social inequality. The first contribution focuses on urban land, the second on rural land.

In her contribution titled “Financial Crisis, Land-Induced Financialization and the Subalterns in China”, *Ngai-Ling Sum* argues that the central governments response to the 2007 financial crisis led to the intensification of land-induced financialization, i.e. increasing debt levels by mortgaging public land. The central government’s stimulus package requires regional-local authorities to co-fund 70% of that package which they are only able to do by using land as an instrument for leveraging loans and as a source of revenue. This reinforces what Sum calls the ‘real estate coalition’ which strives to promote land sales and property development. The resulting property boom fuels inequality by making the members of this coalition rich and by displacing those not able to purchase an apartment. Even the rising middle-class is negatively affected as its members become slaves to their dreams of owning property. However, as Sum shows, this process does not go uncontested.

*Liu Pan* and *Wang Rui* strike a more positive tone about the improved possibilities of land transfers in rural areas in their contribution titled “Regulating Land Transfers: Steps towards Private Ownership”. They analyze how the government tries to meet the demand for transferring land rights under the still prevailing household contract responsibility system. This system allocates collective farmlands to households in return for monetary or in kind payments. Enterprising farmers looking for economies-of-scale in an increasingly mechanized industry and industrialists in search of new locations, on the demand side, and migrant workers whose families have been holding rights to till farmland, on the supply side, already began, during the 1980’s, to swap land rights, however, at the time without government consent. The demand for this kind of transfer has steadily risen and in 2008 a new law not only allowed land transfers but also proposed to establish land markets. In the controversy of whether this leads to the further proletarianization and impoverishment of a majority of the rural population or to higher rural incomes because of more efficient use of land, Pan and Rui take the latter view.

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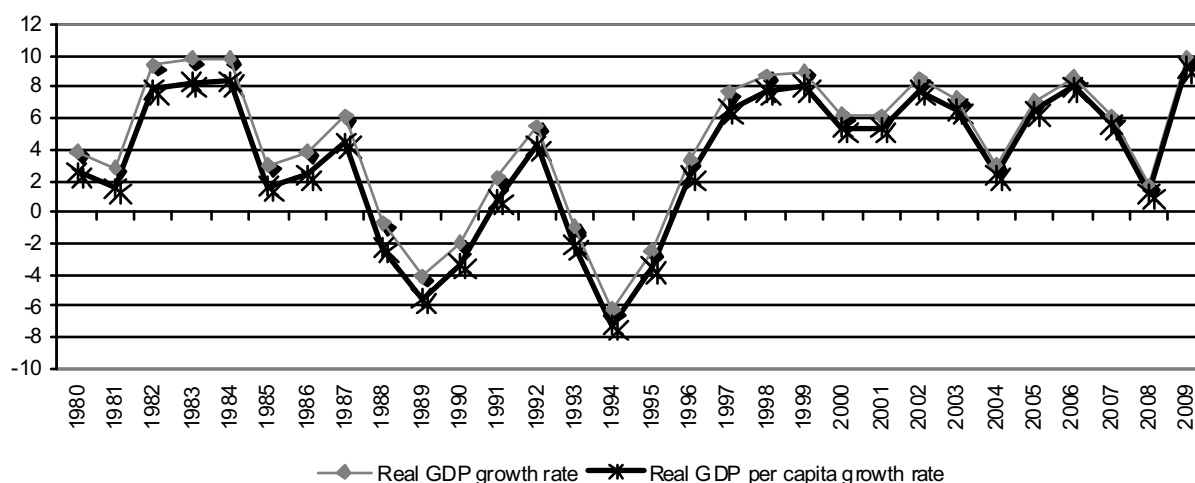
# Part I: The Basic Setting

## 1. Perspectives on High Growth and Rising Inequality

Hansjörg Herr

After the reforms started at the end of the 1970s, China began to realize one of the most impressive growth performances in modern history. In 1978, two years after Mao Zedong's death and the victory of Deng Xiaoping in the inner party struggle, China embarked on a strategy of gradual reform which was fundamentally different from the shock strategy of the former Soviet Union. Not only were real Gross Domestic Product (GDP) growth rates high, but real GDP per capita also increased spectacularly (see Figure 1). From 1980 to 2010 average annual GDP growth was 10%, while real GDP per capita growth was 8.7%. GDP per capita in 2010 was around 7400 US dollars (CIA 2011). Measured as income of less than one US dollar per day, poverty in China decreased from 250 million in the 1990s to substantially below 100 million by the 2000s (ADB 2004). In 2007 it was estimated that only 1.7% of the Chinese population - mainly in rural areas - had to exist on an income of less than 1.25 US dollars, compared with 23% in 1995 (ADB 2010: 9).<sup>1</sup>

**Figure 1. Real GDP growth rates and real GDP per capita growth rate in China, 1980-2010**



Source: IMF (2010).

There has been a long, controversial, theoretical debate on how to explain GDP growth. Especially the Keynesian paradigm and the neoclassical paradigm have produced different answers to this question. Neoclassical economists stress the lack of capital in developing countries and recommend resource transfers from developed to developing countries. In addition it is believed that liberalized markets lead to optimal allocation and a spontaneous development process. Keynesians reject the idea that liberalized markets automatically trigger development – in fact, the opposite may be the case. They stress the need for

<sup>1</sup> US-Dollar calculations are PPP based, that means based on a basket of goods.

domestic accumulation and government support of a high investment dynamic in the productive sector. Also the relationship between GDP growth and income distribution, especially in developing countries, continues to be a controversial issue. Neoclassical economists tend to argue that unequal income distribution stimulates savings as a basis of investment. Keynesians argue that relatively equal income distribution is a precondition for sufficient domestic demand and income creation. The situation in China lends itself well to such debates as it combines high GDP growth rates with substantial changes in distribution. The first part of this chapter is devoted to explaining the traditional neoclassical growth model and drawing conclusions about its application to China. The next part concentrates on the so-called New Growth Theory. Both approaches have shortcomings for explaining development in China, which will be discussed. This is followed by a discussion of development and income distribution. Then a Schumpeterian-Keynesian development model is sketched and applied to China. Finally, overall conclusions are drawn.

### 1.1 Growth in the traditional neoclassical model

The basis of all versions of neoclassical growth models was developed by Robert Solow (1956 and 1957). He used macroeconomic production functions to show how savings, the capital stock, population growth, and efficiency gains, affect real output and consumption per capita. For example, the macroeconomic production function  $GDP = f(K,L)$  shows that gross domestic product (GDP) depends on the physical input of capital goods (K) and labor input (L). Of course the functional relationship depends on the technology assumed.<sup>2</sup> Here, only the important results are presented. First, the only factor which leads to a permanent increase in GDP per capita is an increase in the efficiency of labor whereas the latter depends mainly on technological improvements and better qualifications of the workforce.<sup>3</sup> Without increasing efficiency, after an adjustment process the economy will fall into a steady state of zero growth of output per worker and consumption per capita. Population growth reduces GDP per capita compared to a situation without population growth. In all cases a higher savings rate increases the growth rate for some time. However, even *with* a higher savings rate GDP growth per capita will fall back to zero in cases of no efficiency increase and when efficiency increases to the growth rate given by the rate of productivity increases.

The neoclassical growth model allows some rather general interpretations of long-term development in China. First, part of the high increase of per capita GDP can be explained by the relatively low population growth in China. Together with the start of the economic reforms at the end of the 1970s China introduced a family planning model, which in principle allows only one child per family. Exceptions exist, for example in rural areas or for minorities. Compared with Brazil, South Africa or India, population growth in China in the 1990s and 2000s was low and dropped to levels comparable with OECD countries (see Table 1). In a global country comparison, China's population growth in 2010 was ranked number 153 from a total of 232 (CIA 2011). In addition, the increase of GDP per capita depends on the rate of productivity increases. Indeed, China has been increasing productivity much faster than Brazil, South Africa, India, or any of the OECD countries. Especially in the 1990s, and even more so in the first decade of the 2000s productivity

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<sup>2</sup> The formal apparatus of the model is for example presented in (Gärtner 2009, Chapter 10).

<sup>3</sup> It is interesting that changes of natural conditions are not mentioned explicitly. If oil or other natural resources become more difficult to produce or are no longer available, productivity may go down.



increases exploded in China (Table 1). This can help to explain the relatively high growth rates in China for GDP per capita.

**Table 1. Population growth, labor productivity, and public spending for education and research and development (R&D) in selected countries**

Averages in per cent *		1980-89	1990-99	2000-09
Brazil	Population growth rate	2.13	1.55	1.21
	Labor productivity growth <sup>†, 1</sup>	-1.15	1.00	0.85
	Public spending on education <sup>1, 3</sup>	3.83	4.38	4.34
	Public R&D expenditure <sup>7</sup>	n.a.	0.72	0.93
China	Population growth rate	1.44	1.13	0.61
	Labor productivity growth <sup>†</sup>	4.84	5.60	10.25
	Public spending on education <sup>4</sup>	2.51	1.88	3.10
	Public R&D expenditure <sup>8</sup>	n.a.	0.66	1.19
South Africa	Population growth rate	2.47	2.19	1.39
	Labor productivity growth <sup>†</sup>	-1.20	-1.34	2.87
	Public spending on education <sup>5</sup>	5.28	6.03	5.30
	Public R&D expenditure <sup>9</sup>	n.a.	0.60	0.85
India	Population growth rate	2.14	1.82	1.45
	Labor productivity growth <sup>†</sup>	3.01	3.75	4.64
	Public spending on education <sup>6</sup>	3.03	4.04	3.58
	Public R&D expenditure	n.a.	0.70	0.76
Germany	Population growth rate	0.08	0.41	-0.03
	Labor productivity growth <sup>†, 2</sup>	n.a.	1.67	0.89
	Public spending on education <sup>10</sup>	n.a.	4.52	4.55
	Public R&D expenditure	n.a.	2.27	2.50
OECD members	Population growth rate	0.79	0.81	0.69
	Labor productivity growth <sup>†</sup>	n.a.	1.84	1.44
	Public spending on education <sup>13</sup>	5.17	4.73	5.21
	Public R&D expenditure	n.a.	2.26	2.37

\* Averages of labor productivity growth, public spending on education, R&D expenditure in per cent of GDP.

<sup>†</sup> GDP per person employed (constant 1990 PPP \$), change to the previous year.

<sup>1</sup> Time period 1981-1989.

<sup>2</sup> GDP at 2000 market prices per person employed (change to the previous year) for the time period 1981-1989. Data for 1981-1989 only for West Germany. Periods 1992-1999 and 2000-2009 GDP per person employed (constant 1990 PPP \$), change to the previous year.

<sup>3</sup> Data for 1980, 1985, 1989 / 1998, 1999 / 2000-02, 2004-07. <sup>4</sup> Data for 1980, 1985 / 1998, 1999 / 2000-03.

<sup>5</sup> Data for 1987, 1989 / 1999 / 2000-08.

<sup>6</sup> Data for 1980, 1985 / 1998, 1999 / 2000-06.

<sup>7</sup> Data for 1996, 2000-06. <sup>8</sup> Data for 1997.

<sup>9</sup> Data for 2001, 2003-06.

<sup>10</sup> Data for 1998, 1999 / 2000-06.

<sup>11</sup> Data for 1980, 1985 / 1998, 1999 / 2000-07.

Source: World Bank (2011), Ameco (2011), OECD (2006).

At least until the steady state is realized, the Solow model predicts high growth rates in developing countries and a convergence of the living standard in all countries around the world. However, this is not the case. The model is a rather “poor predictor” (Nafziger 2006:154), especially for growth rates in developing countries. The neoclassical growth model can be augmented by other variables to produce better results. Robert Lucas (1988), for example, added a coefficient to the production function, which expresses human capital. Mankiw/Romer/Weil (1992) made human capital a separate production factor in addition to capital and labor. They measured human capital in the form of the education level of the working population.<sup>4</sup> Of course many more factors can be added as variables to the macroeconomic production function. Actually, in a survey of empirical studies, Durlauf/Quah (1998) found 87 different explanatory variables to explain growth. For most variables there are studies which stress their importance vis-à-vis all other possible factors and other studies which indicate that the same variable does not explain anything.

## 1.2 The New Growth Theory

A different approach is followed by the so-called New Growth Theory (also called endogenous growth theory). Here the exogenous character of productivity increases in the Solow model is criticized. Especially Paul Romer (1986, 1992, and 1994) stresses the role of knowledge in growth models (for an overview cp. Cortright 2001). The key argument is that in comparison to normal private goods, knowledge is a public good and can therefore be used without rivalry by many individuals and firms. Only patents can prevent knowledge from flowing freely across economies or even the globe. Knowledge does not suffer from the characteristics of decreasing returns. Knowledge, rather, has the characteristics of increasing returns. Joseph Schumpeter (1911, 1942) is understandably one of the heroes of the knowledge approach. Many years before Karl Marx (1867: Chap. 12) had celebrated the capitalist machine as the means to improve the productive powers of economies, Marx and Schumpeter had stressed that firms chase quasi-rents (extra profits) by using new technologies, creating new products, reorganizing production, etc.. This process is characterized by creative destruction, including the demise of firms or whole industries, and the rise of new producers. Along with the process of creative destruction, equilibrium is a transitory state. Economic development becomes path dependent. It also depends on institutions beyond the narrow economic sphere. There is no justification for a stable steady state, as deduced from the original Solow model.

Both the augmented Solow approaches, and the New Growth Theory, conclude that productivity development is not sufficiently produced by the private sector. In the case of knowledge production, the private rate of return is much lower than the social return of knowledge or it implies positive external effects, which cannot be internalized sufficiently by private producers. A key consequence is that governments can stimulate growth by spending money on education and research. In the long run, both will increase knowledge production and growth rates.

To explain the relatively quick development of productivity in China, a bundle of factors seems to be important. First, in spite of the gradual transformation process in China, as early as the 1980s the market process in the goods market began to stimulate competition

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<sup>4</sup> Lucas defined the production function as  $GDP = f(K, u \cdot h \cdot L)$  with  $u$  as proportion of total working time spent and  $h$  as a stock of human capital. Mankiw/Romer/Weil use  $GDP = f(K, L, H)$  as the production function with  $H$  as human capital.

between firms, and in this way, productivity development as well. The capitalist productivity machine was, so to speak, 'fired up' when reforms started. Privatization in China first started in the 1990s and up until today most of the big domestically-owned companies are still state-owned. But state-owned enterprises have also had to compete against each other and against the growing private sector of mostly small- and medium-sized companies. The gradual dismantling of trade restrictions has had a similar effect. However, trade opening has been slow. China joined the WTO in 2001 but it would be wrong to assume that all trade barriers (for example, non-tariff barriers) then disappeared.<sup>5</sup>

Second, for a developing country with a low income per capita, China has invested a great deal in education and research. Public expenditure for education used to be relatively low in China compared with India, South Africa, Brazil, and OECD countries (Table 1). However, in the first decade of the 2000s China very much improved in this indicator and it is expected to reach 4% of GDP in 2012 (China Daily 2010). Also, many Chinese students study in foreign countries and some highly qualified Chinese living abroad have returned to China. Public research and development expenditures were not especially high in the 1980s and 1990s in China, but later became the highest out of the four non-OECD countries shown in Table 1. It is worth mentioning here, that public research and development expenditures in the US are high, whereas Germany exhibits a poor performance in this indicator. However, caution is advisable in this context. Countries like Cuba, Uzbekistan, Kiribati, or Lesotho sometimes spend much more than 9% of GDP on public education but do not belong to the most dynamic countries in the world (CIA 2011). Knowledge production is a complicated process. Solow (1994: 52) reminds us that "the 'production' of new technology may not be simply a matter of inputs and outputs." In the end, it is not possible to measure the effect of the different variables of knowledge production.

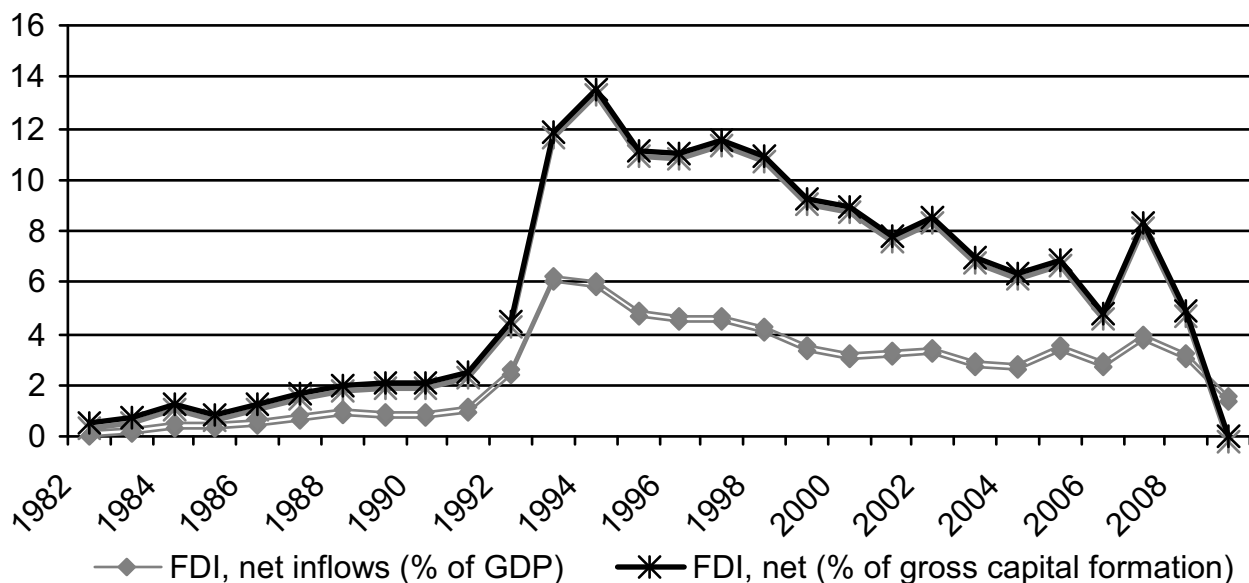
Third, China realized high net inflows of foreign direct investment (FDI) (Figure 2). This not only increased competition in the Chinese goods market, FDI also became a valuable source of knowledge import. In the 1980s FDI was small, but jumped to high levels in the early 1990s, following a programmatic speech by Deng Xiaoping, in an attempt to open the country further; in particular, the South China region. In the early 1990s net FDI inflows reached almost 14% of gross capital formation and around 6% of GDP. Until the sub-prime crisis, which hit the world in 2007, net FDI inflows remained high in absolute terms, but dropped as a percentage of GDP and gross capital formation. Since 2000 China has pursued moderate FDI outflows mainly by state-owned enterprises. The aim is to secure natural resource imports (for example in Africa) and to access technology and export channels. But caution is advisable when interpreting these FDI flows. Some FDI only changes ownership and does not increase capital formation in any way whatsoever. However, such pure mergers and acquisitions, which are dominant in developed countries, do not play much of a role in China. Part of FDI, mainly from neighboring countries, or from Hong Kong and Taiwan, has been low-tech, using China as an extended workbench for labor intensive export processing. FDI from multinational companies has been, with

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<sup>5</sup> Morrison (2011, summary) from the Congressional Research Service writes in a comprehensive report: "China's incomplete transition to a free market economy and its use of distortive economic policies have contributed to growing trade friction with the United States over a number of issues, including China's refusal to allow its currency to appreciate to market levels, its mixed record on implementing its World Trade Organization (WTO) obligations, its relatively poor record on protecting intellectual property rights (IPR), and its extensive use of industrial policies and discriminatory government procurement policies to subsidize and protect domestic Chinese firms at the expense of foreign companies."

respect to knowledge import, more useful; although foreign companies are quite reluctant to bring high-technology to developing countries and often prefer to use outdated technology for production in these countries. Some FDI represents capital flight from China, which was channeled back to the mainland from Hong Kong or offshore centers. But all in all, for China, the inflow of FDI has to be seen as a channel for knowledge import (Herr 2008).

**Figure 2. Foreign direct investment (net inflows) in per cent of GDP and in per cent of gross capital formation in China, 1982-2009**



Source: World Bank (2011).

Fourth, an industrial policy in the tradition of Friedrich List (1885) is also important for productivity development in China. List recommended infant industry protection from foreign competition and government support for these industries, in order to develop the productive forces of a country. Today's developed countries have all progressed with the help of infant industry protection via tariffs and other barriers, and support for key industries by government. None of them accepted patent law and they imported technology whenever possible (Chang 2003). In the tradition of the East Asian miracle countries, China also developed in tune with this logic.

Last but not least, high Chinese GDP growth stimulated productivity development. New knowledge is usually embedded in new investment goods. Especially, vibrant investment (see below) stimulated knowledge production and quick dissemination. China was able to follow a path with high GDP growth and high investment. Both led to high productivity gains which themselves stimulated growth and created a virtuous cycle (this is also stressed by proponents of the New Growth Theory, Evans/Honkapohja/Romer 1996).

### 1.3 Inadequateness of the traditional growth model and the New Growth Theory

All growth models based on macroeconomic production functions, suffer a number of fundamental shortcomings. First, the model presupposes the existence of only one capital good (or the assumption that capital intensity is the same in all industries). As soon as many capital goods (industries with different capital intensities) exist, capital can no longer be measured in physical units, and has to be aggregated in money terms. This has

devastating consequences for the model. Any change in functional income distribution will change the structure of prices. Even if physical input and physical output do not change, the values in the production function will change with every alteration in functional income distribution. In addition, the new price structure forces profit maximizing firms to choose a new technology from those already known.<sup>6</sup> The same capital intensive technology, for example, may be used when the rate of return on capital is very high, and very low (Sraffa 1960). Paul Samuelson, who after extended debate, still wanted to save the macroeconomic production functions approach, accepted the “facts of life”:

“Lower interest rates may bring lower steady-state consumption and lower capital-output ratios, and the transition to such lower interest rates can involve denial of diminishing returns. {...} There often turns out to be no unambiguous way of characterizing different processes as more ‘capital intensive’ {...} If all this causes headaches for those nostalgic for the old time parables of neoclassical writing, we must remind ourselves that scholars are not born to live an easy existence. We must respect, and appraise the facts of life.” (Samuelson 1966: 582f.).<sup>7</sup>

It is one of the scandals in economic thinking that macroeconomic production functions are still used today in a myriad of scientific publications, without any mention of the fundamental problems of this approach. Especially for long-term analyses with changes in functional income distribution and changes in technology, a macroeconomic production function, which empirically must always use values and not physical units, is highly questionable and unacceptable.

Second, money simply does not exist in the growth models discussed above. Following the neoclassical paradigm, money is considered neutral or a veil over the real sphere. In a world of barter (the vision of a real sphere) the act of saving, automatically implies the decision to invest. (The corn a farmer does not consume is automatically invested as it increases the stock of seeds the farmer holds). In a world of barter, any offer of a good also creates a demand for another good of the same value. (The farmer offers corn of a certain value to demand cloth of the same value.) Or: any supply creates its own demand. This is the essence of Say’s Law which became one of the corner stones of neoclassical thinking and goes back to Jean-Baptiste Say (1855): In a more sophisticated version the existence of a capital market is assumed (where corn as savings is offered and corn as seeds is demanded as investment). Savings increase with an increase of the interest rate, investment decreases with an increase of the interest rate, and the interest rate always equalizes demand and supply in the capital market. The nucleus of Say’s Law is that all planned savings are always channeled in investment. A lack of demand is not possible. Following this idea, in neoclassical growth models the steady-state is provided by the supply-side (labor, capital goods, technology, etc.). Short-term fluctuations triggered by all types of disturbances are possible but they do not alter the long-term expansion path of the economy.

When the supply side becomes the backbone of economic development – and as part of this approach savings are the basis for investment and the level of the steady-state consumption per capital – a very clear conclusion for a development process of less developed countries emerges: The capital stock in developing countries can be increased

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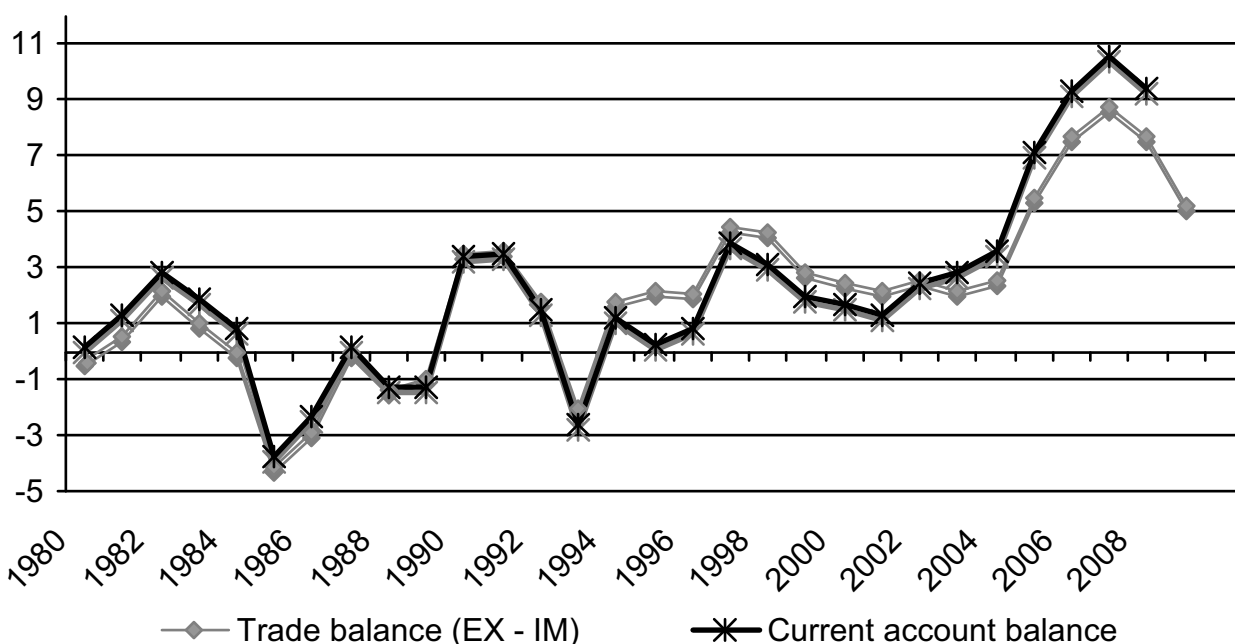
<sup>6</sup> Let us assume an equilibrium including a certain structure of prices and the same profit rate in all industries. Now wages increase. Without changing prices labor intensive industries will now have a lower profit rate than capital intensive industries. The only way to establish a new equilibrium is to change the structure of prices. A changing price structure will also lead to the application of a new technology among the many technologies known at any moment.

<sup>7</sup> Samuelson tells us that the smooth production functions of the neoclassical model (see appendix) simply do not exist with many capital goods.

by foreign savings which are identical with net capital inflows, resource inflows and current account deficits in developing countries. After World War II this idea was taken over by the World Bank and most international institutions, which modeled development strategies on this way of thinking (Chenery/Strout 1966). It is often argued, that poor countries are simply too poor to save. The lack of savings leads to a saving gap or even trap, which prevents development (Sachs 2005). In line with this view of development, aid should be channeled to developing countries to allow a net inflow of resources. However, the market mechanism also leads to a quick catching up of developing countries. As the outcome of the low capital intensity in developing countries, rates of returns in these countries will be much higher than in developed countries, with their huge stock of capital in relation to their population. It is argued that the differentials in profit rates will lead to huge capital flows to developing countries and a quick harmonization in living standards. Easterly (1999) tested the saving gap model. However, from the 138 developing countries his results showed only one country (Tunisia) that supported the saving gap model. In all other cases, even very high net capital inflows were unable to trigger development.

China definitely contradicts the idea of a lack of saving and the need for foreign saving to develop. Development came about without long-term deficits in the current account balance, which in China is determined by the trade balance (Figure 3). In the 1980s and in the first half of the 1990s the current accounts were more or less balanced in the medium-term. Then China started to realize high surpluses, which started to explode in the years after 2000. Along with Japan and Germany, and some natural resource exporting countries, China became one of the big surplus countries in the world. In 2009 it became the biggest exporter in the world and pushed Germany aside from this position (Independent 2010). The traditional growth theory is hardly able to explain the dynamic of the Chinese development, which was obviously not constrained by a lack of domestic saving. On the contrary, China saved for the rest of the world.

**Figure 3. Current account and trade balance in per cent of GDP in China, 1980-2009**



Source: IMF (2010).

The question arises, as to how these huge external Chinese surpluses can be explained. The answer is: They were created by the People's Bank of China (PBoC), the Chinese central bank. The PBoC was used by the Chinese government as a key agent to enforce an export-led development strategy like so many other East Asian countries, including Japan, had done previously (Stiglitz 1996a). It intervened in the foreign exchange market in an extreme way, not only to finance the current account surplus but also to compensate net private capital inflows. At the end of 2010, China held the highest official foreign reserves (\$2.622 trillion) mainly in foreign government bonds and mainly denominated in US dollars (CIA 2011). The PBoC created a politically motivated capital export, which led to an undervalued renminbi (RMB) and to current account surpluses. It is frequently argued that cheap Chinese wages are responsible for high Chinese current account surpluses. If real wages are meant, this raises the question of why countries with even lower real wages realize current account deficits and not surpluses. If nominal wages are meant, it is the nominal exchange rate, which makes the money wages of a country low compared to other countries.

#### **1.4 Inequality and development**

There has been a long debate about the relationship between development and inequality. In all paradigms, which assume that saving is the precondition of investment and consequently, that higher savings lead to higher investment, there is a temptation to accept high income inequality as an engine for development. The argument is that rich income groups save more than poor income groups and therefore an increase in inequality leads to higher savings, higher investment, and faster development. In the Solow model an increase in the propensity to save leads for a while to a higher growth per capita and finally to higher steady-state consumption per person.

In the 1950s Simon Kuznets presented the idea of a long swing in income distribution during the process of economic development: "Widening in the early phases of economic growth when the transition from the pre-industrial to the industrial civilization was most rapid; becoming stabilized for a while; and then narrowing in the later phases." (Kuznets 1955: 18) The so-called Kuznet's curve, an inverted U, describes first an increase during development and then a decrease in inequality. Kuznets argued that at the beginning of industrial development average income in the agricultural dominated rural sector is lower than in the small industry-dominated urban sector. At the same time he assumed that income distribution within the industrial sector is more unequal than within the agricultural sector. The swing to a more unequal income distribution takes place when the agricultural sector shrinks and the industrial sector swells, and the more unequal income distribution in the industrial sector dominates the development. The swing to a more equal income distribution comes when the agricultural sector is almost absorbed. This raises the question: How is this possible when the industrial sector has a higher income inequality than the agricultural sector? This question becomes even more pressing when we follow Kuznets' hypothesis (1955) that there is a tendency in capitalist economies for the rich to become ever richer. They have the highest income, the highest savings, and accumulate wealth much faster than the poor. Kuznets presents tendencies, which may over-compensate the endogenous effect of wealth accumulation of the rich. He argues, for example, that descendants of the very rich are not automatically the best entrepreneurs and investors and most likely keep their wealth in outdated industries. In dynamic economies new entrepreneurs will emerge in new, now highly profitable industries. He also stresses that in democratic societies, which develop along with economic development, government interventions, in the form of income and inheritance taxes or social

expenditures reduce inequalities. In the end, it was clear to him that the long swing of income distribution during development was built on weak theoretical grounds.

China seems to fit Kuznets' argument. In China, income in the rural sector has been much lower than in the urban sector, but within the rural sector distribution has been more equal. In 1978 urban household income was around two and a half times as high as in rural areas. The gap was reduced to twice as high by the mid-1980s, mainly because agricultural production was reorganized from collective production to a family-based system of leasing land. After the mid-1980s the gap increased again, now to a value of over three. During this period the Chinese population in urban areas increased from below 20% of the total population in the early 1980s to around 45% after 2005 (Naughton 2007: 218, 133, 127).

**Table 2. Gini-Coefficient for selected countries**

	Mid-1980s	Around 1990	Mid-1990s	Around 2000	Latest data
Brazil <sup>1)</sup>	58.9	60.5	59.2	58.8	56.4 (2005)
China <sup>1)3)</sup>	30.0	34.0	39.0	40.0	41.5 (2007)
Germany <sup>2)</sup>	25.7	25.8	27.2	27.0	27.0 (2006)
Japan <sup>2)</sup>	30.4		32.3	33.7	32.1 (mid-2000s)
Russia <sup>1) 3)</sup>	-	25.9	43.9	43.2	42.2 (2009)
South Africa <sup>1) 3)</sup>	47.0	-	59.0	-	65.0 (2005)
South Korea <sup>1) 3)</sup>	34.5	34.7	33.4	35.8	31.4 (2009)
USA <sup>2)</sup>	33.8	34.9	36.1	35.7	38.1 (mid-2000s)

Sources: 1) household income, UNU-WIDER (2008), 2) disposable household income, OECD (2009), 3) latest data from CIA (2011).

From the beginning of the reforms until the end of the first decade of the 2000s, income inequality exploded in China. The Gini-coefficients in Table 2 reflect this development.<sup>8</sup> Within a short period of time China changed from a country with a relatively equal income distribution to a country with a very unequal one.

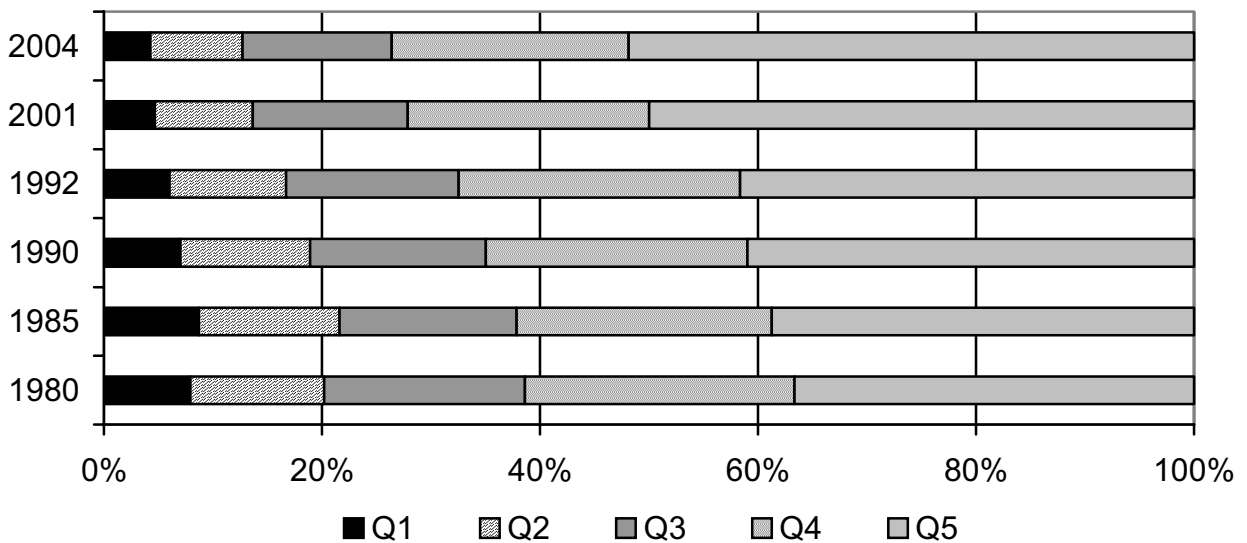
In Figure 4 the development of income quintiles of the total population in China is given. The quintile shares express the percentage of total income that each fifth of the population receives. They are ordered according to income, with the first group referring to the poorest 20% and the fifth group referring to the richest 20%. It can be seen that the poorest 20% were dealt a lower and lower share of the total income, whereas the richest 20% reaped a higher and higher share. In 2004 the richest 20% cashed in over 50% of the total income. Also, compared with other countries, China moved towards the group of developing countries with the highest inequalities (see Table 2).<sup>9</sup> Figure 5 shows that, in China, the income ratio of the 20% with the highest income to the 20% with the lowest income, became the highest in all Asian countries.

<sup>8</sup> The Gini-coefficient ranges in value between zero and one hundred. A value of zero indicates a perfectly equal income distribution, a value of one hundred of an income distribution where one household gets all income.

<sup>9</sup> For country comparisons in Table 2 some caution is needed. For example, in some cases household income is adjusted for the number of persons, sometimes not.



**Figure 4. Quintile shares of income of total population in China, 1980-2004**



Source: UNU-WIDER (2008).

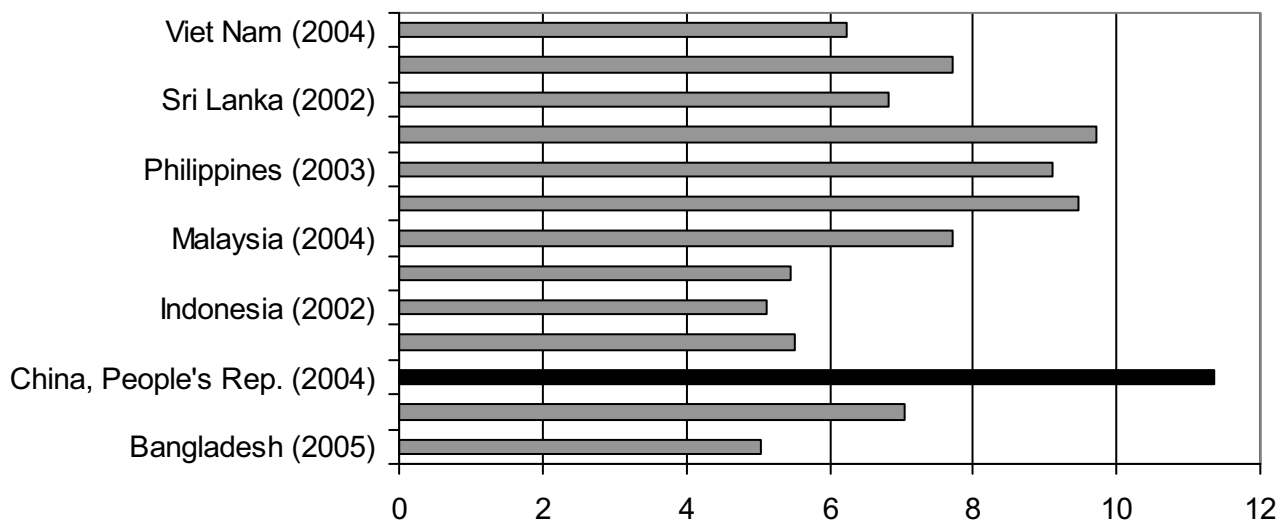
Although we are unable to look at income distribution in China in great detail here, as a statistically challenging task, it is influenced by three big factors (Dullien/Herr/Kellermann 2011). The first is wage share, which largely depends on the mark-up firms are able to realize. In China the wage share dropped from around 70% in 1980 to around 55% in the mid 2000s (Aziz/Li 2007; ILO 2009). The second factor is wage dispersion, which in China became very high. To a large extent wage dispersion depends on, the power and opportunities for free wage negotiations by trade unions, on an active minimum wage policy, on the level of social benefits, and other labor market institutions. The third factor is the public tax and expenditure system, which in many countries leads to substantial modifications of the income distribution determined by markets. Obviously redistribution by the Chinese public sector is limited. The tax system does not sufficiently tax the rich and a developed welfare state does not exist (Naughton 2007). Overall household disposable income depends to a large extent on institutions and government policies.

It seems that from the beginning of the reforms at the end of the 1970s until the mid 2000s, the Chinese government did not pay heed to the development of income distribution and social justice. Indeed, it appears that Chinese leaders even seemed to follow the idea that increasing inequality is a good thing. In the 1980s Deng Xiaoping announced: "To get rich is glorious" and later added, "Some should be allowed to get rich first." At the same time he advanced the idea that the coastal regions – and here especially liberalized economic zones – should develop first (Hays 2010).

Ultimately the Kuznets curve does not bear up. Distribution does not follow in such an automatic way as suggested by Kuznets. The East Asian miracle countries, from Japan to South Korea, are good examples of dynamic economic development at a high level of equality (Table 2; Stiglitz 1996a), whereas in other less developed countries (LDCs), in Latin America and sub-Saharan Africa, income inequality is much higher. "Thus, whereas the historical growth of early industrializing Europe follows an inverted U, the evidence for today's LDCs is too mixed and inconclusive to confirm the Kuznets curve." (Nafziger 2006:188).

**Figure 5. Income\* ratio of highest 20 per cent to lowest 20 per cent in Asian countries (reference year in parentheses)**

\*Refers to income or expenditure



Source: ADB (2007).

The traditional neoclassical growth model, the New Growth Model and the Kuznets curve are based on theoretically weak foundations, and do not give a convincing explanation of the Chinese development. A completely different approach is based on Keynesian and Schumpeterian thinking. John Maynard Keynes and Joseph Schumpeter have stressed the role that money and the financial system play, for investment, income creation, and development. To a certain extent Karl Marx also followed such an approach. In the next section a development model in the tradition of Keynes and Schumpeter is elaborated. First, the foundation of a monetary development model is discussed, followed by an interpretation of Chinese development on the basis of such an approach.

## **1.5 A Keynesian-Schumpeterian development model**

### ***A monetary development model***

It was Schumpeter (1911) who argued that development is only possible if innovative entrepreneurs receive credit, created ad hoc, in order to invest. In the German original Schumpeter speaks of credit created out of nothing which has to be granted to entrepreneurs to allow them sufficiently to invest, increase productivity and create new innovative products. Keynes also argued along these lines when he emphasized that the investor needs cash to carry out investment (Keynes 1937; 1937a). What is necessary for economic development is (new) credit created first and foremost by the banking system (Herr 2008b). With the help of the central bank commercial banks can create additional credit, which leads automatically to the creation of additional monetary wealth in the economy; since banks simply provide credit by extending their balance sheets. As the banking system can use bank deposits to expand credit the banking system can grant much more credit than the volume of newly created central bank money. In addition, new monetary wealth created by bank credit can be used by the public to give direct credits to companies or buy new shares and in this way increase funds available for firms.

The most important point is that in a development model additional credit leads to additional investment. Investment then creates demand in the goods market, additional capacity and production, and employment. This leads in turn to income in the form of wages and profits, and finally, to savings. Savings are usually held as monetary wealth (bank deposits, debt-securities, etc.) or as equity (shares) of firms. What we can see here is a credit-investment-income-savings mechanism, which reveals the importance of the role of money in a capitalist system. The central bank has to accommodate a credit-investment-income-savings process by refinancing commercial banks, because part of the central bank money will trickle away in additional cash holdings of the public, and additional reserve holdings of banks. It is obvious that credit expansion has to be used for investment, to stimulate development. If credit expansion is used to finance real estate bubbles or it leads to an over-indebtedness of private households, there will be no positive long-term effect.

The idea follows Karl Marx (1867: Chap. 4) with his famous 'general formulae' for capital,  $M - C - M'$ ,

in which money (M) is advanced to purchase commodities (C) that can then be sold for a larger sum of money (M'). The formulae can be extended to explicitly include production and credit. We then have:

$(M - M) - C - (\text{labor and capital goods}) - \text{production} - C' - (M' - M')$

A capitalist firm borrows  $(M - M)$  to invest in labor and capital goods. The production leads to income creation and the production of new goods (C'). The produced goods are sold and the company's credit including interest is paid back  $(M' - M')$ .<sup>10</sup> The whole process is governed by credit to firms *and* investment by firms in productive processes. If there is no credit available or the interest rate is too high and/or if there are no entrepreneurs who want to invest in productive capital GDP, growth, employment, and income creation are not possible. Keynes, although he generally disapproved of Marx, quoted this formulae approvingly in an early draft of the General Theory (Keynes 1936) insisting that a monetary economy functions quite differently and referred to a real exchange economy in which money is absent. Obviously, money in such an approach is not neutral; it is central to the explanation of economic development.

Credit expansion, as well as investment in productive purposes, depends on a myriad of economic, social, and political factors.

Among other things, the interaction of macroeconomic policies, expectations of economic agents and institutions are important. Under the conditions of the non-neutrality of money, of uncertainty and potentially unanchored expectations, economic development does not follow long-term trends that can be set objectively by supply-side factors. Trends arise solely as a statistical result of previous development. Thus, we reject ideas of fundamental factors, which determine long-term growth, and of a business cycle revolving around this long-term trend without changing it. Growth models on the basis of production functions, such as those in the tradition of Robert Solow, are not very helpful in explaining economic developments. Instead, we assume a sequence economy with a succession of phases. The respective phases depend on the corresponding specific historical constellation, including the macroeconomic policy regime of a country (Herr/Kazandziska 2011).

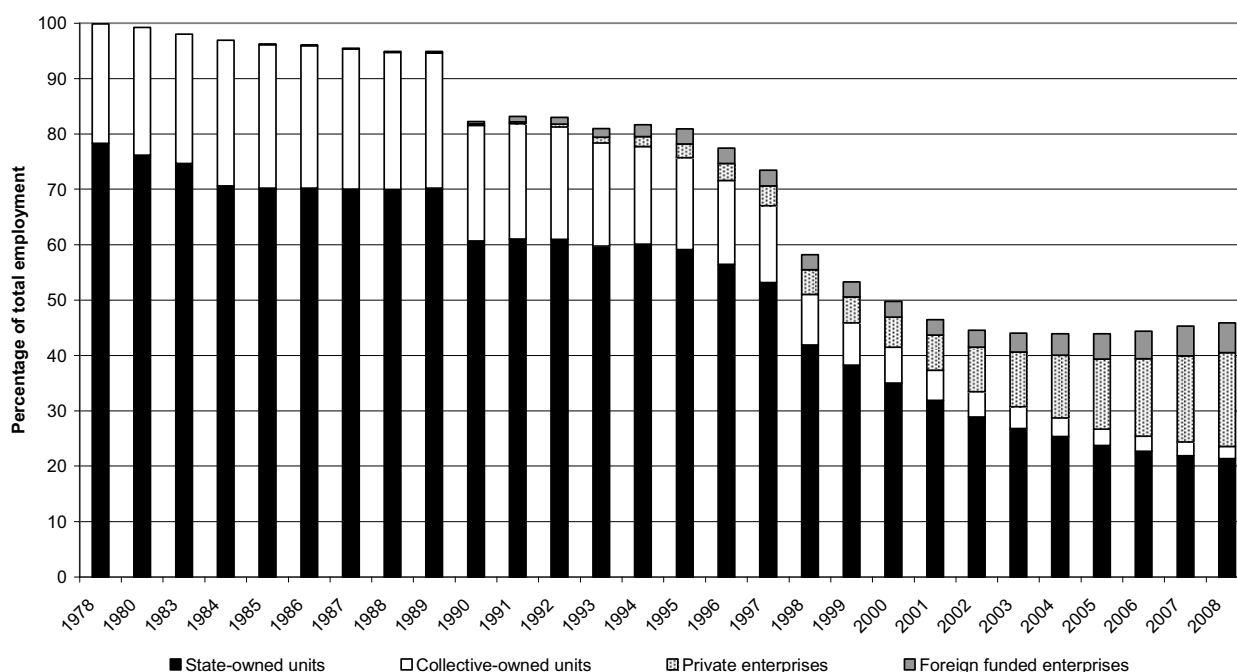
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<sup>10</sup> The embedding of the simple formulae of capital in credit relationships can be found in Marx (1894).

## The credit-investment process in China

After the reforms started in 1978 China grew slowly out of the quantity plan of a planned economy. Until the end of the 1990s state units dominated employment in urban employment (Figure 6). This reflects the fact that privatization of state-owned enterprises (SOEs) started only in the second half of the 1990s. In the 1980s collectively owned enterprises also played an important role, although they lost importance from the second half of the 1990s. Employment in private Chinese companies increased sharply as did employment in foreign funded enterprises (including units with funds from Hong Kong, Macao and Taiwan).<sup>11</sup> However, in many foreign funded units the government still played a big role. In the 1980s until the end of the 1990s more or less only joint ventures were allowed. Since the end of the 1990s the importance of wholly-owned foreign enterprises has increased, but in many of these companies the Chinese government has a high share of ownership. In Figure 6 the employment shares do not add up to 100% because, for example, self-employed individuals are not shown.

**Figure 6. Employment structure in urban areas in China, 1978-2008 (in per cent of total urban employment)**



State-owned units refer to economic units whose assets are owned by the state, including non-corporation units, state organs, institutions, and social organisations at the central-level and local levels. Collectively-owned units refer to economic units where the means of production is collectively owned and include collective owned units, cooperative units, and joint ownership units. Foreign fund enterprises include units with funds from Hong Kong, Macao and Taiwan. Chinese private enterprises include share holding corporations and limited liability corporations. Self-employed and other employment groups are not included.

Source: Statistical Yearbook 1994, 2003, 2008, and 2009.

<sup>11</sup> In 2008 employment in units with funds from Hong Kong, Macao and Taiwan employed around 37 per cent of all employment in foreign funded enterprises (source given in Figure 6).

When one looks at the value-added by firm ownership as a percentage of the total value-added in the industrial sector, one can see that the importance of SOEs and foreign funded firms is becoming even more significant in China. In 1993 SOEs had a share of 57% of total value-added, collectively owned enterprises 30%, and foreign funded enterprises 8%. Private Chinese production in the industrial sector was almost non-existent. In 2007 the percentage for SOEs was 35%, for foreign funded firms 27%, and for private Chinese firms 23% (Statistical Yearbook 1994, 2009).

Private enterprises owned by the Chinese have gained some importance in industrial production but are much more significant in the services sector. These enterprises have usually been small or medium-sized. After 1978 a radical laissez-faire type of capitalism with waves of new enterprise foundations and bankruptcies developed in this sector. This sector has very poor working conditions, no safety net, and a general low level of legal enforcement. It is also the sector with virtuous and vibrant private entrepreneurialism and at the same time brutal exploitation. While this sector added to GDP growth it would be wrong to consider this sector as the main engine of development. It was the interaction between the state-controlled sector, the foreign-owned companies, and the private, purely market-based sector, which was behind the dynamic Chinese development. And development in the purely market-based sector has not been completely positive. Working conditions, productivity development and ecological standards in this sector are in many cases very low. This sector has also added to a largely deregulated labor market, and is one of the causes of the current very unequal income distribution in China.

After 1978 China managed to trigger and maintain a credit-investment-income-saving process, which pushed the country into a dynamic growth path. This process was partly market-driven, but it was also, to a large extent, driven by a government focused on strictly regulating the economy and supporting development. High growth rates laid the basis for quick diffusion of new technology and knowledge in general. Of course, the factors for productivity improvements mentioned above like foreign direct investment and government support for research and development also played an important role. But without a credit system delivering sufficient and cheap credit for high investment productivity potentials cannot be sufficiently realized.

This argument is supported by the figures in Table 3. There is a close correlation between the ratio of credit to GDP and the level of per capita income. In some low-income or even middle-income countries domestic credit to GDP, especially to the private sector (here including SOEs) is extremely low. In these countries a domestically based credit-investment-income mechanism is quite obviously not functional. Indeed, in many of these countries the domestic financial system is fundamentally distorted and unable to deliver cheap and sufficient credit. It is noteworthy that China, as a middle-income country, has credit ratios, especially for the private sector, which are far above the average level for a middle-income country.

Only recently has part of the equity of the “Big Four” banks been sold to foreign investors, albeit without giving up government control. Additionally, almost all other banks were government owned and controlled. Since 2006, according to WTO regulations, foreign banks have been allowed to conduct business in RMB. In the future, the share of foreign banks may increase slowly (Naughton 2007: 451ff.).

Monetary policy in China reflects the East Asian tradition (Stiglitz/Uy 1996b). Lending and deposit rates for banks are set by the central bank, as is the credit volume which commercial banks are allowed to grant. The direct control of credit expansion by banks became the most important monetary policy instrument. Real interest rates were set at

positive but low levels for deposits and lending. Until 1998 a so-called credit plan was officially in place. Since 1998 the central bank has used window guidance system to “convince”, especially the big banks, to follow a quantitative credit policy. Window guidance means that the central bank cannot directly dictate a certain credit volume but has a whole set of instruments like personal moral suasion or possibilities of discrimination against certain banks to realize its target. For two decades after the start of reforms in 1978, formal credit allocation was largely policy-driven. The credit plan fixed the overall credit volume of the “Big Four”, including the regional allocation of the credit volume. On a provincial level, credit allocation was negotiated between the local government, the local branches of the commercial banks, the local branch of the central bank, and firms. By far, most of the formal credit went to SOEs, but private enterprises, especially those with good relations to cadres, had access to the formal credit system. Private enterprises financed their investment mainly out of profits or by means of credit from the informal financial system. In the first years of the 2000s the credit share of the private sector increased, however, until today policy directed credit plays an important role.<sup>12</sup>

**Table 3. Domestic Bank credit in per cent of GDP in 2008 in selected countries  
(Credit in domestic and foreign currency)**

	Domestic credit provided by banking sector (% of GDP)	Domestic credit to private sector (% of GDP)*
Low-income countries	32	23
Middle-income countries	77	61
High-income countries	245	167
China	120	103
Armenia	16	17
Bangladesh	59	39
Brazil	117	53
Cambodia	16	23
India	68	49
Korea, Rep.	112	108
Malaysia	115	100
Mexico	45	21
Mongolia	34	43
Peru	18	24
Russian Federation	26	41
United States	271	190

\* Including state-owned enterprises

Source: World Bank (2011).

Credit is allocated according to different priorities and motivations. First, it was used to finance investment in selected regions, industries, and firms. There was definitely not a coherent national development plan for industrial policy, but rather a general attitude, at all

<sup>12</sup> There is not much official literature to proof this point. However, there is plenty of anecdotic evidence which is known to the author of this paper.

levels, of support for development and efficiency. This credit expansion in the formal financial system became the backbone of the very dynamic quantitative and qualitative investment development in China. Second, loss-making firms were financed to prevent their bankruptcy and a rapid increase in unemployment and poverty. The non-performing loan problem escalated in the second half of the 1990s. SOEs came under increasing pressure from the growing Chinese private sector, which did not have to pay for a welfare state system built around firms, *and* a growing foreign investment sector, which typically used superior imported technology. The resulting financial pressure triggered the privatization of small and medium-sized SOEs, which were the least productive in the SOE sector. The restructuring of the SOE sector in the first decade of the 2000s – taking profitability as an indicator – was successful, and together with repeated policies that transferred bad credits into special government-controlled institutions, and the re-capitalization of the banks, it was possible to reduce the problem substantially.

Up to today, China has implemented a comprehensive system of capital controls, which has only been relaxed a bit in the past few years. All types of capital flows are controlled with the exception of FDI inflows. This means that without permission by Chinese banks, firms, households, and public units are not allowed to take foreign credit or invest abroad. Compared with other developing countries, and measured in per cent of GDP, China does not have a low level of international capital flows. However, capital inflows have been dominated by FDI and capital outflows by central bank interventions in the foreign exchange market. To a large extent, China has been able to structure capital flows in its own interest and in addition to follow a domestically oriented monetary policy with overall low real interest rates, a privilege not shared by many developing or even developed countries in the world (Herr 2008a).

### ***Inequality and the limitation of the Chinese expansion model***

Investment in productive capital has a dual effect. Investment is an element of aggregate demand and at the same time creates a capacity effect. Also, gross investment is of vital importance as, at least potentially, all investment embodies the newest available technology. But investment demand that is too high is not sustainable. Building up capacities for production without other sufficient demand elements leads to crises sooner or later; as capacities are built up to satisfy demand other than investment demand. To allow a sustainable, sufficient growth process there must be a proportional relationship between investment demand (increase in production capacities) and other demand elements.

After 1978 gross capital formation in China has been very high and even increased to almost 50% by 2009. High investment is the backbone of development but investment in China is too high. Consumption in China dropped from the already low level of around 50% of GDP to levels of below 40% between 2000 and 2009. Government demand is stable and, as slightly above 10% of GDP, relatively low (Table 4). By comparison, in OECD countries in 2006, the year before the outbreak of the sub-prime crisis, gross capital formation was 24%, consumption 62%, and government consumption expenditures 18% of GDP. In 2009, countries like Brazil, South Africa, and India recorded a gross capital formation, as a percentage of GDP, of about 17%, 19%, and 35%, respectively. In the same year consumption in all three countries was around 60% of GDP. At the same time, the Brazilian as well as the South African government had consumption expenditures of around 20%, whereas in India this was only 12% (World Bank 2011, OECD 2011 Table 4).

**Table 4. Gross capital formation, consumption demand and government demand in per cent of GDP in selected countries, 1980-2009**

		1980	1990	2000	2009
China	Gross capital formation	35.2	33.3	35.1	34.2
	General government final consumption	14.9	15.0	15.8	15.0
	Household final consumption expenditure	50.3	51.2	46.7	49.8
	Current account balance	2.8*	3.4	1.7	10.5
Brazil	Gross capital formation	23.3	20.2	18.3	16.5
	General government final consumption	9.2	19.3	19.2	20.8
	Household final consumption expenditure	69.7	59.3	64.3	62.8
	Current account balance	-5.5	-0.8	-3.8	-1.6
India	Gross capital formation	18.5	24.2	24.2	35.0
	General government final consumption	10.0	11.7	12.6	12.3
	Household final consumption expenditure	74.6	65.6	64.1	57.3
	Current account balance	-1.0	-2.2	-1.0	-2.0
South Africa	Gross capital formation	29.9	17.7	19.7	19.4
	General government final consumption	14.3	19.7	19.7	21.0
	Household final consumption expenditure	47.8	57.1	63.1	60.4
	Current account balance	3.9	1.4	-5.3	-4.0
OECD members	Gross capital formation	24.2	23.0	21.4	17.2
	General government final consumption	17.4	17.3	17.8	19.5
	Household final consumption expenditure	59.7	60.3	62.2	63.7
	Current account balance	-0.8 <sup>†</sup>	-0.9	-1.3	-0.9

\* Data for 1982. † Data for 1988.

Source: World Bank (2011), OECD (2011).

The structure of demand in China reveals the dangers of a lack of aggregate demand and a slowdown of GDP growth. The lack, especially, of domestic consumption demand makes China reluctant to reduce current account surpluses. But for an internationally more balanced development, the high Chinese external surpluses are detrimental, and harmful for growth and employment in other countries. The lack of consumption demand is directly linked to the very unequal income distribution in China. The propensity to consume is lower for the rich than for the poor, and a more equal income distribution – especially by increasing the income of the poorest in society – would increase demand. Also, what is needed to increase consumption is the development of a social safety net to protect the poor from the fundamental risks of illness, old age, and unemployment. The provision of more public goods, in the field of state education, for example, would have the same effect



(Blanchard/Giavazzi 2006). The analysis shows that a more equal income distribution is not only necessary for the social and political coherence of a society, it is also needed for a sustainable economic development, in order to create sufficient demand without unsustainable credit expansion for consumption or real estate; as was the case in the US before the sub-prime crisis.

## **1.6 Conclusion**

The traditional neoclassical growth model does not shed much light on the development in China. The New Growth Theory adds some important points to the neoclassical model, especially the need for governments to provide public goods in the field of education, research, etc. These theories are based on the belief that creating optimal allocation by clear property rights, good incentive systems, tough competition, etc., and adding some government policies to deliver public goods to improve supply side conditions, will more or less automatically lead to development. However, these approaches are not able to explain development in China in a convincing way. All approaches in the neoclassical tradition neglect money and the role of the financial system in providing cheap and sufficient funds for development. The demand side of economic development is largely forgotten.

Kuznets argued that during development inequality first increases and then decreases. The quick change to an extremely unequal income distribution in China seems to support his argument. But it can be shown that many of the very successful countries developed without increasing inequality. Kuznets also does not sufficiently recognize the economic and also political dangers, of very unequal societies.

The secret of the Chinese success story seems to rest on a productive combination of government interaction and market forces. China has managed to create a sustainable Schumpeterian-Keynesian credit-investment-income-creation process, which has led to economic prosperity. This process was domestically driven by political credit expansion and allocation by a dynamic private sector including foreign enterprises. The entire development process has been externally protected by strict capital controls and a policy of avoiding current account deficits, as well as, high foreign debt. The typically distorted domestic financial system of developing countries, with chronic capital flight and dollarization, in addition to a chronic lack of long-term and cheap financial funds for enterprises, did not exist in China. Capital controls and central bank interventions to prevent current account deficits have also allowed a development, which has never been interrupted by a currency crisis.

The emergence of an extremely unequal income distribution, however, endangers social cohesion and leads to insufficient consumption demand. It has the potential to undermine sustainable economic development and has, therefore, become the Achilles heel of Chinese development. The Chinese government has neglected the distribution question for too long. However, since Hu Jintao became President of the People's Republic of China in 2003, inequality has emerged as a political issue. Under his presidency the idea of a "Harmonious Society" has been developed as a cornerstone of economic development and policy in China. It might not be clear in detail what a Harmonious Society means, but it definitely includes societal balance and a more equal income distribution. Creating a more balanced society and a more equal income distribution is a Herculean task for China. However, compared to many other developed and developing countries the problem is now at least recognised and is being addressed.

China has become a capitalist country. However, its capitalist model is a specific and unique one, and is a version of the Asian type of capitalism, which was very successful in Japan and in many other Asian countries until they started to liberalise their economies. China also teaches us that a policy, which does not focus on a static concept of optimal allocation in the tradition of neoclassical thinking, can be extremely successful. It is also a slap in the face for development strategists in international institutions who advocate the old and new Washington Consensus, which pushed for quick liberalisation, fast and comprehensive privatisation, and deregulation. Up until the sub-prime crisis it looked as if the Chinese elite had the intention of establishing a US-type of liberal market capitalism in the long-run. In the meantime they may be having second thoughts and China is now more likely to search for its own model of capitalism – hopefully with a human face.

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## 2. Restructured Class-Relations since 1978

Frido Wenten

*In secondary school we read some Marxist theory. When the teachers explained to us the contradiction between productive forces and relations of production in a capitalist society, they also talked about the inhuman exploitation of workers. Back then we did not understand that. Then I came to Shenzhen to work. Gradually I began to catch on to how the capitalists suppress and exploit the workers.*

*- Qiuyue, migrant worker, 19 years old*

In 1978 the post-Mao reformers around Deng Xiaoping proclaimed that China's modernisation “requires diverse changes in those aspects of the relations of production and the superstructure not in harmony with the growth of the productive forces” (Communiqué of the Third Plenum of the Eleventh Central Committee 1978). Up until today, Chinese officials have adhered to the notion of social and political change being induced by and naturally following economic development. Similarly, mainstream political economists East and West have understood China's socio-economic transformations mainly in terms of a transition from a “planned to a market economy”, whose predominant feature was the eradication of “distortions” stemming from political and ideological interventions into the natural and timeless rationality of markets (Huang 2008, Nee 2005, Naughton 2007). Mainstream sociology has added its part by presenting social transformations as reflexes of economic growth, depicting the stratification of China's social structure in terms of income levels, occupations, living expenditures etc. The most influential piece of work has arguably been the 2001 study of the Chinese Academy of Social Science (summarised in Lu 2007), which claimed, fully in-line with the pronouncements of the country's leaders, that China is becoming a middle-class society (Breslin 2007: 177).

In short, official Chinese politics and the coalescence of neoclassical economics and positivist empiricism have – as elsewhere – provided us with a modernist vision of gradual but inevitable economic, social and political progress. Critical, historical materialist approaches to the issue have been surprisingly rare, and only recently did terms such as “class” and “capitalism” make their way back into analyses of the Chinese case (Chan and Pun 2008).<sup>13</sup>

The following brief historical outline of China's reform trajectory since 1978 will engage the issue from a perspective of a restructuring of class and property relations, putting specific emphasis on the role of workers' subjective agency.

Far from just appearing as changes in social stratification accompanying an unfolding of market mechanisms with the removal of distorting state-planning, I argue that, on the contrary, it was the gradual commodification of urban labour and the semi-

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<sup>13</sup> In terms of a history of knowledge, the predominance of neoclassical and positivist accounts has taken place against the background of a politically induced purge of the category “class” from post-1978 academic discourse in and about China (see Wang 2006). Observers in the 1980s found literally empty bookshelves under the rubric *jiejì* (class) in China's major university libraries (see Wortzel 1987: 29ff.).

proletarianisation of the peasantry, which not only constituted the social fundamentals of an overall change in economic rationality, but also accounted for the specificity of China's export-led development. Though the overall process was clearly dominated by a dynamic of “class struggle from above” – a transformation of social property relations through a reshuffling of politico-economic power amongst the elites – the re-composition and agency of China's working classes continued to have far-reaching socio-economic consequences, even after a transitional period of changing social property relations began to phase out in the late 1990s.

Migration, as well as workers' politico-economic “self-activity”<sup>14</sup> of concealed and open resistance to reforms, created potential for social disruption and compelled the Chinese government to react with new legislation, increased welfare spending and an extension of corporatist conflict mediation. Capital was pressured to reframe social relations on the shop-floor and agree to substantial wage increases; low-end manufacturers even had to react by geographic relocation to other low-wage regions and countries. Clearly, workers have not resisted the introduction of capitalist relations on principle. In fact, certain practices rather reproduced and fostered the expansion of capitalist rationality. Especially rural-urban migration fuelled the boom in China's foreign-funded economy. As we will see, this migration was not just motivated by economic necessity resulting from changes in property relations. China's workers and peasants behaved both reactively towards external changes of their living and working conditions and – consciously and unconsciously – pro-actively in shaping the process of reform. Subjective experiences and aspirations leading to a practical transformation of the socio-economic conditions of existence have to be accounted for, in order to fully grasp the social processes underlying China's reform period.

In unfolding this argument, I argue that we can identify three phases of socio-economic reform, coinciding not only with changes in government leadership but also with an inauguration of major changes in working class-composition at their beginning, and intensified labour unrest towards their end. In the absence of a better periodisation, I will use the terms “experimentalism”, “market liberalisation” and “social democratisation” to characterise the periods of 1978 to 1989; 1992 to 2002; and 2002 to 2010 respectively.

## 2.1 Experimentalism: 1978-1989

When the socio-economic reforms were inaugurated in 1978, it was by no means clear that the final result of leading China to a restoration of capitalist economic principles was also the envisaged goal. Instead of a centrally developed blueprint, socio-economic transformations proceeded gradually and took place in local social “laboratories”, spreading to larger areas by way of a dialectic of aspirations from below and administrative channelling and steering from above. The most radical and defining feature that showed

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<sup>14</sup> In the *Economic and Philosophical Manuscripts* as well as in *The German Ideology*, Karl Marx contrasts “self-activity” as a form of free, creative practice or labour with estranged labour under capitalist relations of production, respectively labour performed under any form of compulsion (see Marx and Engels: *Collected Works* 3: 282; *Collected Works* 5: 81). In the German version of the *Communist Manifesto*, he describes as “Selbsttätigkeit” [self-activity] “die ihm eigentümliche politische Bewegung des Proletariats” [the political movement typical for/peculiar to the proletariat] (see Marx/Engels: *Werke* 4: 68). The English version translates this passage as “independent political movement” (see Marx/Engels: *Collected Works* 6: 514), thus weakening the notion of the proletarian movement as the immediate activity of those directly affected, i.e. the workers themselves. Here, the term “self-activity” is used to describe forms of agency that can be understood as reactions to existing relations of exploitation and domination, in which the affected individuals directly articulate their interest or set up their own associations.

these characteristics was located in China's rural economy: the dissolution of the Maoist people's communes and the return to a system of agricultural smallholdings. The new "Household Responsibility System", by which every rural household was – and still is – guaranteed *usufruct* rights to a state-owned parcel of land, enabled the Chinese peasantry not only to engage in subsistence farming, but also to deploy household labour freely. The semi-proletarianisation of the peasantry was fundamental to the occurrence and concrete shaping of the massive rural to urban migration that supplies the cheap labour to China's export-processing zones. While an export-oriented, labour-intensive developmental model only took off after 1992, its socio-economic fundamentals can be traced back to the land-reforms of the late 1970s.

The abolition of Maoist collectivism began with experiments in allocating land to smaller production teams or households in Sichuan and Anhui in 1978. De-collectivisation was characterised by a complex movement of action and scepticism at the local level. While cadres of well-performing communes feared both increasing inequality in the community and a loss of individual privileges, the not-so-well-off peasants welcomed the new system:

"[T]hese policies [the household responsibility system] were extremely popular with villagers in poorer areas who carried them out in spite of local opposition. In fact, they were probably the most popular policies in the poorer areas since land reform. Press reports from 1979 to 1980 described how villagers sometimes confronted county and commune officials with *faits accomplis* which cadres could overturn only at the price of a great deal of conflict." (Zweig 1997: 47)

This dynamic resulted in an almost complete dissolution of the commune-system as early as 1983. Until 1984, agricultural production grew by 9 per cent annually; and a 50 per cent increase in central grain prices and subsidies for fertilisers increased rural incomes by 98.4 per cent in the same time-span: "the fastest rate of rural poverty reduction in world history" (Qian and Donaldson 2008: 26f.). However, the apparent success of agricultural reform had much wider implications for the governing principles of the Chinese economy: the commune-system functioned on a task-rate based allocation of "work-points" to the respective production team. Though intrinsically unequal in terms of a gendered division of labour, the work-point system ensured a relatively equal distribution of incomes amongst the commune's households and, more importantly, constituted the mechanism by which agricultural production could be governed through bureaucratic decision making. Its abolition meant that instead of the collective, individual households became economically self-responsible units. They could interact directly with the state as central buyer of agricultural products, respectively, after both the central monopsony and price setting mechanisms were loosened in 1985, the market.

In 1978, 82.1 per cent of China's population were rural residents and with the household responsibility system a huge part of the rural labour force was not needed for the productive operation of agriculture. The newly gained "freedom" from administrative control meant increasing dependence on market exchange and monetary income, especially as non-monetary social services provided by the people's communes were dismantled.<sup>15</sup> Additional – non-agricultural – forms of income were thus desirable to rural households. In the 1970s, many communes had set up small-scale shops and factories on the basis of the work-point system, in order to manufacture industrial inputs for agricultural production.

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<sup>15</sup> Though the peasantry never enjoyed the kind of all-round welfare services of the urban working class, basic services like education and healthcare were provided through the communes. Their abolition was a significant factor in exposing the peasantry to market imperatives – especially radical in the case of basic health care provision, which dropped from covering 85 per cent of the population in 1975 to 10 per cent in the year 2000 (Mok 2000: 36).

From 1979 onwards, central funding for the approximately 100,000 commune and brigade enterprises decreased dramatically, resulting in their closure (Christiansen 1999: 186). Instead, village administrations were provided with market incentives (individual responsibility for profits and losses, loans, tax-breaks etc.) that allowed the creation of new enterprises on a locally self-responsible basis: the “town and village enterprises” (TVEs). TVEs could initially sustain strong elements of collective production, spawning “a unique process of market-oriented industrialization without typical capitalist social transformation [...] in which class distinctions and antagonism between peasant-workers and managers are not salient” (Chang 2003: 276f.). However, from 1983 onwards TVEs were successively privatised – including the utilised public assets of the former brigade enterprises – eased by non-transparent book-keeping that veiled actual ownership structures (Christiansen/Rai 1996: 221ff.). In any case, the contribution of TVEs to the industrialisation of the rural economy and the semi-proletarianisation of rural labour was significant. The percentage of rural residents employed by TVEs rose from 9.4 per cent in 1980 to 23.8 per cent in 1988 (from 30 to 95.5 million employees), stabilizing at around 26 to 28 per cent since 1994 (128 to 130 million employees) (Cai et al. 2008: 190).

Though smallholdings allowed for subsistence production and limited monetary income and TVEs spread industrial wage labour in rural China, still more than 100 million rural residents constituted “surplus labour power” and became potential labour migrants. Their free movement into urban employment opportunities was, however, constrained by the Chinese household-registration system (*hukou*) which still divides the Chinese population into rural and urban residents with mutually exclusive residential rights and entitlements to land or welfare services, respectively.<sup>16</sup> The *hukou*-system not only allowed for inter-provincial control of labour flows. It also discriminated against migrant workers in terms of

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<sup>16</sup> The system of household registration (*hukou*) was introduced in 1958 as a response to grain shortages, which were blamed on rural to urban migration in the early years of the PRC. It determined employment opportunities and access to welfare by place of origin: rural residents were provided a parcel of land for subsistence production/a place in the people's communes, while the urban *hukou* guaranteed lifetime employment, fixed wages determined by regional price levels and social welfare provision. Changing a *hukou* was possible only in exceptional cases, such as military recruitment, university accession or re-allocation of workers due to central plans. This system allowed for a separate economic development of rural and urban regions, mediated by the state: the size, quality, incomes etc. of the rural workforce had effects on urban development only through state-mediation. Typical for developmental strategies in (actually?) real existing socialist countries, state-controlled low prices for agricultural but high prices for industrial products ensured the generation of investment for capital intensive industrial production at the expense of rural development.

<sup>16</sup> The *hukou*-system was slightly reformed in 1983 and 1985. The “urban registration for those with self-supplied grain” became a separate *hukou* available for rural migrants, until in 1989 they were entitled to settle down in separate areas close to the cities as long as they had housing, employment and subsistent funds and food – hence, on a temporary basis (Solinger 1999: 49f.). Further ambivalent changes occurred when in the mid-1980s an identity card was introduced that was to substitute the loosened state control over enterprises regarding the recruitment of temporary workers, but *de facto* allowed migrants to circumvent formal registration (ibid. 51, Pun 2005: 41f.). Moreover, local bureaucracies started to sell urban *hukous* for money, which was however not permitted by the central government (Mallee 2000: 92f.). In 2001 small towns abolished settlement limits for rural dwellers having employment and accommodation and medium and large cities also abolished or widened their immigration-quota (Huang/Zhan 2005: 72f.). However, as Chan and Buckingham have shown, the major aspect in the latest reforms concerned administrative responsibility for a change of the *hukou*: The central decision about a change from a rural maintenance claim to an urban one – which was *the* decisive factor up to the late-1990s – has been abolished and replaced by locally set immigration criteria. In short, the rural and urban population are still institutionally divided, but this division is no longer a primary matter of the unified central, but of a decentralised local legislation (Chan/Buckingham 2008).

material compensation (wages and social services) and civil rights – thus providing the socio-political background to the supply of cheap labour to the newly created “Special Economic Zones” (SEZ) in the coastal South.

Attracting international capital seemed a considerable measure to Chinese policy makers in order to tackle two problems haunting the Maoist economy: low productivity and lack of investments. Originally, selected urban regions had been designated as SEZs, with the aim of subsidising and upgrading SOEs through spill-over effects from joint-ventures with foreign companies. Throughout the 1980s, SEZs expanded continuously in number, size and degree of autonomy granted to capital and local administrators: wholly foreign-owned enterprises were legalised in 1986, and rural coastal regions – that is TVEs – were opened to foreign investments one year later. This expansion was on the one hand driven by conscious political action of the faction around Deng Xiaoping, which derived its power from its close ties to provincial governments and cadres in the designated SEZs, thus undermining the power of the Maoists:

“Well aware of the political risks of challenging central planners, trade and finance officials, and industrial bureaucrats head-on, the reformers allowed them to retain many of their powers, while encircling them with new forms of business such as private, collective, and joint venture firms and special economic zones.” (Shirk 1994: 27f.)

Spreading private property relations also increased systemic inter-regional and inter-enterprise competition. This induced the provincial governments to carry out structural adjustments even prior to being granted special autonomy – especially in regions producing strategic supplies, such as coal or steel (Gallagher 2005: 33ff.). The withdrawal of central administrative interference in SEZ opened up possibilities for aspiring local cadres to establish themselves as partners in joint-ventures, to set up private enterprises through stripping the assets off SOEs or to make gains from real-estate speculation and land development (Zweig 2002: 60). Nevertheless, fundamental to an alteration of economic rationality was not the accumulation of private wealth but the merger of political and economic power into a new class of “cadre-capitalists”, who developed interests independent or even contrary to central planning and paved the way for an extended reproduction of capital on the basis of private property.

In the 1980s, enterprises in SEZ drew mainly on the local labour force. As Hein Mallee emphasises, at this stage of reforms, rural-to-urban migration was limited and not specifically focussed on SEZ – as a result of internal reforms; rather, the dominant feature was the hiring of rural migrants as temporal labour by SOEs plagued by labour shortages. More than 9 million migrant workers were employed in SOEs in the late 1980s on the basis of temporary residential rights granted on the condition of self-supplied grain – that is, on the basis of their exclusion from the welfare benefits and civil rights of urbanites (Mallee 2000: 89). The core labour force of urban SOE-workers on the other hand was subjected to a process of gradual commodification of labour through the introduction of (segmented) labour markets, accompanied by an internal restructuring of public enterprises.

With the return of about 15 million young urbanites to the cities – who had been sent to the countryside for “rustification” during the Cultural Revolution – pressure on the employment capacities of the already overstaffed SOEs increased. As a response, small-scale private enterprises (*getihu*) were legalised and the system of central job-allocation was first supplemented by and later substituted for an urban labour market. In 1982, growth of the state sector stood at 7.5 per cent while that of the *getihu* amounted to 78.9 per cent, and rose to 97.4 per cent two years later (Cho 2005: 37). Labour relations of the *getihu* were characterised by private employment and contractual labour relations, but remained



largely informal. Due to their small size and sectorial separation, competitive pressure on the state sector was considerably low, but the urban working class was now divided between market-dependent private employees and public sector workers.<sup>17</sup>

SOE workers used to be a privileged group in pre-1978 China, benefiting from – but also being constrained by – lifetime employment and encompassing social services provided through their work-unit (*danwei*): the so-called “iron rice bowl”. They became the primary losers of reform, with the Maoist social contract eroding and “relations *in* production” (Burawoy 1985: 13) – that is, class relations on the shop-floor – being seriously transformed in favour of enterprise management. In 1984, five years of limited experiments with increasing management responsibility for production planning, pricing, buying and selling, resource allocation, wage setting, profit utilisation, and hiring and firing of labour were bundled into a comprehensive framework for SOE-reform (Taylor et al. 2003: 53f.). However, the relationship between the state as owner of assets and the SOE director as organiser of the production process still remained unclear until the “Contract Responsibility System” of 1987 allowed the latter to hire private managers or lease out the factory, followed by stipulations on firing redundant workers one year later. This system provided both pressure to restructure the production process along criteria of profitability and enough loopholes for the director to draw on enterprise resources, leading to the fraudulent privatisation of public assets on a large scale (Weil 1994: 23f.).

Thus the 1980s' experience for the old and new working classes – urban industrial workers and semi-proletarian migrant workers – was that of either a deepening exposure to or a first encounter with an extending power of capital over labour, which did not remain unchallenged. Shortly after the “Four Modernisations”<sup>18</sup> were announced in 1975, urban workers, who were part of the Democracy Wall Movement<sup>19</sup>, demanded a “Fifth Modernisation”: increasing democracy in enterprises. The movement questioned the actual advances of Chinese “socialism” over the capitalist West, criticising subordination at the workplace and the huge discrepancy between living standards of ordinary workers and the “red bigwigs”, especially when it came to the issue of housing. However, the protesting state workers in Beijing and other major cities in China did not opt for an adaptation to the Western model. They were conscious about what the projected transformation of SOEs would entail in terms of rising competition within the working class and increasing job insecurity. Inspired by Solidarity in Poland, they challenged both capitalism and party-bureaucratisation – including the corporatist role of China's trade unions – from a perspective of workers' control over production. When publications and public debate were accompanied by increasing strike activity and independent organising in 1980, concessions by the government were revoked, the movement suppressed and

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<sup>17</sup> More accurately, the public workforce was in itself divided between SOE-workers and workers for so-called “collective units”. The latter were formally owned by “workers' collectives”, respectively “citizens' collectives” (after 1993). They provided worse benefits and labour relations and used to bring a certain degree of flexibility to the rigid system of central planning and financing in the state-owned sector.

<sup>18</sup> Zhou Enlai coined the new developmental programme of the “Four Modernisations”, aiming at the modernisation of agriculture, industry, science and technology and defence.

<sup>19</sup> The “Democracy Wall Movement” gained its name from the posters it displayed on walls in Beijing. It was formed by aggrieved unemployed, *rustified* youths, peasants and workers in 1978 when a verdict that declared the April Fifth protests (which brought down the Gang of Four in 1976) a counterrevolutionary act was renounced by the new leadership around Deng Xiaoping. The Democracy Wall Movement seized the room to manoeuvre opened by leadership change and put forward its own demands, articulating diverse problems of everyday life and working conditions in Beijing and other major cities in China.

freedom of speech removed from the constitution (Sheehan 1998: 156ff.). The abolition of the right to strike followed in 1982. The regime, in turn, began to employ a strategy which should remain dominant until 2002, if not longer: hoping for economic growth of a degree that ensured that the material demands of the working classes could be satisfied through the market, while denying their participation in decision making.

Structural change continued and the experience of past struggles and self-empowerment could not be easily erased from workers' minds. When inflation rose sharply in the second half of the 1980s and the fraudulent self-enrichment of enterprise directors at the expense of the perceived "property of the whole people" became more and more impudent, workers' grievances translated into spontaneous rage in quite a few places: the first half of 1988 registered 276 incidences of violence against management in China's rustbelt Liaoning, and three managers were murdered over the year in Shenyang (ibid. 209). One year later, workers in Beijing and other major cities formed autonomous trade unions, joining protesting students (but also criticising them for their elitism) and centring their demands once again on the issue of control over production and freedom of association. Living up to its reputation of being a "twentieth-century Bastille, the last stronghold of Stalinism" (in: Walder and Gong 1993: 12f.), the Deng Xiaoping government reconsolidated its power by bloodshed. The Tiananmen-massacre concluded the first decade of reform with a serious crisis of governmental legitimacy – both inward and outward.

## **2.2 Market liberalisation: 1992-2002**

The immediate aftermath of Tiananmen brought the Maoist sceptics back into power, who argued for a tightening of state control over the population and a slow-down, if not reversal, of market liberalisation. But the final collapse of the Soviet Union in 1991 reshuffled the cards again. Hoping to prevent similar events in China through an acceleration of capitalist reforms, Deng went on his "Journey to the South" in 1992, symbolically underlining his alliance with the politico-economic elites of the SEZ. The same year, the CCP declared China a "socialist market economy".

Deng's political strategies and the ideological changes were nested in socio-economic dynamics. The 1980s internal enterprise restructuring of the state sector had caused social unrest, but not led to the perceived boost in economic performance. Instead it was the non-state and small-scale sectors of the economy that showed the fastest growth rates. The inner contradictions of a side by side of bureaucratically planned and privately organised production that unfolded in the 1980s drove to their capitalist resolution through an acceleration and extension of transformations of class relations during the 1990s. The developmental strategy became one of expanding export-oriented, labour-intensive production and the privatisation of public enterprises. Key to this strategy was not only the attraction of foreign investment but also an increased utilisation of migrant labour on the one hand, accompanied by the commodification and downsizing of labour in SOEs on the other.

The changing importance of the SEZ between the developmental strategies of the 1980s and 1990s is illustrated by figures on foreign direct investment (FDI), which played a major role in the emergence of China's export-oriented economy. Between 1985 and 1991, the volume of FDI increased slowly from 1.03 to 4.37 billion USD – but in 1992 it took a leap of 151.9 per cent, followed by about the same growth rate in 1993 (Burkett/Hart-Landsberg 2005: 122). FDI was mainly supplied by East Asian investors, especially overseas Chinese, leading to the formation of intra-Asian networks of production and trade, with

Japan at the centre. Hong Kong provided the hub from which to channel East Asian investments and products in and out of the mainland in the form of re-exports, utilising migrant labour:

“Taken as a whole, the ›Greater Pearl River Delta‹ (i.e. including Hong Kong) resembles a giant ›Lewis-type‹ [capitalist development under conditions of unlimited labour supply, F.W.] accumulation machine, siphoning vast amounts of ›surplus value‹ for Hong Kong capital out of the Delta, for the benefit of consumers in high-income countries.” (Nolan 2004: 63)

In the mid-1990s estimates on the size of the migrant workforce – the “floating population” – ranged between 50 to 70 million, but for the year 2000 these figures already went up to 200 million (Roberts et al. 2004: 49, Lavelly 2001: 756). By 1995, China had 424 declared zones, cities, counties and provinces with special economic legislation. While in 1987, TVEs had a share of 12.9 per cent of total export earnings (traceable to TVEs in early SEZs), it increased to 47.8 per cent in 1999 (Zweig 2002: 118). The share of foreign-funded enterprises in exports, while standing at 17.4 per cent in 1990, passed the mark of 50 per cent in 2001 (Burkett/Hart-Landsberg 2005: 122ff.). Production in non-state and small-scale enterprises increased by 62.7 per cent and 48.6 per cent respectively between 1990 and 1995; the public sector's share in overall industrial production fell to 26 per cent by 1999. Productivity was 50 per cent lower than in the non-state sector; and 33 per cent of the state's industrial and 38 per cent of the trade enterprises had negative profit rates (Cho 2005: 38ff., Zweig 2002: 55ff.). Hence, in the mid-1990s the government reversed its policy of subsidising SOEs through returns from the non-state economy. The 1994 “Company Law” formalised the self-dependent status of SOEs, barriers for international capital investments in the state-sector were abolished and loans to unprofitable SOEs frozen. The state strengthened its control over large SOEs in strategic sectors, but from 1996 onwards it finally released smaller enterprises to become joint ventures, private or shareholding companies. While domestic capitalists had already emerged on a small scale in collective (de facto private) enterprises, TVEs and *getihu*, privatisation transformed SOE directors and party secretaries into semi-private entrepreneurs, who retained their political capital, which in turn was necessary to establish ties with foreign investors:

“The decision to transform the large public corporations into joint stock companies with state majority ownership has further facilitated the transfer of public property into private hands and given the aspiring bourgeois element grounds to challenge the state's remaining prerogatives. Foreign capital is made part of the transition because of the requirement of a local partner if investments are made in China.” (van der Pijl 2006: 305)

These measures led to original capital generation – i.e. the mobilisation of public resources – and capitalist class formation. But for the mode of exploitation to change from appropriation and distribution of the socially produced surplus through a class of state bureaucrats to one of (semi-) private production and appropriation of surplus value and market-dependent distribution, a radical change in the rules for reproduction of Chinese workers was necessary. With the new labour law of 1994, labour contracts – which had first been introduced for joint-ventures in 1979 – were supposed to formally apply to all enterprises, irrespective of their ownership structure. However, it was only with privatisation that contract-based labour relations became ubiquitous and an urban industrial reserve army was forced into existence.<sup>20</sup> Between 1995 and 2000, approximately 48 million workers were dismissed or “stepped down from their post”

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<sup>20</sup> However, in 1995 only 39 per cent of new entrants into the state-owned sector's workforce were actually recruited by the contract-system – instead they retained informal lifetime employment (see Meng 2000: 82). In the private and foreign funded sector on the other hand between 70 and 75 per cent of the (migrant) workforce did not have any have contracts at all (see Lee 2007a: 42).

(*xiagang*)<sup>21</sup>: by the year 2000 “the system of permanent employment was shattered forever” (Naughton 2007: 187). The income of laid-off workers dropped by 56 per cent to an unsustainable 190 yuan per month (Cai 2006: 35). Additionally, non-monetary redistributive functions of the *danwei* were transformed into market-regulated services in the form of insurances, thus shifting the social burden away from the state onto employers and workers. In short, workers' reproduction became dependent on market relations as the iron rice bowl was dismantled and the ownership and control of the means of production went from central administrators into private hands.

These structural changes in living standards and the character of work were experienced ambivalently by the workers themselves. According to an official survey in 1992 (i.e. before the privatisation of SOEs) 20 per cent of the state workers interviewed were openly against reforms and another 17 per cent were suspected to have withheld their opinion in fear of punishment (Freud Larus 2005: 216). On the other hand, the majority of urban workers interviewed by Marc Blecher in the mid-1990s stated that “competition is right” – though they clearly felt the restructuring of the production process, the speeding up of machines, harsher discipline and rationalised tasks (Blecher 2002: 288). This ambivalence can be seen as a result of the mid-1990's transitional stage of urban economic reform – the spread of new employment opportunities in the private economy coinciding with the persistence of social security through the *danwei*:

“Now, only one principle reigns: whoever can make money will be respected, workers or nonworkers. [...] My enterprise is paying me 800 yuan now, but in one or two years, it may become rich and give me 3,000 yuan. ... But we have to wait for the market to turn better. [...] If I quit this enterprise completely and venture into the market, I'd feel that I lack a backup. Now, I have one job working for grandpa [the *danwei*] and another job for my own, and the two make a good sum together, and it's a secure life.” (Worker, 35 years, in: Lee 1998a: 26)

Though they were not always conscious about the reasons for their changing living and working situation,<sup>22</sup> urban workers had a strong sense of their share in public property and their existence as a “class”.<sup>23</sup> Working for an SOE was not perceived as a capital-labour relation but as the working class' contribution – and thus legitimate entitlement – to the

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<sup>21</sup> In the case of *xiagang*, workers would be laid off but still be associated to their work unit – that is, still be entitled to certain social benefits the *danwei* had to offer. Officially, these workers were not unemployed but redundant for the time being and “waiting” for re-employment. By providing workers with a one-time compensation and gradually loosening their relation to the SOEs, workers that had been laid off through *xiagang* neither showed up in official unemployment statistics, nor did they qualify for unemployment benefits.

<sup>22</sup> “I don't know why workers who do a good job have to be laid off ... Maybe it's that the country is too large and overpopulated – I can't figure it out. There definitely are lots of unreasonable things going on. Ordinary people can't say clearly what's happening.” (Worker, in: Blecher 2002: 290)

<sup>23</sup> According to Chen and Lee the language of class has to be seen as an atavism of Maoist ideology (Chen 2006: 59, Lee 2007a: 114ff.): because the Maoist concept of class was analytically based on distributive inequality and a friend/enemy dichotomy, workers of the reform era mistake their former lived experience of collective ownership of enterprises with class identity: “class subjectivity exists in the form of an oppositional consciousness against the violation of workers' ownership over enterprises and entitlement to redistributive resources” (Lee 2007a: 114) and not in the form of a lived experience of their antagonistic relation towards their exploiters (be it a class of bureaucrats or capitalists). To Chen and Lee class is merely a “moral rhetoric” (Chen 2006: 60), respectively “a cognitive tool that frames protest in moral terms” (Lee 2007a: 115). Though Maoist ideology and also the need of the Chinese government to legitimise itself as a *Communist* Party has surely eased the use of the term “class”, it does not automatically follow that workers fail to also experience their new material conditions of existence and relations of exploitation in terms of class.

“property of the whole people”. Consequently, privatisation was seen as betrayal and an example of class struggle from above:

“Today’s industrial basis in China is built up through blood and lives of workers of several generations. [...] The Chinese working class joined the revolution in order to control the means of production, factories and equipment. The working class’ control over the means of production has determined the nature of our country ... Now [those officials] want us to give up the factory and give the means of production to capitalists and then still call this socialist. It is a gross deception.” (From a leaflet, in: Chen 2006: 48)

The changing class situation of migrant workers on the other hand was thus not primarily characterised by a deterioration in status but by a radical change in the nature of the labour process, i.e. a change from formal to real subsumption of labour under capital. They usually encountered for the first time the variety of technical and personal domination known from the history of capitalist development in the West: assembly lines and “scientific management” dictate the tasks and time of the labour process, a system of foremen ensures personal control and discipline, fines and penalties are supposed to keep the workers from slowing down, resting or making mistakes.<sup>24</sup> Though working conditions surely vary substantially between small local suppliers and multinational, capital-intensive and high-tech manufacturers, where lean and just in-time production dominate and the labour process is organised in teams (for instance in the automobile industry, see Zhang 2008), working in the SEZ has been accompanied by high physical, mental and social risk. In Shenzhen most migrants worked twelve to fourteen, sometimes sixteen hours a day in the year 2000, 47.2 per cent had a seven days working week without any holidays and only around one third had a labour contract. Between 1990 and 2002 the municipally-set minimum wage in the Pearl River Region only increased by 68 yuan (Chan 2003). Wages were withheld regularly and safety measures at work were insufficient: in 1998, 13 workers a day were losing fingers or arms, over the year 12,189 got seriously injured and eighty died. Every year approximately twelve workers die from overwork (*guolaosi*) (see Lee 2007a: 163ff.).

Clearly, processes of rural to urban migration are also related to the agricultural situation. As arable land in China is scarce and often of bad quality, it provides relatively low incomes – reflected by the widening gap between urban and rural incomes from 1.66:1 in 1987 to 3.32:1 in 2007 (see Benjamin et al. 2008). While this provides an economic incentive to labour migration, the persistence of rural households’ state-guaranteed *usufruct* titles renders arguments of a strict structural imperative forcing rural residents to take up wage-labour – as in stories of a “primitive accumulation” in China (He 2006, Buck and Walker 2007, Webber 2008) – illegitimate.<sup>25</sup> Rather, “the land right system allows

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<sup>24</sup> One specificity about the Chinese capitalist experience however is what Pun Ngai termed the “dormitory labour regime” (Pun/Smith 2006): workers are usually housed in dormitories on or next to the factory compound, which ensures a higher degree of control over the workforce, even beyond the time and space of the working process proper.

<sup>25</sup> Actually, the discussion of a primitive accumulation in China demands a closer examination of land right policies. Though here is not the space to address the issue in all its complexity, it has to be stated that proletarianisation as an effect of expropriation does indeed take place – and not on a small scale. According to He Qinglian, by the end of 2008 around 78 million peasants have no land (see He 2009: 79). The phenomenon of “peasants without land” is mostly the result of state-led infrastructure or land development projects, for which – aggravated by China’s low ratio of arable land – no land-for-land compensation is given. However, it has to be qualified that land expropriation in China was not the basis of endogenous capitalist development but the result of China’s integration into already existing cycles of capital accumulation (e.g. real estate markets in Hong Kong, investment by transnational corporations): “The separation of agricultural producers from the means of production has been more a consequence of capitalism’s creative destruction than one of its preconditions.” (Arrighi 2007: 365) Studies on the

employers and the state to sustain a low-wage labor regime, as the cost of the social reproduction of labor is partly absorbed by the rural communities” (Lee 2007a: 23).

This situation entails two paradoxes: First, it indicates that *repossession* rather than *dispossession* was a decisive factor in China's path to capitalist restoration. Secondly, if there is no strict economic imperative, subjective, non-economic considerations come into play. The booming export economy on the basis of migrant labour thus has to be viewed as being socially driven by the combined effects of the household responsibility and *hukou* system – or more precisely, the subjective agency of migrant workers within a room to manoeuvre defined by regional and rural/urban developmental unevenness, a material security in the last instance and the political-institutional limitations to population movement.

At the turn of the millennium – when the first generation of migrant workers was about to be succeeded by its sons and daughters – the variation of subjective experiences and aspirations were reflected in a social survey, covering 600 participants: Asked for their reasons for leaving the countryside 86.5 per cent named “personal development”, 76.8 per cent were seeking higher qualification and 76.3 per cent were looking for higher income (see Gransow 2006: 76). The same survey showed that migrants of the first generation related stronger to the agricultural situation at home (i.e. push-factors) while migrants of the second generation were focusing on qualification, personal development and city life. According to another survey conducted in 2001 around half of the migrant population preferred to live in the cities (see Zhu 2006: 114). However, the *hukou*-system, informal employment, separated housing in dormitories or special settlements, low income and long working hours exclude migrants from the material and cultural life of the cities. In the 1990s, migration thus remained a temporary phenomenon:

“Rural proletarianization in contemporary China is unique in that life as an industrial worker for every rural migrant is transient, and few have hope of changing their social status from peasant to worker. The growing roots of an enduring and substantial working-class force are dispersed when migrants are sent back to their rural hometowns.” (Pun 2005: 48)

While the migrant workforce has been developing towards an almost 50-50 male-female composition, there have always been certain industrial sectors and geographical regions characterised by a majority of female workers. In China's economic powerhouse, the Pearl River Delta, around 75 to 80 per cent of the workforce in the light industry is female (Solinger 1999: 22, Pun 2005: 54). To the young female workers – the *dagongmei*, who are on average between 16 and 25 years of age – migration is also a strategy of gender empowerment against the background of the patriarchal village: this reaches from an escape from domestic violence to the hope for a strengthened position in a relationship or expected marriage stemming from one's improved economic situation. Many young women moreover left the countryside in order to at least temporarily enjoy the shimmering attractions of the city, before they would return home after one year or two. However, their real experience of city life is often overshadowed by their hard, monotonous and boring

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capitalisation of agriculture in China confirm that the rule seems to be the paradoxical commodification of rural labour without dispossession: “Because collective land ownership restricts village authorities from disenfranchising rural residents from their land, it also restricts companies from denying village residents jobs on company production bases. Without such a restriction, an enclosure movement led by agribusiness could easily throw many farmers off their land and into the army of reserve labor. In this form of vertical integration, farmers become semi-proletarian. They still have an entitlement to collective land (and, in fact, often receive rent), but they have to sell their labor to the company for wages.” (Qian/Donaldson 2008: 39)

work (Pun/Li 2008). One young women contrasted factory work, respectively “work for the boss” (*dagong*), with the organisation of production in the village:

“We Chaozhou girls have a tradition of doing embroidery work at home. Our mothers taught us and we got subcontracted work to do after school. Usually there were ten to fifteen girls sitting together, joking while working. ... Working is different from *dagong*. When you work you can arrange your time freely, but when you *dagong*, there are rules from your boss. You'll be scolded if you refuse to work or do something wrong in the factory. ... In the beginning, everyone here cried a lot.” (a female worker, in: Lee 1998a: 114f.)

Compared to their urban counterparts who identify themselves as “working class”, migrant workers were torn between a growing distance to rural life and their unfinished proletarianisation and second-class status in the cities:

“We [migrants] are neither peasants nor workers. I don't know how to farm the land anymore after so many years away from home. When I was young they planted seedlings by hand, now they use a new throwing method. ... We are not real workers either. With so little education and skills, and the job market so fluid, we can be dismissed anytime.” (a female migrant worker from Hunan, in: Lee 2007a: 224f.)

During the period of the 1990s, workers' resistance against increasing exploitation, exclusion and impoverishment began to grow – though cautious and slowly at first. In order to cope with the dangers of the migration process and to alleviate the pressure of factory work, many migrant workers formed social networks according to kinship relations, ethnic origin and language (dialect). While these networks are often also instrumental to the factory hierarchy and consciously used by factory owners in regard to recruitment and wage policies, to the first generation of migrant workers they provided a form of social cohesion from which to carry out acts of mutual help and assistance – acts that Pun Ngai termed a “minor genre of resistance” (Pun 2005 187). Similarly, prior to privatisation the dominant feature of workers' resistance in the state sector was characterised by “collective inaction” (Lee 1998b), i.e. the refusal to work, absenteeism, slow work or sabotage – means of resistance that can be observed in almost every process of industrial production. One female state worker explained her reaction to the commodification of her labour as follows:

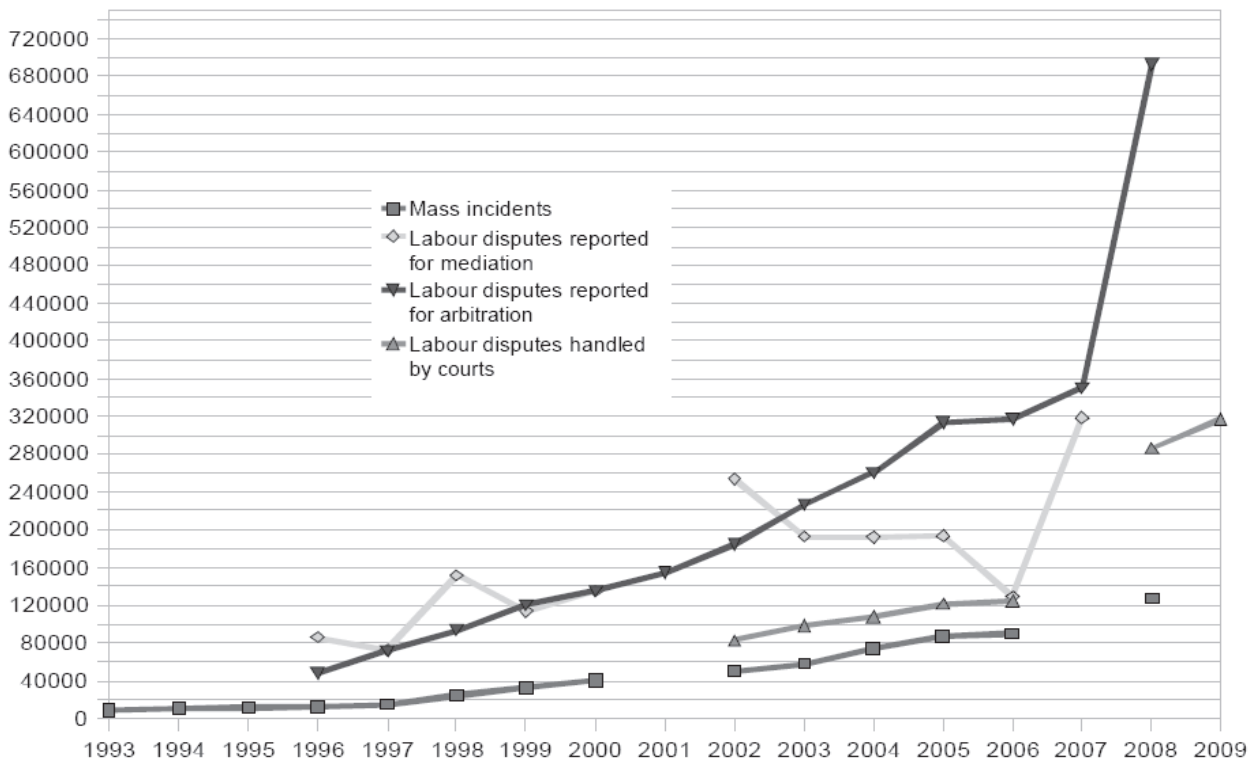
“You can see that many of us work without effort (*chugong buchuli*). Workers labor with an eye on their wages only. When the amount is as little as 400 or 500 yuan, merely enough for a good family meal in a restaurant, that's too little. That's why we work at an easy tempo, to save our nerves on the job. Reforms have not made us more motivated or harder working. ... In our factory, the low wage rates just cannot induce us to work. I'm willing to work hard if there is real money to be earned. [...] You see, many of us are getting 300 or 400 yuan a month, but every fine easily costs us more than 50 yuan. So do you think it's more rational to stop working rather than risk being punished?” (a female worker, in: Lee 1998a: 9f.)

The mass-layoffs after 1996, however, added fuel to the fire. Though still being a minority, about 24 per cent of laid-off SOE workers interviewed in a social survey turned to collective action on and beyond the shop-floor (Cai 2006: 36). As fig. 1 indicates, labour protests and “mass incidents” – that is, disturbances of social order, riots, criminal mischief etc. – have continuously increased since the mid-1990s.<sup>26</sup>

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<sup>26</sup> As strikes are illegal in China, there are naturally no official strike-statistics. An estimation of the quantitative development of labour protests thus has to rely on the numbers collected by governmental institutions concerned with the meditation and settlement of reported conflicts. Numbers on mass incidents stopped being officially released after 2001.

**Figure 1. Labour protests and mass incidents in China 1993-2009**



Sources: Labour disputes reported for arbitration and mediation, labour disputes handled in court: 1996-2006: Schucher 2008. All data post-2006: statistics compiled from various official sources by the China Labour Bulletin, <http://www.clb.org.hk/en/node/100618>.

Mass incidents: 1993-2004: Tanner 2004 (based on statistics released by the Ministry of Public Security); Data post-2004 has been collected from singular newspaper reports or statements by government officials (Freeman 2010, CLB 2009).

Ching Kwan Lee coined the terms “protests of desperation” to describe the *content* of SOE-workers’ protests, distinguishing them from “protests against discrimination” of the migrant workforce (Lee 2007a: x) – while state workers protested against the dissolution of public redistributive mechanisms and saw their social reproduction challenged, migrant workers protested against their second-class status in the cities, but could still turn to a secure reproductive base in the form of arable land in the countryside. Concerning their *form*, labour protests of the late 1990s and early 2000s have been characterised by “cellular activism” (Lee 2007a: 230). Protests erupted spontaneously at the local or factory level and aimed at forcing higher level administration to intervene and arrange for mediation: “massive cross-factory turnout was a chance incident that portended the specter of unintended radicalization rather than the workers’ strategy or capacity for lateral mobilization” (ibid.).<sup>27</sup> According to Lee, this ephemerality of workers’ protests forestalls the formation of collective class-identity (see Lee 2007a: 239). Instead of class-formation, Lee sees the generalising impact of workers’ struggles in their focus on the law – state workers tend to take to the streets to get jurisdiction working, while migrant workers turn to legal measures as a primary means:

<sup>27</sup> These observations are backed up by Cai Yongshun’s study on laid-off SOE-workers’ protests (Cai 2006: 120ff.).



“All these struggles tend toward a convergence on the law as the terrain of refashionable state-society relations, class and citizenship formation, and collective mobilization.” (Lee 2007a: 236f.)

These characterisations seem to draw a legitimate picture of the potential and limitations of workers' agency in the late 1990s and early 2000s. The emerging capitalist classes from the ranks of former enterprise directors and party bureaucrats – merging with foreign investors into a transnational class – not only increased their power against the remnants of the bureaucratic state class. China's working classes were subjected to fierce exploitation, fuelled by competitive pressure, which gradually translated from the private and foreign-invested economy into the domestic public sector. The situation of SOE-workers was clearly deteriorating and their struggles were almost completely defensive in nature. The new-born migrant working-class on the other hand measured its experience of capitalist exploitation against the background of the even more precarious situation in the countryside. Income gaps and an agricultural “exit-option” provided the structural conditions that made them choose to work in the SEZ – but it also prevented a radicalisation and escalation of protests. However, the inner composition of the migrant workforce underwent a change from the first to the second generation at the end of the 1990s, making way for new aspirations and experiences – and privatisation was transitional, stripping the urban working-class of its privileges and levelling the structural differences between the rural and urban workers. The new millennium was about to witness a new round of workers' self-activity on a repeatedly changing socio-economic foundation.

### **2.3 Social democratisation: post-2002**

After a decade-long, uncompromising and successful attack on the Chinese working classes, the period of 2002 until the present has been characterised by growing material concessions and integrative social policies – in the face of radicalising labour protests. In 2002 Jiang Zemin was succeeded by Hu Jintao as paramount leader of the CCP – a change in leadership comparable to a switch from conservative to social-democratic governments in Western Europe. With accession to the WTO in 2001 and capitalists officially becoming CCP-members in 2002, there was neither the intention nor the potential to revoke the fundamental socio-economic transformations of the last 25 years through an imposition from above. Instead, the Hu and Wen administration tried to substitute diminishing administrative control over the economy through tighter legal, fiscal and monetary control, attempting to counter an overheating of the economy and growing regional imbalances. In order to bring back rules and regulations to the laissez-faire capitalism in SEZ, its hard-to-control migrant workforce and social tensions in the cities, under the slogan of a “harmonious society”, it launched a programme of corporatist inclusion and the channelling of social conflict.

As WTO-membership loosened domestic market barriers against imports and international investment, the remaining SOEs had to face increasing competitive pressure from foreign-owned and private enterprises. Their employment capacities were further shrinking and more and more urbanites were forced to take up work in the secondary labour market (Braun 2006). At the same time, WTO-membership eased China's access to export markets. Especially manufacturing exports increased significantly: the value of light industrial exports (including textiles) grew by approximately 600 per cent between 2001 and 2008 as compared to 190 per cent between 1994 and 2001. For the same periods, exports in machinery and transport equipment increased by 710 per cent and 433 per cent, respectively (China Statistical Yearbook 2009).

The Chinese economy thus became increasingly dependent not only on foreign investments but also on global economic imbalances, first of all the United States' trade deficit and its persistence of debt-financed demand for cheap consumer goods amongst the US working class. The risks of this global political economic configuration were painfully felt when the world economic crisis hit China in 2009 and around 40 million migrant workers lost their jobs. Nevertheless, prior to the crisis, the rapid growth of the export economy had increased the bargaining power of China's workers in the labour market – in 2004, labour shortages of about 2 million workers were reported for the Pearl River Delta (Holland 2004: 42). With the 11<sup>th</sup> Five Year Plan of 2006, the Chinese government announced a shift in developmental strategy, which, it was hoped, would strengthen domestic consumption, focus on a shift from low- to higher-value-added production and move away from export-dependency (Holbig 2006). This plan was related to fears of growing inner social tensions, as it became obvious that the Chinese working classes were increasingly unwilling to bear the cost of economic growth.<sup>28</sup>

Since 2003 an increase in spontaneous strike-activity amongst migrant workers can be observed (<http://www.gongchao.org/de/texte/2008/pun-ngai-interview>). It is especially the changing subjective experiences and aspirations amongst the second generation of migrant workers, which accounts for growing radicalism. Pun Ngai and Lu Huilin have argued that the second generation of migrant workers has subjectively lost its ties to the countryside, feeling “a deeper sense of anger and dissatisfaction than that of their first generation, accompanying the realization that they are completely cut off – there is no return to their hometown” (Pun/Lu 2010: 512f.). Doubts can thus be raised against Ching Kwan Lee's assumption that the persistence of a reproductive base in agriculture poses a limit to the radicalisation of migrant workers' struggles. Also, an analytical separation of SOE-workers' “protests of desperation” and migrant workers' “protests against discrimination” seems to lose its validity, because working conditions in enterprises with different ownership structures converged – and so did the means by which workers resist exploitation:

“[In 2003] the SOE reform which culminated in privatization had basically finished. [...] [I]n the post-reform enterprises, the wages, welfare and working conditions had lost any significant difference with the FIEs and POEs. [...] [T]he previous SOE employees (urban employees) in the post-reformed enterprises also started to strive for their own rights and interests by strikes. And also, the basic demands of the urban employees and peasant workers were towards convergence as most of them involved directly [demanding] a wage rise and working conditions improvement. This is because there is no significant difference between the post-reformed previous SOE and FIE and POE in terms of their management strategies and employment conditions, with the employment conditions in some [former SOEs] being even worse than the latter.” (China Labour Bulletin, in: Chan 2008a: 361)

As wildcat strikes, spontaneous demonstrations, road blockages, factory occupations, riots, criminal mischief and attacks on bosses and officials increasingly became the means by which workers articulated their grievances and fought for their interests, also the “cellular” and legalistic character of workers' struggles had to be called into question. Comparing strike waves in Shenzhen between 1993 and 2007, Chris Chan found that

“workers learned from their experiences and from each other; this way their struggles improved strategically over time. 1993 and 1994 their activities remained limited to the factory ground [...]. In 2004 and 2007 they started to march onto the highway to attract public attention and provoke state intervention. In 2004 workers transmitted their “combat experience” to a new factory in a different

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<sup>28</sup> Though the annual minimum-wage increase between 1995 and 2007 was 11 per cent on average (ILO 2008: 13), 72,5 per cent of migrant workers were owed back wages in the early 2000s (Lee 2004); and inflation, especially food price increases, further reduced real incomes (Burkett/Hart-Landsberg 2006: 24f.).

city. In 2007 the workers of two factories of the same company coordinated a mutual strike.” (Chan 2008b: 319)

Protests tended to be better organised and continued for a longer time than Lee found for the late 1990s (Chen 2008: 88) – and they transcended legal premises:

“The strike of 2007 showed very clearly: As the law was as far as possible complied with but did not fully satisfy the workers' interests, their demands transcended the enforcement of the law as a matter of course. Undoubtedly their struggle was rather based on interests than on rights.” (Chan 2008b: 323)

In order to satisfy the material demands of the working classes, a high level of economic growth was critical. But, considering the vulnerability of global economic ups and downs, the Hu and Wen administration also began to install institutional safety valves in order to prevent – or at least channel and de-escalate – social conflict. A key aspect to this project was a thorough reform of industrial relations: the enactment of new labour legislation and an extension of corporatist control over the workforce. A leading instrument in the orchestration of social control and unrest was the All-China Federation of Trade Unions (ACFTU), China's only legal union structure.

The ACFTU is not and never was a representative workers' organisation. Traditionally it was the CCP's “transmission-belt” to the SOE-shop-floor, supervising the production process and organising social services for the urban working class. Today it is legally bound to “assist the enterprise or institution in properly dealing with the matter [of labour conflicts] so as to help restore the normal order of production and other work as soon as possible” (Trade Union Law of 2001, § 27); or, as one union official put it in a nutshell:

“You can't focus only on workers ... it doesn't benefit the enterprise as a whole. If you mobilize the workers against the boss, then the enterprise may go bankrupt. You should promote the interests of capital and you can protect the basic interests of workers.” (In: Howell 2008: 861).

In order to translate its pacifying capacities into the private economy as well, where the majority of workers were registered with an urban *hukou* and employers and local governments resisted unionisation, a “bottom-up” mechanism for the formation of enterprise unions had to be introduced.<sup>29</sup> Also, Hu Jintao had to recognise migrant workers to be part of the “productive workforce” in 2003, before the ACFTU could officially organise them (see CLB 2005). For the year 2006 the ACFTU could already claim that about 60 per cent of its 169,942 million members were organised in the private economy and 24 per cent of all members were migrant workers (ACFTU 2007). Even though there has been a lot of debate on inner transformations of the ACFTU (e.g. Chan 2005, Howell 2008, Wang 2007) – and despite the fact that there are undeniably progressive cadres within the union structure – the unionisation of the private economy must be read as “a political attempt to secure the submissive role of workers, along with restoring advantages over TNCs, in the changing relationship among the state, the market and individual workers” (Wang 2007: 205).

The enactment of the 2008 Labour Contract Law – which met open opposition of employers, investors and foreign chambers of commerce – also redefined the legal and institutional conditions for workers' agency. The law has not so much introduced new rules but rather sanctioned the 1994 Labour Law. In extending the coverage of labour contracts it marks a considerable push towards the formalisation of wage-labour relations. It

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<sup>29</sup> With the revised Trade Union Law of 2001 Trade unions can now be established in enterprises with more than 25 employees on the initiative of workers, depending on acceptance from higher levels of the ACFTU. In addition, staff of smaller enterprises may unite in one conjoint union, and trade union cadres can be sent on “mission” into non-unionised enterprises (see Qiao 2007: 210f.).

strengthens employment protection, regulates temporary employment and promotes collective labour contracts – and it specifically institutes the unions as supervisory organs. It also stipulates adherence to locally set minimum wages and sanctions wage restraints (see, Luo and Chaoud in this volume). On the one hand, the Labour Contract Law and the Dispute Arbitration and Settlement Law of 2008<sup>30</sup> – which also strengthens the unions in their role as mediators of labour conflicts – stipulate legal claims against employers, which have a certain empowering effect on workers. On the other hand, procedures for dealing with workers' grievances are now defined and conditioned by legal standards – limiting the realm of workers' self-activity and providing means of pre-emptive action to state and capital.<sup>31</sup> When the world economic crisis hit China in early 2009, the parts of the new legislation that benefited were suspended while the ACFTU refused to negotiate wage increases (IHLO 2010b). Consequently, workers do not feel that the unions are useful to them:

“Workers see all this with crystal clarity, which is why they don't bother with their unions when they are disaffected. Not a single worker I interviewed in the middle and late 1990s thought the labor unions had any significant role in representing workers or advocating for their interests. Most said so out of ignorance about the union rather than active antipathy toward it. In other words, for them the union was, in the main, irrelevant.” (Blecher 2008: 265)

The 2010 strike-wave that began in the automotive industry and led to minimum wage increases of about 20 per cent in nearly all provinces (CLB 2010), was as usual organised and executed outside the ACFTU structure – though for the first time, capital-intensive industries were affected on a large scale (see, Hui in this volume). When union leaders openly counteracted the potential emergence of a labour movement by physically attacking the young interns and workers on strike at Honda Auto Parts Manufacturing Co Ltd in Foshan, the Chinese experience of labour struggles even went beyond Piven and Cloward's observation that organisers “typically acted in ways that blunted or curbed the disruptive force which lower-class people were sometimes able to mobilize” (Piven/Cloward 1979: xxii). However in the post-2002 period this “disruptive force” was apparently sufficient enough to grind out wage increases and legal concessions. More than that, the effects of increasing labour unrest were not limited to domestic socio-economic change. The growing number of strikes since the mid-2000s led to wage hikes in the light industry, which in turn induced capital relocations to China's low-wage neighbouring countries (especially in the garment and textile industry; Bloomberg Businessweek 2008). Fulfilling assumptions on a linkage between capital relocation and labour unrest (Silver 2003), new strike-waves and wage increases could soon be observed

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<sup>30</sup> For labour disputes in SOEs a regulation on arbitration had already been formalised in 1987, which was extended to a general system in 1993 (enacted together with the Labour Law 1994/95) and reformulated as a separate law in 2007/2008. Cases such as workers being unsatisfied with pay, working conditions, insurance and welfare, dismissal etc. as well as employers' complaints about damaged equipment or skilled workers leaving the factory are supposed to be handled by a tripartite committee of representatives from the local Labour Bureau, the trade union and the enterprise – established on a regional basis from enterprise to provincial levels (Shen 2007: 110ff.). Once initiated, a process of complaint may follow three steps: mediation by the Labour Bureau, arbitration by the committee involving juridical measures, and litigation in court. Before filing a lawsuit, consultation of the arbitration committee is compulsory and only unsettled disputes (also for reasons of one party rejecting arbitration) go into litigation (ibid. 127). Between 1995 and 2004 persistently around 93% of cases dealt with by the arbitration committee were settled, with around half of the cases being decided in favour of employees. However, these cases have been less than submitted (the statistic lists all complaints without differentiating between cases submitted by workers or employers) (ibid. 117).

<sup>31</sup> The steep increase in arbitration cases in 2008 (see Fig. 1) can at least partly be attributed to workers' growing awareness of their legal situation in combination with the extension of mediation-procedures.

in Cambodia and Vietnam as well (Christian Science Monitor 2010). With fully-fledged integration into the global capitalist economy, the vulnerability of China's workers has increased – but, as the lessons of the last decade have taught us, so has their potential to resist exploitation and wrest concessions from capitalists and the state, rendering workers' agency a considerable factor not only in domestic China, but in the global political economy as a whole.

## 2.4 Conclusion

China's post-1978 development was fundamentally determined by a transformation of class relations. This transformation was not a mere after-effect of the evolution of a market economy or the law of value. Instead, it was the outcome of a shift from state administered welfare provisions to leaving workers most vulnerable to market forces by a variety of political, legal, and administrative measures. Struggles between workers and their exploiters (be it owners, managers or state bureaucrats) were predominantly carried out within the confines of the central state class, which transferred its monopoly on the appropriation of society's surplus to local administrations and public and private managers, thereby leaving its redistributive tasks to market operations. This dynamic proceeded spatio-temporally unevenly between regions and sectors. The reform of the state sector – first through the Contract Responsibility System and ultimately through privatisation – generated a new class of capitalists that stood in close relation to state administration and fostered further reforms, pressured by increasing competition in the market place. The urban working class was gradually subjected to the control of private or semi-private management and saw its entitlement to non-commercialised welfare eroding. Gradually but steadily the implementation of a labour market led to the replacement of state planning by capitalist rationality. Because China's agricultural sector maintained a high degree of non-market reproduction on the basis of state-guaranteed subsistence farming, a full proletarianisation of the population was prevented for a long time. Instead, private household production was revived, allowing peasant families to freely decide on the use of their labour. Land reform and TVEs stabilised the semi-proletarian situation of China's peasants for a long time and evoked a rapid rise in the rural living standard. Nonetheless, the development of SEZ increased competitive pressure on the remaining forms of collective and state-controlled production and accelerated their demise.

However, it was neither the Chinese state nor international capital alone that triggered this development. Rather, the specific combination of endogenous political and social processes under conditions of already existing exogenous capitalist rationality led to a fusion of Chinese and global capitalism. Subjective experience and practices of workers and peasants were of specific relevance to China's post-1978 development. Especially, domestic migration has led to the prospering of private and transnational enterprises in the coastal regions. With the exception of “peasants without land”, migration was not triggered by dispossession and the destruction of a reproductive economic base independent from the market, i.e. it is insufficiently substantiated by reference to objective economic development. Their semiproletarian situation indeed put China's peasants in a position that allowed for their continued engagement with agriculture, while one or more family members would become temporary migrant workers. This semiproletarian situation seems to come slowly to its end as for the second generation of migrants a return to the countryside has become less and less feasible. Since the restrictions of the *hukou*-system prevent rural migrants from becoming city dwellers, they have become a highly vulnerable and overexploited workforce. Some have responded with open protest to their condition.

Workers' experiences of reforms have been ambivalent. Both peasants and workers have tried to seize the opportunities of personal freedom and material prosperity by looking for employment in the private economy. Yet, they also felt uneasy about the impact of the reforms on the ways they were used to work and consume. Urban workers had to grapple with the erosion of their welfare safety net, while rural migrants faced institutional and legal discrimination in the cities. Whereas the laid-off urban workers of the 1990s used to make sense of these developments in terms of “class” or “class struggle”, the *mingong's* self-perception still oscillates between the identity of a peasant and that of an exploited underclass. These experiences are strongly rooted in the material changes Chinese society has witnessed in the last 30 years, and China's workers address their discontent with increasing intensity.

The Chinese trade unions offer no room for workers to defend their rights independently. Individual union cadres are not to be blamed for the meek defence of workers. Democratic centralism, management control over enterprise unions and strong dependence on central CCP-policies enfeeble the trade unions. Though the unions underwent an internal transformation and are to fulfil new social roles, such as having an increasing say in dispute arbitration, social bargaining and supervision of labour contracts, their paternalistic nature has not changed. The concept of “harmonious labour relations”, worker-friendly labour laws and especially conflict mediation procedures provide powerful instruments in the hands of Chinese policy makers to keep social unrest in controllable dimensions. However, as socio-economic antagonisms deepen and workers learn from past struggles, social conflict is unlikely to decrease in the near future.

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### **3. Collective Contracts, but no Collective Bargaining**

Siqi Luo

The current system of collective bargaining and collective contracts was introduced into China in the early 1990s, more than a decade after the beginning of economic reform. As the assumed unified interest between labor and capital in the planned economy has rapidly disappeared, labor-capital tensions have increased. The large-scale dismantlement of traditional state-owned enterprises, combined with a growing low-wage sector, pose new challenges to the whole society. In this context, a collective bargaining and collective contract system, which has the potential to achieve economic stability, rationalize new forms of labor relations and maintain industrial peace, has drawn increasing attention, particularly in recent years, as the economic reform deepens.

Nevertheless, the actual status of this mechanism in China seems rather problematic. Although the number of collective contracts has rocketed, collective bargaining barely exists. Over the last few years, relevant laws and regulations have been constantly improved but there has been little progress in implementation. Among many obstacles is the often ambiguous nature of the laws themselves. In addition, individualized determinations of labor standards have become common practice in all types of enterprises. Underlying these phenomena is the complicated relationship among the state, capital, trade unions, and workers, which is embedded in the distinctive labor history of the planned economy (Walder, 1986: 302), both during the transition period and at present.

Collective bargaining should be a process in which both labor and capital participate, with a balance of power between both sides. Through equal dialogue and negotiation, collective bargaining usually concludes a collective contract, which contains improved labor standards as well as regulations about collective labor relations. This system has played a significant role in industrialized economies and continues to take the lead in the industrial relations of many countries, even under globalization and neo-liberalism (e.g. Vissel, 2005: 31). However, collective bargaining has not really functioned in China, despite more than fifteen years of enforcement. This study aims to identify the roots of this problem. Primarily, the whole range of policy and legislation related to collective bargaining, including the actual conditions of implementation, is examined. Both the legal and practical problems within the existing form of labor relations are analyzed. Such problems can only be explained by examining the power status of and interactions between the different actors of industrial relations, which have not just shaped the current conditions, but may also open a new prospect for collective bargaining in China.

#### **3.1 Development of Labor Law**

Labor relations in China have come under criticism. At the international level, the low-wage export-oriented development path pursued by China has often been regarded as being against international trade rules and labor standards (She and Fu, 2001). In addition, the debate about the nature of trade unionism in China, especially about its close linkage with the state, has never stopped. In China there is only one legal trade union, the All China Federation of Trade Unions (ACFTU). Employees have the right to form unions at other

levels but they must belong to the ACFTU and follow its leadership.<sup>1</sup> Domestically, the economic reform since 1978 has gradually built up a now rapidly-growing market economy, but at the same time it has led to increasing inequality in the distribution of economic, social, cultural and information resources (Lu, 2002). The relative stagnation of social and political reform, in contrast to the economic field, has led to the instability of industrial policies, as well as to the immature status of the major players in industrial relations. Consequently, labor-capital conflicts have emerged, and from time to time intensified (Lee, 2007).

Within the process of economic reform, significant labor-related changes have taken place. A capitalist market system has been introduced with the following features; establishment of an employment contract system, a labor market, multiple types of enterprise ownership, distribution according to production factors, etc.. In the field of collective labor relations, the collective bargaining and collective contracts system has become the response to international and domestic pressures, as well as the instrument to build up harmonious labor relations in China.

Generally speaking, the right to collective bargaining is granted by national level law and policies in China. Although collective contracts used to be signed in state-owned and cooperative enterprises between 1949 and 1958, this practice was completely abolished in the following decades. The current system has only gradually been established since the early 1990s. As the conflict of interests between labor and capital has inevitably emerged following the economic reform of 1978, rule-making, including in the field of labor law, has drawn much attention in the newly-built market economy. In the 1980s, collective contracts were initially signed in a number of joint ventures and then experimented with in a few enterprises. Nevertheless, this process has only become institutionalized in the 1990s.

The first law that laid the legislative groundwork for the current system was the 1992 Trade Union Law. According to the second part of Article 18, "Trade unions can represent employees to sign a collective contract with the administration of the enterprises or institutions. The draft of a collective contract shall be submitted to and passed by the employees' congress or all employees." In the amended Trade Union Law of 2001, the right of collective bargaining and signing of collective contracts is again emphasized as a trade union right, and Article 20 legitimizes the support from unions at higher levels. In addition, in case of any disputes over the implementation of a collective contract, trade unions could firstly appeal to labor arbitration and even go to court.

The implementation of collective contracts, in particular, is mainly based on the 1994 Labor Law, which is also the most fundamental legal rule in the field of labor relations in China. It is the highest level of law with regard to collective bargaining and collective contracts, and for the first time, it provides relatively comprehensive regulations, including; the content of collective contracts, the major actors, the legal effect, as well as the resolution of disputes. Firstly, Article 33 stipulates that, "Employees can sign collective contracts with enterprises with regard to wages, working time, rest and holiday, occupational safety and health, insurances and welfare, etc." In addition, the procedure that the draft of any collective contracts should be submitted and passed by the employees' congress or all employees remains the same. The same Article also states

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<sup>1</sup> In this text, the ACFTU is referred to as 'the trade union', and 'trade unions' means trade unions in more general sense. In China, there are "grassroots unions" and three levels of "upper unions". A "grassroots union" is based on one enterprise, institution or organization (Article 22 of the Constitution of the Trade Unions of the People's Republic of China), while the three upper levels unions include district (county) unions, provincial (city) unions, and the national federation, the ACFTU.

that, "In enterprises without established trade unions, representatives elected by employees can sign collective contracts with enterprises". The following Articles, 34 and 35, are concerned with the effectiveness of collective contracts. Signed collective contracts can take effect only after they are reported to the labor administration, and the latter has no opposition within 15 days. A legally-signed collective contract applies to the entire enterprise and all employees, and labor standards in any individual employment contract shall not be lower than those in the collective contract. Furthermore, Article 84 of the same law regulates the resolution of two types of disputes regarding collective contracts. With regard to disputes about signing collective contracts, the labor administration of the local government can organize both sides to come together for settlement. In the case of disputes about implementation, each party of a collective contract can apply for arbitration of the dispute, and, if they are unsatisfied with the arbitrated award, even appeal to the court within 15 days.

The Collective Contract Provisions, which are the concrete rules for implementing this system, were firstly promulgated by the former Ministry of Labor and Social Security<sup>2</sup> and took effect from January 1, 1995, the same time as the 1994 Labor Law. In 2004, this regulation was abolished and replaced by a new version. The new Collective Contract Provisions provide more detail about the content of collective contracts, the parties of collective bargaining, legal procedures, the terms and effectiveness of collective contracts, inspection by the labor administration through the labour inspectorate, as well as dispute resolution procedures related to collective contracts.

In the Labor Contract Law, which took force from January 1, 2008, as many as 11 articles mention collective contracts. More importantly, there are some major improvements to collective bargaining and collective contracts, which at least show increased attention to the implementation of this mechanism. It is the first time that provisions for special collective contracts<sup>3</sup>, as well as for sectoral and regional collective contracts have been written in a national law, although the ACFTU, together with other relevant organizations, has promoted such contracts since 1996. Special collective contracts, referred to in Article 52, include those on occupational safety and health, protection of female workers, and wage adjustment mechanisms. Moreover, according to Articles 53 and 54, sectoral or regional collective contracts can be signed in construction, mining, catering, and other sectors at below-county<sup>4</sup> levels, which apply to all enterprises and employees in a specific sector or region. Since these industries usually involve medium and small enterprises, with low union density and poor working conditions, such regulations seem significant for defending labor rights.

As well, in the 2008 Labor Contract Law, the standards agreed to in collective contracts are apparently taken more seriously. In case of disputes about labor standards in individual employment contracts, e.g. no fixed terms or unclear standards, collective contracts must be followed. In addition, Article 75 clearly gives the labor inspectorate the right to check relevant materials in collective contracts, whereas this had always been a

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<sup>2</sup> The former Ministry of Labor (before 2003) or Ministry of Labor and Social Security (2003-2008) has been renamed as the Ministry of Human Resource and Social Security since March 11, 2008.

<sup>3</sup> Before this, such contracts were mainly written in the documents of the ACFTU, and only once in the 2004 collective contract provisions promulgated by the Ministry of Labor and Social Security.

<sup>4</sup> The word "county" is used to translate the Chinese term xiàn (县), on Mainland China under the People's Republic of China, counties are the third level of local government, coming under both the province level and the prefecture level and above the town and village levels.

blurred area before. Last but not least, the role of trade unions is given more importance; particularly in terms of building up this mechanism at enterprise level (Article 6) and in dealing with relevant disputes (Articles 56 and 78). Interestingly, this new law confirms the stipulation in the 2001 amended Trade Union Law that in enterprises without established trade unions the "upper union"<sup>5</sup> shall guide employees to elect representatives in order to sign collective contracts with enterprises. In case of disputes, "trade unions" can legally require enterprises to assume responsibilities, or "trade unions" can apply for arbitration and appeal to the court. It is noticeable that, in former statutes and policies, this was formerly the right or obligation of "employees" or "labor representatives".

In recent years, as wages become the most important issue in Chinese labor relations, the special collective contracts have become separately emphasized and conducted, especially following wage negotiations. The Proposed Regulations on Wage Collective Negotiation of 2000, has provided relatively comprehensive content and procedures on wage negotiation. Furthermore, a new Wage Regulation has been on the legislation agenda of the State Council for three years. Although, up until now (February 2011), there is still no clear sign of official promulgation, once it is promulgated this regulation will become the wage law in China with the highest legislation rank. The draft includes detailed clauses on wage distribution and wage negotiation. However, given the strong opposition from employers, and the fact that it has been repeatedly revised, it is very unlikely that this act alone can bring real reform to the current system of collective bargaining.

As can be seen, China has a relatively comprehensive range of law and policies on collective bargaining and collective contracts (See Table 1.). Nationwide, governments or relevant departments of all provinces (including autonomous regions and municipal cities) have issued special documents on collective contract.

Generally speaking, a basic legal framework for collective bargaining and collective contracts has been built up in China and major principles are in accordance with international practices. According to the laws and regulations, both employers and employees have the right to request, as well as the obligation to accept, collective bargaining. Collective contracts, including special collective contracts, have legal effect for all employees in the corresponding employment units, whereas industrial or regional collective contracts are effective for all employees and employers in respective industries or regions. Another example is good faith bargaining. Although the law does not directly mention it, the regulations issued by the Ministry of Labor require that both sides should equally cooperate and mutually respect each other in the process of collective bargaining and of signing collective contracts. Some legal procedures, e.g. the rule that drafts of collective contracts need to be passed by employees, and that collective contracts should be in written form and signed by both sides, are also consistent with international standards. At the same time, the law and policies also have distinctive features. Some forms and procedures of collective bargaining and collective contracts have certain "Chinese characteristics", such as the focus on collective contracts rather than bargaining, inspection of signed collective contracts by the labor administration and silence on the right to strike. These features have, at least partly, contributed to the diversified and generally unsatisfactory implementation of this mechanism in China.

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<sup>5</sup> "Upper union" usually refers to the union at one administrative rank higher than the existing one. As mentioned in an earlier footnote, in China there are "grass roots" unions and three levels of "upper unions", with the ACFTU being the highest.

**Table 1. Major Laws & Regulations on Collective Bargaining & Contracts**

<b>Title</b>	<b>Year of</b>	<b>Organization</b>	<b>Relevant articles</b>
Trade Union Law	1992	Standing Committee, the National People's Congress	Article. 18
	2001 (Amended)	Standing Committee, the National People's Congress	Article 6, 20
Labor Law	1994 (Effective 01.01.1995)	Standing Committee, the National People's Congress	Article 33-35; 84
Labor Contract Law	2008	Standing Committee, the National People's Congress	Article 6; 11; 18; 51-56; 75; 78
<b>Regulations</b>			
Collective Contract Provisions	1994 (Effective 01.01.1995; Abolished in 2004)	Former Ministry of Labor	
	2004	Former Ministry of Labor and Social Security	
Proposed Regulations on Wage Collective Negotiation	2000	Former Ministry of Labor and Social Security	
Wage Regulation	Not yet (still on legislative agenda)	Ministry of Human Resource and Social Security	

Source: own compilation.

### **3.2 The spread of collective contracts in China**

In theory, collective bargaining could initiate a platform for achieving more rational labor relations in China. Due to the role of China in today's global industrial world, an effective system of collective bargaining might also have a positive flow-on impact on other low-cost locations, when faced with the open offensive of capital in the name of investment. In practice, by the end of September 2010, 1.408 million collective contracts had been signed

in China, covering 2.439 million employing units and 185 million employees<sup>6</sup>, a significant increase from the 1.247 million collective contracts signed by September 2009. At the same time, among the 13 million enterprises in China, more than 10 million are small to medium-sized ones, where regional and industrial collective bargaining has gradually been recognized as an effective choice. According to the ACFTU, up until September 2009, there were 150,000 regional collective contracts, covering 962,000 enterprises and 41.975 million employees. In addition, 990,000 sectoral collective contracts covered 307,000 enterprises and 18.868 million employees. In particular, there were 512,000 wage contracts for 902,000 enterprises and 61.776 million employees.<sup>7</sup> However, given the total employment of 780 million at the year end of 2009<sup>8</sup>, more than 60% of employees were still not covered by any form of collective contracts or special contracts. While the statistical data from the Ministry of Human Resource and Social Security is a bit different, recording more than 700,000 effective collective contracts covering nearly 100 million employees<sup>9</sup>, the number of collective contracts is still very large.

Nevertheless, these stunning numbers do not reflect the genuine function of collective bargaining and collective contracts. Rather, they are the direct result of "quota" policies set by the ACFTU (Pringle, 2005). In fact, the director of the legal department at the ACFTU, Mr. Liu, Jicheng, publicly admitted that only 20% of existing wage negotiations may actually function.<sup>10</sup> Many scholars and practitioners would regard the actual implementation as even less satisfactory (e.g. Clarke et al, 2004). If looked at closely, collective contracts mostly contain the basic labor law clauses. The content has not resulted from specific environments and rules of enterprises (Brown, 2006) and does not reflect the actual interaction and power of labor and capital. In many cases, the collective contracts in different enterprises have the same form and the content is merely a copy of sample contracts issued by local government, or trade unions at higher levels. According to a survey of state-owned enterprises (Taylor et al, 2003: 251-252), there are three types of clauses in collective contracts. The first are clauses related to principles and forms, e.g. requirements of negotiators. The second are clauses that need to be carried out by both sides. The last are clauses that outline the responsibilities of both sides and the duration of the contracts. As the major part of a collective contract, the second type of clause accounts, on average, for 70% of the text, within which, 60% of the clauses are exact sentences copied from the labor laws, 20 to 30% refer to legal stipulations, and only about 10% are about labor benefits. The same survey also shows that successful claims by employees are mostly backed by clear evidence in laws. Otherwise even reasonable requests by trade unions would be rejected by employers. A recent study on the labor

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<sup>6</sup> People's News, The "two universal" activity of the trade union in 2010 achieved good results, January 19, 2011, <http://acftu.people.com.cn/GB/13771665.html>.

<sup>7</sup> Xinhua Net, official data released by Mr. Zhang, Jianguo, the director of collective contract department at the ACFTU, The ACFTU interview on how to implement collective contract "rainbow" plan, June 04, 2010, [http://news.xinhuanet.com/politics/2010-06/04/c\\_12181248.htm](http://news.xinhuanet.com/politics/2010-06/04/c_12181248.htm).

<sup>8</sup> National Statistics Bureau of China, Statistic Report on National Economy and Social Development in 2009, February 25, 2010, [http://www.stats.gov.cn/tjgb/ndtjgb/qgndtjgb/t20100225\\_402622945.htm](http://www.stats.gov.cn/tjgb/ndtjgb/qgndtjgb/t20100225_402622945.htm).

<sup>9</sup> China.org.cn, Online press conference on the work progress of the Ministry of Human Resource and Social Security in 2010, Mr. Yin, Chengji, spokesperson from the Ministry, January 25, 2011, [http://www.china.com.cn/zhibo/2011-01/25/content\\_21803701.htm?show=t](http://www.china.com.cn/zhibo/2011-01/25/content_21803701.htm?show=t).

<sup>10</sup> 21st Century Business Herald, "Trade Union Law" will be amended - wage negotiation may be raised to industrial levels, August 19, 2010, <http://www.21cbh.com/HTML/2010-8-19/zMMDAwMDE5MjkzMg.html>.

relations in five industries in China found that the content of collective contracts largely remains worthless. On one side, there are almost no quantitative figures on wages or other labor standards. On the other, after some copied legal terms, such as, wages should be adjusted according to the consumer price index, it is noticeable that sentences like, "the final decisions should be made by the General Manager", are added to the end (Lüthje, et al, 2010).

This is easier to understand when one recognizes that the majority of collective contracts are actually agreed on without real "bargaining" (Feng, 2006), namely, there is no process of sufficient negotiation and bargaining back and forth. It seems that "bargaining", which means employees and employers express ideas respectively and then communicate and negotiate, is the key to the system, and probably the only way to conclude real agreements. Several empirical studies have found that so-called collective negotiations in China are just a way of obtaining consent from employers (e.g. Taylor et al, 2003; Guo, 2004; and Clarke et al, 2004). In relatively good cases (Lüthje, et al, 2010), mostly in companies with public ownership or joint venture backgrounds, the human resources department would draft the collective agreement and send it to the enterprise union. The union might make some revisions after collecting the suggestions of workers through union groups in each department. If agreed, the contract would be final. The practices in many private enterprises are much worse, and in most instances the majority of employees are not even aware of the existence of a collective contract. Usually, employers just sign a copied contract together with union cadres when they are feeling under political pressure (Guo, 2004). Thus, although the numbers of collective contracts have grown rapidly<sup>11</sup>, this is just an "ineffective byproduct" of labor relations laws, similar to the result of completing a top-down administrative task (Taylor et al, 2003: 206).

Furthermore, in practice, there is no effective mechanism for supervising employers' implementation of collective contracts (Wang and Zhao, 2005). As a whole, the labor administration has the legal responsibility to check and monitor the implementation. However, although labor inspection, as the most important function of the labor administration, is now supported by huge resources and a large labor force, compared to the enormous number of enterprises in China, it is almost an impossible mission, e.g. one labor inspector for every 1000 enterprises. Furthermore, as the system is highly decentralized to the individual enterprise or establishment level, it is, to a large degree, dependent on the control or influence of employers on grass-root trade unions, symmetry of information, supply and demand of the labor market and so on. In fact, trade unions, on behalf of workers, would be the more effective inspectors with regard to collective bargaining and collective contracts, as they have a direct interest in them.

However, no matter how much effort the ACFTU has put into policy-making with the government or even in putting pressure on many employers, the lack of mobilization at the grass roots level is the fundamental defect of this system. Workers, supposedly the major actor and affected targets, are in fact, excluded from the bargaining process. To make matters worse, in practice, enterprise unions are dependent on employers for wages, and union officials usually hold positions or ranks within management (Jiang, 2004), which makes them unable either to bargain against employers or to gain the trust of workers. In

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<sup>11</sup> Just look at collective contracts officially registered in labor administration, the numbers had already grown from 69,000 in 1996, the first year of spreading this mechanism, to 703,000 in 2009. Source: Annual statistic reports on human resource and social security (1992 - 2009), [http://www.molss.gov.cn/gb/zwxn/node\\_5436.htm](http://www.molss.gov.cn/gb/zwxn/node_5436.htm).

this context, collective bargaining in many enterprises is often initiated by upper level unions rather than by enterprise unions, and negotiations are conducted by collective negotiation instructors rather than by labor representatives from the specific enterprises. This leads to negotiations becoming more like formal meetings, than a proper bargaining process.

The question of whether to accept collective bargaining, and how to bargain, actually becomes largely dependent on the "good will" of employers. Employers in China are typically characterized by individual-orientation, short-sighted management and weak legal awareness (e.g. Xia, 2004). Most of them, especially those in non-public sectors, are generally resistant to collective bargaining, even though collective contracts have been widely recognized as merely a 'formality'. From the perspective of such employers, any potential for real collective bargaining is unwelcome. The law stipulates that governments at county and above levels have the authority to correct the misbehavior of employers if they refuse to bargain without due cause, however, in practice this has never happened.

### **3.3 Forms of labor relations**

Production regimes and labor relations in today's China are very varied. Industrial or regional level bargaining or coordination barely exists and labor standards and working conditions vary from enterprise to enterprise, from trade union to trade union, and from industry to industry.

In particular, the forms of wage determination, and accordingly wage levels, are diversified in enterprises or establishments. Collective bargaining has not taken hold in the contemporary history of China. Especially after the economic reform, the new orientation towards flexibility and 'rationalization' rapidly dominated the industrial world in China, and wages, as well as other working conditions, became determined by highly individualized Human Resource Management (HRM), often based on performance appraisal. As enterprises have been granted a high degree of autonomy in wage distribution since the beginning of the market reform, the only constraint left, especially for the vast number of non-public enterprises, is the legal minimum wage. Other rules, such as the annual wage guidelines issued by local governments, have no binding force. The common phenomenon is for workers to be pitted against each other, not only within the same enterprise but also between companies, industries, and even different countries. The voice of collective workers is generally absent because in most enterprises workers are regarded as a commodity or production factor, rather than as "human". In this way, employers, usually the management, decide wages for all workers. This has become the dominant, and in the view of many managers, practically the only way, of wage determination in a market economy (Lüthje, et al, 2010). Empirical research has found that most employers and even professional human resource managers have no idea of, or no intention of learning, what collective bargaining really is, and regard their unilateral power to determine wages and labor standards as given.

As a result, there is a common low level of base wages for first-line operators, often at the level of minimum wages, and a high proportion of performance-based incentives or simply overtime payments. Industrial relations, through collective bargaining, are largely substituted by HRM policies or Corporate Social Responsibility (CSR) statements. However, the latter are unilateral rules or voluntary efforts of companies and, given the business nature of profit-seeking, as well as their generally low standards and weak monitoring, have only a modest outcome at best. Unfortunately, the only non-unilateral way of wage determination, collective bargaining or wage negotiation, is not only limited in



practice, but often dominated by the management where it does exist. (Lüthje, et al, 2010). In practice, some leading large-sized enterprises, especially those with public ownership or tradition, may actually try to implement collective contracts, either voluntarily or under external pressure. Nevertheless, because of a lack of "bargaining", a collective contract is little more than a piece of worthless paper in the majority of enterprises (Zhang, 2006). The most positive effect of collective contracts, as Clarke et al. (2004) commented, is perhaps to remind employers and union cadres of their respective legal responsibilities.

However, there are also some better examples of collective bargaining, apart from the generally unsatisfactory results in most enterprises. Firstly, there have been a few cases of genuine collective bargaining initiated by workers during or after successful strikes. Unfortunately, this is mostly a one-off process or temporary in nature, and rarely becomes institutionalized. It is worth noting that these cases are not connected to official unions or part of the formal collective bargaining system.<sup>12</sup> The second type is more regular, occurring within the existing legal framework. One case, found in a Japanese-Chinese joint venture (Lüthje, et al, 2010), as well as several cases of sectoral bargaining in East China<sup>13</sup> have been highly propagandized by the ACFTU and its local affiliates. Japanese companies are strongly influenced by their country of origin. Paternalism in Japanese brand name companies often leads to the acceptance or tolerance of enterprise-based trade unions. The extensive communication channels, designed for the purpose of cooperative relationship between labor and capital, also facilitate collective negotiation. So far, this may be the closest thing to collective bargaining in China. However, the specific background of cooperation-oriented management style as well as the charismas of individual union chairmen, particularly at the beginning of the institution-building process, is significant (Xu, 2000). Moreover, in this case collective bargaining resembles more a mechanism of communication and consultation, than a process of joint decision-making, and management still have the final say on almost every issue. The collective contracts have not improved labor standards above the legal minimum; rather, they simply ensure that the legal standards are enforced. Nearly any success achieved in such negotiations is already covered by regulations in national law, and other requests beyond the law are sure to be refused by employers. As to the cases of sectoral collective contracts, the involvement of local governments or higher-level trade unions is highly visible. Not only does this make it difficult to avoid the suspicion of setting up political models, but the special local industrial environment and the resources allocated from top-down make it impossible to promote the same thing on a broader scope.

At above-enterprise levels there is no effective form of coordination on wages or other standards. One major actor, the industrial union, has actually been dissolved in China since 1957, and has been replaced by a merged "industrial and regional" union structure. Although industrial unions have been re-established in many places, and some meetings about the role of industrial unions have taken place since June 2008, industrial unions remain largely underdeveloped and inactive. The main result of such a decentralized structure is that wages, working time and other labor standards are very divergent, even in the same industry. For instance, the average annual wages for workers at the bottom of the auto supply chain are one third or a half of that of workers in the assembly plants at the

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<sup>12</sup> E.g. The collective bargaining following the Honda strike in Nanhai, Guangzhou, in early of 2010.

<sup>13</sup> E.g. Wool sweater industry in Wenling, <http://news.sohu.com/20080414/n256268471.shtml>; Luhe garment sector, <http://cmqfyc.acftu.org/template/10001/file.jsp?cid=387&aid=4026>; and Pizhou wooden board sector... See: Workers' Daily, <http://www.sxgh.org.cn/particular.aspx?id=8091&parentID=33>.

top, not to mention differences in training, social benefits, employment security, etc. The principle of "same work, same pay" between regular workers and dispatched labor has also remained an airy notion.

Wages have become a major cause for labor disputes in China. The number of individual labor disputes and collective labor disputes related to wages has increased dramatically in recent years, both in passive ways, through high turnover rates, and actively e.g. through strikes. For instance, in the strike wave that firstly hit Honda and Toyota suppliers in early 2010<sup>14</sup>, it was the wage gap between similar workers in different plants that triggered workers' anger in a pronounced way. The outbreak of potential conflicts on further issues of labor standards, e.g. high work speed and work intensity, is perhaps only a matter of time.

Theoretically, collective bargaining is the right answer to the challenges facing China, including improving labor skills, overcoming the obstacles of innovation and industrial upgrading, and particularly, stabilizing the workforce in individual enterprises and calming labor unrest throughout the industrial arena. Wage relations are directly linked to workers' attitudes and consequently efficiency or effectiveness of production. A well-governed and well-coordinated system of collective bargaining could guarantee the security of workers and also provide incentives for loyalty and initiative. At the macro level, collective bargaining, through more fair income distribution and accordingly, higher wages for workers, could become an essential mechanism for stabilizing the national economy; at the political level as well as across the whole society. On one side, the legitimacy of the ruling state highly depends on economic growth, and any substantial social conflicts over low wages are undesirable. On the other, as the existing low-wage, low-end development path increasingly requires higher consumption in the domestic market, enhancing the income levels of mass workers is the most widely-adopted and perhaps the only way to realize this.

However, as shown above, the reality is, that neither the goal of the government that labor and capital could mutually communicate and solve problems with full autonomy, nor the expectation of trade unions that industrial conflicts could be transformed into legal procedures, is realized through the existing collective bargaining and collective contract system. Among many reasons, the problematic nature of the labor law and policies themselves comes first.

### **3.4 Ambiguities of the law**

The ineffectiveness of collective bargaining and collective contract is primarily the outcome of problematic law and policies, although the law does have a positive influence, at least in providing guidance and pointing out the correct direction. Rather than unilateral prerogative, new laws and rules introduced the idea of a negotiated bipartite or tripartite decision, which was a very new concept for the majority of enterprises in China in the 1990s.

In China, the word "bargaining" has never appeared in the law, rather, the term "negotiation" is used. According to administrative interpretation, this is only to alleviate the strong sense of confrontation associated with the word "bargaining", and the legal

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<sup>14</sup> There has been an extensive coverage of news on this, both foreign and Chinese media. E.g. Economic Observer News (Chinese), [http://www.eeo.com.cn/industry/real\\_estate/2010/05/29/171354.shtml](http://www.eeo.com.cn/industry/real_estate/2010/05/29/171354.shtml); the Wall Street Journal, <http://cn.wsj.com/gb/20100610/bch091243.asp>; Reuters, <http://www.reuters.com>.

meaning of "negotiation" is in fact identical to that of collective bargaining (Peng, 2003). Of greater interest is the use of the terms, "collective negotiation" (Jitixieshang) and "equal negotiation" (Pingdengxieshang). The Ministry of Labor and Social Security continues to use "collective negotiation" in its Collective Contract Provisions and several other relevant administrative regulations, whereas the ACFTU has adopted "equal negotiation" in all of its documents since 1995. The 1994 Labor Law and 2001 amended Trade Union Law, the two most important pieces of labor legislation in China, both use "equal negotiation". Only in 2008, did the term "collective negotiation" appear for the first time in national legislation, in the Labor Contract Law.

The difference between "equal negotiation" and "collective negotiation" is far more than just wording; it also indicates the divergent attitudes and behavior of the ACFTU and the labor ministry. The interaction between the trade union and the labor administration is complicated and fluctuates rather than being constantly cooperative. Because acting collectively is the means through which labor seeks to change its disadvantageous status in comparison to capital, it is the fundamental basis of "collective" labor relations. At the same time, the term "equal negotiation" highlights equality on the surface but neglects the "collective" aspect, which in fact creates the only possibility for the labor to actually be "equal" with capital. Some union cadres still believe that "equal", in this sense, means a comparable legal status between labor and capital. However, without the essential backup of "collective" labor, "equal" is only a unilateral hope. In practice, trade unions rely mainly on administrative force, if available, rather than mobilization of collective labor. In consequence, such collective bargaining is anything but equal. Often the decision-making falls into the single hand of employers. This problem is highly visible in existing collective contracts, which apparently are far short of reaching their assumed goal of protecting labor rights and benefits.

The insistence on using the term "collective" and finally confirming it in the 2008 Labor Contract Law shows the government's high, and increasing, expectations of both collective labor and capital with regard to regulating collective labor relations. At the same time, to a certain degree, it also indicates its disappointment or dissatisfaction with the current work of trade unions in collective bargaining. Nevertheless, this does not mean that the Chinese trade union is considered negligible, especially by the government. Rather, it means that a certain agreement or compromise has again been achieved in this matter. In the case of the 2008 Labor Contract Law, although the term "equal negotiation" advocated by the ACFTU has been abandoned, the role of trade unions as the official, if not exclusive, labor representative in collective bargaining is more emphasized than before.

Another strange thing about Chinese labor law is that there is no single article explaining the process of collective bargaining, although the collective contract process is intensively described (Ye and Xu, 2005). The fact that the legislation emphasizes the "fruit" – collective contract – but neglects the "tree" that bears the fruit – bargaining – has led to the enforcement deviating from the original intention of policy-makers. Given the fact that China had no serious experience with collective bargaining, such a gap in policies may frustrate many practitioners. As trade unions and enterprises today strongly depend on the law in daily operation, or at least use it as justification, legal clauses become particularly debatable. Many grass root unions find that it is hard to bargain since there are no exact stipulations in the law as to how the process should work. Consequently, collective bargaining is often conducted in the form of consultative meetings and it varies greatly in content, procedures, and also outcomes. It becomes even more dispersed due to the fact that the individual enterprise or establishment is the dominant level of labor relations in China and there is a lack of coordination of any form at a broader level. Only in recent

years, have sectoral and regional collective contracts came into existence and are, for the first time, written into legislation as part of the 2008 Labor Contract Law.

As partial compensation for this gap in policy, the government's department of labor administration plays a special role in certain legal procedures, which unfortunately has not helped the process in practice. Firstly, any collective contract at county and above levels can only take effect after it has been reported and inspected by the labor administration. Nevertheless, given the fact that this system is still in the course of development in China, it may be more important to pay attention to other practical problems. Another role of the labor administration is to "mediate" disputes related to collective contracts. As to disputes about existing contracts, the law allows legal procedures such as arbitration and a lawsuit. However, for interest disputes relating to signing a new collective contract, the law requires the labor administration to coordinate and mediate between trade unions and employers. There are also specific regulations on the territorial jurisdiction in dealing with disputes involving different types of enterprises (Zhao, 2004). Usually, the result is an "agreement on coordinated settlement" and none of the third parties, no matter whether it is the labor administration, the arbitration agency or the court, has the right to order both sides to "go back to the bargaining table" or anything similar. Thus, if mediation fails, there is no further procedure to follow.

Furthermore, one core labor right, the right to strike, is not explicit in any law in China. While the right to strike is necessary to guarantee equal and effective collective bargaining since it is the means through which workers can impose economic pressures on employers, Chinese laws have omitted this right since 1982. However, to leave out the right to strike in laws does not avoid strikes in reality. Strikes are nothing new for Chinese workers. They have occurred in the early 1920s and take place in factories today. Without such leverage, it is hard for collective labor to effectively bargain with employers. Consequently, conflicts accumulate and even explode into industrial actions. Nevertheless, as the right to strike is not actually forbidden by law these days (Chang, 2005), strikes may be tolerated by the state<sup>15</sup>. The absence of this right in legislation may therefore not be a real barrier to workers' actions, except for official trade unions.<sup>16</sup> Given the current status of official unions as well as the fact that strikes rarely involve them, it is necessary to be more cautious about advocating legislation on the right to strike (e.g. Chang, 2005; Xu and Wang, 2003). If the legislation grants the right to strike exclusively to the official trade unions, which is very likely, if the current trend is followed (e.g. in the 2008 Labor Contract Law), the majority of existing and potential strikes may be claimed to be illegal. The bottom line is that a law should not become a constraint rather than a means of empowerment.

In order to understand better these ambiguities of the law as well as the fundamental reasons for the dysfunction of collective bargaining and collective contracts in China, it is necessary to look at the political and social background. The relationship between the Chinese trade unions, the state, and employers, as well as the often-forgotten role of workers, will be addressed in the following section.

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<sup>15</sup> E.g. the government's response to the recent strikes proved that it is at least tolerating workers making collective claims. See: Katherine Ryder, China's labor market: Valuable asset or economic albatross? December 23, 2010, Fortune Chinese, <http://www.fortunechina.com/business/>.

<sup>16</sup> People's Daily, Wage Regulation will be promulgated within 2010, wage negotiation system receives the most attention, May 30, 2010.

### 3.5 Subordination of trade unions

The problems of law and policies and, accordingly, the difficulties in implementation are rooted in and constrained by the interaction among the major actors of industrial relations. In China, it is particularly rooted in the subordination of the trade unions to both the state and employers. From a different perspective, collective bargaining has not originated as a legal mechanism. Rather, in world labor history, it has been achieved through long-term labor struggles, typically by industrial unions at the side of labor, and only later has it been accepted by the state and then capital and institutionalized in the law. In this sense, the three main industrial relations actors, governments, trade unions (on behalf of workers) and employers should be involved and act as driving forces of the system. Noticeably, Chinese workers are most often excluded from this tripartite dialogue. However, by means of self-organized actions, including strikes, the workforce of some plants has managed to become the "fourth" party in industrial relations (Chang et al, 2008). Increasingly, this fourth party is drawing attention through their actions, which indicates both their interest in and potential for participating in collective bargaining.

The non-independent and undemocratic nature of Chinese trade unions has often been blamed as the ultimate cause of ineffective collective bargaining (e.g. Sun, 2004; Feng, 2006). The generally-accepted roles of trade unions include; as economic actors trying to improve the welfare of their members, as a vehicle for class struggle against the commodification of labor, as the dialogue counterpart of employers, and as semi-public organizations, which are one essential part of a more just and stable society (Hyman, 2001). However, in China, trade unions are categorized by three approaches; as "corporatist, party organ, and intermediary" (Taylor et al, 2003). The overall principle is that the trade union is under firm control of, if not directly subordinate to, the state, in particular the party. As the only legal union organization, the personnel and policies of the ACFTU are largely decided or influenced by the party. Union cadres are also administrative officials at the same time. Such an official status has guaranteed the ACFTU a high political rank and resources, but has also fundamentally restricted its activities (Chan, 1994).

From the aspect of the state, the official union is both indispensable and, unfortunately, incompetent. The necessity for an official union is due to the party's deep fear of uncontrolled collective labor, partly based on its own experience. Therefore, the party strictly keeps the union organization in its own hand. The ACFTU exclusively represents workers in China, and any attempt to build collective labor organizations outside of its frame have been, and continue to be, completely curbed, often by the ACFTU itself. Given the ultimate target of "harmonious labor relations", trade unions often find it impossible to meet all of the contradictory requirements, e.g. focusing on the economic growth of the enterprises versus improving wages and working environments, or persuading workers to give up strikes versus safeguarding workers' rights. Although the 11<sup>th</sup> Trade Union Congress in 1988 put forward the idea of organizational independency from the party, it has never happened again since. Given the state's priority of political stability and economic growth, it is unlikely that it will loosen its control over trade unions, at least in the short term (Chan, 1994).

At the same time, the state does not completely trust the ACFTU and thus finds it practically impossible to devolve its real power on labor issues. One example is the number of restrictions on collective contracts in national law, e.g. that collective contracts can take effect only after inspection by the labor administration. Moreover, comprehensive laws and rules have been set for individual labor relations, which have led to workers' dependency

on the law for protection, rather than on trade unions. To a certain degree, this orientation further weakens workers' trust in trade unions, or makes them indifferent. In practice, the major tasks of trade unions in the planned economy, such as promoting production and helping workers in hardship, have not completely changed today. Trade unions act as the "bridge", "support", "foundation", and "bond" between the party and workers. The result is that on one side, the limited political and institutional space provided by the state partly causes the incompetence of trade unions in representing workers. On the other, the state becomes distrustful of trade unions because the latter are unable to fulfill the political task of pacifying workers. While this contradictory alliance is expected to continue some of the tension, caused by the distrust, seems to have been alleviated in the new century, as evident in the change of discourse in the 2008 Labor Contract Law<sup>17</sup>. Ultimately, the trade union acts like an apparatus of the state, and the state has no safer alternative.

On the precondition that the ACFTU would not mobilize workers against management or the state, some space has been given to it (Chen, 2003). Within such space, the ACFTU has made efforts to prove its political significance. It has been engaged in large-scale propaganda and formal work, such as mediating labor disputes, offering legal aid, and helping workers in need. It is fair to say, that the initiation of the collective contract system in China began, to a large degree, with the persistent lobbying of the government, and even some enterprises, by the ACFTU. The ACFTU has regarded the collective bargaining and collective contract system as an active way to influence working conditions in large- and medium-sized enterprises, regardless of ownership (Chan, 1994). Before collective contracts were firstly written into the law in 1994, the ACFTU had already started experimenting in some enterprises. Obviously, a successfully signed and implemented collective contract would also help to improve the union's profile in an enterprise, and, at least on paper, they appear to have met with some success. Huge numbers of collective contracts have been signed. As one complementary mechanism of collective bargaining, trade unions also organize and join tripartite coordination meetings and joint meetings with governments at the same levels. Moreover, the latest progress is the implementation of special collective bargaining for wage negotiation. For instance, since July, 2010, as a first step in the three-year "Rainbow Plan" of the ACFTU, a pilot project has been carried out in 55 enterprises from different industries in Beijing to sign regional and industrial wage contracts, mainly in small-sized enterprises.<sup>18</sup> The "Rainbow Plan" plan aims to establish trade unions at the enterprise level and implement a collective contract system in all types of enterprises by the end of 2012, with a primary target of 60% for 2010 and 80% for 2011.<sup>19</sup> For small enterprises without trade unions, regional or sectoral collective contracts are the focus. In particular, improving the wages of first-line employees is the primary target. Thus, wage negotiations are given priority in the whole system and, so far, 13 provinces have issued special documents promoting wage negotiation.

Nevertheless, as shown before, existing collective bargaining is too close to "consultation" or state-induced "concertation", with too much compromise required on the side of labor. It features a strong top-down manner and lack of workers' participation. One major reason is that the administrative orientation of the trade union has never really changed. As

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<sup>17</sup> See page 14 of this article.

<sup>18</sup> Beijing Daily, 55 enterprises in Beijing begin the pilot project of wage collective negotiation, July 9, 2010.

<sup>19</sup> Xinhua Net, official data released by Mr. Zhang, Jianguo, the director of collective contract department at the ACFTU, The ACFTU interview on how to implement collective contract "rainbow" plan, June 04, 2010, [http://news.xinhuanet.com/politics/2010-06/04/c\\_12181248.htm](http://news.xinhuanet.com/politics/2010-06/04/c_12181248.htm).

expressed by the vice president of the ACFTU in 2009, "wage collective negotiations should be dominated by local governments"<sup>20</sup>. It is true that the trade union at higher levels has a certain influence on labor policies due to its political resources, but enterprise level unions find it difficult to act as labor representatives, due to their institutional and economical dependency on employers. Besides, there is hardly any support from below, as workers distrust or are indifferent to trade unions. There is not much that enterprise level unions can do if individual firms resist collective bargaining. Even if the employers agree to bargain and enterprise unions are eager to work, it is very unlikely that the unions will be able to collect adequate information to argue with.

This is where those impressive but often meaningless numbers of collective contracts come from. Given the political context, it is almost impossible to have multiple trade unions in the near future, and thus, the only option left is to reform the existing trade union system. As the political and social status of any trade union should be rooted in their role at the shop-floor, the change of the Chinese trade union system may start internally, from enterprise level unions, where the political resistance seems much smaller. Only on such a basis, can we talk about collective bargaining in any real sense.

Fortunately, some internal reform measures, such as the direct election of grassroots union cadres and changes in union finance<sup>21</sup>, have taken place. Positive signs have also emerged in some regional or local level trade unions following the Honda strikes. A time of crisis could also be a time of change. For instance, the Guangdong Federation of Trade Unions has declared that the Honda Nanhai factory will be a pilot site for new democratic accountability mechanisms, including an annual democratic secret vote by union cadres.<sup>22</sup> Wage coordination between brand name corporations and their suppliers in the same industry, at least in the nearby region, is also envisioned by the unions. In early 2010, the Guangdong provincial government started discussions about the draft of democratic management provisions that would allow workers to engage in wage negotiations, regardless of the opposition from employers or even some local union officials. Another good example is the industrial level construction union in Guangzhou, which is independent from funding by any enterprise and organizes construction workers across the city. Similarly, the Beijing municipal trade union is also experimenting with independent wage negotiations through liberating grassroots union chairs from their economic dependence on employers.<sup>23</sup> Although it may be hard to imagine a democratic union in China in the very near future, these pilot projects have at least cracked the old order, both theoretically and practically.

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<sup>20</sup> The China Central Government Web, Mr. Zhang, Mingqi, the ACFTU vice president, answer questions regarding industrial-wide wage collective negotiations, interviewed by Workers' Daily, Jul 21, 2009, [http://www.gov.cn/jrzq/2009-07/21/content\\_1370251.htm](http://www.gov.cn/jrzq/2009-07/21/content_1370251.htm).

<sup>21</sup> There are cases of direct election of union chairmen in some regions with relatively developed private sectors. See: Chen, Shengyong, Wu, Wei, and Chen, Yan, Direct election of trade union: New development of local democracy in China - the case of Yuhang, Yuyao and Wenling, (Gonghui zhijie xuanju: zhongguo difang minzhu de xinfazhan - yi zhejiangsheng de yuhang, yuyao, wenlin wei gean), Zhejiang Social Science, No.1, 2004, pp63-73; Wang, Jinhong, Union reform and new development at grassroots democracy, (Gonghui gaige yu zhongguo jiceng minzhu de xin fazhan), Economic and mangement digest, No. 19, 2006, pp. 17-22.

<sup>22</sup> China Labor News Translations, Plans for election of union chair at Nanhai Honda The Nanhai Honda strike and the union, Jul 18, 2010.

<sup>23</sup> China Daily, Xinhuanet, Unions' role, English.news.cn 2010-09-01 09:32:56, BEIJING.

For the central state, social stability is at least as important as economic growth, to legitimate its rule. Faced with growing social tensions, the collective bargaining and collective contract system becomes increasingly important in policies. The state has given priority to economic growth since late 1970s. However, while the low-wage, high-welfare system of state-owned enterprises in the planned economy has come to an end, the biased economic growth in the new market economy has not automatically translated into good labor conditions. Instead, it has resulted in widespread violations of labor rights as well as increasing numbers of protests and strikes. Disappointed at the failed "social contract" or legal terms (Lee, 2007), workers in both old industrial areas and newly developed regions go onto the street to protest. In this context, industrial peace becomes a major challenge for the state. As one response from the state, three national statutes, the Labor Contract Law, the Employment Promotion Law, and the Law on Labor Dispute Mediation and Arbitration, were successively promulgated in 2007. Such efforts, to improve both legislation and implementation, do not simply mean that the state has chosen policies in favor of labor. Rather, it is a decision made in a much wider context and with long-term considerations, such as building up a "harmonious society" under the ruling of the party.

However, besides the problematic trade union, some local governments are at odds with national labor rules. Local governments at regional and city levels, and sometimes even at district or village levels, play an important role in local implementation of laws and policies. In China, national laws are interpreted at the local level before being put into practice. Thus local governments effectively control the implementation. Since the economic reform, the relationship between central and local governments has no longer been simply that of commander and executives, instead, power has been at least partly decentralized. In addition, divergent and sometimes competitive interests among different regions in the geographically vast and economically diverse China have also aggravated the implementation of national law. For instance, East China often has stricter rules than the South. However, even in the same region, different industrial parks may compete with each other by providing more favorable rules for corporations, in order to create a "favorable" investment environment. For instance, several local governments recently joined forces in opposition to implementing the Labor Contract Law and further, in late 2008, requested that the adjustment of legal minimum wages be suspended in the wake of the global financial and economic crisis. In reality, the competition among regional economies, together with the unevenness of institutions embedding and enabling the commodification of labor, has caused diverse local labor regimes and labor politics (Lee, 2007: 15). Against this background, it is expected that the mechanism of collective bargaining will continue to be underplayed by local governments.<sup>24</sup>

Similarly, employers and managers are mostly against collective bargaining, and business interests are sometimes more organized. During the debate on drafting the Labor Contract Law the voices of workers were mostly individualized and widely scattered, while the voice of business was expressed by business associations, e.g. the Hong Kong SME association and the European employers' association in Shanghai, expressed their attitudes against the law. In fact, however, the group of capitalists in China is far from a homogeneous class with a similar background or unified political goals. Nevertheless,

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<sup>24</sup> E.g. 21st Century Business Herald, "Trade Union Law" will be amended - wage negotiation may be raised to industrial levels, August 19, 2010, <http://www.21cbh.com/HTML/2010-8-19/zMMDAwMDE5MjkzMg.html>; Feng, Gang, "Institutional disadvantages" of enterprise unions and the background, *Society*, 2006.3, Vol. 26.



empirical study has revealed a common ignorance of, or even resistance to, above-enterprise coordination of wages and labor standards by a majority of human resource managers, as well as a deep-rooted commitment to setting specific wages for specific companies, positions and workers. In another words, the lack of former experience or awareness on the part of most managers, perhaps due to the influence of American style Human Resource Management (HRM) concepts in China since the economic reform, makes collective bargaining, not to mention above-enterprise coordination of labor standards, particularly difficult. Another problem, although less critical at the moment, is the immature nature of employers' associations, which may also affect regional and industrial collective bargaining, wherever it exists.<sup>25</sup>

Last but not the least, workers play an increasingly important role in industrial relations and potentially in collective bargaining. The complicated relationship between trade unions, employers and the state clearly illustrates the disadvantaged position of workers. In the existing legal framework and trade union system workers are taken care of, rather than actively participating. Most union activities consist of remedies after problems occur, rather than prevention or intervention in the daily labor-capital interaction (Chen, 2003). The existing collective bargaining and collective contract system is a typical example of a top-down process shaped by national law and policies, rather than a bottom-up movement initiated by grass-roots workers. Although the use of state power may help to achieve direct and immediate effects, in the long run, commands or orders from the top are neither applicable nor sustainable. Ultimately, workers have to express their own voice and rely on themselves to improve their everyday work and life.

Along with the development of a market economy, and particularly triggered by recent changes of labor law, employees' consciousness of their rights has been greatly enhanced. However, as workers have no capability to negotiate with capital individually and trade unions mainly follow political order, workers possess no formal channels for voicing their concerns. Therefore, they have taken to unauthorized collective action. Taking collective labor disputes as one example, from 2001 to 2008, the number of collective labor disputes has risen 11% annually. In the first half of 2010, 286 cases were accepted by labor arbitration at different levels, among which 44% were major collective labor disputes.<sup>26</sup> It should be noted, that in China the definition of collective labor disputes refers to disputes over rights by more than three to ten individual workers (depending on the cases), with common causes and claims. There are actually no disputes related to collective contracts, due to the pure 'formality' of existing contracts, as well as the indifferent attitudes of both labor and capital towards these contracts. Nevertheless, the increasing number of existing labor disputes at least reflects the fact that workers are more and more inclined to defend their rights as a "collective".

It is important to note that none of these disputes or industrial actions, e.g. the strike waves in early 2010, have been related to collective bargaining or wage negotiation in the legal framework, or led by the ACFTU. In some cases, strikes have indeed become the way that workers put forward their request for collective bargaining. Either through active

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<sup>25</sup> E.g. Briefing on annual meeting of the China Law Society, Speech of Mr. Wang, Guoshe, the Director of Shenzhen City Bureau of human resource and social security, August 21, 2010, Vol. 2.

<sup>26</sup> The "collective disputes" refer to those with more than 10 employees and "major collective disputes" involve more than 50 employees. Data is quoted from: Legal Daily, collective labor disputes increased rapidly in the last 8 years consecutively, September 21, 2010, <http://epaper.legaldaily.com.cn/fzrb/content/20100921/ArticleI06005GN.htm>.

forms, such as strikes and labor disputes, or in more passive ways, such as through high turnover rates, workers are trying to express their voice, to draw attention from the government, and to seek an effective channel of communication. Collective bargaining is traditionally seen as the way of avoiding intense conflicts between labor and capital. In China, in fact, collective bargaining only becomes possible through intense conflicts.

A mature system of collective bargaining would fundamentally require strong bargaining power by workers. At least two types of bargaining power exist for workers, structural and associational power (Wright, 2000). The former includes both marketplace and workplace power. Although Chinese workers, with generally low education and low skills, may be easily substituted in the generally over supplied labor market, their workplace bargaining power is nonetheless enhanced by widespread mass production and use of lean production methods. The fact that the walkout of workers in one Honda parts factory led to the complete shutdown of all four Honda assembly plants in China, which make 3,000 vehicles a day,<sup>27</sup> also reveals workers' increasing workplace power in a seamlessly-integrated lean production system.

As to associational bargaining power, the current condition of the official trade union is clearly not satisfactory. Clarifying its essential role as a labor representative, rather than as a government apparatus or management body, and accordingly mobilizing rank and file workers is the urgent task that the Chinese union cannot avoid. Workers, as the fourth party in industrial relations, are highly segmented, not only by purposeful policies on rural and urban workers and different ownerships of enterprise, but also through differentiation between regular and dispatched labor. Generally speaking, the legal consciousness of workers has increased, as indicated by the growing number of court cases and protests. Nevertheless, their consciousness of collective rights and solidarity is still conspicuously absent, especially any form of class consciousness that extends beyond single enterprises. In this context, it is difficult to establish a collective basis for the working class and thus for the labor movement.

However, in a fast-changing economy and society like China it would be too soon and too assertive to deny any positive possibilities for the future. If one considers that the large flow of migrant workers firstly took place in 1984, then the majority of migrant workers today can be categorized as second generation migrant workers. They may have parents among the first generation of migrant workers, who left home mainly to earn money for their rural families. However, the younger generation has been raised in very different conditions. On one side, they have developed stronger self-consciousness and a far higher expectation of urban life and work than their parents, and are more and more inclined to stay in cities. According to official statistics, the population living in rural areas has dropped from more than 70% twenty years ago to only 53% today.<sup>28</sup> On the other side, their incomes have barely increased in comparison to the levels received by their parents, despite the fact that living costs and consumer prices have skyrocketed. Their dilemma is that while there is no longer a home or even land in the rural area to come back to, at the same time it is nearly impossible for these workers to afford to live in cities, given their current low wages. As the labor history of industrialized nations shows, the vigorous second generation of immigrants was one major force that pushed the development of

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<sup>27</sup> China Entrepreneur Magazine, Strikers refused the offer of wage increases and Honda China factories are still closed, June 01, 2010, <http://www.iceo.com.cn/shangye/25/2010/0601/194627.shtml>.

<sup>28</sup> Yang Jian, China's auto industry should prepare for higher wages, Automotive News, June 8, 2010, Shanghai, <http://www.autonewschina.com/en/printarticle.asp?id=5187>.

labor movements and finally led to the institutionalization of collective bargaining (e.g. Silver, 2003). Perhaps this could also be the case in China. It is true that migrant workers in China are facing tremendous difficulties in a very different political and economic context than those faced by migrant workers in Western countries decades ago. Also, the two or three generations of Chinese migrant workers have little experience of, or even common knowledge about, collective bargaining. However, progress is being made, little by little.

### **3.6 Conclusion**

Clearly, the existing system of collective bargaining and collective contracts, which has been set up in China since the early 1990s, is far from satisfactory. Millions of collective contracts have been signed in the last few years, but in reality, wages and other labor standards remain low and unstable. Rather than being the result of effective bargaining, the majority of collective contracts are signed, either as a way for enterprise unions to fulfill the official quota of upper-level trade unions, or as a perfunctory effort of employers under the pressure of local labor administration. Accordingly, many collective contracts contain only general principles or legal terms, instead of any substantial statements or quantitative figures on labor standards.

Primarily, the law and policies, in spite of a relatively comprehensive framework, have a strong bias and apparent defects including, the intentional minimization of any confrontation by avoiding the words "bargaining" or "collective", lack of stipulations on the bargaining process, as well as silence on the right to strike. Those ambiguities directly lead to problematic implementation. In practice, workers are usually excluded from the process, enterprise unions are unwilling or unable to make any resistance, and consequently collective contracts are virtually in the hands of employers. At the same time, coordination at above-enterprise level, e.g. regional or industrial bargaining, is largely absent, even though it could potentially help avoid direct confrontation within enterprises, reduce the control of management on enterprise unions and thus achieve more equal and professional bargaining.

Both the legal and practical problems can be understood in the economic and social context of China. The role of the state is important for better regulation and effective inspection of collective bargaining, particularly because current labor relations in China are completely unbalanced, and labor rights are widely neglected and violated in enterprises. Indeed, trade unions are subordinated to both the state and employers. On one side, trade unions depend on the state for power and resources, but at the same time, the state is unwilling to loosen its control and only gives limited space to trade unions to pacify workers: Among the political tasks of the ACFTU, collective bargaining is apparently not the priority. On the other side, enterprise unions are not in a position to effectively bargain with employers, either. The determination of labor standards remains predominantly a unilateral prerogative of management. This has not only been taken for granted by management, but also embraced by many union cadres. In addition, workers are indeed excluded from collective bargaining. Without the participation of direct actors, a law can only make rules on paper, but not build the institutions to put these rules into practice. Thus, until trade unions in China firstly separate themselves from employers, they will not be able to gain the trust of workers, not to mention effectively represent them to bargain for better labor standards.

Given such complicated relationships among the major industrial relations actors, as well as the gigantic geographic scale of China, and accordingly, the divergent social-economic environments and workers' characteristics, the implementation of effective collective

bargaining is expected to be a long and gradual process. Ultimately, workers would need to actively participate in collective bargaining, since they are the industrial relations actors with the direct motivation to improve their standards, and have also shown an increasing interest and bargaining power to do so. This, together with the work of a few but increasing number of labor activists, including scholars, government officials, trade unionists and practitioners, could lead to changes, even within the existing political and economic complex.

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## 4. Fragmented Minimum Wage System

Max J. Zenglein

The development of the Chinese economy was a daunting task, transforming a deeply backward economy to become the world's number one exporter, lifting hundreds of millions out of poverty. With the launching of economic reform the central government has significantly changed the labor market, gradually dismantling the government-controlled system to form a more competitive market. During this process the labor market reforms have been both the source as well as its major limitation during its economic transition, making it one of the most challenging tasks for the government to face (Fleischer and Young, 2003). At present, many social costs have been externalized for the benefit of rapid overall development. In order to achieve a more sustainable development, reducing multilevel (regional, urban-rural, sector) income disparities as well as deficiencies in social services and environmental protection, recent policies focus on strengthening workers' rights.

With the introduction of the Minimum Wage Law in 1994 the government initiated a first step in improving the income situation for workers. Weak enforcement left the legislation nearly impotent in reducing social inequality. Not until the inauguration of President Hu Jintao in 2003 and the government's aim to pursue "social harmony" did the minimum wage policies begin to translate into noticeable effects for workers. A central part in the government's efforts to boost consumption and more importantly reduce the widening income gap has been to toughen minimum wage policies. Since then minimum wage has constantly been on the rise and its enforcement has greatly improved. Recent labor disputes in the summer of 2010 over low wages and in light of rising costs of living underline workers' determination for a more equitable income distribution.

Supplemented by additional labor market regulations and a stronger commitment by the government, recent minimum wage regulations succeeded in benefiting especially low-skilled, mostly migrant workers in urban areas with previously little legal protection. The most significant changes were the introduction of the Labor Contract Law and the Law on Mediation and Arbitration of Labor Disputes in 2008. This development comes at a time when many scholars believe that China is about to reach the Lewisian Turning Point, when the supply of labor from rural areas dries off and the wages of industrial workers start to increase substantially. Minimum wage regulations are also an important labor market tool as a new and more confident generation of workers is emerging.

Chinese minimum wage regulations aim to achieve a basic living wage and greater equality in income distribution. Rising living costs and average wage growth outpacing minimum wage adjustment make achieving these goals a challenge. Despite the continuous nominal and real growth of minimum wage rates throughout China, minimum wage policies have not been able to reduce growing disparities. The policies have yet to show that they are the most effective tool in reducing the income gap which has gripped the country, resulting in a multilevel segmentation between urban and rural areas, but also within urban areas themselves. Lacking any form of apparent coordination, local authorities may make their own interpretation of national minimum wage regulations which result in large regional differences in minimum wage levels which for the most part are a reflection of the regional disparities across the nation. Regional autonomy in minimum

wage setting, combined with a lack of transparency and workers' representation in the minimum wage determination process, produce additional obstacles in reaching the two main policy goals. The minimum wage, in combination with an improved legal environment and subsequent better enforcement since the beginning of the 21<sup>st</sup> century has made a positive contribution to the income situation of urban workers. However, it is far from reaching its policy goals, in part due to deficiencies in the minimum wage determination process.

This chapter aims to outline the Chinese minimum wage regime focusing on how national legislation is implemented across the nation. After establishing this basic framework this section will evaluate to what degree minimum wages have contributed to the Chinese government's objectives of establishing a wage floor and of reducing social inequalities.

#### **4.1 Chinese Labor Markets during Reform**

Since the founding of the People's Republic of China in 1949 the development of its labor market has gone through three stages (Cooke, 2008). Prior to outlining China's minimum wage regime this section will provide a brief introduction of the changes in Chinese industrial relations and the environment in which minimum wage legislation has evolved. The first stage was a highly regulated, paternal system. Under this concept workers were assigned to a work unit (*danwei*) which provided a wide range of social benefits, including lifelong employment, housing, schooling and basic health care. The second stage saw a period of unprecedented growth and deregulation accompanied by the destruction of many former labor market institutions, resulting in social imbalances. The third and current stage aims at reducing social inequalities through a series of regulative measures and experimentation in building modern Chinese industrial relations.

##### ***Socialist Pre-Reform Labor Market (1949-1978)***

Wages were determined by a centralized wage grid system which was detached from most performance indicators any profit-oriented organization might pursue. Instead, the wage grid system was a government-set wage rate, mostly determined by seniority and formal qualification. Regional differences were taken into consideration as well, but normally wage differentials across the country were limited (Meng, 2000). Essentially, it detached wages and employment from company performance, establishing nearly complete security (Saha, 2006). Due to its robustness the system was referred to as the iron rice bowl.<sup>1</sup> Institutional arrangements resulted in severe limitations on labor mobility, since income and social security were usually directly linked to the work unit (Fleisher and Yang, 2008). China's pre-reform institutional setting thus created an extremely rigid labor market.

The socialist Chinese economy created a dualistic, but egalitarian society, reflecting a significant urban-rural divide, although incomes within each sector as well as between the sectors were fairly equal (Naughton, 2006). Despite the limitations on the labor market, the complimentary institutions including the wage grid, kept inequality in check. Another factor for this egalitarian society, however, was also the fact that in the socialist, agriculturally-based economy everyone other than the elite was more or less equally poor.

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<sup>1</sup> Not all workers were part of the *danwei* system as it was accessible only to urban residents based on the relevant household registration status (*hukou*). Rural residents had access to more limited benefits through rural communes (Shen, 2007).

### ***Economic Reforms and Deregulation (1978-2003)***

A crucial factor in the initial reforms was the labor market, which in many areas was a central point to any reform efforts. During the massive deregulation period one of the main priorities of the reforms was the breaking up of the paternal government employment system including the wage grid system. Reforming these institutions had an immediate impact on the workforce. While few had been previously employed in private enterprises, the distribution significantly changed during the reform process (Fleisher and Yang, 2003). Whereas the process was relatively slow to pick up pace, the proportion of employees working in state-owned enterprises (SOE) rapidly decreased during the early 1990s. Continuous marketization efforts of China's industrial relations, specifically related to the determination of hiring, dismissal, and wages, transformed the paternal employer-worker system to an exchange of labor services for wage payments (Rawski, 2003).

During the 1990s the government also granted the SOEs more freedom in setting wages (Yueh, 2004). SOE personnel departments subsequently implemented performance-based wage schemes (Saha, 2006). They thereby contributed to the wage drift between high and low-skilled workers. While scarce skilled labor was enjoying rapid wage increases, the enormous pool of unskilled labor in combination with the intense rural-urban divide resulted in low wages (see Rawski, 2003; Chan, 2005). Consequently, though China's growth has been exceptional and improved the lives of the vast majority, it was at the same time highly unbalanced, between urban and rural areas, coastal areas and hinterland, skilled and unskilled labor.

While job security and centralized wage scales were removed, neither the discriminatory hukou system nor the political control over the workforce was relaxed. Due to major deficiencies in the social safety net, the hukou system continues to be a barrier to labor mobility, particularly when a worker is changing the workplace to a different type of ownership or to another geographic location, (Fleischer and Yang, 2003a). Industrial relations continued to remain under tight government orchestration, preventing any non-governmentally-endorsed worker's voice from establishing itself (see, Luo in this book). As a result, management in public and private enterprises gained the upper hand in post-reform industrial relations (Cooke, 2008).

Official data from 2004 reveal that 145 million workers did not have any kind of formal contract (IHLO, 2008), with actual figures expected to be much higher. The informal nature of many private sector jobs and the lack of institutions substituting the previous industrial relations arrangement let employers evade rules (Cai, Wang and Du, 2005). With increased privatization of its economy, China labor market became notorious for poor working conditions, default on wages, low wages, forced labor and other forms of abuse (see: Luo in this volume).

These developments are reflected in the unprecedented rise of the Gini coefficient from 0.16 in 1978 to 47.3 in 2006. Similarly, China's wage share of GDP has consistently been declining, dropping to 36.7% in 2005 (China Daily, May 12<sup>th</sup>, 2010). Income disparities between rural and urban areas, especially in developing countries, are not particularly noteworthy. However, the magnitude of China's income gap is substantially larger than anywhere else. A study by Yang and Cai (2003) analyzed the ratio of non-agricultural income to agricultural incomes for standard workers in 36 countries. In recent years China has been fluctuating between ratios of 2 to 3, with few countries showing higher marks. The ratio measuring the urban-rural income gap has consistently been on the rise (see Chi, 2008; see: Pan & Rui in this volume). More notably, the countries with similar high marks were some of the world's poorest economies. Rural residents attempting to bridge



the gap by searching for better opportunities in urban areas could expect to be disappointed. A survey by Meng and Zhang (2001), based on two data sets of individual information, concludes that migrants face discrimination and lower pay than their urban counterparts. China's inequality has been on the rise not only across regions (e.g. urban-rural, provinces), but across industries and occupations as well (see Lee, 2009 and Chi, 2008).

However, a new generation of workers has emerged. The present generation of workers, born in the mid 1980s or 90s, are less willing to accept the kind of hardship and grim working conditions in combination with living in dull dormitory camps within crowded industrial centers. Additionally, today's workers are better connected via mobile phones and the internet and far better educated about their rights. Nonetheless, for the majority it won't be feasible to truly bridge the urban-rural gap, as even many urban residents are struggling and social pressures are on the rise. The desire, amplified by social expectations, of owning living space, a scooter or even a car, will remain unattainable, whereas the successful, lucky, privileged (and corrupt) are living their dream. This might have been accepted in silence previously, but resentment in China's overly hard-wearing labor force is slowly building up. At this stage it has become evident that enterprise reforms have far outpaced social reforms (Fleisher and Yang, 2003).

### ***Rebuilding China's Industrial Relations (since 2003)***

Faced with increasing social unrest, the leadership of the party began to realize that its prior strategy of achieving economic development at all costs was not sustainable. In pursuit of the party's goal for building a harmonious society, the leadership under Hu Jintao (in office since 2003) has introduced policies to improve the situation of workers and limit disparities. Labor market regulations are central to the government's efforts to build new industrial relations as they have an important redistributive role and can provide vulnerable categories of workers with necessary insurance from adverse market outcomes (Cooke, 2008). A process of balancing an employer-friendly environment into a more employee-friendly institutional setting is taking place. Requirements to enter contractual agreements with workers, attempts to utilize unions, experimentation with collective agreements and tripartite consultation, tripartite arbitration, wage guidelines, a wage information system as well as the implementation of minimum wages (see Table 1) indicate that the labor market is becoming a central issue to government policy. The persistent increase of unequal income distribution was seen as an immediate threat to macroeconomic stability, which has always been a paramount goal of policy-makers in China (Priewe and Herr, 2005). To ameliorate the negative side effects of unregulated markets, the government has been trying to implement a new framework to regulate labor relations, specifically targeting the private sector. Labor market legislation is usually issued by the central government, however, given China's vast geographic and development differences, implementation is highly decentralized by giving local authorities more room for interpretation.

A milestone was the Employment Contract Law of 2008 which granted employees improved protection and legal rights. Two years after coming into effect, the Labor Contract Law has made a positive contribution to strengthening workers' rights. Together with the complementary Law on Mediation and Arbitration of Labor Disputes, legislation has proven itself an effective tool to advance workers rights.<sup>2</sup> The move can be seen as a

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<sup>2</sup> Prior to the introduction of the new Labor Contract Law, employees had far fewer rights and often never entered a formal contract. The new rules require a contract be signed after 30 days, max.. In case of

step to pursue more sustainable economic growth by establishing certain minimum standards, all intended to contribute to a more harmonious relationship between workers and employers.

**Table 1. Changes in Chinese Labor Law Legislation**

1994	Labor Law
	Provisions of Labor Law Establishing Minimum Wage System
1999	Labor Market Wage Guidelines
2000	Decree on Collective Wage Negotiations
	Regulation on Labor Market Management
2001	Revision of Trade Union Laws
	Promotion of Collective Bargaining and Collective Agreements
2004	Minimum Wage Regulations
	Revision of Provisions for Collective Agreements
2005	Anti Discrimination Regulations
2008	Labor Contract Law
	Law on Mediation and Arbitration of Labor Disputes
	Employment Promotion Law

Source: Own table based on information from MOLSS.

## 4.2 China's Minimum Wage System

Another element in the central government's agenda to insure industrial peace was to strengthen minimum wage provisions. The government considers minimum wages a means to establish a wage floor guaranteeing a minimum living standard for workers as well as to reduce income disparities. In addition, it also uses minimum wage guidelines as a macroeconomic policy tool. In response to the global financial crisis, the government suspended annual adjustments of the minimum wage rates in 2009 and resumed them in 2010 to foster domestic demand.

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dispute, arbitration channels are now accessible free of charge, whereas prior to 2008 employees had to pay a fee of RMB300 up front. Consequently, reported labor disputes have been on the rise, and according to the China Statistical Yearbook more than doubling with the introduction of the new legislation.

**Table 2. Overview of Chinese Labor Law on Minimum Wage 1994**

**Article 48**

*The State shall implement a system of guaranteed minimum wages. Specific standards on minimum wages shall be stipulated by provincial, autonomous regional and municipal people's governments and reported to the State Council for registration.*

*The employer shall pay labourers wages no lower than local standards on minimum wages.*

**Article 49**

*Standards on minimum wages shall be fixed and readjusted with comprehensive reference to the following factors:*

- (1) The lowest living costs of labourers themselves and the number of family members they support;*
- (2) Average wage level of the society as a whole;*
- (3) Productivity;*
- (4) Situation of employment;*
- (5) Differences between regions in their levels of economic development.*

Source: Labor Law of the People's Republic of China.

**Minimum Wage Legislation in China**

The first regulations on minimum wages were introduced in 1994 within the Labor Law. Chapter 5 of the document is entirely devoted to wages and Articles 48 and 49 (see Table 2) are devoted to minimum wages. The national legislation does not outline any unified national standards but stipulates that lower level governments are required to implement a minimum wage standard and specifies basic guidelines which should be followed in determining a minimum wage rate. Given the overall transitional institutional setting of the labor market and limited enforcement of legislation, the initial minimum wage provisions remained, for the most part, insignificant for most workers (see Chan 2003; Du and Pan 2009; Meng 2001).

2004 in an attempt to strengthen the significance of the legislation the Ministry of Labor and Social Security (MOLSS) issued specific Minimum Wage Regulations.<sup>3</sup> The revision is more specific and broader in scope following the president's aim for a more "harmonious society". Unlike the previous provisions, it clearly defines supervision (Chapter IV) and legal responsibilities (Chapter V). Further, the MOLSS has advised enterprises, especially profit-making ones, to pay workers more than the minimum wage (CLB, 2007). The legislative changes to minimum wage regulations have progressed slowly since 1994 but it

<sup>3</sup> In 2008 the MOLSS was combined with the former Ministry of Personnel to form the Ministry of Human Resources and Social Security (MHRSS). To avoid confusion and as the majority of the relevant regulations are prior to 2008, this article will use MOLSS throughout the text.

was not until the Labor Contract Law 2008 (see section 2.1) coupled with a stronger political determination that its implementation made significant advances.

### **Minimum Wage Setting after 2004**

The Minimum Wage Regulations are a national law and govern the setting of minimum wages on the national level. The legislation provides a framework and outlines mechanisms on how minimum wages should be determined throughout China. As with other labor related policies, under the Central Government<sup>4</sup> local administrations within a province, autonomous region or municipality can set a minimum wage rate at their own discretion. Hence, though there are no official differences in the minimum wage setting mechanism, the actual process as well as the outcome may differ regionally (see 4.2.3). As for the actual calculation, the MOLSS sets out two universal methods within the Minimum Wage Regulations: the proportion method and the Engel coefficient method. Both methods are based on minimum living expenses and a coefficient for people supported by each employee. First, the local minimum monthly living cost for persons living in the minimum income group is determined ( $C_{min}$ ). Fixing the minimum monthly living costs should, but is not limited to, taking average living costs or urban residents, social insurance premiums and public accumulation of funds for housing, average wage, rate of unemployment, level of economic development into consideration. Second, the coefficient of the number of family members supported ( $P_{sup}$ ) is determined. For the Engel Coefficient, the proportion ( $E_{pro}$ ) and absolute value ( $E_{AV}$ ) of the minimum monthly living cost spent on food is then calculated ( $E_{pro} = E_{AV} / C_{min}$ ). Each formula will then allow for adjustments ( $a$ ) based on public social programs such as pensions. Although there are two formulas they will both derive an identical minimum wage rate as  $C_{min} = E_{AV} / E_{pro}$ . Essentially,  $C_{min}$  must first be set in order to make any use of the Engel Coefficient Method.<sup>5</sup> The computation of  $C_{min}$  however is not made transparent (see 4.2). Calculating the local minimum wage ( $MW_L$ ) then leaves the following formulas:

Proportion Method:  $MW_L = C_{min} \times P_{sup} + a$

Engel Coefficient Method:  $MW_L = (E_{AV} / E_{pro}) \times P_{sup} + a$

Finally, the regulations set out that the prevailing minimum wage rate should be equivalent to 40-60% of the average monthly wage. Along with the adjustment variable ( $a$ ), this stipulation leaves policy-makers a certain degree of flexibility before fixing the minimum wage rate. Next to the monthly minimum wage, an hourly minimum wage (or a piece rate) shall also be introduced. The legislation also set out a calculation method to reduce the disparities between full- and part-time employees.

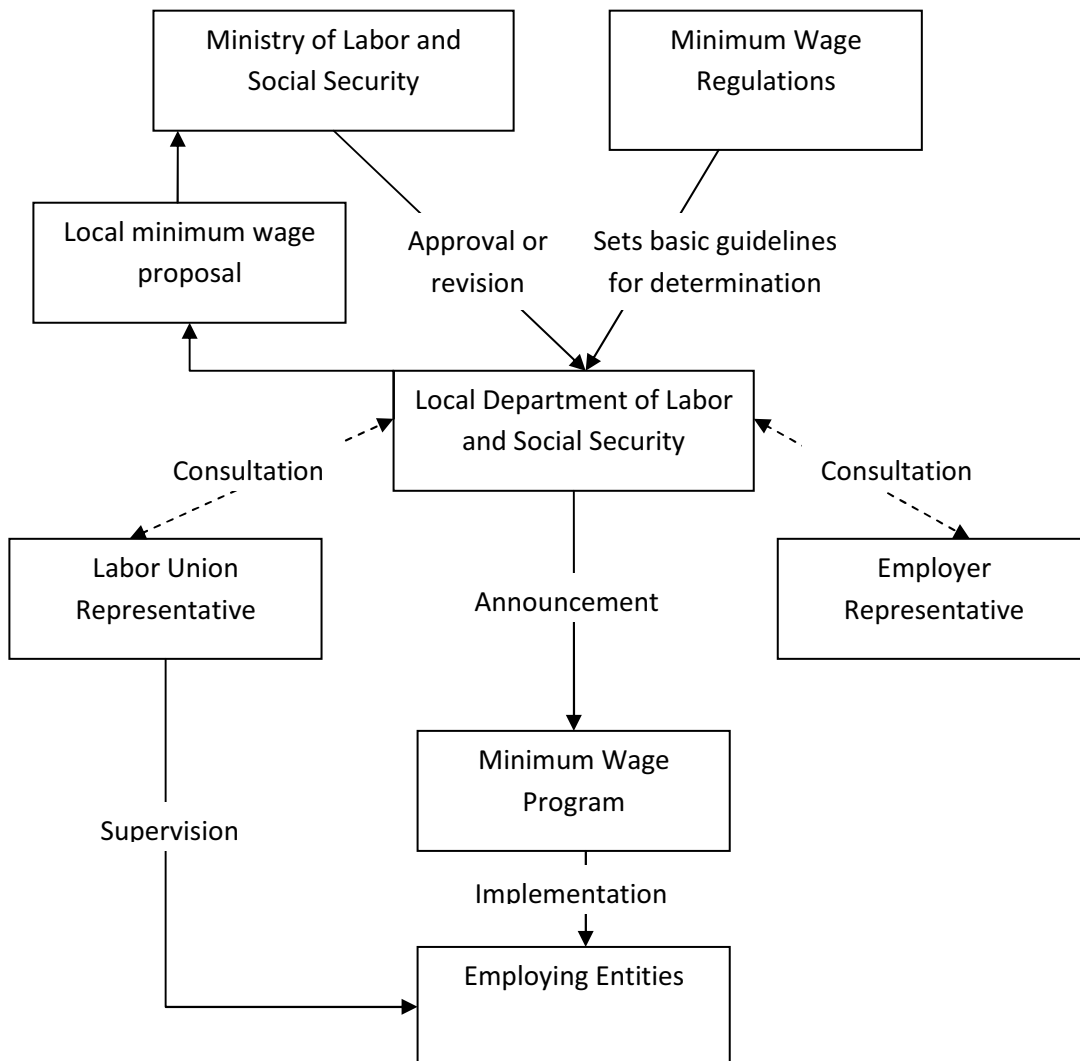
<sup>4</sup> Currently China has 4 cities (Beijing, Shanghai, Tianjin, and Chongqing) administered as direct-controlled municipalities by the Central government with a status equal to provinces.

<sup>5</sup> Example: Minimum monthly living cost set at  $C_{min}=600$ , absolute amount of which is spent on food is determined to be  $E_{AV}=240$ , equivalent to a proportion of  $E_{pro} = E_{AV} / C_{min}=240/600=0.4$ . Let's assume people supported is determined to be  $P_{sup}=1.8$  and the adjustment  $a=20$ .

Proportion Method:  $MW_L = C_{min} \times P_{sup} + a = 600 \times 1.8 + 20 = 1100$

Engel Coefficient Method:  $MW_L = (E_{AV} / E_{pro}) \times P_{sup} + a = (240/0.4) \times 1.8 + 20 = 1100$

**Diagram 1. Overview of Minimum Wage Determination**



Source: Own graph based on Regulations on Minimum Wage by the MOLSS.

Local authorities are advised to enter consultations with the labor union and employer representatives and following the regulation's outlined methodology, determine a local minimum wage standard. Once a minimum wage rate is found a proposal for a minimum wage program is submitted to the MOLSS, which may further consult with union and employer representatives before either grants its consent or must submit a revision within 14 days of reception. Following approval the local authorities are obliged to publish the new minimum wage while supervision is the responsibility of the All-China Federation of Trade Union (ACFTU) or one of its affiliated unions (see, Luo in this book). An overview of the process and roles of the different organizations in the minimum wage determination process are outlined below in Diagram 1. Though the rules outline a tripartite consultation, the actual determination lacks transparency and varies strongly depending on the region. The national regulations governing the minimum wage-setting process leave much room for regional interpretation. Usually minimum wage adjustments will not follow a public debate, but rather through closed door consultations where the actual constellation and roles of the participating parties remains much in the dark. Following this process the announcement of wage rate adjustments is followed by the publication of a new date and

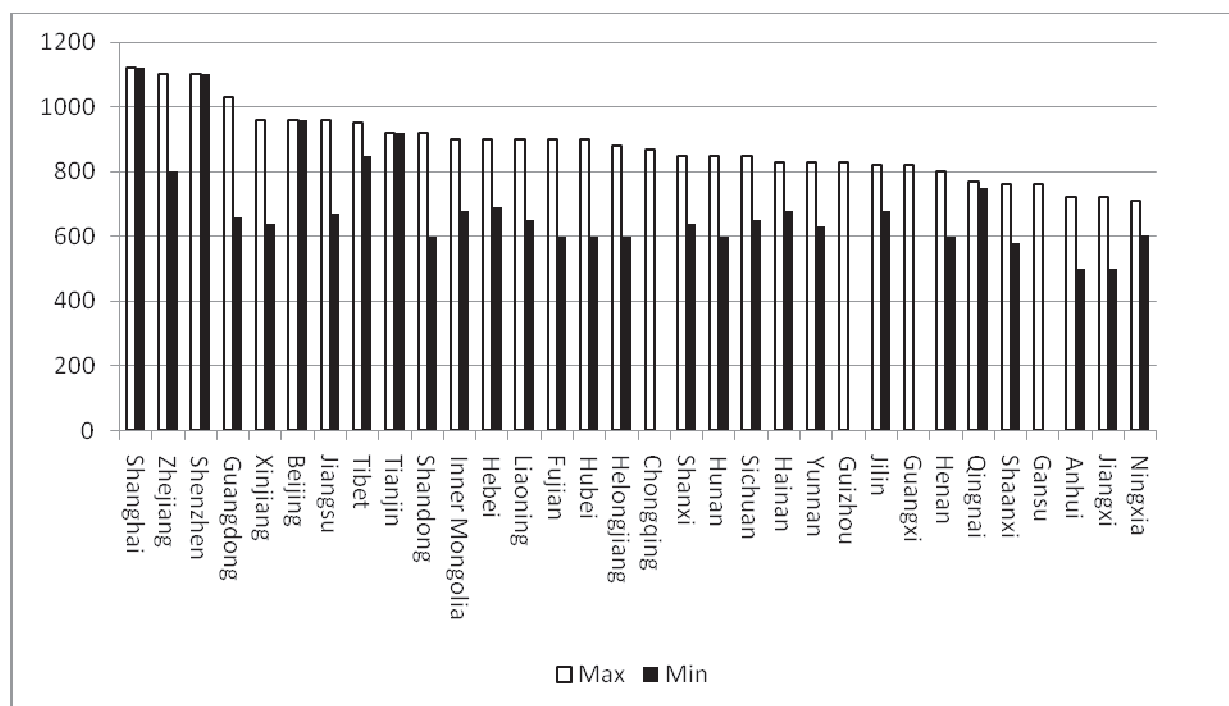
minimum wage level. Local labor unions in combination with labor authorities will then check for actual implementation at the enterprise level. As in other cases vast regional difference in the actual coverage as well as the enforcement are noticeable.

### Minimum Wage Rates across China

In total, as shown in Graph 1 China has 32 minimum wage regimes in place. Though all are based on the stipulations outlined in the Minimum Wages Regulations, large variations are present. The municipalities Beijing, Shanghai, Shenzhen, and Tianjin have unified their minimum wage regimes in 2010, meaning that minimum wage rates are uniform for the entire jurisdiction. Though previously different minimum wage rates were given for different districts, the local authorities set a single wage rate with the 2010 adjustments.

Within provinces different wage rates are primarily set to account for variations in the cost of living ( $C_{min}$ ). Depending on variations within a province, wages rates will be set for different tiers. Whereas some provinces will only have a 1<sup>st</sup> tier for major urban areas (usually for the provincial capital) and a 2<sup>nd</sup> tier for smaller cities, some provinces like Guangdong have several tiers. Including Shenzhen, which enjoys autonomy from the provincial government and sets its rates independently, the province has five tiers (Table 3).

**Graph 1. Range of Monthly Minimum Wage Rates across Provinces in RMB, 2010**



Sources: Local Labor and Social Security Departments.

**Table 3. Minimum Wage Rates Across Guangdong Province, 2011**

Tier	RMB/month	Change to 2010	Jurisdiction
1	1300	26%	Guangzhou
	1320	20%	Shenzhen <sup>6</sup>
2	1100	20%	Zhuhai, Foshan, Dongguan, Zhongshan
3	950	17%	Shantou, Huizhou, Jiangmen
4	850	20%	Shaoguan, Heyuan, Meizhou, Shanwei, Yangjiang, Zhangjiang
			Maoming, Zhaoqing, Qingyuan, Chaozhou, Jieyang, Yunfu

Sources: Guangdong and Shenzhen Labor and Social Security Departments.

### 4.3 Evaluating Minimum wages in an transitional labor market

Minimum wages are a fairly simple policy to implement; its impact however will strongly depend on effective enforcement, its policy design, and the institutional setting. According to Rubery (2003), Minimum Wage Regulations will make a positive contribution to improving social norms with respect to wages in developing countries if the following circumstances apply: 1) Greater importance of working poor in formal employment 2) absence of welfare system or effective taxation providing for an alternative system of redistribution 3) simple and readily available regulations 4) Existence of excess labor 5) High inflation potential 6) Importance of stimulating social dialogue, including involvement of trade unions. The following preconditions for making a positive contribution shall be addressed again later in this article after an evaluation of the Chinese minimum wage regime.

This paper has focused thus far on the social and economic development pertaining to the Chinese labor market during its transitional phases. Further, the legal framework of the Chinese minimum wage regime has been outlined. This section aims to evaluate the implementation of minimum wages in China. Next to coverage and the current enforcement of minimum wage provisions, this section will analyse minimum wage rates in terms of establishing a minimum living standard. Further, the role of minimum wage as a wage component as well as its impact on worker's expectation will be analysed. Lastly, the impact on income inequality reduction will be highlighted. The central government's goals by implementing minimum wage rates are that minimum wages shall set a wage floor, ensuring a minimum living standard and that they shall reduce inequality within the society. Hence, whether both policy goals can be reached will indicate whether the Chinese minimum wage regime has been implemented effectively or not.

<sup>6</sup> Shenzhen is not officially a tier of Guangdong Province, as it sets its own minimum wage. It has a uniform minimum wage for its jurisdiction. Independent of Guangdong Province in January 2011, Shenzhen announced a rise in the minimum wage for April 2011.

## ***Coverage and Enforcement***

Though minimum wages were introduced in 1994 a significant number of cities did not implement regulations, although great improvements have been made over the years and by 2006 more than 286 cities had minimum wage policies in place (IPLE, 2007). Nonetheless, enforcement and coverage are difficult to judge and are further complicated by China's transforming legal system. Prior to the introduction of the 2008 Labor Contract Law as well as the Law on Mediation and Arbitration of Labor Disputes (see 2.3) the legal standing of workers was much weaker. Especially the position of migrant workers, the main recipients of minimum wages, has since notably improved. Thus, when considering the issue of coverage and enforcement, a distinction between pre and post 2008 is necessary.

As mentioned above, data on coverage is scarce, however this section will attempt to provide an overview of some findings of the situation prior to legislative changes in 2008. In 2007 migrant workers were estimated at 136 million workers, of whom over 80% were attributed to the informal sector (Cai, Du and Wang, 2009).<sup>7</sup> By the authors' estimates up to 46% of the urban workforce was engaged in informal employment by 2005. The authors further show that wages in formal sectors were higher than in the informal sector with the inequality being stronger for hourly wages than for monthly wages and migrant workers earning less than local workers (see also Table 4). It can further be expected that a substantial portion of the local hukou holders were employed in the informal sector. With an abundant labor supply and little legal protection before 2008 workers were commonly confronted with employers who violated regulations including holding back wages (Chan, 2005; Cooke, 2005). During the period of deregulation informal employment experienced strong growth, leading to a significant informalization of Chinese employment (see Cooke, 2008; Park and Cai, 2009). The resulting employer-dominated environment and ease of replacing one unskilled worker with another encouraged workers to tolerate any violations of the law, of which workers were generally ill-informed anyway. A challenge to the implementation of minimum wages is that it primarily applies to the worst employers of an economy, making effective enforcement a crucial element (Rubery, 2003). Prior to the introduction of the Labor Contract Law, it is generally understood that minimum wage regulations did not significantly improve the conditions for informal workers though supporting data is hard to obtain. With no formal employment contract any legal steps demanding minimum wage payment proved difficult, resulting in an overall weak enforcement. Three years after its implementation it is still too early to determine the effect on the informal sector and whether there has been an effect on wages. However, the first indication tends to show that, prior to the introduction of the Labor Contract Law, the situation in the labor market including payment for workers, especially for part-time workers, has been much grimmer.

From the onset China's minimum wage regulation aimed at universal coverage in urban areas, i.e. all locally implemented minimum wage rates are meant to cover the entire workforce within a city. Since minimum wage regulations only apply to urban areas those in rural areas and most in need of minimum wage regulations are excluded. The major rural-urban divide is a major challenge authorities still need to face. In an ideal case the informal or the agricultural sector will benefit from spillover effects through minimum wage regulations in the formal urban labor market. Better compulsory education and the now

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<sup>7</sup> Other estimates put the figure between 150-300 million.



strict enforcement of the Labor Contract Law will also result in a reduction of the informal sector, albeit do little for the rural sector.<sup>8</sup>

The scope covers all employees with formal contracts at enterprises, community-run and non-enterprise units, private industries and individual businesses, state organs, institutional units and social community units with no limitations on age, gender, job or industry in urban areas (Du, Wang, and Lee, 2009). In practice it is mostly relevant in urban areas as the agricultural sector is excluded (Herr and Kazandziska, 2010). Generally speaking, reliable data on minimum wage coverage is scarce. The Peterson Institute for International Economics (PIIE) (2007) reports that figures for Beijing showed that workers earning minimum wages covered only 2.4% of workers in 2002. Given the higher average wage (see Table 5) the share of workers earning minimum wages appears to be small (PIIE, 2007). Reports for 2004 concluded that in Shannxi province a quarter of the rural migrant workers earned below the minimum wage (Cooke, 2008). Other studies find that 11% (2001) and 16% (2005) of migrant workers were paid below the minimum wage (IHLO, 2008). Using 2005 data from the Urban Labor Survey 2 Cai, Du and Wang (2009) found that 84.4% of all full-time migrant workers and 85% of local workers earned incomes above the minimum wage, while 15.6% of migrants and 15% of hukou holders (i.e. people holding citizen rights in the city) received earnings below the minimum (see Table 4). According to an ILO study (2010) migrant workers in urban areas are the most likely to be paid minimum wage as they have a higher likelihood of working in low-paid employment. In 2007 64% of migrant workers were engaged in low-paid employment compared to only 28.2% for local workers. These workers in general will be younger, with an overrepresentation of females and a lower level of education. The ILO study points out that in 2007 the incidence of remuneration below the minimum wage was 29.8% of local workers (i.e. hukou holders) and almost twice as high for migrant workers.

**Table 4. Monthly earning and minimum wage coverage in 5 selected cities, 2005<sup>9</sup>**

	Monthly earnings		Coverage	
	Migrant	Local*	Migrant	Local*
	in RMB	in RMB	in %	in %
<b>Men</b>	1140	1282	88.6	88.9
<b>Women</b>	879	963	79.1	80.0
<b>Average</b>	1022	1144	84.4	85.0

Source: Cai, Du and Wang (2009).

\* local = local hukou holder<sup>10</sup>

<sup>8</sup> Improving conditions for the rural poor can be achieved through rural development rather than setting a minimum wage (Saget, 2001).

<sup>9</sup> The five cities included in this survey are Shanghai, Wuhan, Shenyang, Fuzhou, and Xi'an.

<sup>10</sup> 'Local hukou holders' refers to people with local citizen rights in the relevant city. For example, a worker with Shenzhen hukou will enjoy access to certain government services and privileges in Shenzhen but not in another city. Any person who does not have a city's hukou will normally only enjoy limited access or at higher costs and will be required to return to the hukou issuing city for some services (e.g. passport

Looking at the different findings with regard to minimum wage coverage, there are no conclusive figures for coverage in China as data varies depending on the study cited. It should be kept in mind that all these figures are pre-2008 and prior to the new Labor Contract Law which aimed to force employers to enter into contractual agreements which would make employees eligible for minimum wage coverage. Typically, minimum wage recipients in urban areas are rural migrant workers working in enterprises that perform poorly (Carley, 2006). The minimum wage is a significant component of low income workers in urban areas, i.e. few workers will only receive the base rate, because for many workers minimum wages are only the base rate and therefore just one component of their wage (see 4.2).

While the above paragraphs in this section have mainly focused on the situation prior to the introduction of the new laws in 2008, below we will attempt to illustrate the situation after the changes, although data for the post-2008 period is still very scarce and premature. The first studies after implementation of the Labor Contract Law (see Herd, Koen, and Reutersward, 2010; Cai and Du, 2008) indicate that fixed-term contracts are the norm after the introduction of the Labor Contract Law, resulting in a higher degree of regulation. A survey of 300 workers in Shenzhen found that workers from larger companies will typically have contracts, though smaller domestic companies will still try to limit the impact by avoiding resulting obligations (Dangonzhe Migrant Worker Center, 2009). Based on a survey conducted by the Institute of Population and Labor Economics, Park and Cai (2009) make a similar observation in Shenzhen and Shenyang. The policy shift in the early 21<sup>st</sup> century and new legislation has given workers improved access to the legal system and workers are generally better informed about their rights which has resulted in increased regulation of the labor market. Minimum wage adjustments are usually made public a few months prior to implementation. As a result, workers are well-informed of changes and employers will find it difficult to avoid the changes without workers taking action. With ubiquitous knowledge of the current minimum wage in urban areas, the role local unions play in actual enforcement (see Diagram 1) is unclear. Given the limited trust in unions and the atomistic nature of Chinese trade unions (Zenglein, 2008), its actual role in supervising minimum wage implementation can be assumed to be minimal. In short, the improved legal situation, enhanced knowledge of legal rights, and the public announcement of minimum wage adjustments have resulted in a de facto self-enforcement independent of any apparent union supervision.

After the government's policy shift the overwhelming majority of litigation and arbitration cases has seen employees prevail (Brown, 2008), a situation which especially in urban areas has continued to rise in the post-2008 era. Resolving the growing labor disputes peacefully by granting employees more rights has become a top priority for the government in recent years (CLB, 2009).<sup>11</sup> An improved legal environment has transformed the Chinese legal system from being very employer-friendly to being more employee-friendly. This is especially the case for foreign-owned enterprises which have been under greater scrutiny. Whereas back wages were a severe problem prior to 2008, employees are now more prone to fight for their rights which certainly also increases the coverage of minimum wage payments. Overall, workers have become far better informed

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or ID card renewal). Currently the hukou system is undergoing reforms and some municipalities have implemented legislation which aims at reducing some of the resulting discrimination.

<sup>11</sup> According to the China Labor Bulletin, an NGO, official figures show that the workers win far more than 50% of all cases with large regional differences and some areas reaching a 95% success rate for workers.

about their legal rights since 2008, although given the shortcomings of the legal system violations still occur.

There is and has been no official data as to what percentage of the workforce is covered by minimum wages, or which industries or occupation levels are covered. While researching for this article interviews with management identified operators and other blue-collar workers (especially cleaning, security personnel, etc.) as the major recipients of minimum wages. Though in urban areas the minimum wage seems to have contributed to higher incomes especially after the policy shift since the beginning of the new millennium, it is questionable whether it is reaching those most in need. The Minimum Wage Regulations may contribute to improving the situation for migrant workers in urban areas, but they will have little or no impact on reaching the rural poor, which are at the center of China's rising income disparities.

### ***Wage floor and minimum living standard***

What is deemed acceptable is based on a figure determined by local authorities and often not displayed publicly. The minimum wage effectively establishes a base wage but does not account for issues such as overtime pay or other employer-related contributions which can vastly differ and are independent of the minimum wage. Lacking a national poverty line, the Chinese government further leaves interpretation of a minimum standard of living to local authorities.  $C_{\min}$  (see 3.2) which represents the most important variable in calculating the minimum wage rate is only governed by loose guidelines. The Minimum Wage Regulations do not provide any guidance or reference as to how the minimum monthly living cost should be calculated, resulting in a lack of transparency. Looking to the regulations for the Minimum Living Standard Scheme (MLSS) might be helpful in providing a better definition.<sup>12</sup> Aimed at urban residents, MLSS was first introduced in 1993 providing a social safety net for low income residents. This system, too, does not provide a precise calculation rule, leaving details to local authorities. By no means can it be assumed that the MLSS basis is also used in calculating  $C_{\min}$  but it is used here to provide a basic reference for minimum consumption. Since the smallest variations in the minimum living standard have potentially significant implications for a number of beneficiaries, local authorities have an incentive to keep this figure relatively low (Chen and Barrientos, 2006). Therefore,  $C_{\min}$ , the minimum living standard, might be assumed to be set relatively low. These findings are supported when using data from the Guangdong Statistical Yearbook (2010) as an example. Table 6 shows that average monthly per capita consumption expenditure for urban residents in the province for low income, lowest income and poor households is 43%, 31.5% and 28.5% of the average.<sup>13</sup>

Above (see 3.2) it was outlined that  $C_{\min}$  is determined by fixing a minimum monthly living cost based on people living in the minimum income bracket. As mentioned above no further information regarding the definition of the minimum income group is provided and just how this figure is precisely used in calculating local minimum wage is not disclosed to

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<sup>12</sup> For more details on MLSS, see Chen and Barrientos (2006), Hussain (2003), Xu (2007).

<sup>13</sup> The Guangdong Statistical Yearbook provides no further definition of the different income groups. It also does not provide explanatory notes as to what consumption consists of. However, the China Statistical Yearbook does provide a definition. There, consumption expenditure of urban households refers to total expenditure of households for consumption in the daily life including expenditure in eight categories of food, clothing, housing, household appliances and services, health care and medical services, transport and communication, recreation, education and cultural services, along with miscellaneous goods and services.

the public. According to the Guangdong Statistical Yearbook (2010) each urban employee has 1.97 dependants which is equivalent to  $P_{sup}$ . Knowing the minimum wage rates for 2010, which should be based on data of the previous year and using the proportion method, allows the 2010 minimum wage rate to be evaluated and better understood. For this example minimum wage for Guangzhou and Shenzhen will be used which in 2010 was RMB1030 and RMB1100, respectively. Hence, the only unknown variable in the formula is the adjustment variable (a). Table 7 provides an overview of all of the proportion method's variables. Assuming that the adjustment variable  $a=0$  should then result in the lowest possible minimum wage rate  $MW^{min}$ .

**Table 6. Average monthly per capita consumption expenditure, 2009**

	Average	Low income households	Lowest income group	Poor households
<b>Guangdong</b>	1.405	607	443	401
<b>Guangzhou</b>	1.902	818	609	542
<b>Shenzhen</b>	1.794	771	574	511

Source: Own calculations based on Guangdong Statistical Year book 2010<sup>14</sup>.

**Table 7. Assumed variables of the proportion method calculating 2010 minimum wage**

	$MW^{2010}$	$C_{min}$	$P_{sup}$	a	$MW^{min}$
<b>Guangzhou</b>	1030	542	1,97	0	1067
<b>Shenzhen</b>	1100	511	1,97	0	1007

Source: own calculations.

Under these minimal conditions, using the lowest possible consumption expenditure levels (poor households) and assuming  $a=0$  Shenzhen's minimum wage fares slightly better than Guangzhou's, surpassing  $MW^{min}$  using minimal variables based on 2009 data. Adjusting for inflation in 2010 would however increase  $C_{min}$  and therefore  $MW^{min}$ . Comparing any inflation adjusted  $MW^{min}$  to the actual  $MW^{2010}$  would consequently result in an even less favorable picture. Data for Guangdong strongly suggest that minimum wages there do not achieve the government's aim of establishing a sufficient minimum living standard, as even by the governments own definition recipients of minimum wages would qualify as poor or belonging to the lowest income bracket. By this benchmark set out in the Minimum Wage Regulations, the established wage floor appears too low. It is clear that there are large local variations within the nation, but initial research indicates that overall minimum wages are set according to a very low minimum standard of living.

<sup>14</sup> The Guangdong Statistical Yearbook provides annual data only. Data for other income groups is only available for Guangdong. Data for other income groups for Guangzhou and Shenzhen have been calculated based on official data for Guangdong province resulting in the 43% for low income, 32% for lowest income and 29% for poor households.

### **Minimum Wage and Wage Components**

As mentioned above, minimum wages only represent a part of total compensation for workers. Other components in the wage structure can reach 50% of total salaries. These components can include a wide variety (see Table 5) which will be very company-specific while others are of a more general nature. The wage structure can be expected to become more complex the more senior an employee becomes, but for most blue-collar workers the basic wage is just one component of the actual income, although items including overtime pay, legal allowances and benefits may not be counted as part of the wages when determining the minimum wage (Du, Wang, and Lee, 2009). Interviews conducted while researching this paper showed that, although minimum wages impact workers' income, current minimum wages are only paid to unskilled support staff such as cleaning and security personal. Minimum wage adjustments do, however, impact wages of blue-collar workers. Hence companies will adjust wages of workers by adjusting the basic wage according to the Minimum Wage Regulations and at their own discretion make adjustments to other components of the wage structure.

**Table 5. Example Wage Components for Blue-Collar Workers**

Basic wage	For workers usually equivalent to minimum wage rate
Overtime payment	Limited to 80h per month
Food allowance	Can be cash or in form of canteen usage
Attendance bonus	Reward for showing up
Position allowance	Can be based on responsibilities or hardships such as heat exposure
Performance bonus	Based on Key Performance indicators
Social insurance	Exceeding regulations
Housing allowance	Can be cash, but usually in form of dormitories
13th month wage	Paid at end of the year, usually based on base rate

Source: German Chamber of Commerce South and Southwest China.

Several managers of foreign-owned companies who were interviewed stated that it was not uncommon for operators to earn double the minimum wage when overtime pay, bonuses and other allowances are included. Recent minimum wage adjustments did push up labor costs for employers and affected the entire pay matrix. As a result, workers and staff who earned above the minimum wage demanded higher wages as well, resulting in a complete upward shift of the labor cost base. Higher salaried employees use minimum wage adjustments to demand higher wages themselves in order to maintain the pay distances to lower qualified or more junior staff (see 4.5). A more complex wage structure means that minimum wage is not the overall determining factor for wages. By making adjustments to the other wage structure components or for example by increasing the requirements for receiving bonuses (effectively increasing productivity) companies have ample opportunities to compensate for changes in minimum wages. An important income source for workers is and has been overtime pay. Even though long working times can be stressful and it will depend on the individual circumstances, overtime is generally welcomed as the pay rate is 150% of the daily or hourly wage rate. For example, companies can make adjustments to other fringe benefits, effectively compensating for all

or at least portions of the minimum wage adjustments which in effect reduces the real wage increase for workers. Limiting overtime and increasing productivity targets are just two examples of what companies could employ to at least reduce the impact of basic wage increases due to the introduction of a minimum wage. Calculating a base rate without considering complementary wage components will limit the impact of minimum wage regulations on reducing inequality.

### ***Signaling and Impact on Workers' expectations***

Although legislation for minimum wages has generally been improved, the situation for workers by raising the base rate means that they still face limitations due to limited representation and the isolation in which the base rate is determined. Following minimum wage adjustments the recent strikes during the summer of 2010 highlight the dissatisfaction with them. Increases in the minimum wage rate seem to be perceived as too low because, for most operators or low-skilled workers, minimum wages contribute a significant share of their wage. Currently, and despite recent adjustments, pay increases have been outpaced by average wage growth (see 4.5). According to Lee (2009) minimum wages have significantly increased after the introduction of the 2004 changes (see 2.3). Whereas prior to the changes minimum wage grew at about 8% per year, the annual rate following the revision has accelerated to 14%. In the wake of the economic crisis minimum wage rate adjustments were suspended in 2009. As signs of continuous strong growth in China persisted in 2010, Jiangsu province was the first minimum wage authority to announce a rise in the minimum wage rate by the end of February. Guizhou and Gansu province, Guangxi autonomous region and Chongqing municipality were the last to follow suit towards the end of the year. Most adjustments were around 20% while Hainan province announced the largest increase of 37%.

These wage adjustments in 2010, however, were not sufficient to appease worker's discontent and China was confronted with a strike wave, especially in Guangdong province. Guangdong authorities announced minimum wage adjustments in May for June 1st with rates, rising on average over 20%, depending on the tier (see Table 3). Shortly before the official implementation, despite communicating the adjustments in May, several high profile strikes broke out. The first strikes were reported on May 17th at a Honda plant in Foshan, with the China Daily reporting 36 strikes by July 12th in Guangdong alone. Similar events were reported in Shenzhen, where a string of suicides at Foxconn put pressure on the company. Both companies, Honda and Foxconn, resolved the strikes by agreeing to pay rises of 47% and 66% respectively for the minimum basic wage, exceeding the previously announced minimum wage increase for Guangdong and Shenzhen (s. xx in this book).

Perhaps out of fear of repeated unrest, in 2011 several local authorities revised minimum wage rates at the beginning of the year instead of during the summer months. Continued fears of labor shortages in manufacturing hubs along coastal areas have led to early announcements in order to provide migrant workers an incentive to return after the Chinese New Year. These uncoordinated provincial adjustments have resulted in adjustments in which so far most local government followed Shanghai's 20% increase. Current developments show that China's biggest difficulty is that the minimum wage system and industrial relations as a whole lack independent union representation and represent much more a rate dictated by local authorities. Recent illegal strikes were carried out independently of the ACFTU, indicating a general discontent with their representation (see Zenglein, 2008) as in general the government fears strikes (Sek and

Warner, 2000). There have been reports that in some recent strikes the local ACFTU branch in fact used violence against striking workers (see Baker and McKenzie, 2010; Lin and Ju, 2010).

In absence of adequate employee representation in the tripartite consultation, the calculation of the minimum wage rates appears to result in a wage rate which is below workers' expectations. The formula outlined in section 3.2 is based on the cost of living but takes little consideration of productivity increases or industry profits. A study by Chen, van Ark, and Wu (2009) analyzing data in 28 industries from 29 provinces between 1994 and 2005 conclude that, while productivity more than quintupled, labor costs only increased threefold, resulting in a 43% decrease in unit labor costs. Similarly Lui (2011) noted that while Foxconn's increased its workforce by 9.7% in 2009 labor costs were reduced by 28%. The calculation outlined by the central government provides for a great deal of flexibility, which in the end may contribute to the approval of a minimum wage rate which is too low to achieve the government's ambitious policy goals, while at the same time indicating inadequate representation.

Calls for collective bargaining have become stronger and it is a policy which is being endorsed by the government. Currently, the Guangdong Provincial Government and the municipality of Shenzhen are drafting new rules on collective bargaining. Shanghai, Tianjin, and Xiamen are reported to have similar plans. The new rules provide for negotiations to cover working conditions, wage rates, working hours, training, overtime, grievance mechanisms, health and safety as well as democratic worker participation (Shenzhen Daily, August 16<sup>th</sup>, 2010). During negotiations with employers, employees will be represented by trade union officials. Judging from the negative perception of the ACFTU, the new regulations face serious constraints in achieving its ambitious goals.

China's regulations on minimum wages are not the only government policies aiming at wage developments. Although the Minimum Wage Regulations are the most public wage policy, several additional policies complement the regulations, even though their exact interaction is not clear. Next to the Minimum Wage Regulations, local government's issue a number of other wage polices such as Wage Guidelines, a System for Guidance of the Labor Market, and the Information Guide System of Labor Cost by Industry (Du, Wang, and Lee, 2009). While the latter two are supposed to provide improved information on developments in the labor market, wage guidelines are more specific about recommendations regarding wage increases.<sup>15</sup> Wage guidelines regulate pay rises for local companies and unlike the minimum wage give industry-specific recommendations. The regulations apply to all companies with increasing profits, and outline minimum as well as maximum wage increases. As of July 2010 eight provinces have issued such wage guidelines. These guidelines are independent of changes to minimum wage rates and it is not clear as to how far these guidelines will influence the setting of minimum wages.

### ***Reduction of income inequality***

According to Chan (2003), the only year that all of China's regional minimum wage rates met the government's criterion of reaching at least 40% of the average local wage, was 1993. Since then, there have only been a few exceptions, while for the most part minimum wage rates declined as a percentage of average income: from 36.7% in 1994 to 27% in 1999. Similarly, in Shenzhen the rate fell from 40% in 1993 to under 24% in 1999 (Chan

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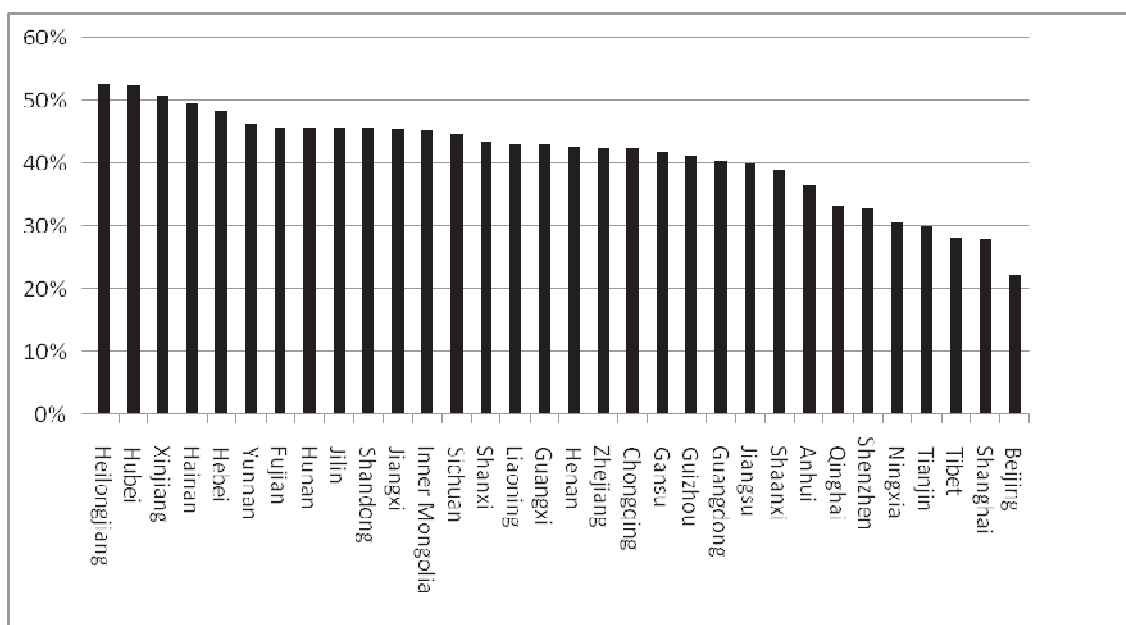
<sup>15</sup> For example, Shenzhen Municipality conducted a survey of 571 job categories in 18 industries covering 300,000 employees in 2010.

2003: page 4). Compared to the latest average earnings, 12 minimum wage authorities fail to reach the target of 40-60% (see Graph 2).<sup>16</sup> The Kaitz Index is a common measure to quantify the significance of minimum wage by using a ratio of the minimum wage to median wages. For China, median wages are not available, so most research will substitute it with average wages, though this leaves some statistical challenges.

What stands out in Graph 2 is that jurisdictions with the highest income levels perform worst. Shanghai, Beijing, and Shenzhen which are among China's richest cities have implemented amongst the highest minimum wages rates, but compared to average wages only reach 28%, 22% and 33%, respectively. Thus, the figures give rise to the suspicion that minimum wage rates across the country are generally too low to truly protect the workers it aims for and is in violation of the Minimum Wage Regulations. Although the official data for average wages is not reliable, there is strong evidence that the aim of reaching 40-60% of the average rate is not met. Current data on Shenzhen suggests that the average monthly income in 2010 was RMB4224<sup>17</sup> which, after the 2011 adjustment, would translate to a minimum wage of only 31% of the average wage, fairing even worse when using the average earnings of urban units in 2008. In order to meet targets set out in the regulations, minimum wages would need to be between RMB1690 and RMB2534.

Similarly, two years after announcing the decree in 2004, the Xinhua news agency (Invest Beijing, 2006) reported that none of the provinces, municipalities or autonomous regions has met the requirement. These findings are underlined by wage data from the Pearl River Delta in Graph 3. The figure shows that wages for migrant workers who are the main recipients of minimum wage have been outpaced by wage developments of urban employees (i.e. with local hukou).

**Graph 2. Percentage of Minimum Wage to Average Earnings Urban Units 2008**



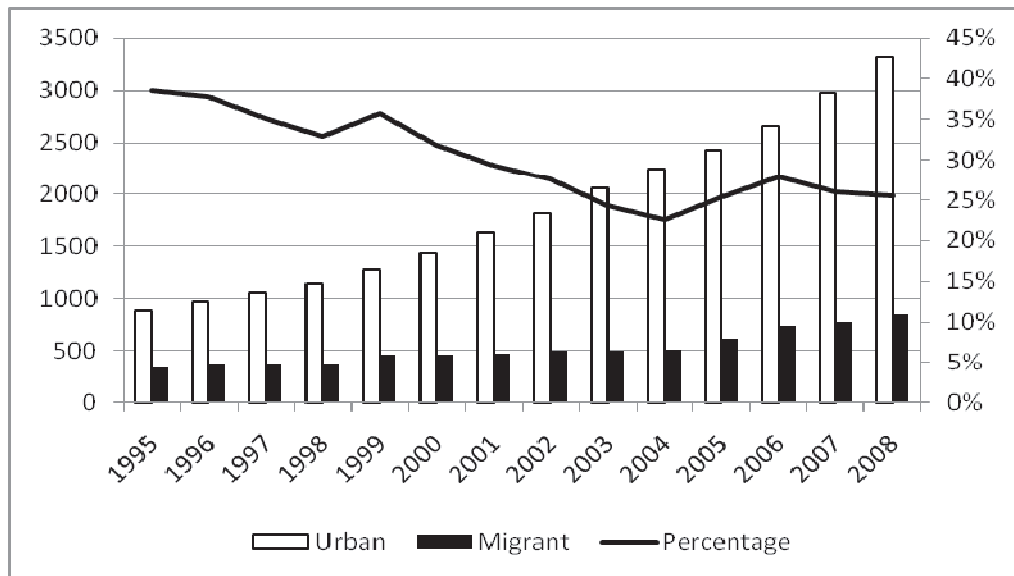
Source: Own calculations based on average earning of employed persons in urban units by status of registration and region, China Statistical Yearbook 2009.

<sup>16</sup> It needs to be pointed out that the average earnings used in the China Yearbook of Statistics only refers to urban units, which accounted for only 15.4% of the total workforce in 2008.

<sup>17</sup> Taken from "City to lift minimum wage by 15%" (Shenzhen Daily, Jan 26<sup>th</sup> 2011)



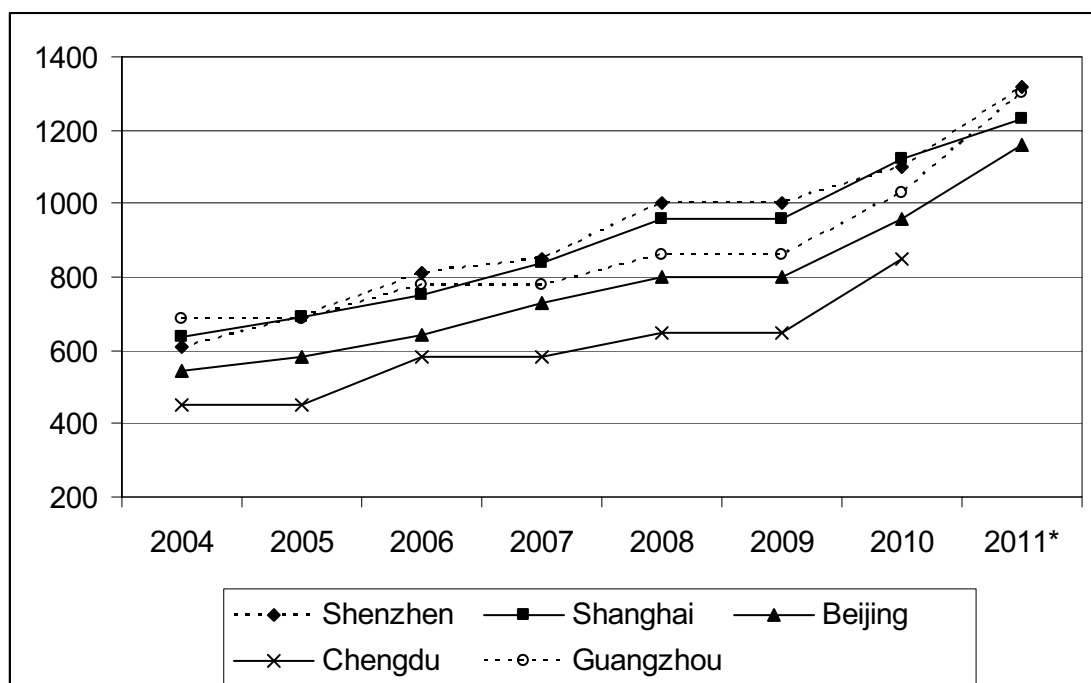
**Graph 3. Income gap between migrant workers and urban employees in the Pearl River Delta and percentage of migrant wage to urban employees income\***



\* Average wages of Guangzhou, Shenzhen, Dongguan and Foshan.

Source: Own graph based on data from Liu (2011).

**Graph 4. Minimum monthly wage increases in selected cities 2004-2011**



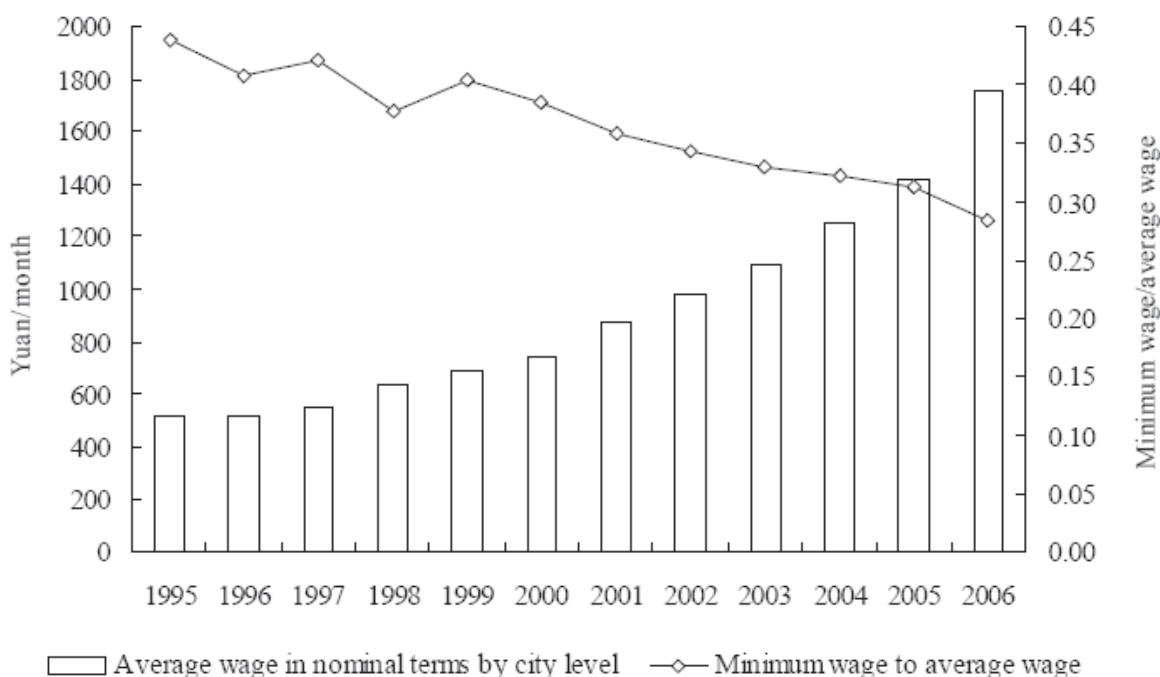
\* Shenzhen: rise effective April 1<sup>st</sup> 2011, Shanghai: rise effective April 1st 2011, Beijing: rise effective January 1<sup>st</sup> 2011, Chengdu: no information for 2011 available at this time, Guangzhou: rise effective March 1<sup>st</sup>, 2011.

Source: Local Labor and Social Security Departments, press.

For the most part, Chinese average wage data is sketchy, making any meaningful national conclusions very challenging. According to the Global Wage Report 2010/11 (ILO, 2010) official data for wage growth based on urban units was 12.8% in 2008. Another survey by the China's National Bureau of Statistics among enterprises in 2009 indicated that average annual salaries in the private sector rose by only 6.6% (China Daily, July 24-25<sup>th</sup>, 2010).

Stronger growth in minimum wage adjustments is especially apparent since labor relations have been given greater priority since 2004. For instance the loosely enforced minimum wage for areas outside the special economic zone in Shenzhen grew 62.5% from RMB286 in 1993 to RMB465 in 2003 (MacDonald and Marshall, 2010), while between 2004 and 2011 it nearly tripled from RMB480 to RMB1320 in 2011.<sup>18</sup> Graph 4 shows that growth rates in the selected cities increase on average between 10.4 and 11.48% annually. Despite the strong growth of minimum wages of these years, it appears to have been outperformed by the overall average wage developments. This is supported by data of average wage increases in China which have been growing stronger than minimum wage adjustment in provinces over time. For example, between 2005 and 2008, national average earnings in urban units nearly doubled from RMB15.920 to 28.898, while for example Guangzhou's minimum wage only increased by 26% (from RMB684 to RMB860) during the same time. Similarly on a provincial level, between 2005 and 2009 Guangdong's average wage increased by 51% compared to the 26% increase of minimum wage during that time in Guangzhou.<sup>19</sup>

**Graph 5. Ratio of minimum wage to average wage and development of average minimum wage, 1995-2006**



Source: Du, Wang and Lee (2009) based on IPLE (2007).

<sup>18</sup> Until 2010, Shenzhen had one minimum wage rate for areas within the special economic zone and for those districts outside of it. Hence, when a single minimum wage rate was introduced in 2010, districts that were covered by the lower minimum wage rate experienced a larger wage increase.

<sup>19</sup> Note that Guangdong did not adjust the minimum wage in 2009, so for 2008 the value remained unchanged.

Some authors such as Du and Pan (2009) argue that the official average wage data does not include migrant workers and informal employment resulting in an overestimation of average wages. Although this might be more suitable to the pre-2008 changes in the Labor Contract Law, it still raises questions about what average wages actually are and casts doubt on the statistical fundamentals of minimum wage calculations.<sup>20</sup> To see how an individual jurisdiction's minimum wage rates are performing on achieving the policy goals would require further detailed study.

Xu and Lam (2010) point out several studies that indicate increases in minimum wage which have not been able to reduce growing disparities. The authors point out that, nationally, average workers' wages increased annually by 13.5% from 1996 to 2006 while the minimum wage increased only by 9.9% annually during the same time period. Despite recent increases, staff wages tend to increase much more rapidly, allowing the income gap to grow even larger (see Graph 3). The employing entities' registration form will further influence wages paid. For example, 2008 data shows that SOEs, shareholding corporations and foreign-funded enterprises pay 5-15% higher than other urban units. As with many things in China, due to the country's size and regional differences, one should be careful when making generalizations. It does however appear that most jurisdictions are either below the minimum 40% benchmark or barely above it. Only 3 provinces reach a value of greater than 50% and none comes close to the 60%. Again, considering average wage data is only available for 2008, all figures would need to be adjusted downward, leaving an even worse picture. This trend is supported by findings of the Institute of Population and Labor Economics (IPLE) of the Chinese Academy of Social Science (2007) who conclude that between 1995 and 2006 the ratio dropped from 44% to 28% (see Graph 5).<sup>21</sup>

At this point indications strongly suggest that China's minimum wage rates do little for reaching the government policy goals and it can be seriously questioned whether the minimum wage levels help to achieve a fair income distribution. Setting minimum wage rates too low does not necessarily have to compromise its impact. If enough room is allowed for collective bargaining which covers the disadvantaged as well as advantaged groups pay, equity issues can successfully be addressed (Rubery, 2003). However, this room does not exist because of the limitations to collective bargaining (see, Luo in this book). A study by Clark, Lee and Li (2004) concluded that, due to weak employee representation and market pressure, technical and managerial staff can expect much larger wage increases which in fact contribute to increased differentiation at the expense of unskilled workers. Interviews with managers of foreign-owned enterprises have

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<sup>20</sup> According to the explanatory notes of the China Statistical Yearbook, average wage figures are only available for staff and workers, which only includes employees at units of state ownership, collective ownership, joint ownership, share-holding ownership, foreign ownership, and ownership by entrepreneurs from Hong Kong, Macao, and Taiwan, and other types of ownership and their affiliated units. They do not include 1) people employed in township enterprises, 2) people employed in private enterprises, 3) urban self-employed persons, 4) retirees, 5) re-employed retirees, 6) teachers in schools run by local people, 7) foreigners and people from Hong Kong, Macau and Taiwan who work in urban units, and 8) other people not to be included by relevant regulations. While the statistical appendix provides details of how average wages for staff and workers are calculated, less information about the computation of average earnings at urban units is given. In general the differences between the average wage of staff and workers and the average earning at urban units is small with the average for wage and staff slightly higher.

<sup>21</sup> The study included data from 130 cities implementing minimum wage policies in 1995. This figure continued to rise until the survey included 286 cities for the years 2002-2006.

confirmed that minimum wage increases do little or nothing to reduce income disparities between workers and staff.

#### **4.4 Conclusion**

Premier Wen Jiabao has been quoted as saying that the country must change its economic growth pattern because it has been “unbalanced, uncoordinated and unsustainable”. As these deficiencies have come to the attention of policy-makers in recent years, fundamental steps such as the Labor Contract Law have been introduced which had a significant impact on minimum wage enforcement by giving workers better legal rights which effectively resulted in better payment conditions. Next to improving legislation, Chinese workers have also become better informed about their rights and have become more confident about voicing their demands. The role of the minimum wage has certainly had an impact on Chinese labor relationships, but creating a wage floor is just one component in a system with an inadequate social safety net and rapidly growing income disparities across the country, but also within regions and sectors. It would, however, be unfair to expect too much too soon as the current Chinese economic system is still changing rapidly and in recent years has made some improvements.

Currently it is not yet clear where China’s industrial relations are heading as policy-makers continue to experiment with different institutions. In the past wage and employment decisions were influenced by guidelines issued by local government and party officials (Clarke, Lee, Li, 2004) and to a degree this still prevails today, although it strongly depends on labor market segment. This is especially true for current minimum wage setting, which, at least theoretically, is an important component in easing labor tensions. Even though rules governing minimum wages are relatively clear, flexibility has resulted in opaque application with significant regional deviations. Minimum wage rate adjustments for the most part are closed-door decisions, which underline that next to market mechanisms, government control remains a powerful force in China’s industrial relations. Deficiencies in trade unions and workers representation are widely noted (see Zenglein, 2008). This, however, may be a major deficiency in China’s industrial relations and in particular for the impact of minimum wage regulations.

The Chinese labor market qualifies for several preconditions set by Rubery (see 4), with minimum wage making a positive contribution. China has a large share of working poor in urban areas, mainly migrant workers but also lower-skilled local hukou holders in formal employment. Despite recent improvements, its welfare system is weak and also has strong regional limitations as to barring access for most non-hukou holders to the local welfare system. It too has only limited alternative redistribution mechanisms in the form of taxation or transfers reaching those in need. Over the years and especially since 2008 its legal environment has made improvements. Although much of Chinese legislation is open to local interpretation regulations governing the labor market are readily available, especially in more advanced cities. The preconditions further mention the prevalence of excess labor. At this point China’s excess labor is dwindling and is by far not as present as it has been in the past. The last two preconditions refer to potential high inflation and the importance of stimulating social dialogue. Inflation has become a problem since 2010 as it has been above previous targets. In light of previous strikes and the risk of social turmoil, social dialogue is, now more than ever, a key issue for the government. Using these preconditions as an indicator for the potential effectiveness of minimum wage, China should have an environment generally favoring a positive contribution of minimum wage regulations on social norms.

Since its introduction in the early 1990s, China's minimum wage regime has greatly increased its relevance. An improved legal environment, in line with greater political will has improved the regulatory framework, making a positive contribution to enforcement and coverage in urban areas. Since 2008, when there was a push to formalize employment, migrant workers especially have seen greater coverage even though it is still too early for a final judgment. Strikes in 2010 following minimum wage adjustments point to disapproval and, that workers perceive minimum wages as too low. Rising living costs, coupled with more sophisticated needs of the current generation of workers, have left minimum wage adjustment out of line with workers' expectations. Most certainly better enforcement of the minimum wage has improved the income of unskilled workers. However, despite its impact on wages, it appears that the policy goals of reducing inequality have not been achieved.

Following the Keynesian paradigm, changes in the wage level do not result in changing the income distribution between wages and profits (Herr and Kazandziska, 2010). With better coverage and real wage growth, minimum wages in China have increased the purchasing power of many workers over the years. But in terms of setting a wage floor and a basic living wage, its policy success is debatable. In any case, even going by the government's own definition of poverty, the minimum wage standards for most people are very low. As long as the average wage growth is larger than minimum wage increases minimum wage in China will be more a policy tool to control urban poverty than it will be to combat income inequality. At the same time the minimum wage in China has not been able to reduce the urban-rural divide and effectively only represents a wage floor for urban workers. In the strict sense, although the minimum wage has made some improvements, until now it has failed to reach the basic policy goals set out by the government.

Another factor limiting the impact of the minimum wage are the fundamentals used to determine the minimum wage rate. The amount of regional flexibility is quite positive; however the non-transparent determination on the local level limits the policy's effectiveness. One can only speculate about the actual variables which are used to determine the minimum wage rate. However, it seems as though the government uses a very low base for minimum consumption expenditure. Contributing to these challenges are statistical data which may not be a true representation of reality and hence contribute to the implementation of minimum wage rates which are determined using unreliable figures excluding certain sectors of the labor market.<sup>22</sup>

In absence of a functioning national social security system in combination with the hukou system and the resulting mobility limitations, minimum wage effectiveness faces substantial limitations. The minimum wage cannot be regarded in isolation and its success in achieving policy goals will greatly depend on the institutional framework. Regulations can be a powerful tool, but they will not be able to overcome stark deficiencies in the social security system or hukou-induced discrimination. With discontent in the manufacturing industry not being appeased by current minimum wage adjustments, the government has encouraged collective bargaining agreements to find a more acceptable wage adjustment. China's deficiencies in the effectiveness of its minimum wage regulations find much weight in inadequate worker representation and the lack of participation. Building a healthy labor market "requires not only a sound legislative framework and a balanced social security system, but also an effective representational mechanism through which the interests of employers and workers are adequately represented" (Cooke, 2008). Substituting minimum wages for collective bargaining may in fact be contributing to maintaining a low real wage

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<sup>22</sup> Using median rather than average wages for comparison with the minimum wage is thought to be better (Herr and Kazandziska, 2010).

rate (Rubery, 2003). Overall, the minimum wage in China has been more successful in establishing a minimum income for basic living conditions for most urban workers, albeit at a low level. In terms of achieving greater income equality in urban areas it has made no progress, and it has made even less of a contribution to reducing income inequality at the national level. Despite the current problems and deficiencies of China's minimum wage regime it has realized significant improvements since it was first introduced, transforming it from a meaningless policy tool to one of greater relevance.

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## Part II: Heterogeneous Industrial Relations

### 5. Regimes of Production and Industrial Relations

Boy Lüthje

The transformation of work and labor policies is one of the most underresearched aspects of China's political economy in recent decades. Western perceptions of Chinese workplaces are mostly informed by images of privatization and downsizing of traditional state-socialist enterprises, or by the unfamous sweatshops serving the production networks of global brandname companies under miserable conditions. However, recent research reveals that labor politics in China have become highly diversified, in spite of the apparently centralized character of the political regime. At the same time, labor conflicts are on the rise across industries and regions.

Before this background, the paper is attempting a new approach to analyze labor relations at the level of companies, industries and regions in China. The analysis is referring to Western and Chinese labor sociology and industrial relations theory, applying the concept of "regimes of production" to the context of China's emerging capitalism. The focus is on China's modern core manufacturing industries, i.e. steel, chemical, auto, electronics and textile and garment. The research explores regimes of production in major corporations and new forms of labor-management cooperation, the growing inequality and fragmentation of labor policies within the modern sectors of the Chinese economy, consequences for further reform regarding labor standards, collective bargaining, and workers' participation.

The title of this article refers to recent debates among Chinese industrial relation specialists, who argue that workers have remained mostly excluded from government policies to establish tri-partite mechanisms of labor relations between employers, trade unions, and government. Due to the lack of democratically legitimized trade unions and forms of workplace representation, workers play the role of an invisible "fourth party" party in Chinese labor relations, with no effective collective representation, but increasingly active and with often surprisingly effective spontaneous organization in workplace conflicts. From this perspective, the weakness of shop-floor institutions regulating capitalist labor relations in developed industrial environments is identified as a major obstacle for a transformation of China's model of economic growth towards higher incomes and expanded domestic consumption for broad layers of the working population. In spite of successful economic and social modernization, China's labor relations do not seem to follow a corporatist trajectory.

The paper introduces current Chinese and international debates on the changing character of labor relations in China (section 1) and relates to the changing patterns of economic and social control in the relevant industries (section 2). Our conceptual and analytical perspectives on regimes of production in modern Chinese manufacturing industries will be explained in depth in sections 3 and 4. Section 5 will explore the relationship between the

emerging forms of management control and the lack of institutionalized labor relations based on collective bargaining and democratic participation of the workforce<sup>1</sup>.

## **5.1 Changing labor relations in China – conceptual approaches and perspectives**

Debates on reform of labor policies are a persistent topic among labor experts in China, although not highly publicized and mostly disregarded by Western media. These debates are focusing on the question of how to create tripartite (i.e. three-party) mechanisms between management, trade unions and government to ensure “harmonious labor relations” in an advancing industrial economy. Many aspects of these debates seem surprisingly familiar to Westerners, since Chinese scholars often resort to concepts of “tripartism”, “corporatism” or “social partnership” as developed since the birth of modern industrial relations systems during the New Deal period in the U.S. or Germany’s seminal works council legislation in the early 1920s. Western-based academics have also used such concepts to analyze the current changes in Chinese labor relations – sometimes coupled with the hope that labor systems rooted in European or Japanese “coordinated market economies” (Streeck, Yamamura 2001) may promise a better future to Chinese workers than the market liberal U.S. model (Chan 2008).

However, such an analysis has to deal with two basic difficulties. First, Chinese trade unions (as well as employers’ organizations) mostly lack the popular legitimation and independence from government and capital - the basic conditions for representation of workers interests within tripartite systems of bargaining and policymaking. Second, and perhaps more importantly, the restructuring of labor relations in China is increasingly taking place under those Western and Japanese models of production and labor management-cooperation that have undermined the prevailing forms of collective representation, industry-wide bargaining and job security, i.e. the foundations of what was known as the post-War social contract in industrialized countries. In spite of the truly unique characteristics of China’s transformation, there seems to be at least some convergence in the bread-and-butter problems of trade unionism and labor organizing in the context of globalized patterns of capitalist organization and control.

As coverage of labor issues in Chinese mainstream media is dominated by neo-liberal standard rhetoric adopted from Western business schools (Wang 2006), the more serious industrial relations research in China raises fundamental questions on how labor standards can be legally guaranteed and politically controlled under the existing, but rapidly transforming institutional framework. These debates depart from the analysis that China’s transformation to a market economy has been mostly completed, but the regulation of labor relations remains highly incomplete and fragmented.

Complex questions are raised over the social character of market-oriented management and the new entrepreneurship, whether they represent a new layer of experts and technocrats necessary to run companies in a market economy, or a class antagonistic to the interests of working people. Notwithstanding divergent concepts and definitions, there is agreement that business and corporate interests have become well represented in political decision-making on labor policies, whereas working people are mostly kept out.

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<sup>1</sup> Our analysis is based on more than 30 detailed case studies of major companies in the respective industries and selected suppliers, resulting from a research project carried out by the Frankfurt Institute of Social Research in cooperation with leading academic institutions in the field in China, with support from Hans-Böckler Foundation. In this paper, the results of these case studies will only be presented in generalized form. We hope to publish them soon

This growing imbalance of power is seen as the basic weakness of legislative and government policies to develop coherent labor policies and to introduce tripartite consultations between management, employee representations and government on minimum wages, wage guidelines, social insurance regulations, and other topics crucial to “harmonious labor relations” (Chang/Qiao 2009).

One key question is the role of trade unions. For instance, Chang Kai and Qiao Jian argue that trade unions are lacking basic capabilities to defend labor standards, since unions are mired in their traditional role as part of state-company management, mainly administering welfare programs, leisure activities and wedding parties. Before this background, trade unions are mostly absent from the rapidly rising labor conflicts in the country, expressed by the sky-rocketing number of labor lawsuits by workers (both individually and as groups) and of unofficial “mass incidents”, of which a significant proportion is made up of workers’ protests and strikes (ibid.).

Translating this perspective into the language of international industrial relations research, we may characterize China’s current industrial relations practices as “tripartism with four parties”. Tripartite regulation of the wage relation is severely limited by the lack of collective labor standards, negotiations and the fragmented character of trade union representation. “Fragmented representation” arises from the limited scope of union representation of employee’s interests at the workplace due to the lack of collective negotiations on key issues such as wages, working hours and working conditions and the lack of trade unions’ legitimation among workers. Also, the large non-union sectors especially among private and Overseas Chinese enterprises as well as the almost complete lack of collective bargaining at industry or regional levels contribute to this situation. Finally, Chinese employers are not forming their own organizations to represent their interests vis-à-vis workers and trade unions, particularly in collective bargaining. Chinese, Overseas Chinese and foreign capitalists prefer to transmit their demands into the political process directly through their *guanxi* with the state and the Communist Party at various levels (Chang/Lüthje/Luo 2008).

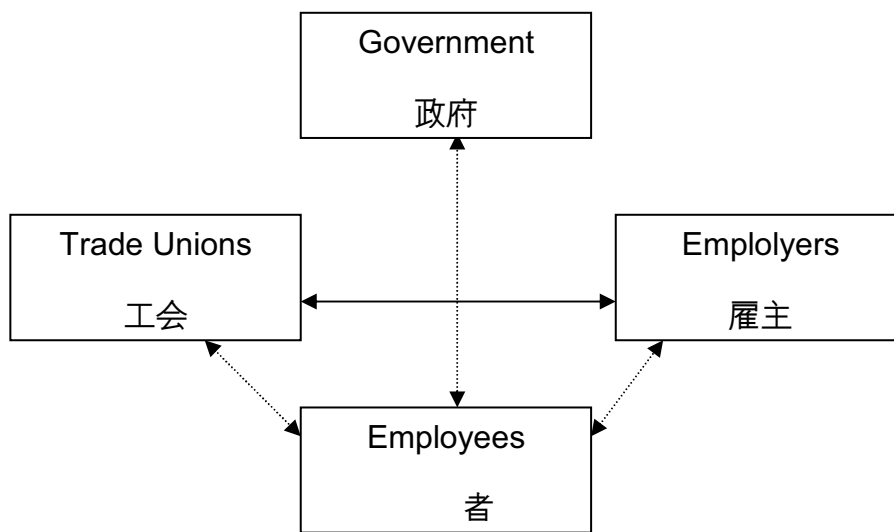
The concept of “Tripartism with four parties” refers to critical theories of corporatist labor systems in the West (such as Germany’s or Sweden’s), which have analyzed open or implicit three-party deal making between management, unions, and government as part of modern systems of capitalist regulation. The underlying institutional arrangements are not seen as a fixed system between organizations, but as a historic set of power relations. Consensual arrangements are under the permanent need to reproduce their ideological and material base by mobilizing rank and file workers for limited movements, which, however, should not exceed the framework of what is “politically acceptable” (Esser 1982).

The situation in China is different, of course, since under the existing framework workers’ mobilizations tend to be immediately directed against the state, local government in particular. Moreover, these protests are often spontaneous and resort to militant means, as we can also read in mainstream Chinese media today. Obviously, China is lacking the cushions and safeguards that a well developed and institutionalized civil society is putting between social movements and the state, i.e. the basic ingredients of what Gramsci would have called a “hegemonic state” (Jessop 1990). In the absence of such social institutions to mediate labor conflicts, factories are a highly sensitive terrain, where the social contradictions between workers and management become manifest and have to be regulated.

Before this background, our analysis cannot depart from a concept of historically established, stable institutions and actors in industrial relations. Rather, we have to focus

on the transformation of such institutions, the emergence of new institutional arrangements and “best practice” models of labor relations as well as the fragmented character of political regulation, especially between central and local government agencies. For such a dynamic perspective on changing social power relations, we refer to the concept of “politics” and “regimes” of production, which has been applied in various forms to recent studies of Chinese labor relations as well as to the analysis of work and labor policies in global production networks (for extended theoretical discussions see Lee 2007, Hürtgen/Lüthje/Schumm/Sproll 2009).

**Table 1. „Tripartism with four parties“ – „三方四主体“**



## 5.2 Diverging patterns of economic restructuring and control

In the face of China’s massive industrialization and the rapid development of modern and complex production environments over a broad spectrum of industries, we have to widen our perspective beyond the concept of “old” and “new”, state-owned and private industries, and the related changes in the working class. We need to explore the growing differences in company labor relations, resulting from diverging patterns of socio-economic restructuring, new Western and East Asian models of production, the related fragmentation of value-chains, and the re-shaping of regimes of production in major corporations under new forms of labor-management cooperation and their amalgamation with traditional Chinese practices of workplace representation.

At the macro-economic level, three key elements are determining the dynamics of restructuring (for detailed discussion, see: Herr in this book):

- First, the politics of gradual marketization and privatization practiced in China since the beginning of reform and opening in the late 1970s has produced a full-scale reversal of the industrial structure of the country and the forms of ownership and control over capital accumulation. In the wake of accelerated privatization and restructuring since the mid-1990s, private ownership or various kinds of profit-oriented state- or semi-state ownership of enterprises became the dominant form of control. At the same time, the focus of industrial production shifted from the production of basic industrial and consumer goods for the domestic market to the rapidly growing exporting industries, textiles and garment, shoes, light consumer goods, such as toys and home decorations, and electronics in particular. The five

sectors under investigation in our study, automobile, chemical, steel, electronics and textile and garment manufacturing emerged as the modern core industries of China's economy. As the adjacent table shows, the majority of workers in each of those sectors is employed in non-state owned enterprises.

- Second, the economic transformation is taking place under conditions of continuing underemployment of large sectors of the working population. The main source for this situation is the agricultural sector, on which still around 50% of the population depend for their livelihoods, and which supplies the ever growing workforce of rural migrant workers, numbered at 200 millions or more, depending on various statistical definitions and methods. In addition, massive unemployment caused by the restructuring of traditional industries and state enterprises since the late 1990s has added to the oversupply of industrial workers during the first decade of the 21<sup>st</sup> century. Since the beginning of accelerated economic restructuring, the Chinese economy has to generate 8-10 million new jobs in urban labor markets every year, in order to absorb this massive oversupply of labor (Lüthje 2006).
- Third, accelerated economic growth is going along with a continuous decline of private consumption, economic growth is heavily focused on capital investment. The share of private consumption as part of the gross domestic product (GDP) dropped from 51,1% in 1988 to 38,9% in 2005, while the proportion of capital formation rose from 36,8% to 44,1%. Although disposable incomes for large sectors of the urban population have increased considerably during the recent decade, the proportion of wages as a percentage of the GDP dropped significantly, resulting in massively rising inequalities in income distribution, which is now among the highest in the world. Thus, the current regime of growth can be characterized as one of permanent underconsumption for the majority of the working population (Hart-Landsberg/Burkett 2007, Hung 2008).

**Table 2. China's core manufacturing industries**

	<b>2007 Employment</b>	<b>Non-SOE</b>
<b>Auto</b>	2,57 Mio.	1,61
<b>Chemical</b>	3,09 Mio	2,33
<b>Steel</b>	1,88 Mio.	1,12
<b>Electronics/IT</b>	4,26 Mio.	3,85
<b>Textile/Garment</b>	4,83 Mio.	4,22

Source: National Bureau of Statistics of China.

The key manufacturing industries of the Chinese economy display highly different patterns of ownership, competition and organization as well as highly different forms of integration into the world market. On the one side, the steel and to a lesser extent the petrochemical industry are still dominated by SOE, however, under strictly market-oriented management. The major steel and petrochemical corporations, such as Baosteel, Hebei Steel, Wuhan

Iron and Steel or Sinopec and Petrochina are among the largest companies of their kind in the world with aspirations for global leadership. In the chemical industry, a rapidly expanding private sector exists and Joint Ventures and foreign companies are playing a bigger role, such as Germany's chemical giants BASF and Bayer with some of the largest petrochemical complexes in China.

The auto industry occupies the middle ground between state-dominated and privately dominated industries. It is led by Joint Ventures of multinationals with the three large Chinese auto holdings, FAW, Shanghai Automotive, and Dongfeng, with smaller private and local government owned automakers or auto holding companies as competitors. Whereas the foreign companies control technologies and branding, the Chinese partners exert a strong influence over management practices, especially the older Joint Ventures such as VW Shanghai have adopted management styles of state-owned-enterprises.

On the other hand, the electronics and the textile and garment industries, China's two largest single manufacturing industries by employment, are mostly privately owned, industry structures are dominated by subcontractors or subsidiaries of foreign multinationals. In electronics, the huge vertically integrated contract manufacturers, such as Foxconn or Flextronics, are the largest employers, however, the industry is highly segmented. Capital and technology intensive segments such as chip production co-exist with computer and network equipment makers concentrating on design and development, contract manufacturers and a huge sector of low-tech and low-wage component makers (Lüthje 2008). Textile and garment production, the "classical" subcontracting industry, is mostly made up of small to medium-sized enterprises, the concentration of manufacturing expected after the end of the international Multi Fibre Agreement has remained rather limited so far.

The diversity of ownership and control is accompanied by a similar diversity of production models. In steel and petrochemicals, large-scale plants with a high degree of vertical integration, modern technology and relatively stable production flows dominate among the leading companies, favoring long-term employment of mostly urban workers. The auto industry has widely adapted Japanese and Western models of lean manufacturing, the once stable core workforces especially in the older Joint Ventures are increasingly confronted with outsourcing, flexibilization of work, and competition from migrant workers in the supplier companies and temporary labor agencies. In the electronics and garment industries, the contrast to traditional industrial environments is most visible. Here, comprehensive outsourcing and shifting of manufacturing from industrialized countries to China have produced subcontracted mass production at unprecedented scale (Hürtgen/Lüthje e.a. 2009). In electronics, high-end manufacturing technologies and organization in large-scale factories and industrial parks (some of them with several ten or hundred thousand workers), have become the norm, whereas garment is dominated by the traditional low-tech, low-wage sweatshop, for which many Chinese exporting industries have become infamous.

The diverging economic conditions translate into differing scenarios of restructuring during the recent decades, shaping the composition of the workforces and their experiences. Steel has seen the most dramatic transformation from the traditional plan to a market environment, but also the most massive resistance of workers against layoffs and the smashing of the "iron rice bowl", exemplified by the mass demonstrations in the Northeast in 2002. During the boom period 2002-07, the industry saw enormous growth with increasing dominance of the large corporations with highly modern factories, accompanied by the rapid emergence of smaller steel producers backed by local governments. In the

petrochemical and auto industries, the impact of privatization has been less dramatic, but massive changes occur due to introduction of state-of-the art manufacturing technologies, models of lean manufacturing, and outsourcing – propelled by growing sub-sectors of mostly privately owned suppliers and service firms.

Restructuring in electronics and garment has occurred almost completely under the auspices of global production networks, with little heritage from the planned economy, strong market control by multinational brandname firms, and extreme dependence on the ups and downs of the world market. In electronics, the Chinese government supports the growth of domestic high tech markets and technologies, whereas the garment industry does not have much attention from higher levels of the state. However, due to the strong local concentration of the industry in often semi-rural garment districts along the East Coast, some local governments recently have taken the initiative to increase skills and capabilities of the garment companies, sometimes including employment conditions and workforce skills.

All of these industries, perhaps with the exception of the petrochemical sector, are suffering from structural overcapacities, similar to the world-wide situation. The integration into global cycles of capitalist development became particularly visible during the recent crisis, with some important Chinese characteristics, however. Most massively hit were exporting industries such as electronics, garment and other light industries producing the cheap goods for the shelves of Western retail chains. Here, lay-offs of millions of migrant workers occurred, in some cases with massive protests from the workers. Industries primarily producing for the domestic market, such as auto or chemicals, were less hard hit and could also benefit from the Chinese government's massive spending programs. These industries could mostly avoid major lay-offs and tried to keep their core workforces on the payroll, often with drastic reductions of working hours and pay. In the steel industry, this strategy faced major difficulties, since many steel companies, especially smaller, local ones, collapsed under the impact of shrinking demand from key customer industries, construction and shipbuilding in particular. Restructuring is now focusing on large-scale take overs of smaller steel producers through the globally oriented SOE, however, the recent wave of protests in this industry indicates the social sensitivity of such a strategy.

### **5.3 Regimes of production in core industries**

As the transformation of production in China is increasingly reflecting the segmentations of work and the working class in the capitalist world economy, the once centralized regime of labor policies is rapidly becoming multi-faced, too. Only few scholars in China and abroad have seriously tackled this issue.

Western-based labor sociology has recently produced a number of studies of the Chinese workplace as a contested terrain between management and workers, where struggles and compromises create certain regimes of production (Burawoy 1985). Most notably, Lee Ching Kwan's studies of labor regimes at factory and local community levels have found profound differences between labor regimes and the patterns of workers resistance in traditional heavy industry areas in the North, where mostly urban workers in former state-owned enterprises were losing their once life-long jobs, and in the new export production bases in South China, where migrant workers are forming a new mass workforce under highly instable conditions (Lee 2007).

Before this background, diverging regimes of production are analyzed in China's "rustbelt" and "sunbelt". In the older industrial areas, workers' reproduction is heavily dependent on

wages, benefits, housing, and social services provided by their urban work units – the heritage of the “social contract” of the Mao-period, to which workers are also resorting as a source of legitimation for protest and resistance. In the world market factories of the South, workers reproduction is completely based on their meager wages from factory work, with no other social safety network than the rural economy and family-based land rights in their home villages. In this environment, workers protest does not refer to the social values of earlier periods of socialism, but to the newly created laws and legal regulations on workers’ rights, directed at creating a certain “rule of law” (*yifazhiguo*, or *Rechtsstaatlichkeit* in German) at the workplace. These different institutional settings also result in different forms of workers protest, “protests of desperation” in the case of veteran state workers leveraging political bargaining strategies by attacking local officials, “protests of discrimination” in the case of migrant workers with no bargaining resources from traditional political environments but a clear sense of their second-class citizen status as rural migrants.

However, against the background of the rapid differentiation of conditions of production in Chinese core industries traced above, the analysis of diverging regimes of production needs to be broadened, in order to capture the different conditions in the respective industries and local environments. Also, the regimes of production have to be discussed in the context of different forms of workplace politics inside factories, embedded in models of production, management systems, work organization, factory rules, wage systems, recruitment policies, performance control, bargaining relations and the contractual foundations of employees’ rights and entitlements at the workplace. Such a perspective, of course, must include an analysis of the institutional presence (or non-presence) of trade unions and their basic practices.

Based on our ongoing empirical research, five generic types of production regimes among major manufacturing companies in the five key industries of the Chinese exporting economy can be identified:

- The most common regime of production resulting from the transformation of former state into state-owned enterprises (SOE) under capitalist market and management imperatives can be called “*state-bureaucratic*”, it is typically found in basic industries such as steel or petrochemicals. This labor regime is characterized by relatively stable conditions of production (after often massive restructuring during privatization), core workforces of medium or high skills, and distinctively “Chinese” pay systems with relatively low base wages and a high proportion of workplace and personal allowances, often making up 50% or more of the regular personal income of a worker. Labor relations are characterized by a rather strict obedience to labor laws and government regulations, a stable, politically accepted position of the trade union coupled with Western concepts of “co-management”. However, contract-based regulation of wages, working hours, and other employment conditions is rather weak. Usually, collective contracts and their side agreements do not contain precise language on wage rates and job classifications, or they are not made public.
- The “classical” regime of production in multinational corporations and Sino-Foreign Joint Ventures is comparable in some respects comparable to SOEs, regarding the relative stability of the conditions of production and the workforce, but it is distinctively shaped by management and work systems of multinational corporations. With reference to traditional types of vertically integrated companies during the Fordist era, we call this regime of production “*corporate bureaucratic*”. Such regimes of production can typically be found among major Joint Ventures in



industries such as auto or petrochemicals. These companies often pay the highest wages and salaries in the respective regions, their workforces consist almost exclusively of urban workers. Wage and incentive systems are similar to traditional Western multinationals, characterized by relatively high base wages (70-80% of the regular personal income), regulated working-hours and long-term career patterns related to extensive workforce skilling and education. Trade unions usually have a relatively secure position and are coopted into factory management, however, contract based regulation of wages and working conditions remains weak. Labor relations are stable, there is a growing number of individual labor conflicts, especially law suits by skilled employees with high aspirations regarding pay, working environment and career development.

- Production regimes in multinational corporations shaped by newer Western, especially American “philosophies” of high performance management (*“corporate high performance”*) are in many aspects similar to the more traditional multinationals, especially with regard to the type of workforce, but there is a much stronger performance orientation in workforce selection, work organization and career patterns as well as high employment flexibility. Fixed base wages and salaries contribute to not more than one half of regular incomes, the proportion of bonuses and performance pay is high. Trade unions usually are weak or do not exist at all, but there is an increasing number of labor conflicts resulting from discontent among highly skilled workers, including collective forms of resistance such as work stoppages and public protests via media and the internet. Such regimes of production typically exist in U.S. or Western European electronics multinationals, but also in foreign invested chemical companies and some of the newer Chinese multinationals in the high-tech industry such as Huawei or Korean and Taiwanese first tier corporations such as Samsung or TSMC.
- An extreme type of “high performance” management emerged among the large and modern mass producers of advanced electronics and other industrial products, where modern manufacturing technologies and organization are combined with large-scale exploitation of low-paid rural migrant workers. Work organization in regimes of *“flexibilized mass production”* is dominated by massive segmentation and flexibilization of employment (“Neo-Taylorism”, cf. Hürtgen/Lüthje e.a. 2009), often connected with the housing of workers in factory dormitories. Extremely long working hours, often in violation of existing legal standards, are the rule, driven by very low base wages, usually around local legal minimum wages. Wage differences between line workers and technicians, managers and engineers are very high. Trade unions usually have no presence in such factories, with the exception of management dominated employee representations set up in response to recent changes in labor laws. Such regimes of production can typically be found in U.S. or Taiwanese contract manufacturers and component providers in the electronics industry or some Chinese first-tier manufacturers of consumer goods.
- The classical low-wage production in technologically poorly equipped factories with low levels of organization (*“low wage classic”*) represents the bottom end of the regimes of production in major manufacturing sectors and enterprises. It mirrors traditional divisions of labor between industrialized and developing countries and its modern manifestations in the production systems of global retailers such as Wal-Mart, which have shaped large segments of Chinese export manufacturing. Workers are mostly rural migrants, often housed in factory dormitories. In contrast

to technologically sophisticated flexible mass production, control and methods of exploitation are simple, direct and based on authoritarian paternalism. Base wages hover around legal minimum wages, extensive overtime is the rule and a condition of economic survival for most workers. Piece work systems are widely applied, inducing speed-up and often undermining legal minimum wages. Trade unions are mostly absent from such workplaces, individual and collective labor conflicts are relatively frequent. Such regimes of production are widespread in the larger and smaller factories in light industries such as garment, shoes, toys and other consumer goods as well as among suppliers of electronics or automotive parts.

In our analysis of company-based regimes of production, this concept is applied to a set of case studies representing the predominant types of enterprises in the respective industrial sectors. The selection is focused on large companies with leading market positions in the respective industries and mostly modern production environments. The cases include different forms of ownership, such as state-owned enterprises (SOE), Foreign Invested Enterprises (FIE), Overseas Chinese (OC) companies, Chinese private companies, and

**Table 3. Typology of regimes of production**

Type	Production Model	Work/HR	Labor Relations
<b>State-bureaucratic</b>	Integrated Medium to high technology Brandname	Stable after restructuring, but increasing workforce segmentation Urban workers  High wages Low base, allowances	Stable TU, party, gov relats Collective contract Weak collective bargaining Few labor conflicts  Workers mobilization on traditional "socialist issues"
<b>Corporate bureaucratic</b>	Integrated High technology Strong brand Market control	Stable employment Urban workers, skilled High wages, benefits High base pay Career incentives	TU, cooperative Mostly collective contract  Weak collective bargaining Labor conflict few collective, often individual
<b>Corporate high performance</b>	Integrated High technology Strong brand  High flexibility	Flexible employment Urban workers High wages, benefits Low base, high variable and OT	Weak or no TU Employee involvement Often no collective contract No collective bargaining  Occasional labor conflicts
<b>Flexible mass production</b>	Integrated Medium to high technology No brandname High flexibility	Flexible employment Rural workers  Neo Taylorism Low wages, benefit Very long working hrs	Mostly non-union No collective contracts Occasional labor conflicts, sometimes militant Violations of legal standards
<b>Low wage classic</b>	Low integration Low tech No or weak brand High flexibility	Flexible employment Rural workers Low wages, benefit Personalized control Very long working hours	Mostly non-union No collective contracts  Frequent violations of legal standards

companies of semi-private and hybrid ownership. Collectively owned enterprises (COE) and township and village enterprises (TVE) are not included in this sample, since these forms of ownership can only be found among small and medium-sized companies. For a full sample of cases, refer to the adjacent table. For reasons of confidentiality, the names of the companies and the respective locations are kept anonymous.

For the empirical evaluation of production regimes, a set of 25 criteria was created, referring to basic aspects of the model of production, of the organization of work and working conditions, and of labor relations. The evaluation of these criteria is based on qualitative data from interviews, company visits and relevant external sources. The evaluation criteria will also be ranked in simple form on a three-level scale (low, medium, high) related to prevailing industry standards in China, in order to facilitate comparison between cases. Most of the ranking is based on our subjective judgment of qualitative information and observations made during company visits. Some of the criteria involve quantitative data, based on the information we could obtain from companies, such as employment figures, wages and wage ladders. Our ranking of wage flexibility is based on the proportion of the flexible element of wages and salaries (overtime, bonuses, and allowances), related to the average regular monthly income of employees. A proportion of 40-50% of flexible income is rated as high, 25-40% as medium, and of 25% and below as “low”.

**Table 4. Case studies overview**

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<b>Auto</b>	4 Joint Ventures: 2 Sino-Jap, 2 Sino-EU. 5 suppliers
<b>Steel</b>	2 SOE, 1 JV Sino-EU
<b>Electronics</b>	5 brand name FIE (3 EU 1 US 1J), 2 Chinese MNC 2 contract manufacturers - 5 factories (1 TW, 1 US) 3 supplier SME
<b>Chemical</b>	1 JV Sino-EU, 2 FIE MNC EU, 1 SOE, 2 Chin priv. Pre-studies small suppliers/service firms
<b>Garment</b>	6 Chinese private, 1 SOE, 1 HK

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#### **5.4 Summary discussion of regimes of production**

Our case studies in many ways confirm the basic proposal of this research project of a growing variety of regimes of production in the core sectors of the Chinese exporting economy. Our findings also contradict the assumption underlying most mainstream literature on China’s plan-market transformation that the proliferation of market relations would have a unifying effect on labor relations and their conditions in the modern sectors of the Chinese economy. Rather, complex configurations of production regimes throughout the various industries with highly different conditions of work, remuneration and social regulation are developing. In this context, the regimes of production are unevenly distributed throughout various industrial sectors.

In the *auto industry* the corporate bureaucratic regime of production (also dubbed “multinational/joint venture classic”) is the standard model. Due to the dominance of large-

scale joint ventures in this sector, there are only few variations. The emerging independent Chinese automakers seem to follow this pattern as well, since they are closely imitating the management and quality control strategies of foreign multinationals. However, some newer factories set up in recent times in rural areas (such as GM Wuling, General Motors' highly successful joint venture in light van production located in Guizhou province) may be closer to a "corporate high performance" regime of production. Also, this pattern as well as regimes of flexible mass production of "classic" low wage production may have stronger roles in the car supply sector, creating many options to transfer work into less costly social environments along the supply chain.

In contrast to the auto industry, the *electronics industry* is much more diverse, mainly due to the massive segmentation of this sector along production models and between brandname and non-brandname companies, but also as a result of different strategies of HR management emerging from the global restructuring of the industry. Among major brandname companies and also chipmakers "corporate bureaucratic", "corporate high performance" and "low-wage classic" regimes of production can all be found. "Corporate high performance" can probably be seen as the dominant pattern, emerging from the dominance of such regimes and the ongoing transformation of the IT-industry in the global arena. However, "state-bureaucratic" regimes of production are mostly absent from the electronics industry, since "classical" state-owned enterprises do not play any role in this sector. The manufacturing segments of the electronics industry are heavily dominated by regimes of "flexible mass production", epitomized by the large-scale factories and industrial parks of the major global EMS- and ODM-companies. Some of the contract manufacturers not investigated in our study seem to be closer to the model of classical low-wage production, the same is true for the huge sector of electronics component suppliers, including many large ones with strong technology base (cf. Hürtgen/Lüthje e.a. 2009).

The other industries investigated in our project also have their distinct configurations of regimes of production. In the *steel industry*, which is controlled by Chinese state-owned Enterprises and has only little presence of foreign invested enterprises, the state-bureaucratic regime of production ("SOE classic") dominates. However, there seem to be important variations between the very large flagship companies such as Baosteel, Wuhan Iron and Steel or Hebei Steel, on the one hand, and smaller SOEs owned by local governments on the other. Among the latter ones, production regimes seem unstable due to the lasting impact of previous privatization, the massive impact of the recent crisis and the restructuring in the wake of the Chinese central government's restructuring plans. These instabilities have been highlighted by two recent cases of violent workers' mass protest against possible plant closures in locally owned steel-companies, which had achieved national attention in China. In the two cases of locally owned steel companies we could investigate, the state-bureaucratic form of labor relations were combined with massive flexibilization of employment and work, particularly through the use of temporary workers.

In the *chemical industry* all kinds of production regimes can be found. China's major petrochemical corporations have state-bureaucratic regimes of production. Leading Foreign-Sino Joint Ventures and Foreign Invested Enterprises (FEI) fit the "corporate bureaucratic" category, with some similarities to the auto industry cases presented above. The two multinational companies we could investigate combine their vertically integrated models of production with high-wage employment policies, designed to attract skilled workers (also at operator levels) and ensure steady workplace (also for reasons of safety), stable career patterns and relatively low proportions of flexible pay for production workers.

Labor relations in these companies are based on stable trade unions, also in compliance with the traditions of the Western companies in their home country. “Corporate high performance” regimes of production are practiced by smaller foreign multinationals in specialized industry segments. Such companies also have highly skilled workforces, however, wages are lower and flexibility in pay and career patterns is higher, trade unions are mostly weak, and the formal framework of labor relations is designed to meet legal minimum standards. In one case we could investigate in depth, the Chinese facilities were also affected by a bankruptcy situation of the foreign mother company. Chinese private enterprises in less specialized segments of the chemical industry, that mostly cater to the domestic market (typically agro-chemicals, pharmaceuticals, or lower-end dyes), “classic” low-wage regimes of production seem widespread, some of the more skilled companies are trying to upgrade their labor practices. However, in one case we could investigate in greater depth, the upgrading of the technology base of the company did not seem to result in upgrading of labor practices, producing a similar bifurcation between the production model and labor relations as in the case of the low-wage classic regimes in the electronics industry, presented above.

**Table 5. Distribution of regimes of production**

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<b>Steel</b>	State bureaucratic (SOE classic)
<b>Chemical</b>	State bureaucratic, Corporate bureaucratic Corporate high performance
<b>Auto</b>	Corporate bureaucratic
<b>IT/electronics</b>	Corporate high performance, Flexible mass production Low-wage classic
<b>Textile/garment</b>	Flexible mass production Low wage classic

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Finally, in the *textile and garment industry* the “low-wage classic” regime of production prevails. The low-wage character of garment manufacturing is intrinsically linked to the small shop-environment in which most of the relevant processes are performed. The production models of these companies are characterized not only by their dependency from orders of brandname retail companies and related international and national trading houses, but also by tightly knit divisions of labor between small manufacturers in garment production districts, where work is constantly being shifted between manufacturers of various specializations. The network-based character of production can be seen as a specific way to integrate large amounts of manual labor under conditions of highly segmented work without the investment requirements and social costs of large factory environments. Such production models provide enormous flexibility, adaptive to the extremely cyclical development of global consumer markets. At the same time, the availability of such production networks limits the need to concentrate and centralize garment production in bigger factories or companies – a major obstacle to industrial upgrading in this field. Under these conditions, only few companies are undertaking the

risk to upgrade production and human resource practices. In the cases we studied, the companies were moving toward a “flexible mass production” regime of production.

A closer look at the various dimensions of the regimes of production analyzed for the automobile and electronics industries may reveal the social dynamics and contradictions in the varieties of company-specific labor relations.

## **5.5 Production regimes and management prerogative**

The case studies reveal the growing diversity of production regimes, but also certain patterns of control and labor policies in the respective sectors of the Chinese industrial economy. The regimes represent some generic institutional patterns and social practices, which can be found in various sectors and locations under different conditions, resulting in similar sets of power relations between management, employees and government. This also points to uniformities in labor policies among major corporations, manifesting themselves in best practice-models of HR management and corporate policies, disseminated among HR specialists, academic communities, consultants, law firms etc. Such common practices indicate that capitalist companies in China’s “market-socialist” economy are not simply trying to evade control of their labor practices by the state at its various levels. Rather, there are certain patterns of strategic behavior of employers towards law reform, government policies, individual grievances of workers at the shop-floor and in labor courts, collective labor conflicts and public concerns over labor standards. The staggering uniformity of the major two contract manufacturers’ reactions to labor policy reforms and pressures from NGOs and the Chinese public concerning working conditions of migrant workers in their factories provide a good illustration.

Such uniformity in strategic behavior at the level of day-to-day practices supports the analysis of Chinese labor relations scholars that employers’ interests in China contemporary political system increasingly appear in organized and coordinated forms, as has been visible in the debates over labor law reform or the recent attempts of employers to topple key provisions of the labor contract law through exemptional policies recommended by central and local government agencies (Chang 2002). Also, employers’ influence on labor policies continues to be particularly strong at the local level, resulting in all sets of tacit preferential practices for certain companies or industries and in fragmented regulation of labor standards even between and within cities, as our comparative case studies of three factories of a major electronics contract manufacturer demonstrate in particular. However, the highly politicized nature of the regulation of shop-floor labor practices under the various regimes of production does by no means imply that companies would be interested in the regulation of basic labor standards such as wages, working hours, benefits, seniority rules etc. at industry, regional, or local levels. As companies of all kinds and nationalities in China seem to enjoy almost unlimited management prerogatives over basic working conditions at the shop-floor, there obviously is little need to coordinate basic labor policies vis-à-vis employee representations, trade unions, government or party through employers’ organizations or bargaining associations. Coordination of basic labor standards, therefore, remains limited to certain informal consultations on pay for higher-skilled jobs at local levels and “gentlemen agreements” between HR managers on non-poaching etc.

In the absence of collective bargaining, the interaction of management and government policies and the established practices of employee representation by trade unions (where present) create sets of legal, political and also “moral” rules under which certain elements of the wage relation are being regulated, while others are omitted or subject to some kind

of non-binding consultation between employers and employee representations. Together, this creates a segmented system of rules with varying degrees of formal institutionalization at Chinese workplaces, defining the context of employee-management relations under the various regimes of production. As the adjacent table may help to explain, there are certain sets of “hard” and “soft” rules as well as a whole set of relations that follow “no rules” other than management prerogative.

“Hard rules” can be considered laws, government regulations, and also the basic provisions of collective contracts related to the procedures of consultation between management and employee representations. Such hard rules mainly relate to the requirement to sign labor contracts, laws and regulations on working hours, overtime, occupational safety and health, temporary labor, and minimum wages. The labor systems of companies with state bureaucratic, corporate bureaucratic and corporate high performance regimes of production usually accept such rules, companies in the flexible mass production and the low-wage classic categories have increased acceptance in reaction to labor policy reforms and growing consciousness of workers about their legal rights at the workplace.

“Soft rules” are usually embedded in collective contracts, the related agreements on wages and benefits, and government guidelines on recommended labor practices. Such rules relate, for instance, to annual wage increases stipulated in collective contracts or certain government guidelines, payment of bonuses, benefits, grievance handling and employee consultations. Some mechanisms of employee consultation established under “corporate social responsibility” schemes or foreign models of management-dominated cooperative labor relations may also be considered under this category. Soft rules are basically voluntary agreements between management and employees, setting some standards or establishing some expectations concerning wages and other basic working conditions. They are non-binding and can be unilaterally repealed. Often, the related agreements between management and employee representation are not made public to employees, such as in the case of the wage classifications in several automotive companies, analyzed in the preceding chapter.

Most elements of the wage relation at shop-floor level concerning pay, incentive policies and the organization and quality of work are not subject to any legal, contractual or otherwise institutionalized rules. This is true for the precise amount of hourly and monthly wages, wage categories and job classifications, work speed, incentives and performance control, work organization, seniority rights and the entire field of collective labor conflicts, deemed non-existent under present Chinese labor laws. In the various regimes or production analyzed in this study, these “bread-and-butter” issues of capital-labor relations remain largely unregulated by legal norms or binding collective agreements, even in companies with highly formalized labor relations.

Against this background, the findings of our case studies may illustrate why the foundations for tripartite labor relations in China remain weak, and why grievances of workers or collective labor conflicts continue to seek other channels than institutionalized grievance mechanisms at the shop-floor and trade-union based interest representation. The weakness of tripartism in China’s industrial relations system is not only caused by the absence of trade unions and employers’s associations as collective representations of labor and capital at the bargaining table, but by the lack of collective contractual regulations of wages and basic working conditions usually seen as the basic topics of collective bargaining. Under those regimes of production with institutionally stable presence of trade unions, i.e. state bureaucratic and corporate bureaucratic, trade unions

have a certain role in representing employees' interest based on their "political" bargaining powers rooted in the traditions of the "social contracts" of previous periods of Chinese socialism. Under the newer "high performance" and low-wage style regimes of production, unions are either absent or have no legitimation at all. All this explains why in all cases workers grievances and mobilizations tend to aim directly at the state in its function as a law-maker (labor courts) or as administration (usually local labor bureaus).

**Table 6. Hard rules, soft rules, no rules**

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<b>Hard</b>	Laws Government regulations Collect contract procedures	Labor contract Work time, OT Basic OSH Temp Labor Minimum wage
<b>Soft</b>	Collective contract content Wage agreements Govt guidelines	Wage adjustment Payment of bonuses Benefits Employee consultation
<b>No</b>	Hourly and monthly wages and salaries Wage system/hierarchy Performance/work intensity Work organization Seniority Collective bargaining and coll labor conflicts	

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Regimes of production, therefore, can also be linked to certain kinds of labor protest and workers mobilization. In state-bureaucratic labor regimes, massive individual bargaining exists, mostly over allocation of allowances, bonuses and overtime work. Occasionally, massive social mobilizations erupt, uncontrolled by trade union, party or government agencies, as in the upheavals in the Chinese steel industry in the year 2002 or in the recent cases of the occupation of the Lingang and Tonggang steel factories by workers (including the killing of a management representative). In corporate bureaucratic and also corporate high performance regimes of production, conflicts over wages, working conditions, and performance seem to be relatively regulated through the existence of formalized company-internal wage systems, however, there exists massive individual bargaining especially on the part of higher skilled employees in urban labor markets. Sometimes those employees resort to collective mobilizations over workplace restructuring, as in the well-reported case of the integration of the Chinese mobile phone factories and design centers of Siemens into Taiwan's BenQ in 2006. In regimes of flexible mass production and "classic" low-wage production, individual bargaining at the workplace is massively constrained by authoritarian systems of workplace control which often extends to factory dormitories. The most common tool of individual bargaining is the frequent change of workplaces, resulting in continuing high turnover rates in such



environments, and occasional collective walkouts with massive public action directed at local governments.

**Table 7. Patterns of labor conflict**

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<b>State-bureaucratic</b>	Individual bargaining, occasional mass mobilizations
<b>Corporate bureaucratic</b>	Limited individual bargaining Individual labor conflicts on pay and job assignment Occasional protest over restructuring
<b>Corp. high-performance</b>	Limited individual bargaining Individual labor conflicts on pay and job assignment Occasional protest over restructuring
<b>Flex. mass production</b>	Individual bargaining limited by strict workplace control High turnover  Individual labor conflicts over pay and OSH
<b>Low wage classic</b>	Day-to-day conflicts over workplace discipline Individual and collective labor conflict over pay and OSH Occasional mass mobilizations

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Unfettered management control over basic working conditions produces a set of imbalances in corporate labor systems in China, resulting in continuing insecurity for employees concerning pay, employment and skill development, and a permanent tendency to compensate low basic incomes by massive extension of working hours and individual “self-exploitation”. Our case studies reveal such common problems, existing in different ways under all sorts of production regimes:

- *Low base-wages and high amounts of variable pay, including allowances, bonuses and overtime pay are creating permanent incentives for extensive overtime work.* Under flexible mass production and low wage classic regimes of production, this effect is created by the combination of base wages at legal minimum levels and overtime work often exceeding legally approved levels. In corporate high performance regimes, flexibility of pay and incentives for overtime work are created through the various schemes of “high performance” work organization and HR management. In corporate bureaucratic regimes of production, the extensive system of personal allowances and bonuses, awarded to individual workers, are the key element of variable pay in combination with low base wages. Only in “corporate bureaucratic” regimes of production the level of base wages is in line with standards traditionally known from developed industrial countries (usually around 70-80% of regular monthly income); overtime work in most of these companies usually is limited and kept to legal standards.
- *Strong wage hierarchies* along with extensive status discrimination against migrant workers, women and temporary workers undermine principles of “equal pay for equal work”. Again, this conclusion can be applied to all kinds of production regimes with exception of the “corporate bureaucratic” and to some companies under state-bureaucratic regimes of production. The limitation of wage hierarchies similar to

historic standards in industrialized countries in “classical” multinationals and joint ventures reflects the traditions of Fordist wage regulation in the respective foreign mother companies and the Soviet-style principle of “distribution according to labor”, practiced in Chinese state-companies during the 1950s and re-introduced in the early years of reform and opening after the Cultural Revolution (Tomba 2002). However, the far-reaching deregulation of the wage relation during the later years of market reforms since the late 1980s have increased pay inequalities to an extent unknown in most industrialized countries until today.

- The dominance of individualized schemes of performance evaluation, arbitrary distribution of jobs and tasks and the general high flexibility of employment imply an almost complete *lack of seniority-based workplace regulations, job classifications and job-security provisions*. Seniority as a principle of work organization and performance policies only seems to play a role in “classical” multinational and joint venture regimes of production and to a certain extent in state-bureaucratic regimes. But even in those environments, seniority regulations do not exist as a contractual right, but only on the basis of unilateral company practices.
- A generally *high degree of employment flexibility and low job security*. The impact of this situation has become particularly visible in the low-wage mass production sectors of the Chinese economy, i.e. within flexible mass production and low-wage classic regimes of production, in the wake of the global financial and economic crisis. While jobs have been shed in large numbers, the recent talk in Chinese media about a new “labor shortage” after the crisis illustrates the extreme manifestations of this phenomenon in China today, and the extent to which rural migrant workforces and their rural communities have to bear the social costs of such labor market flexibility. Recent changes in labor laws, the Labor Contract Law in particular, certainly have limited some of the worst impacts of employment flexibility on workers, however, the basic parameters of labor market flexibility on the long term can only be reversed by substantially limiting the management prerogative over “hiring and firing” through safeguards based on collective contractual rights.

## **5.6 Conclusion: no New Deal for China’s workers**

The growing variety of regimes of production in Chinese core industries points to increasing difficulties in establishing socially accepted labor standards. In a certain sense, China is facing similar problems as advanced capitalist nations, where plant closures, restructuring and new production models combined with the growing number of non-union workers and migrants with insecure legal status have produced an increasing fragmentation of labor relations between different types of companies, core factories and suppliers, union and non-union workforces, “rustbelt” and “sunbelt” regions and many other lines of division.

Obviously, the forces of the capitalist market in Chinese industry and labor relations have not produced more homogenous conditions within the working population, fostering collective responses to the growing imbalance in power and incomes between capital and labor. Rather, different regimes of production have become an important element producing and reproducing inequality among workers. Also, the rural urban-divide within the Chinese working class is increasingly folded into complex regimes of production that combine several layers of urban and non-urban workforces in different segments of production and labor markets.

Before this background, China's centralized system of labor relations, embodied in the unified structure of trade unions and national government policies, looks increasingly hollow. The segmentation of the social conditions of production is effectively undermining attempts to regulate labor relations and labor standards "from above", embodied in the reforms of labor laws in recent years. Such reforms may remain symbolic if labor standards cannot be secured in collective agreements and negotiations with a certain degree of popular legitimacy and coordination at industry and regional levels. As known from manifold experiences in advanced industrial countries, labor laws can only provide a general framework for the regulation of labor standards, their material content is defined by collective power relations between management and labor and their representative organizations within factories, companies and industries.

The lack of effective collective regulations of basic wages, working hours and working conditions based on contractual agreements can be seen as the common element among the different regimes of production across companies and industries, state-dominated and privately dominated sectors alike. The high degree of flexibility of wages and employment conditions seems to be the common element of "high end" and "low end" workplace regimes, often coupled with extensive overtime work. However, working hard for relatively low pay is not a biological predisposition of Chinese workers. Rather, the incentive for workers' discipline and austerity are built into the systems of wages, performance evaluation and work organization and the resulting competition among workers in Chinese workplaces

The absence of socially accepted and contractually sanctioned labor standards has not only produced enormous inequality in wages, fostering often extreme competition between companies for skilled workers and the related labor shortages at all levels. It can also be seen as a major cause for the extreme income inequalities in China, symbolized in the staggering levels of relevant macro-economic indicators such as the Gini co-efficient. The flexibility of pay and employment has had particularly negative impact during the recent recession. Whereas companies and industries with large low-wage workforces of migrant workers were shedding jobs by the millions, top-tier SOE, Joint Ventures and multinationals tried to keep workers on the pay-roll, even during production shut-downs. However, in many of these workplaces workers lost substantial parts of their income, since overtime and all kinds of production related incentive pays are forming an important part of their regular wage.

Although recent debates on economic strategies during the crisis in China and throughout the world have converged on the call for stimulation of domestic demand in major emerging economies, the issue of wage flexibility and its negative macro-economic impact on workers' incomes and purchasing power in the core sectors of the Chinese economy has never been addressed, neither by the pundits of the global banking and business communities, nor by the relevant government bodies and expert communities in China. Only a few Chinese labor experts are pointing to experiences in capitalist countries during the Great Depression period, Roosevelt's New Deal in particular, when the need to revive economic growth resulted in massive political efforts and social movements to unionize key industries and establish basic standards of pay and decent work through collective bargaining and the expansion of labor rights (Qiao 2009).

Obviously, such ideas contradict the neo-liberal thinking governing China's economic debates as well as the technocratic approach of reform "from above" underlying the official concept of the "harmonious society". As labor policies in most Western countries have retreated from the basics of the post-war social contract, a New Deal for Chinese Workers

seems to be far away. The resulting fragmentation of labor relations and the “incomplete” tripartism with highly fragmented representation of workers interests seems to determine the Chinese characteristics of labor relations in the foreseeable future. However, certain segments of the working class with their often surprising mobilizations will continue to raise the question of further reform, as the massive unrest among migrant workers in South China in the spring of 2010 or the recent struggles over the restructuring of major steel enterprises in China demonstrate. Western labor movements can contribute many important experiences for this learning process, provided Western trade unions will be able to defend basic labor standards and their collective regulation on their own turf.

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## 6. Hegemonic Authoritarianism: The Textile and Garment Industry

Hao Zhang

Studies on Chinese labor relations struggle with the question of classification. Many academics classify it as “corporatism” (Chan, 1993; White, 1996; Chang & Bain, 2006) and they perceive the Chinese labor relations system as being a stable and established form of institutional arrangement in which the representative organs of capital and labor - in the classic definition of corporatism by Phillippe Schmitter - are “created by and kept as auxiliary and dependent organs of the state” (Schmitter, 1986). Some domestic academics, however, have suggested that the characterization, “Tripartism with Four Parties” is more appropriate (Chang, 1995; see also Lüthje in this book). They claim that neither the workers’ representation is stable, and nor are the trade unions able to institutionalize worker resistance in present-day China; trade unions are alienated from the workers and have become a fourth party of the tripartite mechanism. This form of union participation has been termed “fragmented representation” (Chang et al., 2008).

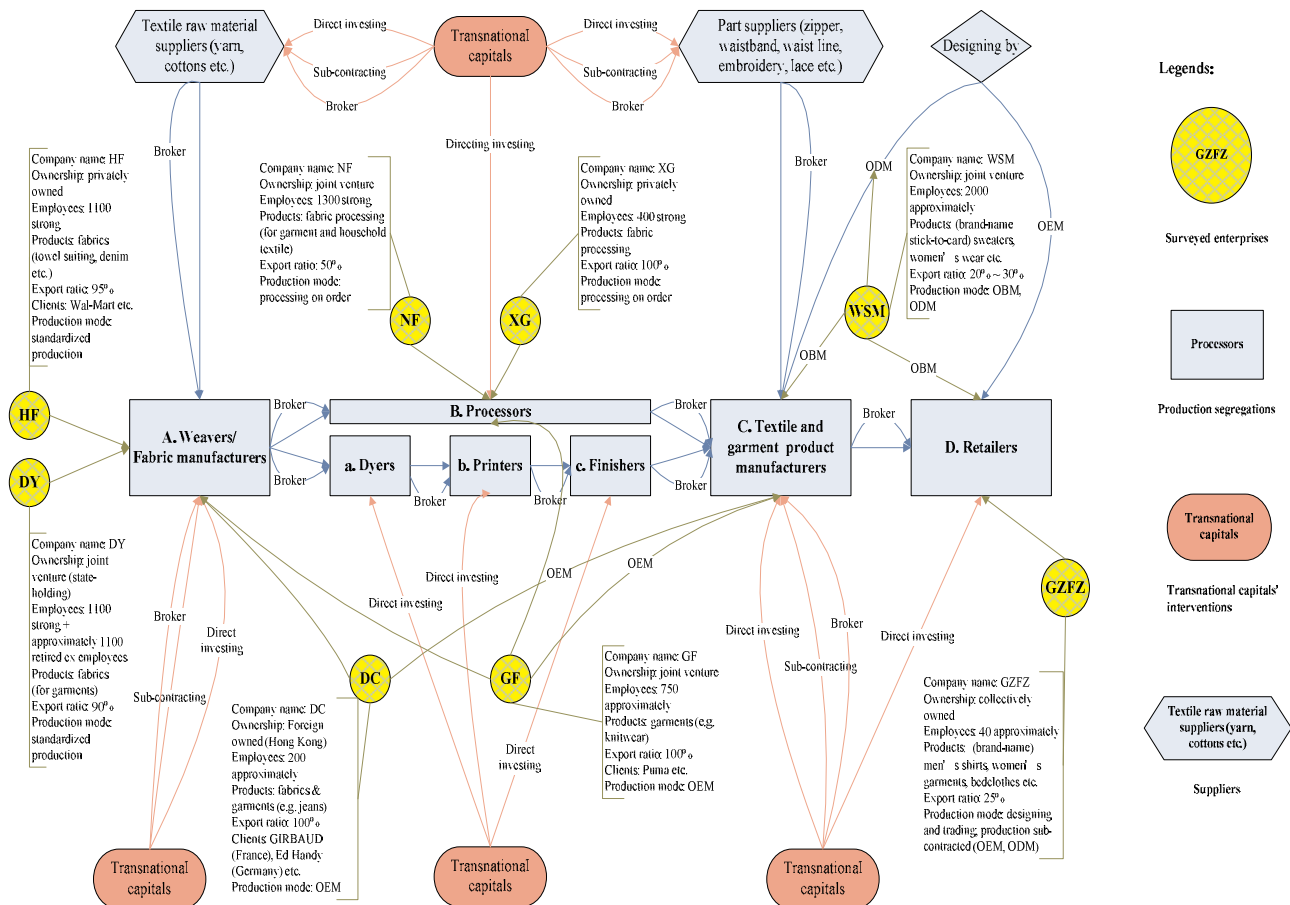
The term “tripartism with four parties”, however, does not seem to be sufficient in identifying the specific roles that trade unions and political agencies at all levels and sectors play. Firstly, in contemporary China, social transformations have entered a tumultuous and transformational phase. The recent ten years’ reform has led to markedly distinct working and employment conditions in diverse sectors. As such, a sectoral perspective captures these differences than a macroscopic analysis. Secondly, the trade unions have never taken a major part in shaping the labor relations system. They are controlled by either the State or private management and as such, they can not be regarded as independent entities.

A more appropriate perspective on Chinese labor relations is provided by Burawoy’s concept of the politics of production (factory regime). Burawoy distinguishes two general types of factory regimes: despotic and hegemonic regimes. The despotic regime is a type of politics of production in which coercion prevails over consent. It features management’s arbitrary exploitation concerning the workers’ wage dependence, while the latter’s livelihood is highly dependent on the sale of his/her labor power, with reproduction being bound to productive activity in the workplace. A hegemonic regime exists when the ties which bind a worker’s livelihood and reproduction solely to workplace productivity are broken, and thereafter, consent prevails (although never alongside the absolute elimination of coercion) (1985: 125-26). This happens through social insurance legislation and compulsory trade union recognition, and more broadly, through mechanisms for attending to worker’s grievances and collective bargaining.

With the deepening of market reforms in the 1990s, many characterised Chinese labor relations as despotic (cf. Lee, 1999; Chan & Zhu, 2003), while others wrote of hegemonic regimes in some sectors (e.g. Chin, 2003; Zhang, 2005) and across sectors (e.g. Blecher, 2002). Lee has suggested the term “disorganized despotism”. Such a regime is characterised by “an overtly coercive mode of labor control, infliction of economic penalties, proliferation shop-floor conflicts and the demise of patron-clientalism”, while

“disorganized” refers to the lack of coordination among diverse reform measures, resulting in an inadequate mediation of interests among social groups (1999: 46; 61).

**Figure 1. Global production network of the textile and garment industry, position of case enterprises**



Source: Own compilation.

China's textile and garment industry seems for many to epitomize “disorganized despotism”. However, the labor relations in this industry have not been studied in detail for the last ten years which witnessed profound changes in the political economy of China: membership in the World Trade Organization (2001), the “Hu-Wen New Deal” characterised by the discourses of scientific development (2003), the emergence of the discourse of the “harmonious society” (2004), and the recent wave of labor legislations (2007-2008; see Luo in this book). This study presents findings from extensive field work in the industry conducted in 2009. The interviews with workers, unionists, shop-stewards and management personnel of eight enterprises and the non-participatory observation of the respective labor processes (see, Figure 1 for these companies' respective positions in the global production networks)<sup>1</sup>, reveal the emergence of a new factory regime tentatively called “hegemonic authoritarianism” regime.

<sup>1</sup> This is based on a continuous study on the transition of the labor relations in the textile and garment industry in China, as part of the on-going research project of “Socio-Economic Transformation and Industrial Relations in China”, which is a joint research project by the Institute of Social Research,

## 6.1 The production process

The traditional production process in the textile and garment industry has been broken down into ever smaller tasks in order to make use of cheaper, unskilled labor. A complete production process in the textile and garment sector basically includes (Figure 1): A. fabric weaving, B. processing (a. dyeing, b. printing and c. finishing), C. product designing and manufacturing, D. retailing, and raw material (yarn, cotton etc.) and part (zipper, waistband, waist line, embroidery, lace etc.) production and supply. Transnational capital has intervened in all of these procedures through either direct investments or sub-contracting (see, Figure 2).

The design of a textile and garment product is relatively simple in comparison with many other products. The fine division of labor deskills the suppliers and their workers. This enables the sub-contracting manufacturers to easily and instantly learn the design, minutely adjust their production organization and put it on stream. Quality control is only necessary at the very end of the production (outgoing inspection or outgoing quality control (OQC)). None of the sample factories in our study had any in-process mechanism for quality control.

The new information and telecommunications technologies allow transnational capital to place and track orders electronically, greatly reducing response time in offshore production (Collins, 2002). Several cases of so-called “next day mail” (Interview IX) were reported during the field research: some small and flexible factories receive an order one day and then they organize production that very evening and deliver the goods the following morning.

Transnational companies prefer to deal with only a few suppliers. The other smaller and irregular enterprises can only survive in the export market by sub-contracting from the bigger suppliers. They subcontract certain parts or tasks of the whole order (Interview VIII). Subcontracting does not only take place in periods of peak demand but also during slack times when prices approach cost levels. First tier suppliers, in these periods, prefer to subcontract the production to smaller, irregular and therefore lower-cost factories. These factories normally have lower costs thanks to their inferior production and labor conditions and therefore can accept such orders (Interview IV).

The low levels of technology and capital outlays in the textile and garment industry allow for easy market entrance. Some interviewees complained about the allegedly unfair competition in this sector. “A small factory for example, with tens of workers, rents a workshop and produces with recycled used-cotton. They could start a factory operation today and disappear suddenly tomorrow.” (Interview VIII) The working conditions in these smaller factories are usually terrible but they are for all purposes invisible to any external monitoring authority. The bigger, formal suppliers simply cannot survive such cutthroat competition. They therefore frequently withdraw from the domestic market.

The certification of suppliers by global buyers leads to a dual structure in the industry. Most of the enterprises are either highly export-dependent or highly domestic-market-focused. A basic idea dominating this sector is that the international market is large, profitable and

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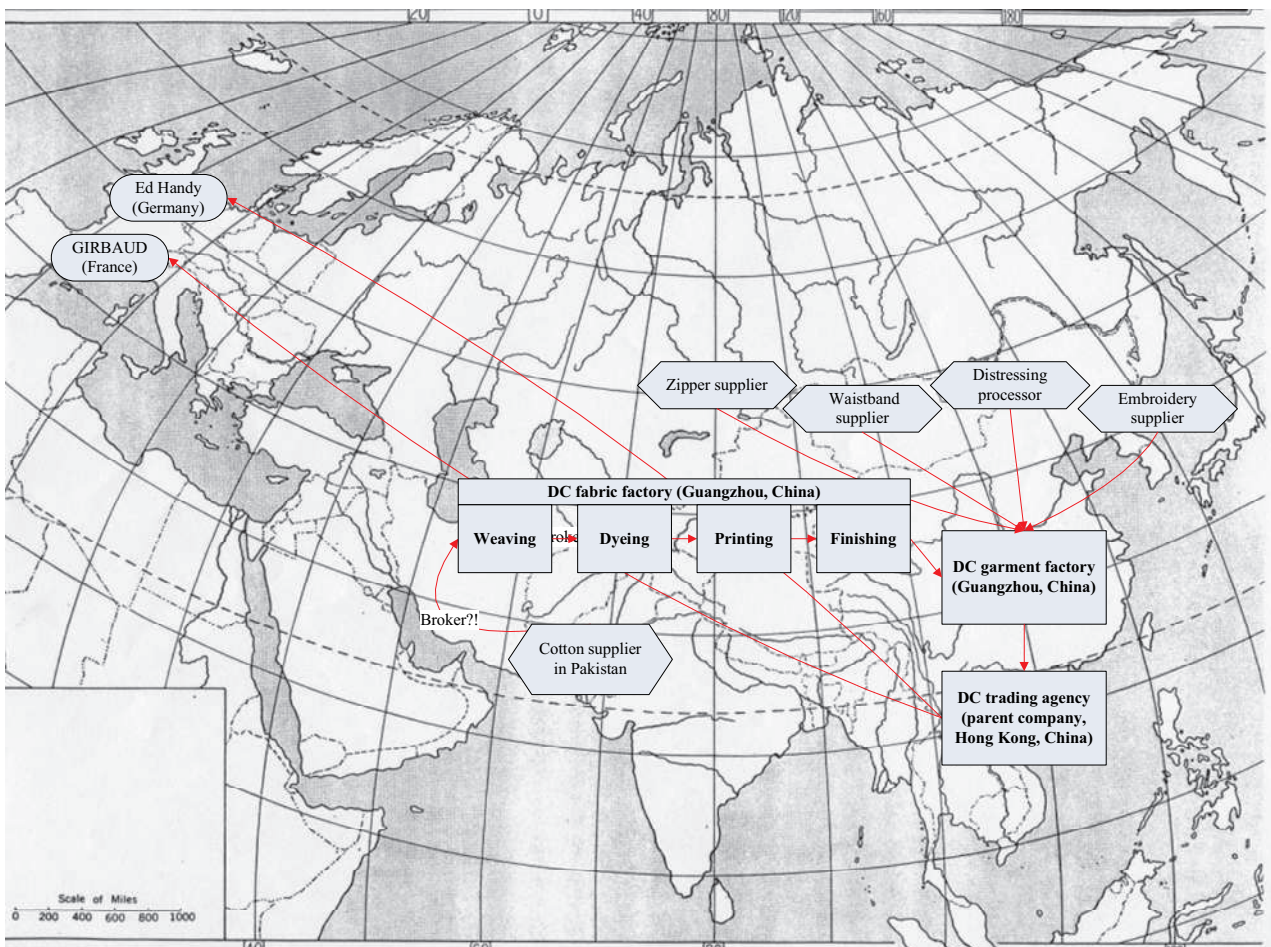
Johann Wolfgang Goethe University, Frankfurt, Germany, and the School of Human Resources and Labor Relations, Renmin University, Beijing, China, and funded by Hans-Böckler-Foundation (Germany). A full version of this paper has been presented as the author’s MA thesis in Global Labor University (Germany). The author hereby thanks to his MA supervisors in this program: PD Dr. Boy Lühje, Prof. Edward Webster for their insightful comments and suggestions, and kind assistance and support throughout this period.

displays fewer cases of delinquent payments (Interview VIII), but is also volatile (sensitive to global economic conditions, Interview II, III, X), with a high-threshold for entry (in terms of quality and CSR qualification, Interview VIII); while the domestic market is more or less the opposite in all these dimensions.

Domestic-market-focused enterprises are mostly local brand-name companies and small informal enterprises. These enterprises are either engaged in proprietary brand building or are simply not qualified for taking international orders. Since up-grading is difficult for the above mentioned reasons these companies are tied to the domestic market. Export-oriented enterprises (e.g. DC), in contrast, intentionally ignore the domestic market to avoid dealing with the relatively long payment cycles and the unfair competition of the sweatshops.

Nowadays, motivated by the economic crisis, some companies are trying to diversify their customer base. For example, international orders in XG (a former 100% export-oriented enterprise) decreased by 50% during the crisis, while they could not immediately find orders as supplements in the domestic market. In the end, the company could not help but accept some second-hand orders (multi-contracting) from some of the domestic-market-focused factories (Interview IV). In DY, the company has explored selling 10% of their products on the domestic market as a means of mitigating the risks associated with complete external-market dependence (Interview VI).

**Figure 2. Sample company DC in the global production network**



Source: own compilation.



## 6.2 The labor process

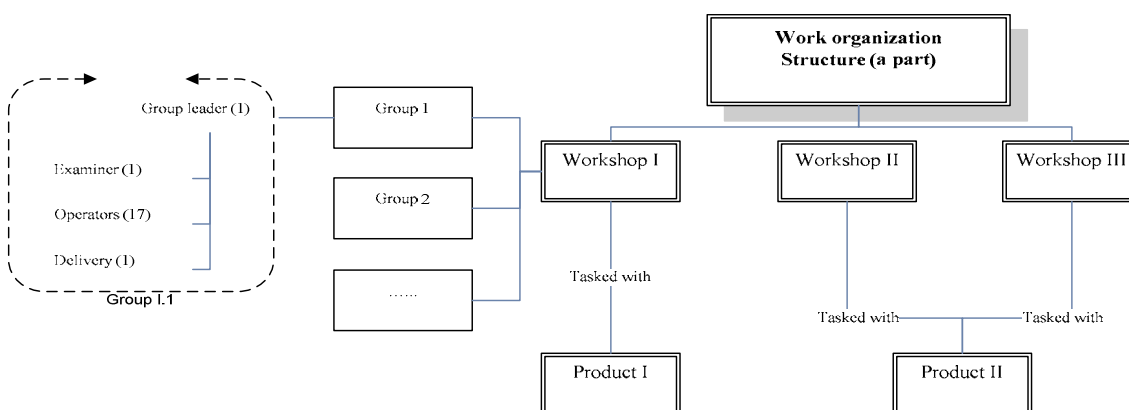
For the regular workers on the production line, none of the surveyed enterprises have any special pre-job training. In this sense, the only “skill” that the enterprises appreciate is experience, which means a high productive speed. This is manifested in practice most remarkably by the universal application of the piece-rate wage (see: below). For a non-experienced worker, training is normally undertaken by his/her group leader in the form of “on-the-job training”.

The domestically-acquired instead of socially-learned skill of the (mostly female) workers is not recognized as a skill. This disregard allows employers to justify paying low wages (Collins, 2002). Labor is never simply “cheap” – it is “made cheap” through these strategies (Enloe, 1989).

The poor training and piece-rate wage system rest on a Taylorist division of labor. This division of labor can be illustrated by one of our sample factories: DC (see: Figure 3). The production of a regular pair of jeans from jean fabric is broken down into more than twenty procedures, excluding four parts which are sub-contracted to four different suppliers. Inside the factory, workers are also divided into many groups (*zu*) with each including about twenty people. Each group takes relatively independent jobs and one or two groups work on one piece of design. Work tasks are broken down within groups. Each worker carries out only one or two procedures.

Among the twenty people of a group in DC, there is one group leader organizing the whole operation of the group, one person delivering the finished or semi-finished products, and one examiner working on quality control, with the rest of the seventeen people laboring as direct operators. Besides being in charge of the whole working process, the group leader also takes responsibility for the training of new-comers, communicating with the workers and mediating between them and management.

**Figure 3. The organization of production (DC)**



Sources: own compilation.

The group leaders play a vitally important role in the workers' working lives. For most of the problems they encounter during work, the workers tend to file complaints directly to the group leaders at first. Few of the workers have experience or motivation to talk about their problems face-to-face with management. Such a structure relies very much on the group

leaders in the production process. This prevents management from identifying labor unrest early.

Such a structure promotes an authoritarian management style. One indicator for this is the high number of dismissals, according to a review of recent court cases (Zhang, 2009).

As mass production calls for workers to strictly follow the process flow, most of the enterprises have detailed internal rules and regulations controlling a worker's presence, job position and obedience to management. Many court cases reveal that often a worker is punished or dismissed because he/she does not obey some form of management's orders (Zhang, 2009). This is also due to the absence or malpractice of trade unions at the grassroots level in most of the cases.

### **6.3 Flexibility requirements**

Garment products are extremely seasonal goods. Therefore, fast reaction to a new order, prompt organization of production and rapid delivery are key requirements for survival in this sector. Therefore, this sector has evolved several kinds of flexibility in the production process. Generally, there is a "low-road" tendency toward adoption of the low skill-low wage model, characterised by wage and numerical flexibility (Frenkel & Kuruvilla, 2002).

Thanks to the relatively simple process flow and easy quality control, the piece-rate wage system is the dominant wage system for shop-floor workers in the industry. In some of the sample companies regional piece-rates are set by collective bargaining at the sectoral level (e.g. Shao, 2005; Interview XI). Mostly, however, management's unilateral decision-making is still the dominant mechanism. But since the wage-scales are extremely transparent, wages follow the industry average (Interview XI).

A piece-rate wage keeps the pay-roll in line with orders. In one sample enterprise, a worker with the best performance in low seasons gets approximately two thirds to half what he/she does in a peak season (Interview II). In many cases workers choose to resign during low seasons, jumping to other sectors or they just go back home to engage in farming work, since the extremely low pay they get in low seasons (mostly the local minimum wages) is barely enough, if it is enough, for them to survive in the cities.

Another commonly employed system for solving the seasonal market fluctuation problem is the use of temporary workers. Workers, dispatched via temporary agencies in China do not in reality work temporarily. In most of cases, dispatched workers are employed permanently by the real employers, in triangular relationships that function to evade certain legal responsibilities. The most widely used temporary workers are actually the interns/trainees (*shixisheng*). These are mostly students of skill-training schools, who perform normal production tasks in partner-factories, as supplements for their peak-season productions. As student interns, they usually get less remuneration than a regular worker laboring in the same positions.

Schools are believed to receive payment for the contracts signed by the students they refer to the factories. The employment of trainees is an extensive practice in all kinds of sectors. By the end of 2009, there had been 3,036 skill-training schools in China, holding 4.14 million students (MOHRSS, 2010), an overwhelming majority of whom are believed to have been or will be sent to such internship jobs.

Working time is also flexible. Overtime work in this sector is very rampant. "4 hours per day (overtime work) is common" (Interview III). This estimate did not consider working Saturdays as overtime. Indeed, Saturdays are regarded as normal working days in most of

the factories, especially in peak seasons. This obviously contravenes the Labor Law (1994) stipulating the 3-hour daily and 36-hour monthly maximum overtime working limits (Article 41). Management commonly complains about the impracticality and rigidity of such a regulation in terms of China's present conditions (Interview II, III). Even the workers (in particular skilled workers) want more working hours, owing to the pervasive application of the piece-rate wage (Interview VI).

Some enterprises apply the "integrated work schedule system" (*zonghe gongshi zhi*). This government sanctioned system of calculating working time in cycles of a week, a month, a season, or a year, instead of the normal 8 hours/day, allows enterprises to calculate a worker's working time in a more flexible way. Thereby, an enterprise can avoid paying the one and a half times normal pay rate for overtime labor, stipulated in the Labor Law, by counting them as part of the normal working time compensated by more holidays in the low seasons. By law it is strictly confined to certain special sectors and positions. But in practice, large numbers of normal manufacturing enterprises have been permitted by local governments to implement such a system of super exploitative production due to concerted business lobbying.<sup>2</sup>

Another extremely flexible employment system is what is termed "titular employment (*huigong*)". Taking the NF factory as an example, 20% of workers have only titular positions. When there is no production order, workers are forced to take non-paid leave. They can engage themselves in any other job during this period. As soon as the factory receives an order, a sufficient number of these workers will be called back for production. As the workers are paid piece-rate wages, they accept this employment style – "Even in other factories they simply have difficulty in finding jobs (during the crisis)" (Interview III).

As a result of these policies on numerical and contract flexibility, the average annual turnover in the sample enterprises amounts to roughly 30% to 40%, excluding the company GZFZ (no production worker) and DY (state-holding JV) each of which have comparatively low rates of worker turnover.

Only a small proportion of the enterprises in the textile and garment industry utilise the practice of functional flexibility – internal job/task/skill re-organization and flexibilisation. This is reflected in our sample enterprises. Here only the brand-name company WSM operates on a similar sort of functionally flexible structure, called a federal system. Simply put, the whole company is divided into more than 16 relatively small-scale units (federal teams), ranging from ten to hundreds of workers. A federal team has self-governed operational, financial and personnel powers (except for the federally centralized dismissal power in order to reduce labor disputes). Each team undertakes brand-name or Original Design Manufacturer's productions relatively independently. The federal division is organic – cooperation and manpower flows across federations are very common.

Management in the textile and garment industry accepts a high turnover rate among workers. There appears to be no interest in providing workers with any incentives to stay on. One could say that capital has a phobia against employment stability. Drawing an analogy between employment stability and the "iron bowls" in the socialist era (cf. Dong, 2009), management discourse claims that any job guarantees will lead to worker idleness and excess managerial rigidity.

Workers also seem to be relatively uninterested in employment stability. They prefer immediate pay over the uncertain prospects of longer term employment. This phenomenon

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<sup>2</sup> Our continuing fieldwork during 2010 and 2011 has indicated more cases of this kind.

is pervasive in the textile and garment industry, due to several factors. Firstly, the workers themselves are structurally flexible in this sector. Migrant workers account for more than 80% of all workers (IUD, 2009). The migrant workers suffer from a high degree of homesickness since their social networks (“roots” or *gen*) are in their home villages. The predominant women workers are expected to take on household responsibilities and therefore quit the labor market after a few years. According to a survey in 2006 by the Renmin University of China, only 8% of migrant workers envision long-term employment in the cities, while 39% plan to go back home after saving some money and roughly an additional 15% expect to relocate to other places in the not so distant future (Zhu & Tao, 2006: 117-18). According to the Ministry of Labor, the cases in which a migrant worker has worked for more than three years in the same enterprise account for only 20% to 30% (MOLSS, 2006: 249).

Secondly, the household registration system does not entitle the migrant workers to access to schools, social insurance, and housing welfare in the cities. Their long-term prospects in cities are therefore curtailed (Chang 2009; see, Wenten Footnote XXX116xxx in this book).

Thirdly, the low pay provides no incentive for young, low-skilled and migrant workers to stay for long. Instead, this sector functions more like an initial gate-way to the labor market; many of these workers plan to shift to better paying sectors or to return to their rural homes at a later date (Interview VIII). Therefore, only 12% of the migrant workers in the above mentioned survey expressed a desire for a stable job. However, about 37% of the respondents indicated “it depends” on the conditions that are offered to them (Zhu & Tao, 2006: 117-18).

Given the seasonal market fluctuations in the textile and garment sector, stability, therefore, equals low pay in low seasons, which surely does not fit workers’ desires for more immediate cash-payment. As such, short-term contracts are the main form of employment contracts in this sector.

#### **6.4 “Order Economy”: buyer-driven global production processes**

The “order economy” is different from a “contract economy”: The latter is the “natural” state of the market economy based on a consensus between equally-positioned parties, while the former is embedded in imbalanced power relationships in the production chains, leading to a position of dependency vis-à-vis the suppliers. The textile and garment industry is buyer-driven. The world’s largest retailers, brand-name companies, and manufacturers without factories dominate the supply chain (Tokatli & Kizilgün, 2004).

This is due mainly to its fashion-orientation. The core realm of competitiveness concerns design: a domain very much dominated by the economic and cultural power of the West (Hansen, 2004). As long as the Western culture dominates the mainstream fashion world, the task of strengthening the domestic textile and garment enterprises via upgrading downwards through the production chains will remain an extremely difficult task. Nowadays, 60% of the textile and garment products produced in China are non-self-designed, non-self-branded Original Equipment Manufacture (OEM) goods (Wang & Guo, 2007), Original Design Manufacture (ODM) products account for a small part, let alone Original Brand Manufacture (OBM) ones. Most of the domestic brand-name garment companies in China solely focus on the domestic market.

The already mentioned easy entrance at the low end of the production chain leads to a destructive competition among suppliers domestically and internationally. The “price war”

is still the dominant strategy of this sector. One example lays bare transnational capitals' exploitative nature. During the economic crisis in 2009, the Chinese government promulgated the "Plans to Adjust and Reinvigorate Ten Key Industries" in order to promote related industries' adjustment and upgrading. One of these plans, for example, increased the export rebates for the textile and garment products by 1 percentage point (from 14% to 15%). However, the international buyers requested from their Chinese suppliers to pass on this saving (Interview V, VIII).

Transnational corporations use their power to control their suppliers' production and work standards by frequently inspecting their factories (*yanchang*). It is called a second inspection in addition to the traditional labor inspection by local governments. Thus, the politics of production of the supplier factories in the globalization era are shaped by both political apparatuses and transnational capital.

For transnational corporations the factory inspection is the most important form of monitoring the enforcement of their Corporate Social Responsibility (CSR) standards in the supplier factories. During the yearly inspections, a representative of the transnational buyer questions the supplier about complaints they received from third-party monitors (e.g. trade unions and NGOs) and other sources. They also interview local workers for their complaints and opinions and convey them instantly to the suppliers.

Future orders depend on positive evaluations. For example, in one of the textile enterprises visited, its customer comes to the factory for inspection every year and evaluates the working and production conditions of the factory. In case of violations against their corporate codes of conduct, the order for the next year will be reduced by a third. If that happens three years in a row, the supply relationship will be terminated (Interview III).

Many studies, however, have reported pervasive failures of enforcement (e.g. Pun, 2005a, 2005b; Yu, 2007, 2008). Our field research supports these findings. Since the suppliers enforce their customers' moral agenda for the sole purpose of attracting orders, the enforcement of CSR standards is still shareholder-oriented (profit-oriented). Therefore, the suppliers naturally lack incentives to really guarantee enforcement. Transnational capital, while initiating those standards, also lack appropriate motivations to ensure compliance – these large companies do not really wish to bring about any increase in the labor costs within the production chains. The most significant aspect is that transnational capital enterprises do not foot the bill for the enforcement of the CSR standards in supplier enterprises. Almost all of the interviewed management personnel complained about the buyers' hypocrisy of publicizing the need for labor rights protection, while, on the other hand, they lower the order prices to extremes. Some even asserted that no factory in China can bear the costs of strictly complying with those CSR standards.

In short, the responsibilities for complying with CSR standards are not fairly distributed within global production chains. The CSR movements, as a process that actively restructures the factory regime in China, actually strengthens transnational capital's control of the restructuring of labor relations in China (Pun, 2005a) and perpetuates an authoritarian factory regime (Pun, 2005b). Is there any external factor that could relieve such a tendency?

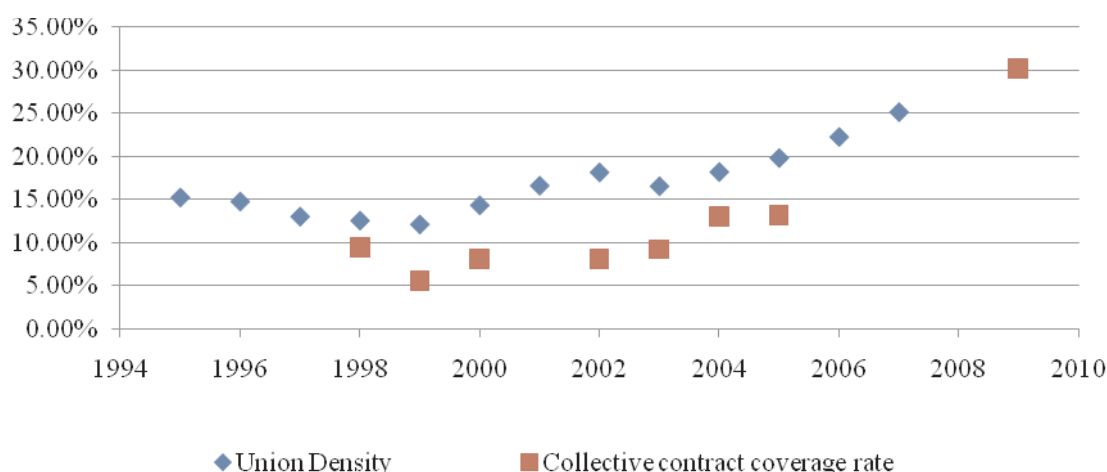
## **6.5 The changing role of trade unions: between the State and the market**

Better pay and working conditions might be achieved through collective bargaining; however, workers in the textile and garment industries are difficult to organize. Their own

expectations not to stay long on the job coupled with the fact that trade union membership is tied to the workplace makes it highly unlikely that garment workers will found a trade union<sup>3</sup>. Among our eight sample enterprises, only one trade union has been established after the economic reforms of 1978. This union was formed in 2009. It may indicate not only rising, though limited, working class consciousness among migrant workers that some academics have identified<sup>4</sup> (Pun, et al., 2010), but also a change in policies of the official trade unions in recent years.

While Howell sees no sign of a structural transformation in either the official trade union of China, the All China Federation of Trade Unions (ACFTU) or its regional branches (2008), according to Qiao (2010) and confirmed by my own observations, the ACFTU pursues a new strategy which focuses more on the rank and file. It attempts to become a collective bargaining union. It no longer occupies a position between the State and society, the new position is between the State and the market.<sup>5</sup> In the late 1990s, the ACFTU successfully mobilised an organizing campaign so as to counter the declining tendency of union density that began from the end of 1990s. A few years later it campaigned for collective contracts (Figure 5; see also Luo in this book).

**Figure 4. Union density and collective bargaining coverage rate in China**



Sources: NBS & MOL, 1996, 1997; NBS & MOLSS, 1998 - 2007; NBS & MOHRSS, 2008; Lee, 2009; MOHRSS, 2010.

However, higher union density and more collective bargaining contracts do not necessarily indicate a strengthening power of grassroots trade unions. Actually, the high dependence of enterprise trade unions on management is a marked feature. In most cases, it is the

<sup>3</sup> According to the Trade Unions' Law (1992, 2001), the case for organizing a trade union in an enterprise is that at least two workers initiate and establish a trade union committee (Article 10) and then every worker in this enterprise, willing or not, automatically becomes a union member.

<sup>4</sup> Actually this is still suspectable. It is true that collective labour actions are more and more frequently seen in today's China, but in the textile and garment sector, a conflict-oriented-employment-relations mode has not yet emerged, as the workers in this sector have a high degree of class constraint and a considerable lack of job stability as mentioned. In our cases, no collective labor protest was ever observed.

<sup>5</sup> For details, see Zhang 2010. This description on the trade unions' roles is derived from Hyman's classical schema (Hyman 2001).

bureaucratic trade unions and the governments at all levels, rather than the enterprises' trade unions, who leverage management to organize workers, hold negotiations and sign collective bargaining contracts. This provides the enterprise with opportunities to control the grassroots unions (e.g. the case of WSM). Among the sample enterprises, private ones tend to express union-phobia and thus they rarely have been unionized (e.g. the case of DC), while the unions which are historically tied to the socialist periods in some joint ventures between domestic and foreign firms, resolutely believe that being in compliance with management policy is the only way for them to survive (e.g. the case of HF).

Under such a top-down strategy, the collective bargaining process and the labor contract itself become merely mechanisms of formalism. Generally, a local government issues a model of collective contract that includes all the recommended articles, mostly replicating related articles concerning workers' rights in the labor laws, with specific places (e.g. the wage) being left blank. As such, collective bargaining becomes just a game of "fill in the blanks"; many enterprise managers just fill in the local minimum wage into the blank section and send the agreement to the chairman of the trade union (sometimes the vice-manager or a staff in the Human Resource Management department) to sign his/her name. (Interview I).<sup>6</sup>

Therefore, those who solely see the ACFTU's state-oriented role and thus take the ACFTU merely as a political apparatus (e.g. Taylor, et al., 2003; Chang, 2004; Chen, 2006) might propose gaining autonomy from the Party-State as a key precondition for the transformation of Chinese trade unionism. In the author's opinion, however, if grassroots unions can effectively obtain independence from the enterprises' management, then they have achieved a first important step in becoming independent trade unions.

Nevertheless, some optimists believe that a more rank-and-file-focused strategy would enable the shop stewards to develop a relatively independent identity and value system (Qiao, 2010). Furthermore, it could be taken as an opportunity for union revitalization, the fact that the Labor Contract Law (2007) entitles grassroots trade unions to more procedural rights as a means of coordinating with the management in related issues, such as dismissals, but this is still highly-conditioned by the management's willingness in practice.

The labor contract campaign targeting full individual labor contract coverage is probably a best example of the recent dualist-role of the ACFTU between the State and the market. As early as 2006, in the initial phase of the legislation of the Labor Contract Law, a labor contract campaign was put on the agenda of the ACFTU and the Ministry of Labor (MOLSS). This campaign, on the one hand, follows the legislative agenda of the Party-state; on the other, it calls for higher degrees of membership involvement at the grassroots level, since the labor contract concerns each individual worker's material interests.

## **6.6 The Party-State's role: regulator and social security provider**

The Party-State takes its role mainly in two forms: as an intervening force, offering relative protection to workers along the production chains by implementing certain industrial and

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<sup>6</sup> For an example of an official collective contract model, see:

The Model Collective Contract (of Sichuan Province) (Updated 22 June 2010) Available at: <http://wenku.baidu.com/view/9d7284d528ea81c758f578f3.html>;

The Model Wage Collective Contract for Educational Sector (of Hainan Province) (Updated 09 May 2011) Available at: <http://wenku.baidu.com/view/28adbcacdd3383c4bb4cd2d7.html>.

labor policies and forcing transnational capital to take more responsibilities; or, as a public welfare provider, by taking certain social responsibilities on itself (e.g. the making of the social insurance system).

The year 2008 was termed the “labor legislation year of China”, as a series of laws and regulations concerning labor issues entered into force in that year (see: Luo in this book). Some regional laws go even further: e.g. the Decree on the Harmonious Labor Relations in the Shenzhen Special Economic Zone (2009), and the Guideline on the Enterprise Collective Bargaining Negotiation in Guangdong Province (2010). The latter even touches on the issue of collective bargaining (see: Interview with Chen Weiguang in this book).

After this round of labor legislation a relatively comprehensive network of regulations on individual labor rights in China has been constructed. These hard laws have been complemented by soft laws such as the CSR standards issued by transnational capital and domestic industrial associations (see: Chahoud in this book) and certifiable standards by some international organizations, industrial guide standards, and the contractual clauses stipulated in collective bargaining and employment contracts.

While the legal protection of workers has been strengthened, the implementation of these laws lags far behind. As observed in our field research, violations of working time regulations are extremely common in the textile and garment industry. The main reason is the competitive pressures of global production chains. The Chinese government can do little about the price-dictates of transnational corporations (cf. Chan & Wang, 2004/2005). Some regional governments are reluctant to fully enforce national laws when they perceive them as obstacles for local economic development (e.g. attracting foreign direct investments) and some local courts interpret the national laws in favor of employers.<sup>7</sup>

The social security system’s transition has lasted thirty years. The government moved away quickly from the “Comprehensive National Social Security System” based on the working unit (*danwei*), but was slow in substituting for it by a social insurance system. The workers in the state owned factories directly faced with the transition have either retired within the old system as the last generation or they have been shifted to the new system through the one-off “length of job tenure being converted to cash” (cf. Lee, 1999). The introduction of social security only took place in recent years: old-age insurance, medical insurance, unemployment insurance, maternity insurance and industrial injury insurance. Workers are supposedly able to rely on these State sponsored safety nets.

However, this has not been the case. The social insurance system in China has long been characterised by profound regionalism. Different regions (cities in most of the cases before 2008) have their independent pension funds and a worker was not able to combine his/her accounts in different regions. Migrant workers very often surrendered their social insurance (also observed in our cases, e.g. at DC). They were reluctant to “buy” the social insurance, and cancelled them after a certain period to take back their own contributions. This is not

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<sup>7</sup> For instance, after the entry into effect of the Labor Contract Law, several regional regulations concerning certain specific issues in the law were introduced by local governments, such as the Opinions on Some Issues Concerning the Application of the Labor Contract Law (Shanghai High Court: [2009]73) and the Opinions on Some Issues Concerning the Application of the Labor Contract Law and the Law on Mediation and Arbitration of Labor Disputes (Guangdong High Court & Labor Dispute Mediation Committee of Guangdong: [2008]13), which have made a series of regressive interpretations of the new law.



only due to the “stability-phobia”, but also to the already mentioned rural-urban divide in the social insurance systems.<sup>8</sup>

According to a survey by the Ministry of Labor, the general social insurance coverage rate amounts to less than 20% for the migrant workers (MOLSS, 2006: 248). The old-age insurance coverage rate on migrant workers was about 11.5% by the end of 2009 (based on the data in MOHRSS, 2010).

In response to this problem, the central government promulgated “Interim Measures” in 2009. They unify a worker’s pension accounts across regions. The Ministry of Labor also began to establish a system of unified basic old-age insurance at the provincial level in 2008. By 2009, 31 provinces had established such a system (MOHRSS & NBS, 2009; MOHRSS, 2010). The ministry also began to audit companies on social insurance. As a result, the enterprises began to attach importance to this issue. Our DC case, for instance, has shown an increase in the coverage from 10% years ago to about 33% among its workforce nowadays.

The buyer-driven production process and the ever finer division of labor put a squeeze on workers in the textile and garment industry. Recognizing the harsh conditions of workers, the trade unions and the Party-State have formulated strategies in support of workers in the last decade. The trade unions have begun adopting a more rank-and-file focus while keeping their traditional corporatist role with the Party-State. Thus, the ACFTU’s agenda continues to be defined by the Party-State. Its rank-and-file strategy stays on the level of formalism. The Party-State has promulgated many labor laws and the establishment of a market-oriented social insurance system. Because of implementation failures and the State’s highly limited role in regulating transnational capital, these measures have not yet effectively severed the ties that bind workers’ lives to a particular enterprise, as Burawoy describes for the despotism regime. The migrant workers continue to rely on their farmland and their family as the main pillar of “social insurance”. Workers, therefore, have been basically left to the vagaries of the market place.

## **6.7 Moving towards a hegemonic authoritarian regime?**

Considering the recent reform on labor and social security policies and more socially-responsive steps taken by the Party-state, the despotic-characterized factory regimes of the early-reform period has been formed in the recent decade. Nonetheless, the pure hegemonic regime has yet come. The term “hegemonic authoritarianism” may fit better to such a situation. It combines features of the two types of regimes and reflects the global production processes of the textile and garment industry in nowadays’ China.

A hegemonic authoritarian regime is characterized by (a) a control of the labor process mainly based on the legal-rational authority of management and the workers’ unilateral obedience; (b) a labor process which is embedded in a relatively comprehensive regulatory network, but with commonly-seen enforcement failures of both hard and soft laws; (c) by coordination among stakeholders, but highly-conditioned by the Party-State’s authoritarian agenda; (d) certain characteristics of a hegemonic regime, but in a more formalistic rather than effective manner.

It is hegemonic but in a limited sense. The Party-state’s socially-responsive steps reinforce its authoritarian agenda. At the grassroots level, while social insurance policies and

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<sup>8</sup> Many cases in our on-going research have revealed the problems that this new dualism caused. They will be treated in further research reports.

farmlands seem to offer migrant workers with livelihood and social reproduction, the ever finer division of labour and flexibilization actually strengthen the workers' dependence on the production processes. As long as the workers are embedded in such a broader market-based hegemony – the “market economy with Chinese characteristics” (*you zhongguo tese de shehuizhuyi*) – they are actually kept subordinated to capital as a whole.

Such an “authoritarian” regime is not solely marked by capitals' control of workers at a local level but also at higher levels along the production chains. Domestic capital is embedded in a buyer-driven global production, in which directives are transmitted through the global production chains, with neither the suppliers nor the workers commanding over counter-veiling powers. The transnational capitals' authoritarian control of the global production process entails, implicitly, that the suppliers implement a type of authoritarian control over workers.

In sum, a general authoritarian regime dominates the politics of production in various sectors in China. The recent labor legislations have not changed the existing power structure of the industrial relations system by any means, while the workers' actions of solidarity remain difficult to continue and are yet to be institutionalized.

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## List of Interviews

- Interview I: Interview with Trade Union Chair of WSM, 09 Mar., 2009.
- Interview II: Interview with Human Resource Director of WSM, 09 Mar., 2009.
- Interview III: Interview with Management, Trade Union Representative and Human Resource Management of NF, 11 Mar., 2009.
- Interview IV: Interview with Management, Trade Union Representative and Human Resource Management of XG, 11 Mar., 2009.
- Interview V: Interview with Management, Trade Union Representative and Human Resource Management of HF, 11 Mar., 2009.
- Interview VI: Interview with Management, Trade Union Representative and Human Resource Management of DY, 11 Mar., 2009.
- Interview VII: Interview with Management, Trade Union Representative and Human Resource Management of GF, 11 Mar., 2009.
- Interview VIII: Interview with General Manager of DC, 20 May, 2009.
- Interview IX: Interview with Management, Trade Union Chair of GZfZ, 21 May, 2009.
- Interview X: Interview with Several International Buyers and their Brokers, Nov., 2010
- Interview XI: Interview with Unionists from the District of Luhe, Nanjing city, Nov., 2010

## 7. Understanding Labor Activism: The Honda Workers' Strike

Hui Sio Ieng

Despite the booming car industry in China, auto workers have received scarce academic attention (Zhang 2008) whereas migrant workers' resistance in the low-tech industries has been much discussed (see A. Chan 2005; C. Chan 2010a; Lee 2007a; Pun2005). However, to everyone's surprise, the Chinese Honda workers staged a strike in May 2010 in the wake of the global economic crisis; it attracted massive local and international attention, and was considered highly exceptional. Firstly, the strike lasted for 17 days and involved about 1800 workers; its length and scale is uncommon, if not unprecedented, when compared with other sporadic and spontaneous strikes (which have) occurred in the previous decades (for a detailed studies of strikes in China, see C. Chan 2010a). Secondly, with the assistance of new communication technologies, the Honda workers belonging to the new generation of migrant workers had demonstrated a strong organizational capacity which is extraordinarily unusual in the Chinese context. Thirdly, the strikers went beyond the individual material interest of a pay rise and called for democratic trade union reform to which their collective class interest is tied. Fourthly, the knock-on effect of the strike on the car industry, as well as other industries, was noticeable. Auto workers from many car companies and suppliers have followed the example of their counterparts and struck to demand higher wages. Finally, this strike has been met with a serious response from the party-state and the party-led trade unions, which subsequently tried to initiate new policies to address the increasingly intense labor relations in the country.

What are the implications of labor activism in the automotive industry in China? Do the Honda workers' strike and the strikes it sparked signify the rise of labor movements in China? As will be elaborated in the next section, two eminent scholars of labor relations predict different outcomes. Beverly Silver (2003) has shown a glimpse of optimism while Zhang Lu (2008) was relatively pessimistic. Endeavoring to contribute to the academic debate pertaining to the role of Chinese auto workers within the labor movement, this paper argues that the Honda workers' strike, as well as its implications, could be fully apprehended only when analyzed against the particular economic, political and social background in China in the wake of the global economic crisis. As such, this paper thoroughly examines the socio-political context from which this strike emerged. Along with this, it seeks to study the implications of the Honda workers' strike on the broader labor activism in China as it has ignited a slew of strikes at an industrial and national scale and led to the government's attempt at strengthening the workplace collective consultation system and deepening the trade union reforms.

This paper is written on the basis of intensive fieldwork conducted by the author and her colleague in the City University of Hong Kong, Dr. Chris King-Chi Chan, during the strike. We paid three visits to the strikers in their dormitory and conducted individual and group interviews with altogether 30 workers, so as to obtain first-hand information on the strike. Follow-up interviews were made after the strike via telephone. Also, participant observations were done to better understand the micro politics within the workplace and within the larger socio-economic and political milieu. In addition, extensive archival research was conducted to supplement the in-depth interviews. Newspapers, leaflets and online discussions produced by the strikers, documents and reports issued by the All

China Federation of Trade Unions (ACFTU), the local and central government and other organizations were analyzed to comprehend the causes and significance of the strike.

In the next section, the academic debate concerning Chinese auto workers' struggles is reviewed so as to lay the background for this paper. Section three provides a concise account of the Honda workers' strike, while section four examines the socio-economic and political context from which the strike emerged. Lastly, section five studies the implications of the strike on labour relations within China and seeks to provide a useful lens through which the dynamics of the labor movement could be better understood.

## 7.1 The theoretical controversy

Research related to the automotive industry in China seldom focuses on workers' resistance. Silver (2003) and Zhang (2008) are among the few scholars who have paid special attention to the Chinese auto workers struggles, as well as their potentials and constraints in leading the labor movement in China. In the following, I will pinpoint how they arrive at a different conclusion on the subject at hand and highlight the contribution this paper makes to the scholarly debate regarding the role of auto workers in the Chinese labor movement.

Studying labor struggles from a global and historical framework, Silver (2003) contends that the labor movement is both the cause and effect of the world's political, social and economic development. With car production, the most dominant capitalist industry in the 20<sup>th</sup> century, as an example, she demonstrates that the "spatial fix" of capital—the relocation of the automobile production from countries with higher labor costs (such as the U.S., and Japan) to that with lower costs (such as South Korea, Brazil and South Africa)—since the 1970s has fostered conditions for the emergence of stronger working classes in the new sites of production; this in turn has pushed up the labor costs there. The capitalist response to rising costs has been to shift car production to other new sites with cheaper labor costs and more docile labor. However, Silver maintains that the cycle of "relocation of car production→stronger working class→higher labor costs→relocation again" repeats in the new sites of investment. This is why she concludes that:

"the successive geographical relocation of capital constitutes an attempted spatial fix for crises of profitability and control that only succeeds in rescheduling crises in time and space" (Silver 2003: 39)

Apart from the spatial fix, Silver notes that "technological fix" (2003: 39)—the adoption of just-in-time and lean production model—is another capitalist strategy to manage the crisis of profitability. She discovers that the "lean-and-dual" model was dominant in Japan or transnational corporations of a Japanese origin while the "lean-and-mean" model was widely adopted by the U.S and European transnational companies (Silver 2003: 67). Under the "lean-and-dual" model, the car factories provide job security and good benefits to a certain number of core workers in exchange for their cooperation whereas the peripheral tasks are done by casualized workers employed under poorer conditions. In the "lean-and-mean" labor regime, the distinction between the core and peripheral workers no longer exists; employment insecurity and low wages are the norms for all. Although the Post-Fordist car production model means flexibility and dropping costs to the capitalists, Silver argues that it at the same time makes workers' collective resistance more powerful as their strikes now could bring serious disruption to production. In other words, their "workplace bargaining power" has been enhanced, which in turns helps transform "the balance of class forces" (Silver 2003: 168) in the new sites of car production.

At the time of writing her book in 2003, Silver suggests that China has become a new favorable site with a cheap labor force for car production, as reflected by the increase of car output from 708,820 in 1991 to 1,995,000 in 2001 (Silver 2003: 65). Judging by the historical and global development of the labor movement, she is positive that an independent and strong car workers' movement would emerge in China during the coming decade (Silver 2003: 65).

Before I explicate Zhang's position it should be noted in passing that Silver and Zhang are not totally different in terms of their theoretical tendency. As a matter of fact, they have written a book chapter together to argue against the race to the bottom thesis (Silver and Zhang 2009). They contend that China has become "an emerging epicenter of world labor unrest" (Silver and Zhang 2009: 174) as the labor-capital antagonism is following global capital to its new site of investment. Since China joined the global competition in manufacturing production "at a late stage in the 'product cycle'" (Silver and Zhang 2009: 181) when its profitability has dropped due to intense global competition, there is greater pressure for the capital in China to cut costs; this in turn will trigger stronger labor resistance. Despite some of the intellectual similarities between Silver and Zhang, they differ in their assessment of the auto workers movement (Silver 2003, Zhang 2008). These differences should be worth our special attention, especially in light of the fact that many Chinese auto workers have walked out since 2010.

Applying Silver's idea of technological fix to China, Zhang (2008) has conducted intensive studies on the Chinese automobile industry, with focus on seven car factories. Drawing upon her empirical data, Zhang concludes that both the "lean-and-dual" and "lean-and-mean" type of labor control exist in the Chinese car industry, but with a trend of moving towards the latter "with generalized lean production and declining job security to all the workers" (Zhang 2008: 36). Although this trend implies deteriorating employment conditions for Chinese car workers, open and strong auto-workers resistance has not emerged in China as Silver foresees at the time Zhang wrote her article. This has motivated her to explore the reasons for the absence of auto workers' collective defiance. In contrast to Silver's positive prediction, Zhang depicts a relatively bleak outlook for the Chinese auto workers struggles; she sees open collective disobedience as not easy to develop. This is first related to the weak marketplace bargaining power of Chinese auto workers as they are of low skills and, thus, could be replaced easily. Secondly, she holds that the "lean-and-dual" model practised in many car factories has divided the formal contract workers and temporary agency workers in the same workplace as they have received differentiated treatment; the former enjoy better pay and benefits while the latter earn poor wages and face employment insecurity. Thirdly, she highlights the weak associational power of Chinese workers and contends that the enterprise trade unions, the party factory committee and the Party-state have been capable of mediating industrial conflicts.

That said, Zhang is not completely pessimistic with Chinese auto workers' collective resistance. She asserts that in China the "lean-and-dual" model is highly likely to shift to the "lean-and-mean" model based on a standard practice of low wages, high turnover and job insecurity for the entire workforce in the factory, on the ground that the global competition in the automobile industry has become extremely severe which compels car companies to take further steps to diminish labor costs. As such, "formal and temporary workers will share similar grievances and will be likely to forge solidarity despite the differences in their social origins" (Zhang 2008: 41)

Silver and Zhang have different, if not totally contradictory, positions towards the possibility of the formation of a strong and independent auto workers movement in China. Silver has shown optimism at the time of writing her book in 2003 that an auto workers movement would emerge in China during the coming decade while Zhang is comparatively skeptical. What inspirations and lessons could we draw from the Honda workers' strike concerning these different viewpoints on the Chinese workers' resistance? I contend that to a certain extent both Silver and Zhang are correct in their argument; however they concentrate only on the capitalist system and structures (as in the case of Silver), and the structural and institutional constraints (as in the case of Zhang), thus have missed out the role of workers' struggles in their analysis. My contention is two-folded. Firstly, the auto-workers struggles are not completely structurally determined by the world economic and political development as Silver explicates and the formation of an auto workers movement should not be understood as an automatic process. It is historically and empirically correct that auto workers movement flourished in every new site of automobile investment; the Honda workers' strike in China and the struggles it sparked appear to be supporting Silver's argument. However, I contend that the booming car industry in China only provides exploitative capitalist structures that help breed workers' resistance but they will not necessarily lead to a strong auto-workers movement. For me, Silver has neglected the importance of studying the conditions under which auto-workers' struggles are made possible and successful, especially with reference to the specific socio-economic development of China.

Secondly, I agree with Zhang that the dual labor structure in the car industry and the capacity of the party-state and trade unions to mediate labor conflict have hindered the formation of a strong auto-workers' movement in China. However, her analysis is incomplete as she has given no attention to the role of workers struggles in breaking through these economic and political constraints. As a matter of fact, the Honda workers' struggle has demonstrated that these constraints could be overcome under certain circumstances and the power of labor as a collective could break through these barriers. Again, it is of critical importance to learn from the Honda workers' strike what conditions help foster workers' resistance and make it effective in advancing labor rights. In light of my criticism of Silver's and Zhang's theses, my analysis of the Honda workers' strike and its implications on the broader labor activism taking place will focus on the interplay of the capitalist structures, political constraints, as well as workers' struggles in shaping the labor movement in China.

## **7.2 Unfolding the Honda workers' strike**

Honda is the second largest automotive company in Japan and it is a Fortune 500 company. It owns four factories in China (Hagiwara and Lin 2010); the Honda workers' strike took place in one of these four factories named Honda Auto Parts Manufacturing Co., Ltd. (abbreviated as CHAM), which is located in Foshan city in the Guangdong province. Honda has adopted the just-in-time and lean production model; and CHAM specializes in producing car transmissions, which are to be delivered to three other factories for the final assembly of vehicles. It was because of this Post-Fordist production that all Honda factories in China were forced to stop production by the 17 day long strike starting from 12<sup>th</sup> May 2010. According to the news report, the company incurred a daily loss of 240 million yuan during the strike (Jingji guanca bao 2010).

The workforce in CHAM is about 1800 strong and it has a two-tier labor structure. About 20% of the frontline staff are formal workers who have graduated from technical schools



(interview with workers, 30<sup>th</sup> May 2010). In their early twenties, these formal workers are relatively more educated compared with the previous generation of migrant workers. The second tier of labor is comprised of student interns from technical schools all over the country; they compose about 80% of the total workforce in the factory (ibid.). Usually more than half of them will be turned into formal workers in CHAM after graduation. Despite the fact that the nature of the job and work intensity for these two types of workers are identical, they are employed under differentiated conditions; formal workers earn 1544 yuan per month with social benefits whereas student interns only earn 900 yuan a month and without any basic social protection. The labor dualism in CHAM resembles the “lean-and-dual” labor control regime which offers stable working conditions and better benefits to the core workers while the remaining workforce are subjected to insecure employment. Zhang (2008) asserts that the “lean-and-dual” model has divided the formal and casual workers, thus obstructing the auto-workers struggles in China. However, as will be further elucidated, the fact that these two tiers of workforce in CHAM were able to join hands together in the strike has illustrated that the division between formal and casual workers is not insurmountable, especially when there is an overall downward trend of wages and benefits in the car industry.

The strike was first triggered by workers’ discontent with low wages. However, as the strike was unfolding, workers found that the enterprise trade union was biased towards the management (Zhang 2010). They believed their wages were kept at a low level because the trade union had never defended their interests (Asia weekly 2010). Moreover, they noted that the enterprise trade union president, who is at the same time the deputy head of the Business Management Department, was not elected by members. He tried to talk workers into stopping the strike and maintained a close communication with the management in its first meeting with the workers’ representatives (interview with workers, 1<sup>st</sup> June 2010). The lack of support to their strike from the enterprise trade union made workers realize the importance of having a democratic trade union that is committed to furthering their interests. Therefore, the strikers’ major demands as stated in their open letter of appeal to the public include a wage increase of 800 yuan and the democratic reform of the enterprise trade union (the other two demands were a seniority subsidy and a better promotion system)<sup>1</sup>. The CHAM workers’ call for trade union reform made their resistance distinct from previous sporadic and wildcat strikes in the country. As underscored by scholars and labor activists, they went beyond their individual material interest of a wage increase and pointed towards the structural class interest of trade union reform (C. Chan and Hui 2010; Zhang 2010; Lüthje 2010; Watts 2010); this is perceived as a new stage of development of the working class struggles in China.

The company was at first reluctant to negotiate with the workers, but it made two proposals on a wage increase later as the pressure from the workers and civil society mounted. However, the proposals were deemed unsatisfactory and were turned down by the strikers. During the strike, the company had deployed various tactics to demoralize the strikers. Firstly, it videotaped the workers during the course of the strike; this was meant to be a threat as they might be worried of being identified and facing retaliation in the future. Second(ly), the company pressured student interns to sign a document undertaking that they would not lead, organize or join any strikes (Takungpao 2010a). It even brought their teachers all the way from their home provinces to the factory in order to persuade student strikers to return to work. Thirdly, the strikers who assembled in the playground of the factory were beaten up by around 200 people wearing tags that indicated their

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<sup>1</sup> Workers gave a copy of their open letter to the author.

membership of township and district trade unions on the 31<sup>st</sup> May<sup>2</sup>. Several of the strikers were hurt and sent to the hospital. This incident was widely covered by both the local and international media (Economist 2010; Global Times 2010; Mingpao 2010), and it triggered tremendous discussions on the role of trade unions in China and the urgency of their reform. Also, the incident served as a critical turning point after which the company and the enterprise trade union were brought under heavier pressure to resolve the labor dispute with workers.

Following the physical confrontation between the strikers and the trade union members, Zeng Qing Hong, a National People Congress member-cum-CEO of Guangqi Honda Automobile started to intervene into the strike more strongly. On the 1<sup>st</sup> June, he went to the strikers and asked them to elect their representatives, with whom he promised to have negotiation three days later. In the end, about 16 representatives were temporarily elected, most of whom were from the transmission assembly division. On the same day at 5 in the afternoon, a letter of apology to all CHAM workers concerning the scuffle was issued by the district and town level trade unions, though it continued to reprove the strikers for disrupting the company's production (Bai 2010).

On the 3<sup>rd</sup> June, the company initiated a democratic election in all the divisions and altogether 30 new worker representatives were elected. On the same day, a prominent legal scholar in China, Chang Kai, agreed to be the strikers' representative in their negotiation with the company.

On the 4<sup>th</sup> June, the worker representatives, Chang Kai, the representatives from the company and the government, and Zeng Qing Hong attended the negotiation. It was agreed that the formal workers' wages would be raised from 1544 yuan to 2044 yuan with a 32.4% increase while that of student interns would increase from 900 yuan to around 1500 yuan, with a rise of 70% (Globalization Monitor 2010). However, the company refused to discuss the workers' demand of enterprise trade union reform with the excuse that it should not intervene with matters concerning workers' associations.

### **7.3 Deciphering the strike**

As highlighted previously, Silver foresees that the auto workers' struggles in China will flourish as investment on the car industry has been flooding into the country, whereas Zhang holds that it has been hindered by the dual labor structure in the industry, as well as the capacity of the state and trade unions in mediating industrial conflicts. Which of these two theses could better account for the labor resistance in the changing socio-economic landscape in China? It seems neither of them is adequate. On the one hand, the absence of auto workers struggles in China in the past decade makes Silver's prediction not sufficiently convincing, if not totally refutable. On the other hand, the CHAM workers' strike has demonstrated that workers' agency could transcend the structural, institutional and political constraints, thus invalidating Zhang's argument. The Honda workers' strike, I argue, shows that labour struggles are more complicated than what Silver and Zhang suggest; they are complex products of the interplay of the capitalist structures, class struggles, political constraints and the changing socio-economic development in China. Therefore, the auto workers resistance (and workers struggles in general) could only be

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<sup>2</sup> In China, the structure of trade unions is parallel to that of the government. At each administrative level, corresponding trade unions or trade union federations have been established. For example, there is provincial trade union federation at the provincial level, township trade unions at the township level, district trade unions at the district level and enterprise trade unions at the plant level.

thoroughly comprehended when analyzed against the specific economic, political and social conditions in China. As such, in what follows, the author is going to decipher the Honda workers' struggle from the economic, class and political perspective.

### ***The economic dimension of the strike***

The global, national and industrial economic development had set up the stage for the Honda workers' collective defiance. Firstly, at the national and industrial level, the car industry has always been one of the key pillars for the Chinese economy. The "State Council Policy on the Automobile Industry" was issued in 1994 and 2004 respectively. In the 2004 policy, it was written that

"To pursue the combined principle of market and state intervention in promoting the national consumption of automobiles; by 2010 the country should be a principal auto manufacturing country in the world that has mass export of cars in the international market." (IHLO 2010a)

Also, the "Policy on Development of Automotive Industry" was promulgated by the National Development and Reform Commission in 2004 to guide the development of the car industry (Thun 2007).

With substantial support from the state, the Chinese automotive industry has experienced the greatest expansion in 2009 with a sale increase of 42.1 % and China has already surpassed the U.S. in 2009 to become the world's largest auto market (Hui 2010). Moreover, China is targeting to raise the exports of cars and parts to US\$85 billion by 2015 and to 10 percent of the total world trade of cars by 2020 (Lin and Hagiwara 2010).

At the global level, since its transition to the market-driven economy in 1978, China's economy has always depended enormously on its export industry. According to the World Bank, Chinese exports of goods and services in percentage of Gross Domestic Product (GDP) has jumped from 23 percent in 2003 to 42 percent in 2007 (World Bank 2009). However, the recent world economic crisis has had detrimental impacts on its exports, which plummeted 17.5% year-on-year to US\$90.45 billion in January 2009 (China Daily 2009).

One of the Chinese government's strategies to maintain high economic growth in the wake of the economic crisis is to stimulate production and domestic consumption in the car industry. Firstly, starting from the end of 2008 the central government has reduced the tax on fuel, abolished the road fees, and cut the sales tax on cars with engine displacement of less than 1.6 liters by 50 percent. Secondly, from the 1<sup>st</sup> March to the 31<sup>st</sup> December 2009, 5,000 million yuan was allocated in subsidies to peasants purchasing light trucks or mini buses with engine displacement of less than 1.3 liters, in exchange for their used three wheeled vehicles or low-speed trucks. Thirdly, in early 2010, it has announced a pilot scheme of subsidizing the purchase of new energy vehicles in five cities at a maximum of 60,000 yuan per individual (Hui 2010).

The rapid expansion of the car industry in China has at least two profound implications. On the one hand, both local and foreign investment in the automotive industry will continue to grow with the strong facilitation of the state and the rapid expansion of the domestic consumption market. On the other hand, the intensified competition among car manufacturers provides management with a strong incentive to keep wages low. According to the news report, the average hourly pay for Chinese car workers is about 13.58 yuan; however, most manual workers in reality earn less than this amount as this figure has also taken the white collar workers, who usually enjoy higher salaries, into consideration. It is pointed out that despite the swift expansion of the Chinese car industry

in the past decade, the basic salaries of most auto workers have not been adjusted. They earned more only because of increasing overtime work (Hui 2010). These larger economic conditions explain why the Honda workers complained about low wages.

### ***The class dimension of the strike***

Drawing upon Erik Olin Wright (2000), Silver (2003: 13) proposes that workers possess three types of bargaining power. The first one is marketplace bargaining power, which is rooted in tight labor markets; the second one is workplace bargaining power resulting from workers' strategic positions in a particular industry; the third type is associational power which refers to "the various forms of power that result from the formation of collective organization of workers" (Silver 2003: 13). In the following, the Honda workers' strike will be analyzed with reference to these three bargaining powers of labor, so as to shed light on how the strike came into existence and was able to secure success.

At the level of marketplace bargaining power, there had been a wave of labor shortages in China since late 2003, which rendered workers more powerful and confident (C. Chan 2010a). This labor shortage is caused by, firstly, a higher demand for labor due to increasing foreign direct investment flooding into the country after its admission to the WTO in 2001. Secondly, since 2004 the central government and some provincial governments have adopted policies to facilitate the increase of farmers' income, including the abolition of agricultural tax and provision of agricultural subsidies to farmers. These policies have directed some migrant workers, especially the older ones, back to their home villages. As a consequence, the overall supply of labor in the market had diminished (Chan 2010a and 2010b).

This first wave of labor shortages lasted until 2008 when the global economic crisis broke out. However, a second wave of labor shortages has re-emerged in China since the third quarter of 2009 when it was seemingly on its road of economic recovery (China Daily 24-02-2010). During the course of the global economic downturn, the Chinese government had taken various measures to relocate the surplus migrant workers from the industrial cities in the coastal areas to their home cities (Hui, 2009). Adding to this, economic development in the inland cities has been given more emphasis by the central government in recent years, which has pulled investment and capital into the Northern and Western part of China and led to more job opportunities in these areas (Xinhua net 2009). As a consequence, when the industries in the coastal areas started to revive in 2009, many employers found it hard to recruit workers. According to the newspaper report, altogether 2 million workers were needed in the Pearl River Delta in the early 2010 and some factories were compelled to halt production because of the labor shortages (Chengdu Commercial Daily 2010). One thing to note is that in the labor market there was not a shortage of manual workers in general, but the skilled or semi-skilled workers in particular (C. Chan 2010a).

Silver maintains that the marketplace bargaining power of workers increases when the general level of unemployment is low and the skills of workers are in great demand (2003: 13). Seen from this perspective, the marketplace bargaining power of Honda workers, as well as other car workers, was enhanced in the wake of the economic crisis due to, on the one hand, the labor shortage in the market, and on the other, the increasingly high demand of car production skills in the time of escalating investment and competition in the industry as elaborated in the preceding sub-section. The heightened marketplace bargaining power of Honda workers partly helped set the backdrop for their strike.

Pertaining to the workplace bargaining power, Silver (2003: 13) notes that it is related to

“...workers who are enmeshed in tightly integrated production processes, where a localized work stoppage in a key node can cause disruptions on a much wider scale than the stoppage itself ” (Silver 2003: 13).

The case of the Honda workers strike has meant the full manifestation of the power of the auto workers who have relatively stronger workplace bargaining power when compared with other low-skilled workers in China owing to the specific car production model adopted in the plants. Firstly, CHAM is specialized in the production of car transmissions, which are of vital importance to car production; transnational car companies usually see politically stable and strike-free countries as the best places for producing transmissions (Jorge 2010). In view of this, when CHAM workers were on strike, they could not be easily and quickly replaced by newcomers. Secondly, Honda in China has adopted the Post-Fordist just-in-time and zero inventory practice, which means only a minimal amount of stocks are kept in the plants. The CHAM workers' strike had seriously upset the supply of transmissions that was supposed to be unobstructed under normal circumstances. Thirdly, the transmissions produced by CHAM will be sent to other branches for the assembling of vehicles. The disruption of transmission supply caused by the workers' strike had halted production in all the four factories of Honda. In brief, the strong workplace bargaining power of CHAM workers has provided them with critical leverage in ways that the enterprise had to bow to their demands.

Concerning workers' associational power, it usually takes the form of trade unions and political parties in the western context (Silver 2003: 13; C. Chan 2010a). However, given its state-socialist legacy and capitalist economic reform in the past three decades, trade unions in China have developed peculiar characteristics which distinguish them from their western counterparts. On the one hand, trade unions at the enterprise level are subjected to heavy managerial control as the salaries of the trade union chairpersons are paid by the companies (see Chen 2009 & 2010; Clark and Prangle 2009; Howell 2008). Therefore, it is not uncommon that in time of labor disputes, enterprise trade unions, and sometimes even the district and township trade unions federations, are siding with the management instead of safeguarding workers' interest. Trade union members beating up the Honda strikers as previously elucidated is a testimony to this phenomenon. On the other hand, trade unions federations at higher levels, especially the provincial trade unions federations and the ACFTU at the national level, have been highly incorporated into the Party-state. They are seen as state organs that pursue the interests of the party-state, rather than that of their members (see Taylor and Li 2007; Hui 2009; CLB 2007; Metcalf and Li 2005; Friedman 2009; Gilbert 2005). Their incorporation into the party-state is clearly reflected in the Trade Union Law promulgated in 2001, which states that the central task of the ACFTU is to promote economic development, to which the task of protecting labor rights is secondary (Clarke et.al 2004: 240).

One thing to note is that trade union officials at either the rank-and-file or higher levels are generally not elected, but appointed (Taylor and Li 2007), and the ACFTU officials and the Chinese Communist Party (CCP) cadres highly overlap; for instance, the chairperson of the ACFTU is simultaneously a member of the standing committee of the CCP. Also, it is common that the chairpersons of trade unions are concurrently held by the CCP cadres, local government officers, or senior managers of the enterprises (CLB 2007). In the case of CHAM, the trade union president is a senior manager and workers said he was not elected by members. This structural inadequacy of trade unions in China has tilted them towards either the enterprises or the party-state, instead of its members. In a nutshell,

workers' interests are not the top agenda of the enterprise trade unions or trade union federations at higher levels. This explains why the Honda workers had to bypass the trade unions and launched their own strike when their legitimate demands were continuously ignored by the former.

Chan regards Burawoy's and Katznelson's definition of "class actions" and "class struggles" as western-centred and unable to expound the class relations in China because they see class actions and struggles must be carried out in the capacity of "class organizations" such as trade unions (C. Chan 2010a) while in reality most of the class resistance in China are not linked to trade unions at all. Based on this criticism, Chan put forward the concept of "class struggle without class organization" (C. Chan 2010a: 16) which serves as an analytical tool to examine the Honda workers' struggle. In his book *The Challenge of Labour in China*, Chan elucidates the term as the following:

"the rapid expansion of global capitalism into China has intensified class struggle in the workplace and beyond and has given rise to an emerging form of labour protest in the country....Although workers' class-consciousness has been strengthened, in particular that of the mature skilled workers, the formation of workplace organization, which can play a primary role in representing workers' interests, was impeded by the lack of institutional and external support" (Chan 2010a: 16)

For the reason that there is no proper class organization to truly represent the Honda workers' interest, their struggle was compelled to take the form of independent labor activism. Being the new generation of migrant workers in their early twenties (see ACFTU 2010a; Pun and Lu, 2010), the CHAM workers have demonstrated strong persistence and high coordination. Compared with their parents' generation, they have a stronger sense of injustice and are less tolerant of unfairness; thus they have taken a greater initiative to advance their rights. Although their wages were higher than the legal minimum wage, one thing they found highly unfair was that the wage gap between the Japanese staff and student interns in the company was as wide as 50 percent. Also, the fact that they are relatively better educated and familiar with electronic communication technologies, such as short message service (SMS) of mobile phones and instant messaging in internet and blogs, have laid an important foundation for the effective mobilization and coordination among workers.

The attributes of this new generation of migrant workers have paved the way for their independent labor activism even though a proper class organization is absent in the contemporary China. That said, paralleling the concept of "class struggle without class organization", I suggest that the Honda workers' collective defiance was "class struggles backed by transnational class coalitions" as trade unions and labor NGOs in places outside mainland China had conducted solidarity campaigns to bolster the strike. For instance, many Hong Kong labor NGOs and trade unions showed their support by protesting against Honda in Hong Kong. They kept updating the international community with news of the strike; and a global signature campaign to solicit international support was initiated by the Globalization Monitor, a Hong Kong NGO focusing on the negative impacts of globalization on labor in China. Most workers' representatives were aware of this international class support. Adding to this, some overseas trade unions, such as the AFL-CIO and United Auto Workers (Trumka and King 2010), had expressed their support by issuing a statement of solidarity. The labor NGOs and trade unions in Japan had also protested against the Honda headquarters (Cooloud Net 2010). Echoing this transnational class solidarity was national support from progressive intellectuals. Over 70 notable local and overseas scholars signed a petition to back the CHAM workers (Globalization Monitor 2010). This transnational class support had attracted tremendous international and local

media attention, as well as imposing immense pressure on the company and the local government. Equally important, it had boosted workers' morale and confidence in carrying out the strike until their demands were properly addressed.

To sum up, in spite of their weak associational power, the marketplace bargaining power and workplace bargaining power of CHAM workers has been strengthened owing to the changing socio-economic development in China, which includes the emergence of a labor shortage in the job market, the growing car industry and its high demand for semi-skilled and skilled workers, as well as the adoption of the Post-Fordist production model in plants. There is no proper class organization to bolster the CHAM workers' resistance; nonetheless it took the form of independent labor activism backed by transnational class coalition.

### ***The political dimension of the strike***

On the surface, the Chinese party-state seemed to be quite tolerant of the CHAM workers' strike when compared with its attitude towards previous strike cases for it did not suppress the former in the first instance, and it did not even deter the respectable legal scholar from involving himself in the negotiation as a workers' advisor. So what made the party-state more tolerant of the Honda workers' strike? This is in relation to the specific context wherein the strike broke out. Firstly, there has been mounting social concern in China over widening income inequality and the wealth gap between the rich and the poor, the urban and the rural regions; this has deepened workers' discontent and posed serious threat to the social and political stability (see China Review News 2010; BBC 06-08-2010; China Daily 09-01-2010). Shortly before the Honda workers' strike, it was reported that the Gini coefficient, an indicator of wealth inequality, in the country reached a new height of 0.47, which has exceeded the warning level of 0.4 (Chen 2010). And in 2007 the income of the top ten percent of the wealthiest was as much as 23 times of that of the poorest 10 percent, while it was only 7.3 times in 1998 (Chen 2010). Concerning the income gap between urban and rural wage earners, it is reported that the ratio is 3.33 to 1 (BBC 2010). Although about 55 percent of the population resides in the rural regions, they only share 11.3 percent of the social wealth (China Daily 2010). Furthermore, in spite of the escalating economic growth of China, the labor share of GDP has plummeted (see the contribution of Herr in this volume). The drop in labor share of economic growth as well as the widening income and wealth disparity are indicators that most workers in China have not participated in the overall wealth creation; and this explains why they have to resort to collective actions to strive for better pay while a functional class organization is absent.

The second specific social condition from which the Honda workers' strike emerged is related to the world economic crisis. In China, much of the burden of the economic crisis was shifted to workers as massive layoffs, wage cuts, non-payment of wages and compensation were common strategies deployed by capital to survive the crisis (see IHLO 2009). It is reckoned that 20 million out of a total of 130 million migrant workers were laid off in the wake of the economic crisis (CLB 2009; Harney 2009). The assault on labor during the economic downturn has fuelled their already intense discontent towards social inequality; therefore, once the Chinese economy has shown signs of recovery, workers struggles are ignited with greater workplace and marketplace bargaining power as expounded earlier.

The skyrocketing wealth gap and income disparity in the country have cautioned the party-state against potential social unrest. In an attempt to alleviate social grievance, the central government has adopted a more open attitude towards workers' struggles. Commenting

on the Honda workers' strike, an official from the Ministry of Labor and Social Security in the Guangdong province remarked that the core issues reflected by the Honda workers' strike is related to the social problems facing China, which is the fact that the new generation of migrant workers are pursuing social justice and fair treatment, and they request to share the increasing profits of enterprises (Caixin Net 2010). The official added that:

“China is at a critical moment of economic transformation, the ruling class should rationally handle workers' demands and the trend of social development. The businessmen should be able to make profit while workers share the former's profit” (Caixin Net 2010).

Moreover, the intention of the central government to maintain social stability by being less harsh with strikes was made clear in the commentary by the Xinhua agency, the official press. During the course of the Honda workers' strike, it highlighted that it is of great urgency to push forward collective wage consultation in enterprises, so as to further safeguard workers' legal rights and promote harmonious labor relations (Takungpao 2010b). It was this relative political relaxation that had emboldened the Honda strikers so that their persistence and determination to demand a pay rise and trade union reform did not diminish over time.

Notwithstanding the apparent tolerance of the party-state with the Honda workers' strike, upon closer examination, it is clear that it did not fully support their actions; it made concessions only to avoid an escalation of labor struggle. At the later stage of the strike, the central government started to ban media reports on it and strengthened the control over the civil society actors who supported the Honda workers. For instance, some labor activists who visited the CHAM workers were briefly detained by the local police and were told that they were not welcome in the city. Moreover, shortly after the strike was over, a website run by some young intellectuals in Beijing, the Chinese Workers Research Network, that had backed the Honda workers struggles faced retribution; it was ordered to be closed down by the State Council Information Office on the grounds that it “have covered articles with bad intention without authorization” (information provided by anonymous labor activists).

To sum up, soaring wealth and income inequality has spurred social discontent among workers. In order to contain labor unrest that might shake social and political stability, the party-state on the surface has been less repressive with the Honda workers' strike while behind the scenes it was trying to clamp down on the support given to the workers. Nonetheless, the apparent political relaxation helped keep the momentum of the Honda workers' strike.

#### **7.4 The Chinese labor movement in blossom?**

Apart from its exceptional scale and duration, strong coordination and mobilization, and the explicit demand of trade union reform, another reason that the Honda workers' strike is deemed special is its domino-effect on industrial and national labor activism within China. Almost at the same time as the Honda workers' strike, workers from a supplier to Hyundai in Beijing also launched a strike to demand higher wages. And shortly after the Honda strike in CHAM, workers from another Honda factory in Zhongshan, a city next to Foshan, staged a strike requesting a pay rise and enterprise trade union reform. Along with these, workers from two Toyota factories in Tianjin, a supplier to Honda named Atsumitec Co., and a supplier to Honda, Ford and BWM called Ormon followed the example of their counterparts and were on strike in June and July. The ripple effect of the Honda workers'



strike has been proven by the fact that a leader of the Zhongshan Honda strike had contacted worker representatives in CHAM in an endeavor to seek their advice (interview worker representatives). The ITUC/GUF Hong Kong Liaison Office (IHLO) has listed out all the reported strikes in the auto industry subsequent to the Honda workers' strike (Table 1); at least 12 of them took place in June and July 2010. Apart from the reported strikes, it is revealed that more than 100 strikes took place in the auto and electronic factories in the Pearl River Delta (Lüthje 2010) following the CHAM workers' open resistance.

The ripple effect of the Honda workers' collective defiance was not only limited to the car industry, but had also extended to other industries at different geographical areas as a new wave of country-wide strikes had been sparked within a month of when the Honda workers' strike first broke out (Table 2).

**Table 1. Strikes in the Chinese auto industry after the Honda workers' strike**

Date	The company in which the strike took place
<b>Within the Guangdong Province</b>	
7 June	Foshan Fengfu Auto Parts
9-15 June	Honda Lock o.
16 June	Omron Co. Ltd (Guangzhou)
17 June	Nihon Plast (Zhongshan) Co.,Ltd.
18 June	Miyasaka Fuji (Zhongshan) Co Ltd
22 June	DENSO (GUANGZHOU NANSHA) CO LTD
23 June	NHK-UNI SPRING(GUANGZHOU)CO
13 July	Atsumi Metal Co., Ltd. Shishan
17 July	Nihon Plast (Zhongshan) Co., Ltd
<b>Outside the Guangdong Province</b>	
17 June	Tianjin Toyoda Gosei Co., Ltd.
17. June	Wuhan Auto Parts Alliance Co,Ltd
15 July	Tianjin Mitsumi Electric Co.

Source: IHLO (<http://www.ihlo.org/LRC/ACFTU/000710.html>).

This wave of industry and nation-wide strikes has raised serious concern for the government and the party-led trade unions pertaining to trade union reform and workplace consultative system<sup>3</sup>. On the 5<sup>th</sup> June, the ACFTU issued the following statement: "Reinforcing the building of workplace trade unions and giving them full play" (ACFTU 2010b), which advocates that the election of workplace trade unions should be in accordance with legal regulations and emphasizes their role in ensuring the effective

<sup>3</sup> In China, the term "collective bargaining" is seldom used while "collective consultation" is more frequently used by the government.

implementation of the Labor Law, Trade Union Law and the Labor Contract Law at the enterprise level. It also gives priority to the workers' right to information, participation, expression and monitoring in workplace trade unions.

The vice president of the Guangdong Provincial Federation of Trade Unions, Mr. Kong Xiang Hong, confirmed that it would speed up the democratization of trade unions in ways that members could elect their own presidents. He also announced that a pilot scheme of the democratic election of a workplace trade union president will be conducted in CHAM and nine other factories (Takungpao 2010c). Moreover, Wang Yang, the secretary of the Chinese Communist party in the Guangdong province accentuated that when handling workers' collective grievances, enterprise trade unions should position themselves as workers' representatives and help safeguard their rights according to legal regulations (Yangchengwanbao 2010). Furthermore, in August 2010 the Guangdong provincial government had debated the second draft of the Regulations on the Democratic Management of Enterprises after two years of suspension while the Collective Consultation Ordinance of the Shenzhen Special Economic Zone (amended draft) was also under public consultation (Hong Kong Commercial Daily 2010; China jingji wang 2010)<sup>4</sup>.

**Table 2. Strikes in the aftermath of the Honda workers' strike**

Date	Detail of the strikes
17 May to 1 June	Workers from Foshan Honda factory were on strike
18 May to 21 May	Workers from a factory in Datong blocked the road traffic for three days
19 May to 21 May	A few hundreds of workers from a state enterprise in Kunshan struck for over three days
19 May	Workers from Vision Tec in Suzhou were on strike
23 May	Workers from a factory in Chongqing were on strike as some workers died of fatigue
25 May	Over 200 taxi drivers were on strike in Dongguan
27 May	Bus drivers from 13 cities in Yunan launched a strike
27 May	Workers from the Gloria Plaza Hotel in Beijing were on strike
28 May	Workers from a factory provider to Hyundai and from Xingyu automobile in Beijing were on strike.
28 May	Frontline workers in a factory in Lanzhou staged a strike
30 May	Over a hundred taxi drivers in Dongguan struck against the illegally operated taxi
1 June	Trunk drivers in Shenzhen Shekou harbour staged a strike because of the entrance fee charges

Source: Asia Weekly 2010.

<sup>4</sup> The legislations on these two ordinances have been suspended due to strong opposition from the local and overseas business chambers (Singtao News 2010-09-27; Wenwei Po 2010-09-18)

Does the knock-on effect of the Honda workers' strike and its impact on policy-making imply that auto workers in China, given their strategic location in production, can take the lead in the labor movement as Silver noted? Economic policy in China has been favoring the car industry over other industries, which along with the phenomenon of labor shortage and high demands for semi-skillful auto workers have provided economic structures that positively help foster the marketplace and workplace bargaining power of auto workers. Therefore, the answer to the question at hand hinges on whether and how the power of isolated and sporadic workers collective resistance could be consolidated and transformed into long term institutionalized associational power. The absence of "effective workplace organizations" (Chan 2010a: 169)—trade unions—in China, as expounded previously, has deprived workers of adequate associational power to defend their labor rights as a collective in the long run. Seen from this angle, Zhang is not completely wrong to argue that the formation of auto workers movement in China is obstructed by trade unions which attempt to mediate industrial conflicts, instead of advancing workers' interest. However, there is no reason to be pessimistic as the class power balance is always the product of class struggles that could transcend political and institutional constraints at some critical points. Collective action taken by the Honda workers and workers who joined other strikes it ignited prove that the existing trade unionism in China is not effective (enough) to dampen workers' grievances and demands; and most importantly they will take actions to bypass the ineffective workplace organizations to advance their own interest.

The party-state and the official ACFTU are well aware of the deficiency of trade unions in China; that is why various trade union reforms have been in place in the past decade (see Luo in this volume). However, the unceasing strikes in the country in 2010 attest to the failure of the ongoing trade union reforms which seek to assuage labor discontent. Therefore, subsequent to the Honda workers' struggles and the new slew of nation-wide strikes, the central and local government and the ACFTU have come up with new policy initiatives pertaining to the trade union reforms and workplace collective consultation as underscored earlier; however there is still a big question mark over the effectiveness of these attempts in protecting workers' interests. Back to the question of if the auto workers can take the lead in the labor movement in China, I would say there is no definite yes or no answer. As reiterated throughout this paper, "the global economic development" thesis suggested by Silver or "the deficiency of Chinese trade unions" thesis by Zhang alone could not grasp the dynamics of class relations and labor movement in China. Instead, it is the interplay of world capitalist economic development and structures, political and institutional constraints (taking the expression of party-affiliated and management-led trade unions), as well as workers' struggles that are strongly shaping the labor movement in China. There is no question that workers collective resistance will escalate in the face of intensifying capitalist development in the country, the issue that remains uncertain is whether it will continue taking the form of independent labor activism or whether the ongoing trade union reforms will be capable to pre-empt workers' defiance. If the ACFTU and trade unions in China could not properly serve the function of heightening workers' associational power, workers in the face of mounting exploitation will continue to resort to independent labor activism to safeguard their interests, as in the case of Honda workers' strike.

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## 8. Insider Views of Labor Struggles in Southern China

### 8.1 Interview with Chen Weiguang\*

\*Chairman of the Guangzhou Federation of Trade Unions and the Vice Chairman of the People's Congress of the City of Guangzhou.

Interview by Boy Lüthje<sup>1</sup>

*Boy Lüthje (BL):* How do you assess the labour conflicts in the auto supply industry in South China in the spring and summer of 2010?

*Chen Weiguang (GW):* The strike at Honda Nanhai and other auto components factories in the Pearl River delta in June and July 2010 triggered a strike wave that involved several tens of thousands of workers. In the city of Guangzhou alone, more than 60 factories had strikes, including Honda Dongfeng and other major auto suppliers. The basic cause of the strikes was low wages and poor working conditions, but the low wages were the main factor. The Guangdong provincial government basically did not view these strikes negatively. We as a trade union found the workers' demands just and reasonable. Honda and Toyota in Guangzhou are both foreign–Chinese joint ventures, and workers' wages in these companies were between 2,500 and 3,000 RMB<sup>2</sup> per month. But in Honda Nanhai and many other comparable companies, the wages were much lower, around 1,200 RMB. These companies are profitable ... but their basic wages were about the legal minimum, around 900 RMB. We therefore believe that the demands of the workers were justified. But we hope that such economic disputes do not develop into political incidents and will not disrupt social order; this is our bottom line. We have to say that our strikes were very orderly – there were no walkouts from the factories to the streets, no destruction of machinery, no playing politics. Everything remained in the framework of disputes within factories. In all of the more than 60 conflicts in Guangzhou this summer, negotiated settlements were achieved. We can therefore proudly say that in Guangzhou no striking worker was dismissed and not one worker was arrested by the police, although the strikes included tens of thousands of workers. Of course, most of the strikes were rather short, between two or three hours and three days. We also taught our Japanese employers that they cannot treat their workers in such harsh ways.

*BL:* In the strike at Honda Nanhai, which gained the most attention from the national and international media, the trade union behaved in very different ways from what you just described.

*CW:* In this case, the trade union was not well prepared in its thinking. At the time of the strike, it could not respond with clarity to the demands of the workers. The workers did not accept the trade union as their representative, and the factory trade union lost the workers' trust from the beginning. As the strike went on, the union wavered between management and the workers, and it saw itself as a mediator. Standing between the two sides is the

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<sup>1</sup> The interview took place on Oct. 27, 2010. The interviewer wants to thank Zhang Hao and Luo Siqi for helping with the translation. The interview also appeared as No. 55 of the Global Labour Column in April 2010. <http://column.global-labour-university.org>.

<sup>2</sup> One hundred renminbi is equivalent to 15 US dollars.



worst position. In addition, the workers were confronted with physical force from outside the factory. These incidents cannot be blamed on the trade union, since these individuals were not trade unionists, but outsiders. They hoped to end the strike quickly by disguising themselves as trade unionists. They pushed and dragged workers and hurt some of them slightly. Some workers said they were beaten. The workers felt threatened and left the workshops again. Originally, some had been ready to go back to work. After the incident, the trade union issued a letter of apology in an effort to calm the situation. Writing such a letter was equivalent to admitting people were beaten. After the letter was posted on the web, the whole world criticized the trade union. The union failed to explain its position clearly. Because it did not take a clear stand from the beginning, the chain of events following the incident put the union in a bad light. The impact of such an event is very difficult to dispel within a short period of time, and writing this letter only complicated things for the union.

*BL:* What was the situation in the other cases, which garnered less public attention?

*CW:* In the labour conflicts at Honda's suppliers of in the city of Guangzhou, especially in the Nansha district, our approach was very different and the trade union behaved proactively. Basically, since 2007 we have educated the trade union cadres that they must represent the workers and not play the middleman. In the event of a strike, even very short ones, the trade unions have to be on the side of the workers and may not act as mediators. When the strike in Nansha occurred, we asked the district-level trade union to intervene immediately and give voice to the demands of the workers. To our knowledge, the wages of workers in this company were similar to those in Honda Nanhai. According to the factory trade union, the workers were demanding an increase in wages and fringe benefits, such as free meals during night shifts and air conditioning in the dormitory. But the company only accepted free meals during night shifts. So we were supporting the workers, but at the same time we were telling them not to disrupt the public order, and not to damage equipment and obstruct vital operations. From the beginning to the end, the company did not want to bargain. They told the workers: You can have a raise of 450 RMB, but if you do not accept within 10 minutes, you will have to leave the company. The workers did not give in. They simply continued their strike. This alarmed management, because after three days the Toyota Nansha main factory would have had to stop work. The workers knew their strength. In the end, the company had no other choice than to change its behaviour and bargaining stance. After four hours of negotiations, a wage increase of 825 RMB was agreed upon. The workers perceived this as a victory, and the employers could live with it. The workers' wage now is around 2,000 RMB, still somewhat different from the main factories of Honda and Toyota. A very important factor concerning the outcome of this conflict was the attitude of the top political leaders in our province. They had a clear understanding that the nature of the dispute was economic and the strikes should not be treated as destabilizing incidents. Mass activities such as collective resistance, road blockages, protest marches and mass petitioning are considered as being in this category. But in this case, the workers did not leave the factory, everything remained peaceful, there was no yelling and shouting, and it was more like silent resistance. Our provincial party committee noted that these were not destabilizing incidents and that police force should not be used. The government should act as a mediator, and the trade union should bargain with the employer.

*BL:* Looking into the future, how do you view the prospects for democratic management of enterprises and collective bargaining?

*CW:* This year's strike movements taught us many lessons. First, they educated our trade union cadres to take a very clear position when handling such conflicts. Second, they taught the employers to treat workers with dignity and not as machines. Third, they taught many of our leaders that labour relations is a very important issue. We have talked for years about the importance of wage negotiations, but this has not had a real impact on the various levels of our leadership and society. After these strikes, many people think it is a good idea to promote wage bargaining. Apart from the discussions about collective bargaining, the question of democratic elections is of the greatest concern to trade union cadres. We now have plans to introduce truly democratic elections of factory trade union representatives. Elections for trade union representatives exist, but how are candidates being selected? Often, the elections do not work very well, and most of the time a small group of leaders decides to support candidates who fit their interests, giving workers only a very limited choice. These superficial elections, in fact, are really appointments. We want to change these methods. Candidates should be recommended by the collective mass of employees: this way, we will be able to create a choice among capable candidates approved by the workers and bottom-up democracy can take shape. At the same time, top-down processes will also become more focused. We believe that democracy must be rational and that responsible people should become leaders. Only this sort of democracy constitutes active progress, and is not a destructive force.

*BL:* What is your view of the prospects for coordinating wage levels between companies and establishing industry-wide wage standards?

*CW:* I am strongly in favour of industry-wide collective bargaining because wage standards can be much more efficiently negotiated at the level of entire industries than they can in companies of various types. We therefore have to bring into play industry trade unions and employer organizations. In the wake of the recent labour conflicts at Denso Nansha in Guangzhou, we looked into the possibility of creating an industrial trade union for the automobile sector. This seems inevitable, yet conditions are not yet ripe at the city level. But we are trying this at least at the district level. In Nansha, the conditions do exist, and the trade union at the Toyota factory in Nansha has taken the lead in developing regular contacts with the trade union at lower-tier suppliers. I have learned about the way bargaining is conducted in Singapore. There, the workers' wage is split into three parts: the base wage, monthly premiums and yearly bonuses. The first component makes up 70 per cent of regular pay; this is negotiated by trade unions and employers' associations at the industry level. The latter two elements are negotiated between unions and management at the factory level. The main part of the wage is subject to industry-wide negotiations, and the smaller part remains open to negotiation within the company. This leaves room for differences, but the differentiations cannot become too big. Besides, a proportion of the base wage of around 70 per cent of regular monthly income is quite healthy. In China, the base wage is very low and the freedom of employers to determine wages is too great. In comparison, I find the Singapore method very good.

*BL:* What can be learned from the experiences of Western trade unions in this context?

*CW:* As China becomes more open to the market and to the global economy, there is no reason why the trade unions should not study the wealth of international experience, particularly systems of wage negotiations. But this learning must be integrated with our country's own conditions and experience. Our attitude should be realistic and we should learn from the facts. In this context, we should vigorously support exchange with foreign trade unions and experts.

## 8.2 Interview with Monina Wong and Parry Leung\*

\*Monina Won is currently the Director of the International Trade Union Confederation/Global Union Federation, Hong Kong Liaison Office.

\*Parry Leung is the Chairperson of Students and Scholars against Corporate Misbehavior and a researcher on labor issues in China.

Interview by Elaine Sio-ieng Hu

### **Where is the trade union reform and labour legislation in China heading to?**

A wave of workers' resistance swept China in 2010, with suicides by some Foxconn workers, and a large workers' strike at Honda drawing immense social attention, local and global alike. This has compelled the Chinese government to come up with some new policy initiatives to contain the labor unrest, including trade union reform and collective bargaining legislation. Given these labor reforms a few questions arise:

- Where is this labour reform heading to?
- What are the crucial factors that can make workers benefit from this reform?
- Can the party-led state trade unions be transformed to serve workers' interest?

In an interview conducted on 10th March 2011, Monina Wong, the Director of the International Trade Union Confederation/Global Union Federation Hong Liaison Office<sup>3</sup> (IHLO) and Mr. Parry Leung, the Chairperson of Students and Scholars Against Corporate Misbehavior<sup>4</sup> (SACOM), shared their viewpoint on these issues.

Elaine Sio-ieng Hui [E]: What kinds of labor issues have been raised by the series of workers' suicides in Foxconn in 2010?

*Parry Leung [P]:* Although it hardly violates any laws, Foxconn, a supplier to many global electronic brands, has a highly oppressive production regime under which workers have no means at all to voice out their discontent. They felt so desperate that they resorted to suicide as a silent demonstration of their defiance.

My observation is that no matter how much internal migrant workers from the rural areas have been exploited in urban factories, in general they still have room, however little it is, to show their resistance, for example, by means of strikes, road blockades and so forth. But in Foxconn this is not possible. It does not only strictly control the production process in factories, but also the private life of workers. For instance, all workers must stay in the dormitory provided by the company, but those coming from the same home province or working in the same production line are not allowed to share a dormitory room; this is a tactic to prevent the building up of rapport and support among workers. Another example of Foxconn's infringements on workers' private lives is that all calls from the dormitory to

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<sup>3</sup> The IHLO is the Hong Kong Liaison Office of the international trade union movement, which has a mandate to support and represent the international trade union movement in Hong Kong and to monitor trade union and workers' rights and political and social developments in China. Readers can learn more about it from its website <http://www.ihlo.org/>.

<sup>4</sup> SACOM aims at bringing concerned students, scholars, labor activists, and consumers together to monitor corporate behavior and to advocate for workers' rights. It teams up with labor NGOs to provide in-factory training to workers in South China. Readers can learn more about it from its website <http://sacom.hk/mission>.

the police hotline in the city will be automatically diverted to the security station in the dormitory; Foxconn has formed a small kingdom of its own which is basically not subjected to outside interference.

E: The Honda workers' strike in 2010, which lasted for 17 days and involved over 1800 workers to demand a wage increase, is seen as starting on a new stage of labor resistance in China. What are its implications for labor relations in China?

*Monina Wong [M]:* This strike ended with a 32.4% wage increase for the Honda workers, who have demonstrated a high level of consciousness concerning their positions in production and are aware of the serious impact of their strike on the overall production of the enterprise. They have also manifested a clear consciousness regarding the proper function of trade unions; they were exasperated when they found that the enterprise trade union was on the side of the management, instead of supporting the strikers. In the past decades, we used to treat Chinese migrant workers as exploited objects that needed outside help to protect them. But now we see that they are active agents who have the labor consciousness needed for advancing their interests with collective means. And so far, the Honda workers' strike is the most effective and powerful strike launched by migrant workers that is capable of upsetting the regional production of a transnational company.

The physical confrontation between trade union officials (who leaned towards management) and workers during the strike has triggered immense social discussion on the proper role of the Chinese trade unions. After the strike, the official party-led All China Federation of Trade Unions (ACFTU) and the government tried to alleviate labor discontent by speeding up the pace of trade union reform and by introducing collective bargaining legislation. It is good that these two issues have become the agenda of the ACFTU. However, at present most trade union education, if there is any, is solely conducted by the ACFTU while other relatively independent agents (e.g. international trade unions, labor NGOs) have no role to play in the process. The degree of democracy and accountability available to members inside trade unions and the ACFTU at the moment is still at a low level. Therefore, we need relatively independent trade union education among trade union officers so as to ensure the effective and genuine implementation of trade union reform and the collective bargaining mechanism.

E: Recently the Chinese government and the ACFTU were promoting legislation on collective bargaining. In your opinion, what are the driving forces for that?

*M:* In 2004, the government attempted to build up a workplace collective bargaining mechanism by means of ministerial regulations issued by the Labor and Social Security Bureau, but it was not very effective as not many enterprises followed the instructions. In 2005, the ACFTU started to unionize the Fortune 500 corporations in China. Subsequently, trade unions were established in Wal-Mart and many other foreign enterprises, but many people know that they are paper unions only and that the collective contracts they signed with the enterprises remain a formality.

After the world economic crisis broke out in 2008, many enterprises in the Pearl River Delta have been shut down. The central government and many local governments realized that the country's economy could no longer depend entirely on export-oriented industries and that it had to develop a consumption-based economy. It is in this context that the ACFTU and the government have again picked up momentum to push forward collective bargaining legislation, which they hope will lead to better wages, and thus to higher consumption by workers. It is also hoped that such measures can help reduce labor unrest and maintain political stability.

*P:* The legislation on collective bargaining is related to the waves of labor resistance occurring in the country, especially in South China, in the past decades. The government is aware of the increasingly intense labor discontent, which it has been trying to alleviate with an individualized legal approach; this explains why the Labor Contract Law and the Labor Dispute Mediation and Arbitration Law focusing on individual legal rights were passed in 2008. However, after the breaking out of the world economic crisis in 2008, it is evident that this individualized legal approach no longer works. On the one hand, the number of labor disputes increased dramatically at the time, and the fact that so many workers went for arbitration led to the overburdening of courts; workers had to wait, on average, for 9 months to have their claims dealt with. On the other hand, many of the labor disputes are beyond the scope of existing laws, and thus could not be effectively settled by the court. Since the individualized legal approach cannot properly handle workers' grievances, many workers resort to collective means, such as strikes and road blockades, to defend their interests. In order to pre-empt labor unrest and prevent it from erupting into social rebellion, the government is trying to absorb workers' discontent through the use of collective bargaining.

Although the proposed collective bargaining legislation has given some room for the collective organizations of workers, it remains constraining in some areas. For example, the proposed legislation only allows workers to negotiate certain items (such as wages, working hours, welfare etc.) with employers. Besides, collective bargaining can only be carried out by the trade unions, despite the fact that many trade union officers are appointed by the enterprises or by higher-level trade unions; workers are not allowed to elect their own representatives for bargaining. The government is trying to eradicate factors that can cause social unrest through developing collective bargaining legislation; it tries to divert aggrieved workers from open resistance to the bargaining procedures. And, most importantly, it has delegated the party-led trade unions to take charge of the bargaining so as to ensure everything is within its control.

*E:* What is the role of party-led trade unions in promoting the collective bargaining mechanism?

*M:* A genuine collective bargaining system should include the process of consulting their members before trade unions negotiate with employers. However, in China, a top-down approach has been used by the ACFTU. It is a common practice for it to send invitations for collective negotiations to employers and to reach agreements without informing or consulting its members. Democratic participation is a process to educate workers about true unionism. But "negotiation" in China is usually ends-oriented and the ends (e.g. the wage increment) should not contradict the conditions of the "larger context". Priority to the "larger context", according to the Party and the government's definition, results in "negotiations" led by the administration, not workers. In view of this, in order to build up a genuine collective bargaining system in China, trade unions should initiate a proper reform first, enabling democratic and grassroots participation, so that they could truly represent workers' interests. At the moment, there are many "fake" trade unions at the enterprise level; to tackle this problem, it is very crucial that workers' trade union consciousness be cultivated properly, so that they understand the importance of having their trade union representatives being able to represent their interests and accountable to them. A very critical foundation for achieving this is to make trade unions financially independent from the companies or the government. In the past, most enterprise trade union officials are paid by the enterprises, while the current trend is that the government is paying their salaries. Neither of these practices is ideal; they will either make the enterprise trade unions a management-union or a party-union.

## **Part III: Companies in the “Harmonious Society”**

### **9. Policies on Corporate Social Responsibility**

Tatjana Chahoud

Since China began its transformation process, its annual gross domestic product has averaged 10 per cent. This has catapulted China into second place among the world's economies and first place among its trading powers. With this economic growth, the living standards of most Chinese have also improved, and the number living below the poverty line has fallen sharply. According to UN estimates, the number of Chinese living in poverty has been halved since the transformation policy was launched in 1978.

Latterly, however, this trend has also been seen to have many dark sides. The successes of the upswing have been accompanied by serious damage to the environment and the waste of resources, very uneven regional distribution and a constant widening of the income gap. Although China's stability cannot yet be regarded as under threat, the pressure of the problems has increased visibly.

These internal challenges have been joined by a continuous increase in the pressure to adjust exerted by external global actors. The social monitoring of western TNCs by non-governmental organisations (NGOs), the media and trade unions has also gradually increased the demands on Chinese businesses.

Meanwhile, numerous steps have been taken to affect a paradigm shift from the quantitative growth model to a more sustainable economic, social and ecological form of development. In 2007 this reorientation was confirmed at the 17th congress of the Chinese Communist Party, when the leitmotifs of the “scientific development concept” and the “harmonious society” introduced by Hu Jintao were included in the party's constitution. This reform agenda led to numerous new laws, including revisions of the company and the labour laws (see Luo in this volume), additional provisions to protect the environment and new forms of regulation, such as corporate social responsibility (CSR).

Until recently China rejected CSR largely as indirect protectionism on the part of the West, but it has changed its position considerably since 2005. From official announcements it can be inferred that CSR is to be seen in a very comprehensive sense as a business-related contribution to the promotion of socialism and a harmonious society. This CSR approach with “Chinese characteristics” must therefore be classed as a supplementary way of enforcing and implementing labour rights and environmental law. This approach thus differs widely from most Western approaches and contrasts starkly with the EU concept, which calls for CSR to be more than mere compliance with the law. The largely state-led Chinese CSR initiatives also differ in that human rights issues are excluded.

Against this background the following article describes the Chinese historical and political context of CSR and the role of Western transnational corporations (TNCs) as specific CSR drivers. The following chapter identifies China's current CSR policies, including both public and governmental policies and non-governmental initiatives. China's involvement in international organisations is then discussed. The final chapter contains concluding remarks and recommendations.

## 9.1 Historical and political context of CSR in China

As in many other countries, China's CSR policy is largely shaped by and embedded in the country's own cultural and historical tradition.

Owing to Confucianist philosophy, business has inherent social responsibilities, just as in history family enterprises were responsible not only to their family members but also to the larger social community and even to the state (the political family) (Li-Wen Lin 2008, 84).

Zen Buddhism and Daoism also influenced business practices in traditional Chinese society. Accordingly, the secularisation of Zen Buddhism and Daoism, combined with the Confucianist philosophy during the 16<sup>th</sup> and 18<sup>th</sup> centuries, induced a culture of diligence, honesty and charity among businessmen. They realised their social significance and showed their willingness to contribute to society, building shelters for the poor, establishing schools for poor students and constructing roads to facilitate transport. Charitable donations were not only morally motivated but also legally advocated (Li-Wen Lin 2008, 85).<sup>1</sup>

Besides these historical dimensions, the concept of CSR in China had some forerunners during the country's communist economy. In this context the state-owned enterprises (SOEs) functioned not only as production units but also as social service centres, providing a cradle-to-the-grave welfare package for employees and their families. In addition to its main business, an SOE in the old days extended its operations to include educational institutions (e.g. kindergartens, high schools, health care institutions, such as hospitals, old age pensions and many other facilities, such as restaurants, bathhouses and entertainment clubs) for the benefit of employees and their families. These social service operations were structurally attached to and financially reliant on the SOE.

Since China's economic transformation, however, the Chinese government has channelled its efforts into separating social service operations from the core business of SOEs. The SOEs have been restructured as modern companies with an entirely commercial focus, the social services being removed from the reformed corporations.

Against this political background, it was not surprising that the increased international pressure on China to improve its social and environmental standards and to initiate Corporate Social Responsibility (CSR) activities was considered to be a hidden form of protectionism and therefore viewed with great scepticism and largely rejected.

However, with the passage of time, Western transnational corporations (TNCs) in particular clearly played a part in the implementation of CSR in China. Since the Chinese "going out" strategy, which began in 2005, CSR has been placed high on the agenda, especially for Chinese companies involved in global supply chains or engaged in outward-looking business (Visser and Tolhurst 2010, 124).

## 9.2 Western transnational corporations as drivers of CSR

Western multinational corporations and, with something of a time-lag, Chinese TNCs have played a central role in the introduction and spread of CSR (Liu Kaiming 2006).

As early as the 1980s the anti-sweatshop movement in the western countries led to closer social monitoring of western TNCs in developing countries. Trade union confederations,

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<sup>1</sup> This historical tradition partly explains the outrage in China over the limited contributions and donations made by many Chinese and foreign companies for the victims of the devastating earthquake in China in 2008 (Li-Wen Lin 2008, 85).

non-governmental organisations and even the media set their sights on firms supplying such brand manufacturers as Levi Strauss, Nike, Reebok and Gap and helped to ensure that codes of conduct based on the relevant UN conventions were applied by their global suppliers. This also led to pressure being brought to bear on major Chinese suppliers of well-known US branded goods.

CSR in China has been strengthened by TNCs in four phases. The growing participation of Chinese enterprises in global competition has played a crucial role in this context (Liu Kaiming 2006).

*The start-up phase (1992-1995):* In the early 1990s individual western brand manufacturers concluded the first agreements with their Chinese suppliers on compliance with social and ecological product and process standards.

*Introduction of social audits (1996-2000):* After many labour-intensive industries (primarily textiles and apparel, footwear, sporting goods, toys, handbags and suitcases) had transferred their production locations from Latin American and Southeast Asian countries to China, beginning in the mid-1990s, and China had developed into the “factory of the world,” stricter supervision of working conditions became increasingly important for western brand manufacturers. CSR auditors began to keep a far more careful watch on respect for human rights, working conditions, etc. at suppliers’ plants by conducting “second-party” and “third-party” audits.

*Expansion and development (2001-2004):* After 2001 the strengthening of CSR in China progressed from activities undertaken by individual western brand manufacturers to a common approach adopted by western enterprises, governments and various international institutions. Leading western retailers, manufacturers of electronic devices, chemical companies and even the major automotive manufacturers drew up production and procurement codes of conduct. Further momentum was added by the US, British and other European governments and by international organisations. The UN, OECD, World Bank, ILO and ADB all placed these issues on their agendas with increasing frequency.

By and large, however, such activities continued to be confined to the individual enterprise. The Chinese government and the wider Chinese public tended to act as observers.

*Beginning of China’s participation in CSR (2004-2010):* In early 2004 the subject of CSR increasingly appeared on China’s political agenda. After what tended initially to be heated debates, in which CSR was seen as an attempt to keep Chinese products out of international markets, there has been growing awareness that global competition and the emergence of global enterprises or global value chains make global CSR necessary. Consequently, the global competitiveness of Chinese enterprises can no longer be ensured primarily by technological innovations (hardware competition) and good corporate governance, but needs corporate responsibility as an instrument of “soft competition” (Wang Zhile 2008; Wayne Visser and Nick Tolhurst 2010, 123 pp).



### 9.3 Governmental CSR-related laws and initiatives

China has not yet released any general or basic public policy papers on CSR. However, the Chinese government's current CSR policy is particularly evident from the following laws, regulations and guidelines:<sup>2</sup>

- the Company Law;
- the new Labour Law;
- the SASAC Instruction for CSR in state-owned enterprises (SOEs);
- the Guidelines for CSR compliance for Foreign-Invested Enterprises (FIEs).

#### ***The Company Law***

In the early 1990s, when the Chinese legislators were drafting the new Company Law, the idea of modern CSR was not yet on the agenda. Employee participation in corporate governance, for which the 1994 company law provided, was more of a politically and economically path-dependent product. As Chinese socialist ideology celebrated workers and peasants, the Constitution of the People's Republic of China states that the country is led by the proletariat and is based on the alliance of workers and peasants (PRC Constitution, Article 1).

As the workers enjoyed powerful and strong representation in the people's congresses under the traditional Chinese socialist model, they influenced policy and resource distribution. The workers were to some extent included in decision-making processes in factories, particularly with regard to wages, benefits and bonuses. This specific historical background influenced the path taken by Chinese corporate governance (Li-Wen Lin 2008, 68).

While the Company Law launched in 1994 did not explicitly refer to CSR, but included some aspects of it, particularly regarding the rights of employees in a company, companies were required to consult with trade unions and employees when making decisions concerning employee wages, welfare and safe production processes and other issues related to employees' interests. This law also specified measures concerning labour rights (Articles 15 and 16), and Article 14 included a provision broad enough to cover the idea of CSR: "...Companies must comply with the law, conform to business ethics, strengthen the construction of the socialist civilization, and subject themselves to the government and public supervision in the course of business" (Li-Wen Lin 2008; 69)

In 2004 a comprehensive process of revising the Company Law began. The new Company Law entered into force on January 1, 2006 and explicitly recognises CSR. This recognition of CSR becomes obvious from Article 5 of the 2006 Company Law: ... "in the course of doing business a company must comply with laws and administrative regulations, conform to social morality and business ethics, act in good faith, subject itself to the government and the public supervision, and undertake social responsibility" (Li-Wen Lin 2008; 71).

As the transparency of the legislative process in China is still lacking in some respects, it is hard to know exactly how the deliberations on the new Company Law went and why the legislators finally decided to incorporate CSR into it.

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<sup>2</sup> Further details, in particular regarding environment protection laws and regulations are documented in the annex, Table 1A.

### ***The new Chinese Labour Law: background and current developments***

Chinese labour law is basically guided by the ILO conventions. In some respects China's legislation goes beyond the ILO provisions.<sup>3</sup> Clear breaches of or departures from the ILO conventions are to be seen in the areas of freedom of assembly and collective bargaining.<sup>4</sup>

In 2007 the Labour Law (LL) introduced in 1994 was joined by three new laws: the Labour Contract Law (LCL), the Employment Promotion Law (EPL) and the Law on Labour Dispute Mediation and Arbitration. The aim of these laws, which entered into force on 1 January 2008, is the comprehensive implementation and extension of the 1994 Labour Law with a view to strengthening workers' individual rights and interests (Julius 2008).

The new legislative initiatives in Chinese labour law were prompted by the signs of impending social distortions and possible political instability due to rapid economic growth. The statistics on industrial disputes are an important source of information on the growing number of social conflicts. Very noticeable here is not only the steady rise in industrial disputes, but also the number of workers involved (Table 1).

**Table 1. Industrial disputes in China, 2001-2005**

<b>Year</b>	<b>Number of disputes</b>	<b>Number of workers involved</b>
2001	155,000	467,000
2002	184,000	610,000
2003	226,000	801,000
2004	260,000	765,000
2005	314,000	740,000
<b>% changes</b>	<b>102.6</b>	<b>58.5</b>

Source: PRC Ministry of Labour and Social Security (MLSS); more recent figures are not available.

The external factors that triggered the new Labour Contract Law (LCL) were considered to be media reports of workers being treated like slaves at brickworks in the Province of Shanxi and elsewhere and increasing disregard for rules on minimum wages and working hours at many enterprises (Däubler / Qian Wang 2008).

The substantive form of the LCL and the debates that preceded its passing shed interesting light on current trends in CSR and workers' rights in China. The publication of the draft LCL prompted some 190,000 petitions, many from the ranks of the trade unions, others from workers at domestic and foreign businesses. As the draft law primarily provided for significant restrictions of the extremely deregulated labour market and instead laid down "house rules for the factory of the world" (Müller 2007), the trade union response tended to be positive, whereas many western businesses and commercial associations, but Chinese enterprises, too, felt that China was at serious risk as an investment location and were at times vociferous in their protests.<sup>5</sup> In some cases, the draft law was regarded

<sup>3</sup> Chinese workers are entitled to more days of leave and longer maternity leave, for example.

<sup>4</sup> These ILO provisions were not ratified by China. Table 2A shows how Chinese labour law and the ILO conventions correspond and differ. It is evident from this table that, with the exception of the trade union question, Chinese labour law meets the ILO's requirements.

<sup>5</sup> The US Chamber of Commerce, the US-China Business Council (2006) and the EU Chamber of Commerce referred to China as being in danger as an investment location, and Wal-Mart, for example, threatened to move to other production locations. The Chinese company Huawei, too, used the time until

as heralding the renaissance of the command economy and the reintroduction of the “iron rice bowl” (Underwood 2006; Lauffs 2006; Schucher 2007, 52).

The new Chinese Labour Contract Law (LCL) supplements the existing Labour Law of 1994. The following elements are among the most important innovations brought about by the LCL (Darimont 2007; Däubler / Qian Wang 2008; Julius 2008):

- For the first time, employers are required by the LCL to maintain an overview of all important rules, regulations and decisions affecting matters of fundamental importance to workers in the enterprise and to make them known to the workforce in an Employment Handbook (section 7).
- An employment relationship must be laid down in writing (sections 10 and 11). Not later than one month after beginning work, the worker must receive a written employment contract. By way of exception, the written form is not required where workers are employed part-time.
- Short-term employment relationships are restricted (section 14).<sup>6</sup> In principle, a short-term employment relationship leads to a permanent employment relationship when a worker has been employed by the enterprise for at least ten years, a short-term contract has been concluded on two consecutive occasions or it is less than ten years until the worker reaches his retirement age. If the parties to the contract do not conclude a written contract within a year of employment beginning, a permanent employment contract is deemed to have been concluded. Until this assumption takes effect, the employer must pay the worker twice his normal wage or salary.
- A trial period may be agreed by employer and employee only once (section 19).
- The company trade union is assigned the task of negotiating collective agreements with the employer. The rules laid down in a collective agreement, such as those governing pay and working conditions, must not be any more stringent than the equivalent rules applied by local government at the place concerned (section 55).
- If the employer does not comply with the collective agreement, the trade union may, pursuant to section 56, hold him to account. What this means in practice is not explained, however.
- The trade unions must be given 30 days' notice of and consulted on reductions in the workforce by more than 20 workers.

The elements of the new LCL outlined reveal that the level of worker protection has been substantially improved. The criticism levelled at the original draft that the law must be regarded as a relapse into the command economy lacks any foundation. In fact, the LCL does not in any way impose on Chinese enterprises obligations with which European companies are not already familiar from European labour law (Schucher 2006; Julius 2008).

For the actual effect this legislation has, however, much will depend on the form taken by the implementing provisions, which have yet to be completed. For the other components of the new labour law see Box 1A.

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the law entered into force to threaten to dismiss thousands of employees (Darimont 2007; Mörking 2007).

<sup>6</sup> This provision is very important, since hitherto some 60 per cent of employers had concluded only temporary, one-year contracts.

In sum, the new provisions of China's labour law show that the aim of its central government with this reform is to improve the legal position of the individual worker. However, the new labour law raises the question whether and how those statutory provisions will be put into practice. A central role in this context will be played by the implementing legislation that has yet to be drawn up. Only when adequate guidelines on the implementing provisions have been adopted can the LCL be prevented from being eroded and becoming ineffective (as a result of extensive part-time contracts, for example). From the workers' point of view the current exclusion of the settlement of collective disputes and the right to strike continues to be one of the main deficiencies of China's new Labour Law.

Besides the revised Company Law and the new Labour Law, the most important government CSR-related initiatives are the SASAC Instructions for SOEs and the Guidelines for CSR compliance for FIEs.

### ***SASAC Instruction for CSR in SOEs***

Of central importance is the CSR guideline for SOEs published in 2008 by SASAC (State-Owned Assets Supervision and Administration Commission of the State Council) (Ho 2008).<sup>7</sup>

This SASAC document underlines major aspects of CSR that must be observed by SOEs, one of the most important being the idea that enterprises must act responsibly towards their stakeholders and the environment and in the pursuit of their commercial objectives.

The document also states that CSR is to be linked to the modernisation of SOEs and to be a core component in the strengthening of their competitiveness and management systems. It also stresses that CSR must be based on a realistic assessment of the position of enterprises in China and brought into line with the goal of a harmonious society.

A striking feature of the document is the particular importance it attaches to workers. Safety at work and the protection of workers' rights have top priority.

For SOEs the Instructing Document defines eight direction-indicating CSR priorities, among them paying taxes on time, promoting technology and improving product quality, but also

- protection of labour rights, conclusion of labour contracts in accordance with the laws and measures to combat discrimination on the grounds of gender, membership of an ethnic minority, religion or age; introduction and strengthening of worker representation mechanisms;
- active participation in social and corporate affairs in the communes, including donations and participation in philanthropic activities.

To promote CSR activities further, SASAC calls on SOEs to implement the following measures:

- training to promote awareness of CSR;
- linking of CSR to appropriate corporate governance;

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<sup>7</sup> This document is based on a research report on CSR in SOEs which was initiated by SASAC in 2006 and analyses both the national and the international dimension of CSR.

- establishment of CSR departments in enterprises and of standards and mechanisms for the evaluation of CSR performance;
- introduction of CSR reporting mechanisms, regular publication of sustainability reports, promotion of dialogue with stakeholders and creation of voluntary monitoring mechanisms with stakeholders and society;
- analysis of best practices or experience of CSR in foreign enterprises, strengthening of the dialogue with international organisations and cooperation in the setting of international standards;
- reinforcement of the leading role played in enterprises by organisations of the Chinese Communist Party (Ho 2008).

Even though the SASAC directive is largely declaratory, it is becoming clear that the central government is giving increased notice of the prospects of strategic action, at least for the SOEs. It should also be emphasised in this context that numerous SOEs have submitted reports on their CSR performance since 2005/6. Box 1 lists the first Chinese enterprises to submit CSR/sustainability reports (Wang Zhile 2008).

### **Box 1. Large Chinese SOEs publishing CSR reports in 2005/6**

10/2005 – China Mobile
12/2005 – SinoChem International
03/2006 – State Grid
04/2006 – China Aluminium
06/2006 – Shanghai Pudong Development Bank
07/2006 – China Offshore Oil
12/2006 – COSCO

Source: Wang Zhile 2008, 15.

### ***Guidelines on CSR compliance for Foreign-Invested Enterprises (FIEs)***

In late August 2008 the Chinese Academy of International Trade and Economic Cooperation (CAITEC), a subsidiary of MOFCOM, issued draft guidelines on CSR compliance for Foreign-Invested Enterprises (CSRC). The guidelines were submitted to the European Chamber of Commerce in China for review and debated at the 11<sup>th</sup> Chinese International Investment and Trade Fair.

The CSRC guidelines are still voluntary and not hard law. However, they may become law at a later date. At the very least they are an indication that the Chinese Government may be favourably disposed towards foreign companies considered to be compliant with corporate social responsibility (CSR). The local government in Pudong already provides tax incentives for companies which engage in CSR (DLA Piper CSR Client Alert 2008).

The CSRC guidelines are considered a useful blueprint for embedding CSR in FIEs. They are broad in scope and encourage FIEs to play an exemplary role in engaging with stakeholders to contribute to economic, social and environmental development in China. The guidelines cover the following four areas: objectives for CSR in China, definition of CSR for FIEs, essentials of CSR and implementation of CSR strategy.

For FIEs in China the section on implementation is the most relevant. The Guidelines advise FIEs to be compliant in the following three areas:

- operational needs: abide by laws, regulations and business ethics
- stakeholder engagement: assume a holistic approach to management decisions and take employee and community impacts into account
- proactive contribution to development: actively engage in projects that are in the interests of social, economic and environmental development.

A top-down approach to implementation is recommended. Firstly, the company's vision should be aligned with the CSR philosophy. Secondly, boardroom decisions on business growth should be balanced with considerations of social progress and environmental impact.

At an operational level the following suggestions are emphasised:

- employees should be granted equal opportunities;
- supply chain partners with good CVSR track records should be given priority;
- intellectual property should not be overprotected at the expense of wider social development and
- the company should actively engage in public welfare programmes.

According to CAITEC a CSR-compliant company should consider its economic, social and environmental impact very carefully (Box 2).

With regard to implementation, the FIEs are further recommended to set the parameters for CSR compliance, to designate a CSR manager with performance-related control, to establish mechanisms to engage stakeholders and, last but not least, to persuade other companies to be CSR-compliant by example

In sum, CSRC is seen as a long-term plan to encourage foreign companies to integrate best-practice standards into China's social fabric, and various voices underline the possibility of the Chinese Government giving preference when awarding contracts to companies that are CSR-compliant in accordance with the CSRC (DLA Piper CSR Client Alert 2008).

#### **9.4 China's non-governmental CSR-related initiatives**

Non-governmental initiatives, particularly civil society activities, concerning CSR are still very much in their infancy. Two dimensions of the ongoing activities are important: non-governmental initiatives engaging with business, and civil society activities pressuring business.

##### ***Non-governmental initiatives engaging with business***

Engaging with business covers a broad range of activities and actors. The All-China Federation of Industries and Commerce (ACFIC), the Chinese Enterprise Confederation (CEC) and the All-China Federation of Trade Unions (ACFTU) are the main national business and trade confederations undertaking CSR activities. In numerous cases they have undertaken their activities with international institutions: ACFIC and CEC with the UN (UN Global Compact), ACFTU with ILO.

## Box 2. CSRC components for CSR compliance

### **Economic responsibilities:**

- increase profitability and competitiveness of the business
- establish internal controls to oppose corruption
- avoid monopolies

### **Social responsibilities:**

- Ban child and compulsory labour
- Respect the employee's character
- Respect customs and religious beliefs
- Respect consumer rights
- Encourage up- and downstream enterprises to improve CSR standards
- Engage in cultural, educational and healthcare community projects
- Respond to public emergencies and public disasters
- Establish a CSR reporting system

### **Environmental responsibilities:**

- Strict implementation of the Energy Saving and Emissions Reduction policy
- Compensate for any damage done to the environment

Industry-specific business organisations' initiatives began with the China National Textile and Apparel Council (CNTAC) in 2005 and were followed by others, e.g. the China Banking Association (CBA), the Shanghai Futures Company, a group of foreign-funded companies and the Guandong companies. Most of these industry-specific business initiatives engage in CSR in close cooperation with the national government and national federal business organisations. These activities focus mainly on guidelines and reporting. Interesting examples of engagement in business are: the CNTAC initiative for the CSC 9000T standard for the textile and apparel industry and the CBA initiative for financial institutions.

### ***The CSR code for the Chinese textile and apparel industry***

In 2005 the China National Textile and Apparel Council (CNTAC) launched a fundamental initiative for a CSR framework in the Chinese textile and apparel industry (CNTAC 2005). The CSC 9000T standard is a management system guided by existing laws and legal regulations in China and by international conventions, standards and practices. The CSC 9000T principles form the common code of conduct for China's textile industry. The code sets out all the key requirements to be satisfied by a CSR management system and enables enterprises to achieve their social objectives. On the whole, the code of conduct is meant to help strengthen the management system, ensure compliance with the legal regulations, protect workers' interests, improve their motivation and generally strengthen the human resources of the enterprise concerned. In methodological terms, the standard is based on the plan-do-check-act (PDCA) system. No provision is made for external verification.

In all, the CSC 9000T standard sets out ten principles and corresponding guidelines. The ten principles cover the following areas:<sup>8</sup>

- management system
- labour contract
- prohibition of child labour
- forced labour
- working hours
- income and social welfare
- trade unions and collective agreements
- discrimination
- harassment and ill-treatment at the workplace
- health and safety at the workplace.

The particular merit of this standard is that it has for the first time made compliance with Chinese labour law verifiable. Its impact will largely depend on how many of the main enterprises in the textile and apparel industry adopt and actually comply with it. Some very large foreign commercial firms, including Li & Fung and Linmark (both of Hong Kong) and the Hudson's Bay Company (of Canada), have welcomed its introduction.

Shortly after the introduction of CSC 9000T, the CNTAC set up specific pilot programmes to promote this CSR standard. Among the participants in the programme (March 2006 to May 2007), which was focused on ten typical textile enterprises, were the Hongdou Group, the Beijing Aimer Group, the Topnew Group and Wenzhou Saint Anglo.

The second pilot programme, known as CSC 9000T 10+100+1000, was launched in December 2006, ten key enterprises being selected from ten textile clusters for the introduction of the CSC 9000T management system, and CSR training courses were also held for 1000 small and medium-sized firms. This programme is still being implemented; a number of enterprises have already introduced the standard.

According to the available assessments, the introduction of this standard has resulted in some stabilisation of the workforce and so in an improvement in the efficiency of the enterprises (Wang Zhile 2008, 16 / China Daily, 14 January 2008). Boxes 3 and 4 list projects and activities undertaken to strengthen CSR in the Chinese textile industry.

According to recent estimates, several hundred Chinese enterprises are currently applying the CSC 9000T standard. It is also evident from the CSC 9000T documentation that ACFTU played an active part in the development of this management system.

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<sup>8</sup> With the exception of the departures from trade union law and law on collective agreements commonly found in China, these principles correspond to the usual international standards.



### **Box 3. CSR training project for SME in the Chinese textile industry**

This project is geared to small and medium enterprises (SME) in the textile sector. In the various modules comprehensive training and coaching upgrading programmes are run for 25 enterprises. The modules cover:

- courses on health and safety in the workplace,
- improvement of quality and productivity through increased dialogue between management and workers,
- environmental protection and improvement of the competitiveness of enterprises,
- management of human resources.

A special feature of this ILO/UNIDO/CNTAC project is the joint training of managers and employees with the aim of improving cooperation in the workplace and introducing good business practices.

The implementation of the project is overseen by an advisory committee, on which the ILO, UNIDO, CNTAC, MOLSS, CEC, MOFCOM and ACFTU are represented.

Source: Project Office for ILO/UNIDO, Beijing, 2008.

### **Box 4. Selected CSR activities during the CNTAC pilot phases**

- The Shandong Yida Group has provided 90 million yuan for apartment blocks and 30 million yuan for workers' canteens and leisure facilities.
- The Jiangso Menglan Group has undertaken special activities to improve the situation of migrant workers by implementing special health and accident prevention measures and providing unemployment insurance.
- The Natong Datong Co. Ltd has taken special measures to conserve energy and reduce emissions by optimising the production process and developing more eco-friendly products. A facility for recycling over 5000 tonnes of water a month has also been installed.

Source: China Daily, 14 January 2008.

### ***CSR Guidelines for Financial Institutions in China***

In 2009 the China Banking Association (CBA) published Guidelines on Corporate Social Responsibility for Banking Financial Institutions in China (the Guidelines). Its objective is to promote comprehensive CSR programmes within the Chinese banking system. The Guidelines encourage financial institutions to originate CSR programmes tailor-made for China, because global CSR strategies will not necessarily accommodate local conditions. Like the other guidelines mentioned above, the CBA Guidelines reflect current government thinking on the need to promote harmonious and sustainable development (DLA Piper CSR Client Alert No. 2; 2009).

The legal significance of the Guidelines is evident from the fact that they are formulated in accordance with the Company Law of China, the Commercial Banking Law, the Banking Supervision Law and the Articles of the China Banking Association.

The Guidelines apply to banking and financial institutions with Chinese legal person status. This includes commercial banks, urban credit cooperatives, rural credit cooperatives and other financial institutions registered in China to attract public deposits as well as policy-oriented banks, financial assets management companies and micro-finance companies. They apply in particular to foreign financial institutions, including locally established foreign banks, such as Deutsche Bank, HSBC Bank (China) Co., Ltd., and Standard Chartered Bank (China) Ltd.

The CBA advised all banks to produce a CSR report for submission to the CBA by the end of June 2009 and annually thereafter.

Compliance with the Guidelines will benefit banking and financial institutions through brand enhancement by the China Banking Association in the following ways:

- Report back to the China Banking Regulatory Commission;
- Publication in the media and at conferences; and
- Information release on China Banking Association's website.

In the Guidelines CSR is defined as the economic, legal, ethical and charitable responsibility that financial institutions assume in their dealings with shareholders, employees, consumers, business partners, government and the wider community. They also take account of the need for management and compliance recommendations. The methods recommended for the implementation of the Guidelines include the integration of CSR compliance into management structures, the setting up of CSR departments and the establishment of a disclosure system for CSR.

### ***Pressuring business***

Strategies for pressuring businesses to undertake CSR activities include a wide variety of initiatives, such as negotiating and bargaining with businesses on specific issues (e.g. trade unions on labour), campaigning against companies (alleged negative social and environmental impacts of one specific company or on one specific industry), pressuring or engaging with public authorities with the aim of having them lay down more stringent legal provisions on CSR and, last but not least, strengthening research on CSR.

It must be pointed out, however, that the most important watchdog activities are focused mainly on environmental matters; even more interesting is the fact that these activities are also being pushed by the central government through the "Measures on Open Environmental Information" (EIDM) (2008). These measures require environmental protection agencies across China to disclose lists of companies that have exceeded pollution limits or have been the subject of lawsuits and complaints. Local authorities now apply this provision as shown in Table 3.

## **9.5 China's international CSR involvement**

China is involved in various CSR-related international organisations and global regimes. These include international initiatives launched by such intergovernmental institutions as the ILO, the UN and the OECD and such mainly private organisations as the International Organization for Standardization. Table 4 gives a brief overview.

China's engagement in CSR-related international regimes is still mixed. China has ratified four of the eight ILO Core Conventions and has begun a process of "enhanced engagement" with the OECD. This involves participation in OECD committees, the publication of comparable statistical data and participation in the development of OECD instruments (China-Europa Forum Foundation 2010).<sup>9</sup>

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<sup>9</sup> Where CSR is specifically concerned, the OECD released the report "OECD Investment Policy Reviews – China 2008: Encouraging Responsible Business Conduct" and in 2008 held the "OECD-China Symposium on Government Approaches to Encouraging Responsible Business Conduct."

**Table 3. Blacklisting of Companies – Some Activities in China**

When	Who	What
October 2006	China's Institute of Public and Environmental Affairs (IPE)	Blacklisted 33 China-based multinational companies that had violated environmental protection rules (made public)
2008	Measures on Open Environmental Information (EIDM) (for Trial Implementation)	Chapter III - Open Enterprise Environmental Information Disclosure required of enterprises when their pollutant discharges are higher than their quotas or official standards. Environmental protection agencies across China required to disclose a list of companies that exceed pollution limits, or have been the subject of lawsuits and complaints
June 2009	Shanghai Environmental Department	Published a blacklist of 420 environmental violators on World Environment Day, 5 June 2009.
October 2009	Greenpeace China	Released a list of companies from Fortune Global 500 and 2008 Fortune China 100 which had violated the Measures on Environmental Information Disclosure
January 2010	Shanghai Environmental Department	Published a blacklist of 721 companies accused of environmental violations
January 2010	China's General Administration of Quality Supervision, Inspection and Quarantine	Provision for Release of Blacklist Quality Violators (plan announced)
February 2010	Guangdong Environmental Protection Bureau	Blacklisted 20 polluting companies for failing to meet water discharge standards (blacklist made public)
March 2010	Kunming government	43 enterprises in Kunming shut down for illegal sewage and another 19 companies forced to clean out 32 production lines unable to meet standards. And 10 citizens awarded from RMB 200 to 1,000 yuan for their tip-offs concerning illegal sewage

Source: China-Europa Forum Foundation (2010: 24).

Although 192 Chinese companies are participating in the *UN Global Compact*, they are lagging well behind the 3357 European participants.

The *Equator Principles*, a set of principles for the financial industry launched in 2006 with the aim of identifying, assessing and managing social and environmental risks in project financing have been adopted by only one Asian bank, the Chinese Industrial Bank. Chinese financial institutions have not subscribed to the *Principles for Responsible Investment*, and only three Chinese financial institutions are involved in the UNEP Financial Initiative. The number of Chinese companies complying with the voluntary *CSR Global Reporting Guidelines (GRI)* is rather small, but clearly rising.

**Table 4. International organizations and global regimes related to CSR**

	<b>Intergovernmental institutions</b>	<b>Private international organisations</b>
<b>Governments</b>	OECD Guidelines ILO conventions and instruments	ISO 26000
<b>Private sector</b>	UN Global Compact UNEP-FI	PRI Equator Principles GRI

Source: China-Europa Forum Foundation (2010: 63).

These data show that China’s involvement in international initiatives is rather weak. This is due, on the one hand, to the fact that CSR has only recently developed in China; on the other hand, it shows that Chinese companies with international exposure are only now feeling the need to increase their involvement in international regimes.

In sum, China’s involvement in international CSR-related regimes is growing. In some cases activities have been adapted to the Chinese context, in others China has gone into partnership with international organisations. Yet human rights issues continue to be excluded from the scope of Chinese CSR.

## **9.6 Concluding remarks and future research agenda**

China’s current CSR activities are driven, on the one hand, by the country’s concept of development towards a “harmonious society” and, on the other hand, by transnational and Chinese corporations which either form part of global value chains or are operating abroad and so pursuing “going out, going global” strategies.

Yet CSR in China has its very own characteristics. In contrast to many Western concepts, CSR in China must be classified as a supplementary tool for enforcing laws and legal regulations. Western approaches, such as the EU concept, according to which CSR must be more than compliance with the law, is not yet considered appropriate in the Chinese context.

As in many other countries, business responsibility approaches in China can be traced back well into the country’s history, cultural traditions and religious beliefs. Charitable work and hostility to profit-making were encouraged by Confucianism and also embedded in the country’s communist development path. During China’s planned economy the dominant manufacturers, the state-owned enterprises (SOEs), not only functioned as production units but extended their operations into numerous social services (financial support for education, health, entertainment clubs, etc.).

Since China’s economic transformation, however, the SOEs have been restructured as modern, Western-style companies. Social services, for example, have been removed from the reformed corporations, while an extremely deregulated labour market has been introduced and environmental degradation has grown. During this liberalisation and deregulation phase the Chinese GDP has grown rapidly, and companies have increasingly become part of global value chains and so come under increased pressure to comply with global voluntary social and environmental standards.

Against this background a very broad spectrum of additional and revised laws and regulations and new governmental and non-governmental CSR-related initiatives,

including civil society activities, have been launched and placed high on the agenda. While this agenda has steadily become longer and wider, the current status of CSR in China is as follows:

The revised Company Law, which entered into force in 2006, requires companies not only to comply with laws and legal regulations but also to conform to social morality and business ethics and to take steps to ensure social responsibility. While the Company Law leaves it open as to how these provisions could be enforced, the new Labour Law (2008) obviously improves and strengthens the legal position of the individual worker. However, it also raises the question whether and how these statutory provisions will be put into practice. The relevance of this question becomes very clear from the fact that the new Labour Law maintains the exclusion of the settlement of collective disputes and the right to strike.

As regards the main government CSR-related initiatives, particularly the SASAC Instruction for CSR in SOEs and the CSR Guidelines for Foreign Invested Enterprises (FIEs), it becomes clear that both are largely declaratory and their real impact remains unclear. Yet each of these rules has its specific features with regard to their interplay with hard law. The reference in the SASAC Instruction to the protection of labour rights, and especially the conclusion of labour contracts under the new Labour Law, and to the envisaged training initiatives and reporting is a positive step.

The CSR Guidelines on IFIs are important in two respects. Firstly, the CSRC Guidelines announce that the provisions may be turned into legislation at a later date, and secondly, they state that in the future the Chinese government may give preference when awarding contracts to companies that are CSR-compliant.

As for non-governmental CSR-related initiatives in China, two dimensions are worth pointing out: non-governmental initiatives for engagement with business, and civil society organisations that focus on watchdog activities and on pressuring businesses. In the former category, initiatives launched by two industry-specific business organisations, i.e. the China National Textile and Apparel Council (CNTC) and the China Banking Association (CBA), are the most remarkable.

The CNTC initiative, which was launched in 2005, provides a basic CSR framework for the Chinese textile and apparel industry: the CSC 9000 T standard is a management system guided by existing laws and legal regulations in China and by international conventions, standards and practices. The particular merit of this standard is that it has for the first time made compliance with the Chinese Labour Law verifiable. Yet the impact it has depends on how many enterprises in the textile and apparel industry will not only adopt it, but actually comply with it. According to the available data, the introduction of this standard has resulted in a reduction in labour turnover and a consequent improvement in the efficiency of enterprises. However, as the CSC 9000 T standard makes no provision for external verification, its effective reach is limited.

The importance of the CSR Guidelines for Financial Institutions, which were drawn up by the China Banking Association (CBA), lies in its legal significance: they were formulated in accordance with the Company Law, the Banking Supervision Law, the Articles of the Chinese Banking Association and their application to banking and financial institutions with Chinese legal status and to foreign financial institutions. The most impressive aspect of these Guidelines is that they require the CBA to advise all banks to produce an annual CSR report for submission to the CBA.

Activities undertaken by civil society organisations to pressure business to introduce more stringent, legal CSR provisions are increasing. Most major watchdog activities are still focused on environmental matters. Even more interestingly, these activities are also being pushed by China's central government, which has announced plans to blacklist companies that commit product-quality violations.

Finally, China is also involved in various CSR-related global regimes and international initiatives. Many Chinese companies are participating in the UN Global Compact, and China was actively involved in the multi-stakeholder dialogue on the establishment of the ISO 26000 international standard, which concerns the development of guidelines on the social responsibility of organisations. Meanwhile, ISO 26000 has been ratified, with China among the signatory countries.

The activities being undertaken in China to strengthen CSR-related laws and regulations and such other initiatives as new guidelines and increased CSR reporting do not guarantee improved performance. The fact that "CSR with Chinese characteristics" is to be classified as a supplementary tool for promoting the implementation of legislation underlines the urgent need for the strict enforcement of hard law and regulations. The application of the existing CSR Guidelines in the various industrial sectors and financial institutions, including foreign investors and banks, is largely assessed from the CSR reports that companies produce on themselves. And even though a number of companies have stepped up their activities and CSR has been placed high on the official agenda, implementation lags far behind the declarations, activities remain in their infancy and performance continues to be rather weak. While a key imperative for companies would be to move more rapidly from strategic declarations to real execution, the situation is all the more serious for China as, unlike many western countries, it has scarcely any civil society organisations or media to form the required critical public.

Above all, the *quality* of CSR implementation has yet to be measured. To this end, CSR performance in social and environmental respects needs to be gauged by means of indicators on the one hand and by reference to its impact on the company's financial performance and value on the other hand.

Analysing the impact of CSR on company results and on society is still a relatively unexplored area of research, with gaps in the methodology and data available. Furthermore, as measuring the impact of CSR on the company's financial performance requires access to confidential data, such analyses become even more challenging.

To bridge the existing methodological gaps and to elaborate indicators for the measurement of the *quality* of CSR implementation, this issue should be placed high on the international research agenda.

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## Annex

**Table 1A. Selected Chinese Laws related to CSR**

Law	When	
<b>Company</b>		
<b>Company Law</b>	Revised 2005	Explicitly includes CSR, Article 5: "When undertaking business operations, a company shall comply with the laws and administrative regulations, social morality and business morality. It shall act in good faith, accept the supervision of the government and the general public, and bear social responsibilities."
<b>Labour or labour-related</b>		
<b>Labour Law of the People's Republic of China</b>	1995	
<b>Labour Contract Law</b>	2008	98 articles. The aim of its provisions is to increase job security and regulate temporary jobs with more stringent conditions. It limits overtime, sets minimum wages and requires companies to pay laid-off employees one month's salary for each year worked. It establishes social security accounts for employees. 14 reasons for dismissing an employee are specified, thus regulating dismissals.
<b>Trade Union Law of the People's Republic of China</b>	1992, amended 2001	
<b>Law on the Protection of Rights and Interests of Women</b>	2002	See, in particular, Chapter IV - Rights and Interests Relating to Work
<b>Production Safety Law</b>	2002	
<b>Law on Prevention and Control of Occupational Diseases</b>	2002 (effective)	
<b>Environment</b>		
<b>Article 26 of the Constitution</b>	1982, Amended 1988, 1993	Article 26 – "The state protects and improves the living environment and the ecological environment, and prevents and controls pollution and other public hazards. The state organizes and encourages afforestation and the protection of forests."
<b>Environmental Protection Law</b>	1989	
<b>Law on the Environmental Impact Assessment</b>	2003 (effective)	
<b>Law on the Promotion of Clean Production</b>	2003 (effective)	
<b>Law on the Prevention and Control of Environmental Pollution by Solid Waste</b>	Adopted 1995, amended 2004, 2005	
<b>Law on Prevention and Control of Water Pollution</b>	1984, amended 2008	Amendment includes: "Enterprises held directly responsible for causing severe water pollution incidents and others with direct responsibility will be fined up to half of their income in the previous year"
<b>Law on the Prevention and Control of Atmospheric Pollution</b>	1995, amended 2000	

<b>Law on Prevention and Control of Pollution From Environmental Noise</b>	1997 (effective)	
<b>Law on Conserving Energy</b>	1998 (effective)	
<b>Renewable Energy Law</b>	2006 (effective)	
<b>Measures on Open Environmental Information (EIDM) (for Trial Implementation)</b>	2008 (effective)	Chapter III - Open Enterprise Environmental Information "Enterprises are encouraged by the State to voluntarily disclose environmental information. Enterprises are required to disclose, when their pollutant discharges are higher than quota authorized standards or quota?, names of major pollutants, discharge methods, the concentration and total volume of emissions, and information on emissions. Environmental protection agencies across China are required to disclose a list of companies that have exceeded pollution standards, or have been the subject of lawsuit and complaints" ( <i>Das ist doch kein echtes Zitat oder?</i> ).
<b>Circular Economy Promotion Law</b>	2009 (effective)	
<b>Others</b>		
<b>Food Safety Law</b>	2009	
<b>Law of the People's Republic of China on Protection of Consumer Rights and Interests</b>	1994 (effective)	

Source: China-Europa-Forum Foundation: CSR Frameworks in China and Europe Insights for CSR Workshops. Prepared for China-Europa Forum's CSR Workshops to be held July 2010, p. 16.

**Table 2A. Comparison Chinese employment law - ILO conventions**

Area	ILO	Chinese legislation	Compliance with ILO
Working days per week	6 days	6 days	yes
Hours of work per day	8 hours	8 hours	yes
Discrimination	prohibited	prohibited	yes
Public holidays	must be granted	at least 4 statutory public holidays	yes
Notice of termination	must be specified	30 days (for both sides)	yes
Protection against dismissal	in the event of sickness, pregnancy	assured	yes
Minimum employment age	15 years	16 years	yes
Minimum wage	fixed	guaranteed	yes
Maternity leave	45 days	90 days after birth	yes
Overtime	to be regulated	36 hours per month	yes
Overtime wage rate	more than normal hourly wage	assured	yes
Leave entitlement	after one year	after one year	yes
Duration of leave	3 days	at least 5 days	yes
Freedom of association	must be assured	not assured	no

Source: Labour Law of the People's Republic of China of 5 July 1994, entered into force on 1 January 1995 and <http://www.ilo.org/ilolex/english/convdisp2.htm>, quoted from Lübcke et al., 2007.

**Table 3A. Selected CSR-related activities of civil society organisations**

When	Who	What
Dec. 2001	Chinese Enterprise Confederation (CEC)	Introduced the UN Global Compact in China at a high- level meeting.
2002	All-China Federation of Industry & Commerce (ACFIC); China Society for the Promotion of the Guangcai Programme (mostly private- sector entrepreneurs)	UN Global Compact introduced to its members at a meeting
2003	China Business Council on Sustainable Development (CBCSD)	Launched
April 2004	All-China Federation of Industry and Commerce (ACFIC)	China Red Ribbon Foundation
June 2001	Society of Entrepreneurs and Ecology (SEE)	NGO launched in 2004 by Chinese entrepreneurs to raise awareness and build of businesses' environmental capacities. See also funds for projects aimed at improving companies' environmental management.
2005	China National Textile and Apparel Council (CNTAC)	CSC 9000 T - "CSC9000T (China Social Compliance 9000 for Textile & Apparel Industry) is a Social Responsibility Management System based on China's laws and regulations, international conventions and standards and China's particular situations. CSC9000T document system comprises three layers: 1) Principles; 2) Guidelines; and 3) Self-Assessment Form and Implementation Guidance."
2006	Institute for Public & Environmental Affairs (IPE) (headed by Ma Jun)	Watchdog organisation, tracking corporate environmental pollution Website with a map spotting 3,000 polluting companies
2006	China Business Council on Sustainable Development (CBCSD)	"China CSR Recommended Standard and Illustrating Projects"
2006	Chinese Red Cross Foundation; China Newsweek	First Global CSR Forum; The 5th International Forum on CSR took place in 2010
2008	Green Watershed; Friends of Nature; Institute of Public & Environmental Affairs (IPE); Green Earth Volunteer; Global Environmental Institute; Civil Society Watch; China Development Brief; and Green Volunteer League of Chongqing	"1st green banking and sustainable finance award", organised by 8 Chinese NGOs. The winner was China Industrial Bank.
June 2008	China National Textile and Apparel Council (CNTAC)	PRC Textile and Apparel Industrial CSR Reporting Guidelines
July 2008	All-China Federation of Trade Unions (ACFTU);	Joint HIV-AIDS prevention project, targeting 150 million workers across China

	International Labour Organisation (ILO)	
2008	China Federation of Industrial Economics (CFIE); 11 other industrial associations	Social Responsibility Guidelines for Industrial Enterprises and Associations in China
May 2009	China Banking Association (CBA)	1st China Banking Sector Social Responsibility Report. 2nd report issued in 2010
January 2009	China Newsweek; Red Cross Society of China	China's Corporate Social Responsibility Awards
January 2009	China Banking Association	CSR Guidelines for Financial Institutions
October 2009	Greenpeace China	Released a list of companies in Fortune Global 500 and 2008 Fortune China 100 that had violated the Measures on Environmental Information Disclosure
October 2009, updated Jan. 2010	Greenpeace China	Report: "Poisoning the Pearl: An investigation into industrial water pollution in the Pearl River Delta"
Dec. 2009	CBCSD; Development Center for Chinese CSR of China WTO Tribune	Published the "State of CSR Disclosure". 570 CSR reports were released from 1 January to 31 October 2009, versus 169 in 2008
Dec. 2009	China Consumers' Association; and 100 companies	Forum for the protection of consumers' rights (CCA). 100 companies signed the "Declaration of Honesty, Self-discipline and Harmonious Consumption"
2009	Shanghai Futures Companies	Released "Guidelines on CSR of Shanghai Futures Companies"
January 2010	29 foreign-funded companies in Wuhan	Proposal for CSR commitment by all foreign-funded companies in Wuhan
Feb. 2010	China Sporting Goods Federation	Released a survey on CSR in the sporting goods sector industry and released the results
April 2010	China Council for Promotion of International Trade (CCPIT), UNESCAP	Co-organised the Asia-Pacific Business Forum (APBF) in Kunming, with focus on low-carbon economy
April 2010	All-China Federation of Industry and Commerce (ACFIC), Beijing University	Issued CSR reporting guidelines for private enterprises
June 2010	Guangdong Companies' Green Action Initiative (GTMC)	

Source: China-Europa-Forum Foundation: CSR Frameworks in China and Europe Insights for CSR Workshops. Prepared for China-Europa Forum's CSR Workshops to be held in July 2010, pp. 55f.

### **Box1A. The Law on Labour Dispute Mediation and Arbitration and the Employment Promotion Law**

The Law on Labour Dispute Mediation and Arbitration and the Employment Promotion Law (EPL) entered into force on 1 January 2008. While the former law focuses on the procedural rules laid down in the Labour Law, the EPL is mainly concerned with arrangements for promoting employment and for introducing unemployment insurance and anti-discrimination rules.

#### *The Law on Labour Dispute Mediation and Arbitration*

The priority objective of this law is the equitable and early settlement of disputes covered by labour law. The aim in this context is not to lay down rules on disputes brought before the courts, but primarily to improve settlement and arbitration procedures in order to ease the burden on the courts.

In fact, the law does nothing to change the present structures, but the role played by settlement and arbitration procedures is given added weight. The advantages can be seen as the acceleration of proceedings and the fact that, under this new legislation, the settlement and arbitration procedures do

not entail costs. The law thus satisfies one of the workers' main demands.

Current criticism of the settlement and arbitration procedures, with particular reference to insufficiently professional arbitrators, the possibility of political influence being brought to bear on arbitration courts with a view to maintaining a favourable investment climate and the increased risk of corruption in non-governmental actions, has not had any impact.

The main shortcoming of the Law on Labour Dispute Mediation and Arbitration is considered to be its failure to lay down rules on the settlement of collective disputes, especially as the latter account for about 60 per cent of all labour disputes in China (Julius 2008, 16).

#### *The Employment Promotion Law (EPL)*

The provisions of the EPL are wide-ranging. The goal of promoting employment is served, for example, by the provisions that make it easier for workers to become self-employed (section 7) and the rules covering the establishment of public employment agencies and tax incentives offered to employers to recruit unemployed and handicapped workers and those providing for the creation of training promotion measures and training funds.

These provisions, however, largely repeat those contained in the Labour Law, the majority being no more than rather general political declarations of intent lacking concrete definitions and implementing mechanisms. Nor does the EPL have anything to say on how employment promotion measures might be funded.

On the subject of discrimination in the workplace the law now provides for the possibility of legal action being taken against an employer in the event of discrimination. However, as the provisions do not specify any practical remedies, it remains unclear what the consequences for the employer would be.\*

The legal equality of agricultural workers and urban workers helps to strengthen the rights of agricultural workers. Here again, it remains to be seen how far this prohibition of discrimination is actually applied in practice.

\* A provision concerning age discrimination originally included was deleted.

Source: Julius 2008.

## 10. Chinese Companies' Response to Corporate Social Responsibility

Jochen Weikert

In recent years, policy makers and political scientists in the OECD have raised concerns about the massive Chinese investments in developing countries in Asia, Africa and Latin America. While this discussion has not yet arrived at a coherent conclusion (on whether these investments were harmful to vulnerable economies or to be welcomed as a stabilizing factor in a crises-torn global economy), Chinese capital has meanwhile arrived in the OECD's very heartlands. For instance, the China Ocean Shipping Company (COSCO) runs the largest container terminal in the port of Piraeus (Greece). PetroChina invests USD 1bn in Scottish Ineos's refineries. Chinese contractors build a power plant in Bosnia and an industrial park in Bulgaria. Backed by its close to USD 3 trillion currency reserves, Chinese investors such as the China Development Bank or the Exim Bank of China currently engage in multi-billion dollar deals in more than 20 European economies (Hecking / Wanner 2011). Do these structural changes in the world economy signify the end of occidental capitalism as we know it, or are they a belated wake-up call for the old industrialized world to finally invite China into an unprepossessed debate on global economic governance – or both?

Since the 1990s, China has been exposed to the debate on trans-national corporations' (TNCs) conduct in a globalized economy. This debate has been fueled by numerous incidences of labor rights violations in Chinese supply firms to western TNCs. In these cases, the OECD-based TNCs reacted by installing Corporate Social Responsibility (CSR) policies, in which they committed to fair working conditions in their supply chains. Usually, they commissioned auditors that checked the supplying factories against a standard set of norms (code of conduct) in order to enforce their CSR policies. Inside China, however, this practice has been perceived as illegitimate interference in domestic industrial and social policies – moreover after 2001, after China had joined the WTO system in which CSR is not an issue. CSR has been regarded as the industrialized countries' attempt to install non-tariff trade barriers that would infringe the astonishing success of the Chinese export industries by most discussants. Until as recently as 2005, not few among them regarded CSR as a western plot that needs to be decidedly rejected.

Since then, however, significant changes have taken place: more clearly than before China has assumed its new role as a "driver of global change" (Humphrey / Messner 2006; Kaplinsky / Messner 2008; Wolff 2006; Fues 2007). From the so-far status of a mere taker of rules regarding global political and economic affairs, China gradually evolves as a co-determinant and maker of rules. In the arena in which the global CSR debate takes place, China has assumed an active role in place of its earlier stance of strict rejection. In consequence, more differentiated responses to the CSR challenge can now be observed in China. This article proposes that China enters the hitherto OECD-led CSR discussion as an actor that affects the established rules of the game. Chinese actors have in many instances acquired sufficient bargaining power as to challenge the terms and the governance of the discussion in this global discourse.

Empirical research that has been conducted between 2006 and 2009 has observed these more differentiated Chinese responses to the global CSR challenge (Weikert 2011). A selection of its results is presented here. They suggest that the global CSR discourse represents the arena in which the question of *what is legitimate business conduct in the globalized economy* – or more precise: *within trans-nationally organized global value chains* – is being tackled. It further suggests that China enters this arena not as a marginal player, but as an important new global governance actor and driver of global change.

There is a distinct legitimacy discourse in China. Its characteristics in terms of role models (*Leitbilder*) and stakeholder inclusion modalities will be briefly introduced. However, how is this varied stance mirrored at the shop-floor level, i.e. in the Chinese businesses' legitimization i.e. CSR practices? Some empirical examples will allude to the fact that new Chinese TNCs by and large align rather well with the terms of the OECD's CSR discourse. In the face of these co-occurring patterns of variance (in the Chinese discourse) and alignment (in the Chinese businesses' practices), finally, explanations are offered. What is the impact of China's arrival to the CSR discussion on its governance and what are the implications for business, academia, and decision-makers? What lessons can be learned for similar challenges? On the basis of the present analysis, some answers may be tried.

### 10.1 CSR or “Harmonious Business?”

CSR is about *legitimate forms of business behavior within trans-nationally organized global value chains*. Private actors, moreover trans-national corporations (TNCs), are increasingly shaping the global economic governance structures. In turn, TNCs are held accountable by their constituencies, the trans-national “stakeholders” (Freeman 1984, Freeman 2004; Freeman et al. 2004). Well-informed and trans-nationally networked consumers, NGOs and interest groups, regulators and investors question the *legitimacy* of the firms' behavior throughout its global value chain. In response to the stakeholders' sanctioning potential and in the face of absent global rule-making and enforcement, TNCs commit to self-designed CSR principles and practices. Businesses thus restrain themselves in order to compensate for the deficiently institutionalized trans-national frameworks they operate in. By doing so, they replace uncertainty with calculable risk: the risk of being wrong in what the transnational stakeholders deem to be ‘good business’, i.e. *legitimate business* in the globalized world. The communication and promotion of CSR policies can thus be understood as the efforts on behalf of businesses to construct a proto-institutional framework in order to compensate for the under-institutionalized global sphere of action they operate in.

The global CSR discussion that has been led until recently implied that the preferences of OECD stakeholders with regards to legitimate business behavior were enforced by OECD-based TNCs'. The enforcement of rules and norms took place by grace of the governance structures that reign in the global value chains (Gereffi 1994; Gereffi / Korzeniewicz 1994, Gereffi / Humphrey / Sturgeon 2005; Messner 2002, Schmitz 2005). For instance, the OECD stakeholders' notions of adequate social standards at work entered codes of conduct that were enforced, by grace of their superior bargaining position, in the OECD based TNC's value chains. In this, however, the preferences of non-OECD stakeholders played a negligible role.

With the emergence of new drivers of global change, this scenario is changing rapidly. TNCs from non-OECD countries assume roles of lead firms in global value chains – to the effect that the preferences of their (non-OECD) stakeholders enter the global discussion. According to UNCTAD, the number of TNCs from developing countries and emerging

markets increased from 2,500 in 1992 to 22,000 in 2008 – which is more than a quarter of the overall number of TNCs (UNCTAD 2010). According to the Boston Consulting Group's study "The New Global Challengers", 100 companies from rapidly developing economies (RDE 100) "will radically transform industries and markets around the world" (Aguar 2006:5). Thereby, "Asia is home to the large majority – 70 – of our RDE 100 companies" (Aguar 2006:8). With 44 out of the 100 the "New Global Challengers" coming from China, the People's Republic is by far the dominant home base of TNCs from a non-OECD background. And irrespective of whether the legitimacy of these TNCs' behavior is questioned at home or abroad, Chinese actors urgently need to find answers. Therefore, the Chinese CSR discussion currently evolves.

However, the Chinese discussion develops and references distinctively Chinese business policies and responds to genuinely Chinese stakeholder constellations. These are briefly introduced here<sup>1</sup>.

Businesses attain legitimacy by referencing shared role models (*Leitbilder*). In the OECD-led CSR discussion, 'sustainable development' is a widely shared role model. Most CSR communication of industrialized country TNCs reference this concept of intertwined social, economic and ecologic goals. Following the publication of the report of the World Commission on Environment and Development 'Our Common Future' ("Brundtland Report") in 1986, the idea of *sustainability* and *sustainable development* became the dominant role model for the wider global development debate in the OECD, and hence for the OECD's discussion on legitimate business.

Ever since the domestic CSR debate started off in China, however, the role model increasingly referred to is the 'harmonious society'. When Wen Jiabao and Hu Jintao assumed power in 2002, they developed a new socio-political vision that they called the 'harmonious society' (和谐社会, *héxié shèhuì*). This idea has subsequently been included in the 11<sup>th</sup> five-year plan, drafted in March 2006. Wen and Hu are representatives of a 'new left' who conceptualize modernization with recourse to genuinely Chinese philosophy, such as Confucianism (Blume 2009:36). The 'harmonious society' concept embodies five sets of goals to be balanced in the development of Chinese society: urban versus rural development, eastern (coastal) versus western (inland) development, social versus economic development, internal versus external policy issues and human development versus the conservation of nature. The concept has soon been intertwined with the newly initiated Chinese discussion on CSR. In November 2006, a senior government official stated that Chinese entrepreneurs learned of CSR concepts through western importers, but were rather suspicious of them. They would rather call it 'harmonious business' (Li Biqing, Director of Division, Department for WTO Affairs, Min. of Commerce, at the 7<sup>th</sup> GTZ Roundtable on Social Standards and CSR, Beijing 15 November, 2006). Some argue that the rhetoric around social harmony can be regarded as just another slogan of the Communist Party leadership. However, against the backdrop of the very unequal economic development in the country, there is an important functional aspect to it: Chinese businesses urgently need to play a role in promoting, developing, and maintaining social cohesion in an increasingly fragmented society.

Besides the theme of the harmonious society, the CSR debate in China at times refers to concepts of an honorable 'Confucian businessman' (Cheung / King 2004; Ho 2006) or to concepts of 'soft competitiveness' (Wang 2006:3; Wang 2008) – as opposed to "hard"

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<sup>1</sup> See also Tatjana Chahoud's article "Policies on Corporate Social Responsibility (CSR) in PR China" in this book.



forms of technological and managerial competitiveness. Common to all concepts to be found in the Chinese CSR discussion is the emphasis that CSR can be effortlessly related to own circumstances and own cultural heritage. The message transmitted by this is: China opens up to the world *in a genuinely Chinese manner*, peacefully, in harmony with its partners and pursuing only commercial (that is: mutually beneficial) interest.

Besides turning to shared role models, corporations also need to find acceptance within their stakeholder landscapes. Due to the authoritarian rule upheld by the Communist Party of China (CCP), government actors are by far Chinese businesses' most important stakeholders. The Chinese CSR debate therefore also relates to the government-driven institutional innovation. In recent years, the government in China has issued some very relevant legislation concerning the roles and duties of businesses in the society. Following the revision of the Company Law in 2006, the government introduced the new Labor Contract Law in January 2008, which thoroughly stirred up the CSR debate by means of 98 articles relating to contracts, social security, work safety and labor unions (Ho 2007). At the same time as this law became effective, the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) released instructions for state-owned enterprises' (SOE) social responsibility. These contain 20 articles that stipulate why and how SOEs should assume social responsibility. In a similar manner, various new institutional arrangements have touched on the CSR performance of businesses. With the recent establishment of the Ministry of Environmental Protection (MEP), mechanisms have been introduced that hold businesses more accountable than before with regard to their environmental impact (e.g. a 'Green Credit Program').

A fact that is sometimes overlooked, however, is the entry of *non-government / non-market* stakeholders to the Chinese CSR discussion. For instance, the awareness among Chinese consumers for potentially threatening environmental or health impacts of business action is steadily rising. And increasingly so consumers are ready to sanction business behavior. While such consumer activism is still staged on a rather case-by-case basis, there is a high risk of ad-hoc violence connected to it. When products of the Japanese cosmetics brand SK2 (owned by Procter & Gamble) were found to exceed domestic standards on two kinds of heavy metals in 2006, customers immediately returned SK2 products to the shops and an ad-hoc protest march targeted the Procter & Gamble offices in Shanghai. After a rumor had been spread in 2008 that the CEO of Moët Hennessy Louis Vuitton (LVMH) and shareholder of Carrefour Bernard Arnault had provided financial support to the Dalai Lama Foundation, Carrefour had been targeted during extended protests in most of its 122 super markets in the country. These examples should however not lead to the conclusion, that stakeholder activism in China only turns against foreign businesses. Domestic businesses' responses to the May 2008 earthquake in Sichuan province provide some counterevidence. Wang Shi, the CEO of the largest Chinese real estate developer China Vanke Company Ltd. suggested that the staff of the company should donate no more than RMB 10 each for victims of the earthquake. Being in the housing industry, he suggested that immediate donations were not as important as mid-term reconstruction works. In response to this, Vanke has been included in an internet list of 'misers' – companies that declined to donate generously to earthquake victims. Angry internet bloggers mockingly re-named Wang Shi (王石) to Wang Shi (王十) – shi (十) meaning 'ten'. The stock price of Vanke dropped dramatically, indicating the sanctioning power of minority shareholders. In contrast to this, Wang Lao Ji, a company producing a popular herbal soft drink experienced positive sanctioning. The producer of a drink dubbed 'Chinese Coca-Cola', donated RMB 100 million, to the effect that its products were sold out for months.

As is the case in the OECD world's CSR discussion, information and communication media play an important role for non-market/non-state stakeholder activism in China. The internet organizes a steadily growing community of non-market stakeholders in blog discussions. These blogs host forms of stakeholder articulation by consumers, students and other interest groups. "And any product that doesn't meet expectations, particularly foreign products, is in for a very rough ride through the very wild-west-cowboy-land of the Chinese Internet" (Stephen Frost, Director of CSR Asia, in a personal talk with the author in November, 23<sup>rd</sup> 2006). In fact, violent protests against SK2 in 2006 and Carrefour in 2008 can be traced back to discussions in popular bulletin boards such as tianya.com, where up to one million people can be logged in at any one time (Frost 2008). There are also incidences, in which local communities organize protests against businesses, or businesses' investment projects, through mass text messages circulated to mobile phones. This has been the case when suburban residents averted the establishment of a neighboring chemical plant in the city of Xiamen in spring of 2007.

The CSR discussion *in China* had taken off from the necessity to comply with OECD-stakeholders' preferences. However, it has some time ago progressed beyond this stage. There is now a *Chinese* CSR discussion that orients itself towards domestic role models and responds to domestic stakeholders' claims. And whereas Chinese actors initially rejected the notion of CSR, which they perceived as imposed on them by the West, they now embrace it firmly, so as to effect on it a rich endowment of 'Chinese characteristics'. Hence, the current business legitimacy discourse in China emphasizes endogenous drivers and that way pronounces the variance of its CSR discussion to the exogenous OECD standards and practices.

## **10.2 Chinese companies' responses**

A survey cross-examined existing Chinese role models (such as 'harmonious society', 'soft competitiveness' etc) and identified forms of stakeholder inclusion with a set of Chinese companies. Evidently, different CSR drivers shape the policies and practices of different classes of businesses. Therefore, five classes of businesses have been discerned in this survey with reference to variables such as ownership, modes of global outreach and value chain governance.

*State-owned Multinational Enterprises* are emerging global players which are at the same time a structural element of the socialist polity in the People's Republic. They are required by their owner, the Chinese government, to both contribute to maintaining social stability and enhancing their performance in the global markets – not least, by engaging in global CSR discussions.

*Private Business Pioneers* are those early joint ventures that have been allowed to form in the context of Deng Xiaoping's opening-up policies since the late 1970s. They are closely related to the early influx of production capital into the PR China, primarily from closely related economies such as Hong Kong, Taiwan and Singapore. By applying their specific business ethics and values, they established the founding myth of post-revolutionary private business in China.

*Supply-End Drivers* are those large-scale businesses which in the course of maturing within OECD-led value chains acquired sufficient bargaining power as to turn around value chain governance. They have left behind "captive" positions (Gereffi / Humphrey / Sturgeon 2005:84) in which they had to comply with buyers' requirements in order to stay

in business. In fact, some of these businesses are now driving the policies, standards and prices as lead firms in their value chains – however from the supply end.

*New Global Brands* are those companies that built up brands within the Chinese domestic markets before going global, or that acquired foreign brands or sub-brands, sometimes of OECD-based companies. As much as their OECD-peers, these new brands need to protect their brand value against contestations from non-market stakeholders such as the globally networked media, ‘netizens’ and pressure groups.

*New Global Sourcers* are those globalizing businesses in the extractive industry who venture out in order to extract mineral resources in developing, but increasingly so also in OECD countries. As observance of social and environmental concerns in host countries is an important implication of the extractive industries’ investment projects, the activities of these companies are interesting examples for Chinese businesses engagement in the CSR discussion.

For each of these five classes of Chinese businesses, one or two companies have been surveyed in order to find out about the ways in which they confront the legitimacy challenges in their particular operational context. And as to be able to tell whether or not they respond to the Chinese CSR discussion in their legitimizing efforts, four variables of business legitimacy have been observed: i) role models, ii) ideational stakeholder inclusion, iii) procedural stakeholder inclusion and iv) output legitimacy.

*Role models:* As observed before, businesses associate themselves with *role models* through policies such as mission or visions statements, CEO’s messages, board communications or any other form of communication that is directed towards their stakeholders. If the value content of the role model is conveyed successfully, then the stakeholders are included normatively and the businesses’ legitimacy is fortified. The Chinese benchmark for the role model variable, as has been introduced, is represented by the Confucianism-inspired, government-driven programme of the ‘harmonious society’. In its value content, the programme conveys features of balancing antitheses in social and physical spheres through peaceful conflict resolution, thereby supporting stability and unity – the millennia-old key concerns of Chinese polities. As has also been mentioned before, the corresponding OECD benchmark is informed by the discussion around ‘sustainability’ and ‘sustainable development’.

*Ideational stakeholder inclusion:* Stakeholders can believe in, and hence be affected by, extraordinary qualities ascribed to the corporation, e.g. through charismatic brands. The stakeholders grant legitimacy because of attractive images, ideas and attitudes associated with the business, thanks to the businesses’ brand communication efforts. This communication can include such diverse themes as positive life-styles, reliability or loyalty to national, cultural or even religious affiliations. The stakeholders are thus *ideationally* included in the businesses’ action. In contrast to inclusion by role models, ideational stakeholder inclusion does not refer to external themes or authorities, but to the direct ideational relationship established between the business and its stakeholder. The ideational inclusion of stakeholders, in the Chinese context, means to build up brand image and reputation on accentuations of national loyalty and philanthropic activities. The Sichuan earthquake provided a case in point, which hardly any Chinese business could afford not to respond to through philanthropic activities. Another highly symbolic and nation-wide event, which most Chinese TNCs used for branding operations, was the Beijing Olympics in August 2008. In contrast to this, OECD-based businesses generally build up brand value by references beyond national concerns. And as philanthropic

activities are nowadays viewed as old-fashioned in the CSR discourse, many emphasize a core business case for their social or environmental engagement.

*Procedural stakeholder inclusion:* Another way of including stakeholders is to align them with business goals by means of regular forms of interest arbitration procedures. Procedural stakeholder inclusion may happen through dialogue, involvement or co-determination in business decisions. A stakeholder then grants legitimacy, if its interests are accounted for. For instance, listed companies call in regular meetings for shareholders, in which this stakeholder group is included procedurally through dialogue and voting. Processes for interest arbitration can be viewed from two different angles: first, that of *how many*, and second, that of *which* stakeholders are included by businesses. For the Chinese benchmark, the governmental stakeholders can be expected to be among the most important ones. Shareholders (beyond the government shareholders) in contrast, are less important because of a fairly low market capitalization of businesses. And though non-government / non-market stakeholders such as the media, NGOs or local communities are beginning to raise their voice, they are not yet systematically acknowledged as stakeholders yet. The range of stakeholders that are included in Chinese businesses is still rather narrow, with the government claiming a dominant position. For the OECD-based businesses, in contrast, the importance of shareholders has steadily risen throughout the era of globalization, during which the importance of governments has been on the decline.

*Output legitimacy:* The ability to act and solve problems is one element of the legitimacy of political systems (Messner / Nuscheler 2003:36f). The same can be said of businesses: successful problem-solving is a source of legitimacy within the businesses' constituencies. Output legitimacy is generated, when businesses credibly report results with regard to operational (financial and non-financial) aspects to the stakeholders. For the Chinese benchmark for output legitimacy, businesses' contributions to the success of the PR China are important. Often, the crucial governmental stakeholders recognize these contributions through awards. Such awards are important evidence of output legitimacy and an achievement to be communicated to other stakeholders – a particular feature of the Chinese debate that is less often found in the OECD context. Here, communicating social and environmental output is important for legitimizing business action.

With the help of these variables for business legitimacy and the particular benchmarks for the related Chinese and OECD discussions, the empirical cases of Chinese businesses has been scrutinized. When examining their CSR-related policies and practices, not surprisingly, the five different classes of Chinese businesses (State-owned Multinational Enterprises, Private Business Pioneers, Supply-End Drivers, New Global Brands, Globally Sourcing Firms) were found to respond quite differently to their specific legitimizing challenges. However, the results were surprisingly uniform with regard to one aspect: with one exemption, all businesses aligned their legitimization practices rather well with the OECD benchmarks. The Chinese CSR discussion – references to genuinely Chinese role models, responses to Chinese stakeholders and the observed patterns of communicating business output – seemed to be less action-guiding than one would have expected. In fact, all companies seemed to navigate rather proficiently within the OECD's CSR discussion and stressed the need to align with it.

The example of the Lenovo Group elucidates this result. Role models take up much room in the Lenovo Group's communication and policies. However, this 'New Global Brand' company is not using the role models that are being developed in the Chinese discourse. Lenovo does not refer to the 'harmonious society' or any of its derivatives, but to the sustainability-related role models taken from the OECD discussions. The top managers

Yang Yuanqing and William Amelio (CEO) “define sustainability in a simple and elegant way; we merely ask ourselves, ‘Is the world better off because Lenovo exists?’ Asking this question consistently and at all major corporate decision points captures the essence of sustainability” (Lenovo 2008:4).

In terms of ideational stakeholder inclusion, the features of the Chinese CSR discussion would suggest that Chinese businesses turn towards the national frame of reference, stressing philanthropic activities such as donations. Lenovo’s practice, however, shows no such inclination. The company has made accentuated efforts in building up a brand of globalized charisma, using its own founding myths and the reputation of its leadership. Not dissimilar to the OECD business icon Bill Gates, Yang Yuanqing is being portrayed as person with a global vision and a confident self-conception. “Chairman Yang sees himself as a global entrepreneur much more than a Chinese one. He doesn’t say: I am the biggest *Chinese* computer manufacturer and I want to be bigger and the number one. That’s actually boring. He wants to develop a global enterprise” (Thilo Huys, Manager Corporate Communications Germany & Austria, Lenovo Group, in a personal talk with the author in August, 12<sup>th</sup> 2008).

As stressed before, the most important stakeholder to be included in Chinese businesses’ decision-making is the Chinese government on various levels of state. In this survey, a ‘pioneer’ business listed 26 crucial stakeholder groups. 16 of them were directly linked to the government – among others the customs, labor inspection and environmental protection bureaus, but even retired government officials and the secret police. Against this background, Lenovo’s efforts to *procedurally include* its stakeholders are an interesting balancing act. Being a Chinese company that acquired an OECD brand – IBM’s personal computer branch – it needs to also include an array of US stakeholders. Lenovo responds to a very broad range of stakeholders from migrant laborers in China (Lenovo 2008:26) to disabled-, veteran-, gay- or lesbian employees of supply firms in the US (Lenovo 2008:30). In any case, it does not at all exhibit the Chinese government-focused policies that one would have expected.

As observed, the Chinese discussion often requires businesses to report on how their output contributes to the overall *economic* development of the People’s Republic. In contrast to this, Lenovo clearly stresses the company’s *social* and *environmental* output. References to human resource development, social investments, global supply chain activities, or waste management, greenhouse gas emissions, energy and water consumption render Lenovo’s approach of generating output legitimacy fairly aligned with OECD businesses’.

Certainly, the ‘New Global Brand’ Lenovo is among the most globalized businesses to be found in the People’s Republic. However, the observation of other emerging global players such as the State-owned Multinational Enterprises (SINOPEC), Supply-End Drivers (Foxconn Honhai) and Globally Sourcing Firms (Chalco and Zhejiang Huayou) confirmed the results. Chinese globalizing businesses align with the OECD-world’s forms of legitimizing business – and most articulately so for the variables ‘role model’ and ‘output legitimacy’. Including stakeholders by reference to *role models* takes on broadly similar forms for all examined cases and the OECD role models are broadly adopted. In the *output legitimacy* view, references to forms of output other than just economic prevail – as is the practice for the OECD benchmarks.

Noteworthy, the early pioneers of private business in China are exempt from this observation. They to the least extent align with the OECD’s discussions on good business conduct. However, the pioneers are not exactly drivers of developments. Frequently, they

are globalized businesses only in as far as they are suppliers with little bargaining power ('captive suppliers'; Gereffi / Humphrey / Sturgeon 2005:84) in the global value chains.

### 10.3 Alignment or rejection?

Two observations of the Chinese entry to the global CSR discussion have produced an ambiguous picture: The Chinese domestic CSR debate features pronouncedly varied stances towards the OECD-based discourse. The globalizing Chinese businesses, however, by and large, align their policies and practices within the policies and practices of their OECD peers. Is the conclusion from this that the discourse simply lags behind the realities that reign in the business world, and that the former will be overhauled by the latter in due course? Will there be a perfect universal alignment in the CSR discussion to the effect that China, in this discussion, acts as a status-quo rather than a revisionist actor?

It can be argued that the answer is no. Perfect alignment, as simply catching up with the pre-established features of the OECD world's CSR concepts, should not be expected from the Chinese newcomers to the discussion. Rather, ambiguity is functional in China's specific ascendancy situation, in which (1) exhibiting varied stances can be explained by desired emancipative gains on the stage of symbolic politics, and (2) alignment on the 'shop-floor' level can be related to the aim of reducing transaction costs. In most empirical situations, however, (3) both dynamics overlap and form partly ambiguous patterns that need to be understood in the particular ascendancy situation.

(1) Variance can be explained by the desire of Chinese actors to realize emancipative gains in the global discussion. As seen before, the Chinese variety of legitimizing business action takes considerable room at the discourse level. The global discourse on business legitimacy faces the advent of the new variety, featuring distinctly Chinese role models and responding to distinctly Chinese stakeholder environments. Moreover, this process is reinforced by global change. The global CSR discourse becomes more Chinese as Chinese actors' bargaining power increases in the manifold discussions in and around the global value chains they are engaged with. By means of increased bargaining power and voice, Chinese actors' interpretative authority over the CSR debate – a certain sovereignty to define and re-define the semantics of CSR – becomes enhanced. The global discourse already incorporates some of the Chinese role models. For instance, the International Labor Organization (ILO) refers to 'harmonious labor relations' as a policy goal in their discussion of Chinese labor standards (Rudi Delarue, Director ILO Brussels, in a presentation during the BSCI conference "Focus on CSR in China" in Brussels, 23 November 2010).

The explicit aim of Chinese actors to escape situations in which 'western' prescriptions dominate the CSR discussion in China is exemplified by the narrative of a project manager of the Sino-German CSR project<sup>2</sup>:

"German Technical Cooperation did a workshop on assurance of CSR reports. The AA1000 [issued by the UK-based organization Accountability; jw] is the main assurance standard that is used. The Chinese Enterprise Confederation (CEC) was very interested and said that assurance is something that many of their member companies are asking them about. A CEC representative said: 'For the time being, AA1000 is the standard. This is the one that everyone's using so we are also interested. But ultimately, we don't want to

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<sup>2</sup> See [www.chinacsrproject.org](http://www.chinacsrproject.org).

be relying on AA1000 for assurance and China should have its own standard, that's what we would hope.' This was the representative of a large enterprise association and the message was: 'OK, since it's here, we do it. But one day we want to see a Chinese equivalent'" (Ben Gunn, then GTZ, in a personal talk with the author on July, 9th 2008).

(2) The observed instances of alignment of Chinese businesses with the status quo on the 'shop-floor' level can be related to the desire of reducing transaction costs. Chinese businesses clearly acknowledge that the alignment to global standards is a necessary accomplishment for them, through which costly frictions in executing transactions may be diminished. They are even wary of situations in which China's governmental authorities could introduce standards that are in conflict with the status quo.

"I had a discussion with someone from COSCO who's in charge of their CSR report. Right now they are using the Global Reporting Initiative's G3 guidelines. She was referring to that SASAC [State-owned Assets Supervision and Administration Commission of the State Council; jw] released this instruction saying companies should do CSR reports. And her concern was: If SASAC comes along and issues a standard on how to report *which is different from the G3*, that's going to be a huge problem. Take on this huge company with all those sub-companies – it's a nightmare. Because they had already invested so much money, so much effort had to go into establishing the CSR report according to G3. And if the Chinese government comes up with a different standard, then you have to do two reports! Of course, this would be a huge frustration." (Ben Gunn, then GTZ, in a personal talk with the author on July, 9th 2008).

From a rational business point of view, thus, an alignment to the existing rules in the global CSR debate is the preferable pathway. Rivaling rules of behavior create uncertainty for the Chinese businesses – for instance, when important government stakeholders (SASAC in this case) demand adherence to rules that differ from those that are demanded by increasingly important trans-national stakeholders, and uncertainty invokes transaction costs, for instance, the costs of elaborating two different CSR reports.

However, the Chinese ascendancy in the globalized world is only partly governed by dry and sober rational points of view. In the amalgam of the Chinese CSR discussion, unemotional business deliberations around transaction costs are but one composite. The other, as seen, is a distinctive and highly emotionalized desire to emancipate oneself from foreign determination.

In such a manner, (3) both dynamics overlap: There is an interrelated co-occurrence of variance *and* alignment patterns that determines the Chinese entry to the global CSR discussion. In specific situations, the gradual prevalence of emancipative *or* transaction costs aspects determines how alignment motivations overlay variance motivations – and *vice versa*. The bargaining positions of the Chinese actors in these specific situations, however, determine their chances for enforcing these stances in the discussions in and around the global value chains. The synopsis of both factors – relative alignment *or* variance *and* relative bargaining position – allows discerning different patterns on how actors adapt in these situations. These patterns are briefly explained with the help of table 1. The explanation starts off from the middle rows of table 1 and advances towards the upper and lower extremes:

In instances, in which Chinese actors are trapped in low bargaining positions – as is the case, for example, for small supplier factories that depend on foreign buyers' orders – they are compelled to comply *or*, to seem to comply, with the applicable CSR requirements in the value chain. If actors do not agree with these requirements (emphasis of variance)

they try to find ways to *circumvent*. This is repeatedly reported by social standards auditors who scrutinize Chinese factories on behalf of global buyers. If actors agree, however, and comply (emphasis of alignment), they do so from a vantage point of *captive compliance* and have neither voice nor interpretive authority over the debate.

In more elevated bargaining positions, ambiguous patterns may be observed. If actors do not agree with the CSR requirements in the value chain (emphasis of variance) an '*embracing defense*' pattern can provide a solution:

"These are things that people can commit to without committing to. It's like China and the UN Global Compact. You can say yes to it, you can say we agree with it, you can say this is a good thing, you can say that Chinese companies should think about signing on or understand it or implement it. And you can have all the publicity and all the meetings. But nothing happens, because at heart, these things are quite incompatible with the way your business is done" (Stephen Frost, Director of CSR Asia, in personal talk with the author on July, 29th 2008).

Communicating alignment to the dominant rules while in fact diverting from them in an '*embracing defense*' manner can be one in-between way of adaption in the ascendancy situation. It allows, at least temporarily, escaping transaction costs entailed by varied stances in the discussion, while at the same time following practices that are more complementary to own institutional and stakeholder environments.

In these more elevated bargaining positions, another pattern is observed. Actors may agree in principle with the CSR requirements in the value chain (emphasis of alignment) and still articulate their own, potentially varied, points of view. In these cases, there is overt disagreement, but the requirements are nevertheless silently met in order to reduce transaction costs. This pattern can be called '*defensive embrace*'. A '*defensive embrace*' of the status quo may become feasible in the ascendancy situation: it, at least temporarily, reaps the benefits of emancipative distinction that can be yielded in the arena of symbolic politics, while at the same time lowering transaction costs. This is the case, for instance, for the CEC representative (indirectly quoted before) who aspires to develop a Chinese version of the AA1000 assurance standard. Quite obviously, this government official would not hope to see the distinction of the Chinese version of the standard in its content as much as in its *being Chinese*.

Finally, instances in which Chinese actors enjoy strong bargaining positions result in yet another set of patterns. Whenever variance is emphasized, the status quo CSR requirements are *rejected* – not because they are not complementary to one's own institutional environment, but in fact because the actors can afford to reject them. They have now assumed high levels of interpretive authority over the debate. If alignment to the global debate is emphasized, however, *engagement* takes place: agreements on the terms of the CSR debate are entered on a voluntary basis and out of the recognition of mutual gains. Actors are now no longer compelled to comply; they engage from a vantage point of self-assured and significant interpretive authority over the debate.

The explanation of the lower half of table 1 (alignment) can be summed up and condensed as follows: When entering a discourse that is determined by dominant actors, patterns of collective behavior that are characterized by ambiguity provide a solution to contradicting forces on the entering party: whereas an objective need to facilitate exchange dictates an alignment pathway, an emancipative defense against the dominant discourse can still be upheld. The desire of regaining interpretive authority over the debate can still be pursued, even while aligning. One aligns while sending contradictory signals of emancipation. At the



end of this pathway, the entering party engages with the status-quo parties on equal terms. This dynamic can be called an *'alignment trajectory'*.

In the upper half of table 1 (variance), however, the emphasis of variance combines with increasing degrees of bargaining power. A *'rejection trajectory'* can be observed. When entering a discourse that is determined by dominant actors, the entering party may silently divert from the status-quo, but openly reject it, as soon as elevated bargaining positions allow it to do so.

**Table 1. Patterns of Entry of Chinese Actors to the CSR Discourse**

	Degree of bargaining power	Pattern
Emphasis of variance	High	Rejection
	Medium	'Embracing defense'
	Low	Circumvention
Emphasis of alignment	Low	Captive compliance
	Medium	'Defensive embrace'
	High	Engagement

For instance, rather ideal-typical *'rejection trajectory'* dynamics can be observed for the Chinese reception of the SA8000 standard and the subsequent establishment of CSC9000T, (the Chinese social standard for the textile industry). Yan Yan, the Vice Director in the China National Textile and Apparel Council's (CNTAC) Office for Social Responsibility, recalls the initial motivations behind setting up CSC9000T. "CNTAC started this issue how to make CSR to be the *real* CSR, not only the [foreign buyers'; jw] annual checking" (in personal talk with the author on July, 11<sup>th</sup> 2008). But for CNTAC, "real CSR" first and foremost meant a situation where the Chinese industry would be acting out of its own commitment and would not be coerced by incomprehensible, sometimes hypocritical requirements on behalf of foreign companies.

The allegory for foreign actors' – in the eyes of Chinese actors: assumptive – requirements in the Chinese CSR debate has been the standard for social and labor practices SA8000<sup>3</sup>.

However, SA8000 is the distillate of the very comprehensive OECD-based discussion on making globalization more equitable and just. As its context has never been sufficiently conveyed, SA8000 remained incomprehensible to most Chinese actors. "The Chinese suppliers were forced to do something just to follow this trend. But they didn't know what the essence of CSR really is" holds Yan Yan. Moreover, "when SA8000 was released in '97, the first response in China was: this is going to increase our costs and therefore it's a trade barrier. It's like a quota. And for some people this was interpreted as being a plot: this is a deliberate strategy by foreign, anti-Chinese forces to diminish the development of China by increasing its costs and making it less competitive", remembers the long time

<sup>3</sup> SA8000 is an auditable standard for a third party verification system concentrating on labor and safety issues in the global value chains. It has been formed as a result of a multi-stakeholder process organized by the US-based NGO Social Accountability International and was first published in 1997.

follower of the discussion, Stephen Frost (in personal talk with the author on July, 29<sup>th</sup> 2008).

Thus, while the industry ‘captively’ complied to or circumvented the prescriptions included in SA8000, a re-labeling of the Chinese discourse along the lines of Chinese role models and stakeholder environments took place. “So we thought that to the textile and garment industry in China, CSR is not only a new challenge but also a new opportunity! A new opportunity for us to improve our management: we call it ‘soft management’ [cf. ‘soft competitiveness’ role model referred to above; jw]. Then we started our CSC9000T” Yan Yan, July, 11<sup>th</sup> 2008).

Thus, in an attempt to change the undesired state of a foreign actor-imposed discussion in its industry, CNTAC assumed the authority to re-interpret the discussion along the lines of endogenous concepts and issued CSC9000T. And the fact that CSC9000T essentially covers the same requirements as SA8000 – with the notable exception of freedom of association – shows that in this process the Chinese actors had left behind the circumvention and ‘embracing defense’ patterns of behavior. They now deliberately rejected the foreign concept SA8000: in essence, SA8000 would in fact have been more or less agreeable; but the circumstances of its proliferation – that marked Chinese actors as mere recipients of the debate and without any authority to interpret along the lines of own conceptions – were not. The undesirable result is a more fragmented, multi-polar global CSR discourse.

#### **10.4 Conclusions**

Thanks to its size and development dynamics, China is a driver of change in global macro-economic and macro-political structures. In discussions on the evolving global economic governance, Chinese discussants enjoy positions of increasing self-assurance and bargaining power.

In the research results presented here, observations have been made for the discussion on legitimate business in the globalized economy – the global CSR discussion. Chinese actors’ elevated bargaining positions in this particular global governance discussion shape trajectories that may either point towards rejection of the status quo or towards alignment to it (see fig. 1) – self-assured alignment, that is, on the grounds of high levels of interpretive authority over the issues in discussion.

OECD stakeholders should expect China’s impact on the global discussion, whereby an impact will be felt in both cases, if China rejects or aligns with the status quo. On the one hand, the replacement of the OECD-based standard SA8000 by the Chinese functional equivalent CSC9000T has repercussions in the global discussion. It marks the limit of dissemination which the benchmarks from the OECD world have reached in the emerging world. Uniform and unidirectional processes of proliferation of standards from industrialized to industrializing countries can no longer be easily conceived of<sup>4</sup> – not in the global CSR discussion, and perhaps neither in other policy arenas. On the other hand, Chinese emerging global players also impact on the global CSR agenda as they follow an alignment trajectory: a the example of Lenovo illustrated, a full embrace of the global benchmarks in the discussion reduces frictions in the global economy. To be seen as an

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<sup>4</sup> The process of more than seven years of establishing the ISO 26.000 Guideline on Social Responsibility is an example for this: weighty middle income countries such as Brazil, South Africa, India, and – quite late in the process – also China have played a leading role in drafting this standard.

innovator in the discussion that bases its innovations on the global status quo earns trust and reputation, translating into brand capital. Thus, Chinese businesses' innovations on the basis of the OECD's stances might impact the future global CSR discussion much more significantly than the introduction of 'Chinese rules'. Either way, however, future dialogue processes have to account for these mechanisms that showcase how the Asian Driver China impacts the essence of global agreements in the course of entering into them.

In these dynamics, the impact is most articulate at the ends of both trajectories. In the case of the alignment trajectory, the status quo actors face the challenge of welcoming a newcomer to the table who not necessarily constrains itself to options within the status quo, but may choose to act as an innovator who self-assuredly re-interprets the so-far results of the discussion. In the case of the rejection trajectory, however, the status quo actors may be challenged to deal with new rules established by a newcomer that may not even feel the need to sit on the table together with them. For instance, if the next generation of sustainability reporting guidelines (G4) that are currently developed by the Global Reporting Initiative (GRI) fail to include the views of the Chinese CSR discussion, self-designed reporting guidelines may well be issued and enforced by the Chinese government. Such a situation would certainly further advance the fragmentation of the global CSR discourse.

Arguably, alignment or rejection trajectories may unfold beyond this particular global governance discussion. The new driver of global change China urgently needs to be involved in the global climate change and energy discussion, the global exchange rate regime, or multilateral peace and stability deliberations – to name but a few. In each of these discussions, facilitating alignment trajectories is a desirable policy goal from a normative global governance point of view. Fortunately, there is policy space in the processes by which the trajectories are shaped. As has been portrayed, they have unfortunately not been sufficiently made use of in the process of including China in the global CSR discussion. Even so – or because of this –, lessons on how to use these policy spaces can be extracted from this shortfall. In order to invite Chinese actors to enter alignment trajectories, the patterns of symbolic politics in global discussions need to be conducive to this goal. Many times, alignment is facilitated by the exchange of benign images (Kupchan 2001) and the inducement of an in-depth understanding of the issues in discussion. Furthermore, in the face of China's ascendancy in the global governance arena, the so-far dominant views, values and rules of the OECD world need to be presented as suggestions to be debated, much rather than as carved in stone. At the same time, varied stances towards the same views, values and rules need to be welcomed to the arena. Many times, common ground for varied stances can be identified. If rivalries occur, however, they need to be resolved on the basis of the in-depth understanding of the stances of the other, and not on the basis of the old distributions of bargaining power – that are no longer in place. Acknowledging China's role as new driver of global change requires accepting that power constellations shift in favor of Chinese actors within debates on various levels, from global politics to price negotiations in global value chains. As seen, these shifts can raise hard bargaining power and soft power, and thus increased levels of interpretive authority on the side of those who were compelled to merely comply with OECD world's rules only years before.

When inviting the new drivers of global change (either China or any of the newly industrializing countries) to global consensus-building procedures, timing is an important aspect. Clearly, the policy spaces are wider when the trajectories begin to unfold, i.e. at a time in which gains in bargaining power only begin to shape policies. At this stage, the

ascending power is more likely to engage in discussions than at later stages. In the early stages policies are often not yet in place and actors will therefore be more open to policy suggestions.

Moreover, a clear recognition of roles and incentives is important. When power shifts occur, those losing power in relative terms have incentives to enter cooperative solutions, while those relatively gaining power seek to extend their stake in the governance architecture within which solutions are being concluded<sup>5</sup>.

“There is a cross-over point as the balance of power changes, which may or may not result in effective collaboration” (EADI 2008:14). It may only then, if the political will to enter cooperative solutions is being exercised. In terms of incentives, however, entering cooperative solutions is the call of the relative losers.

These timing and incentive aspects need to be considered now. China’s recent voluminous investments in OECD may well signify that the OECD-led CSR discussion approaches the end of a window of wide policy spaces. The growing scale of equity investment of Chinese businesses or sovereign wealth funds in the OECD could imply that the new investors understand capitalism differently than the current owners – who in the broadest sense were committed to western societal and political models. With the advent of non-OECD principals in the western business world, some even see European humanism and social statehood at stake (Büschemann 2008).

In order to best protect their values and rules, OECD actors therefore need to lay these very values and rules on the discussion table and accept the fact that Chinese actors will add theirs. The Chinese investments in the OECD mark a good, perhaps ultimate opportunity for business, academia and policy-makers from the OECD world to invite China into a discussion on forms of market capitalisms that are socially and environmentally balanced. The chances for interest on the side of the Chinese are high: China’s domestic problems, moreover in the social and environmental realm, are colossal and far from being mastered. And from the viewpoint of a culture that promotes fast-learning and the early adoption of best practice, sincere and benign advice will surely be highly welcomed.

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<sup>5</sup> Cf. Juan Somavia, Director General, International Labor Office ILO, as mentioned at the 12<sup>th</sup> Annual Conference of the European Association of Development Research and Training Institutes (EADI), Geneva, 24 to 28 June, 2008. See also EADI 2008:14.

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## **Part IV: Commodification of Land**

### **11. Financial Crisis, Land-Induced Financialization and the Subalterns in China**

Ngai-Ling Sum

The financial crisis that first became evident in 2007 and intensified through 2008-2009 has been associated with major changes in developed and developing economies alike. By late 2008, much of the private sector was deleveraging in the face of the credit crunch, economic recession, and the slowdown in international trade; conversely, governments were resorting to a mix of stimulus packages to boost the economy as a whole while engaging in their own forms of austerity in regard to public sector costs and commitments. This affected not only developed economies but also emerging economies such as China. In the Chinese case, the crisis triggered a fall in exports to advanced economies and a rise in unemployment. In order to maintain growth at 8 percent or higher, the central government quickly boosted the economy through a huge economic stimulus package, introduced in November 2008, based on public finance and borrowing. Compared with most developing economies, China's stimulus package was massive, amounting to 4 trillion yuan (USD 586 billion). According to its official rhetoric, it would provide support for major industrial sectors, invest in infrastructural projects, boost consumer spending, and encourage education and housing. In practice, this package has had very uneven impacts on national and local social relations. This chapter will discuss this in terms of two issues. First, it examines how the stimulus package has intensified the fiscal imbalances between central and local governments because local administrations are increasingly using land as collateral for loans and as a source of revenue. Such land-induced financialization intensifies the reliance of local governments on real estate development: this is associated with a rapid rise in housing prices and has prompted talk of a growing 'property bubble' (Powell 2010). Second, it discusses how a 'real estate coalition' is promoting this land-induced mode of financing and reaping its benefits at the expense of the subaltern population. In this respect, this chapter explores the impact on China's middle classes and migrant workers.

#### **11.1 China's stimulus package and land-induced financialization**

The worsening financial crisis affected China's export sectors as US and European consumers cut back on their credit-fuelled spending. The slowdown in exports and its associated reduction in FDI flows into China led to high unemployment, especially in the industrialized zones located in the Pearl River and Yangtze River Deltas. The official urban unemployment rate was 4 percent but this excludes all rural migrants to the cities; many of these were returning home to the countryside. Thus, according to Ng (2008), the real level of unemployment in 2008 could have reached 10-11 per cent. Worried about the resulting risks of social unrest and continuing with the policy (essential to the 'output legitimacy' of one-party rule) of maintaining a growth rate at the magic 8 per cent, the central government announced a massive stimulus package. Officially, it was narrated as providing support for ten major industrial sectors (e.g., steel, shipbuilding, electronics,

petrochemical, etc.), investing in infrastructural projects (e.g., high speed rail, electric grids, etc.), boosting consumer spending, developing the rural economy, and encouraging education and housing (Tong and Zhang 2009). When the details finally emerged in March 2009 (Yu 2009), the largest share, amounting to 38 per cent, was for infrastructure projects. Three other important components were 25 per cent for the post-earthquake reconstruction of Wenchuan in Sichuan Province, 10 per cent for social welfare, and 9 per cent for industrial upgrading (Table 1).

**Table 1. Composition of China’s Stimulus Package 2008**

<i>Item</i>	<i>Amount (in billion yuan)</i>	<i>Percentage of Total</i>
Infrastructure	1500	38
Post-Earthquake Reconstruction	1000	25
Social Welfare	400	10
Industrial Upgrading	370	9
Rural Development	370	9
Sustainable Development	210	5
Educational and Cultural Projects	150	4

Source: Economic Observer 2009.

However, continuing past practice, this vast package was only financed by around one-third from direct central government funding; the rest was expected to come from financing and borrowing of regional-local governments, governmental ministries, and state-owned enterprises (SOEs) (Table 2). To enable the necessary borrowing, the central government introduced policies such as loosening credit controls, abolishing the credit ceiling for commercial banks, allowing higher levels of bond issuances, etc.

When this stimulus package and credit easing were communicated to the ministries and regional-local governments, state-owned industries and regional-local governments were eager to seize this opportunity and get their pet projects (e.g., high-speed trains, industrial upgrading projects) approved (Naughton 2009). Given the prevailing central-local fiscal arrangements, regional-local governments were required to come up with matching funds. However, they are not well endowed with disposable resources because of (a) loss of tax revenues from business taxes due to the economic downturn; (b) the need to channel 60 per cent of all revenues to Beijing; and (c) the lack of a mandate to borrow money openly. This inevitably resulted in a funding gap. Thus a 2009 National Audit Office survey reported that local governments in 18 provinces were failing to provide the expected level of ‘matching funds’, with the poorest performing province sending only 48 per cent of the amount due (Xi et al., 2009).

In planning terms, this shortfall can be filled by financial resources coming from a mix of local government bonds issued by the central government, corporate bonds, medium-term notes and bank loans (see table 1). However, as China’s bond market is not well-developed, local governments tend to seek their own sources of finance. This paper



concentrates on the intensification of the use of land as a means of generating income. This is possible as China's land leasehold market was formally established in late 1970s under Deng Xiao-Ping. Urban land is state-owned but the separation of ownership and land-use rights mean that private actors can shape its disposition and utilization. Urban land-use rights could be legally transferred for fixed periods and land leases are tradable in the market by open auction (Hsing 2010: 36). This development encourages local officials to convert rural land, which still belongs to rural 'collectives', into urban land (Lin 2009). Conversion of rural into urban land requires, at least in principle, the state to compensate the affected village communities. But numerous reports note that this legal principle is not always followed and, as one might expect, this can lead to unrest and resistance.

**Table 2. The Central-Local Government's Share of the Stimulus Package and Sources of Finance in China 2008-2010**

Level of Government	Amount (in Trillion RMB)	Percentage of Total	Major Sources of Finance
Central government	1.2	29.5	<ul style="list-style-type: none"> <li>• Direct grants</li> <li>• Interest-rate subsidies</li> </ul>
Regional-local governments	2.8	70.5	<ul style="list-style-type: none"> <li>• Loan-based finance               <ul style="list-style-type: none"> <li>– Policy loans</li> <li>– Local government bonds issued by the central government (around 200 billion RMB)</li> <li>– Corporate bonds (130 billion RMB were issued in Q4 2008)</li> <li>– Medium-term notes (25 billion RMB were issued in March 2009)</li> <li>– Bank loans</li> </ul> </li> </ul>

Source: Window of China 2009; Naughton 2009.

Local governments can commodify land in two main ways: as an instrument for leveraging loans and as a source of revenue. First, local governments have accumulated land, equities and licenses as part of their assets. However, these assets cannot be translated into cash because the Budget Law prohibits these units from raising funds directly. Local governments therefore set up related investment companies to take out loans from state-owned banks (e.g., Bank of China, China Construction Bank). Land-use rights are often used as collateral for these loans. With the easy availability of credit and the close relationship between local governments and state-owned banks, local government debt rose five times between 2008 and 2009 from 1 trillion RMB (USD 146 billion) to an estimate of 5 trillion RMB (USD 730 billion) by the end of 2009 (Zhang 2010). Concurrently, The Bank of China and the China Construction Bank reported profit rises of 26 and 15 percent respectively for 2009 (Business Weekly 2010).

Second, land auctions and real estate taxation are used to generate government revenue and stimulate economic growth. Land leases are sold to private and state-owned developers (e.g., China Poly Group, China Resource Group and China Merchant Group) for property projects. In 2009, the Ministry of Land and Resources reported that local governments raised 1.6 trillion RMB (USD 233 billion) in this way – an increase of 60 per cent over 2008. Moreover, of the 2009 land sale revenues, 84 per cent came from property development (China Daily 2010). Land sales also generate revenues from taxation on real

estate development. These related sources of revenue provide local governments with strong incentives to support real estate development and this, in turn, encourages existing private and state-owned property developers to expand their activities and develop new ones to enter the market by borrowing from banks to finance and/or to remortgage existing property projects. This dynamic allowed property prices to continue to rise for developers, boosting overall growth rates beyond 8 per cent, to the benefit of central and local government revenues and legitimacy.

Another important aspect of this dynamic is that property ownership is widely regarded in China as a source of economic security, a hedge against inflation, social status, and personal pride. The business press, ordinary media, and peer pressure all reinforce this view. Moreover, in a situation where there are limited outlets to invest, savings and credit are easily available, the fact that property values have risen for the last decade suggests that real estate offers higher returns than a low-yield saving account and is also a more tangible and safer asset than tradable paper like stocks and shares. In addition, relatively low interest rates allow speculative property to be purchased and held relatively cheaply, especially as there is a lack of nationwide ad valorem property tax. Thus (potential) property owners increasingly tend to see real estate as an object of investment, ownership, and speculation. Such private economic-investment calculation interacts with the central government focus on stimulating growth rates, dependency of local government upon land/real estate for revenue, and real-estate developers and banks for profit to intensify the development of a land-induced mode of financialization.

This mode is premised on land/real estate as an object of accumulation in which local governments use land and real estate projects to borrow money and derive revenue (e.g., land sales, licenses and taxes). Thus the ability of local governments to mobilise bank loans to finance projects is a crucial feature of this dynamic; in turn, banks protect themselves against default by demanding letters of guarantee and appropriate collateral. With land and loans available, property developers borrow and/or remortgage their projects for the continuous flow of funds and to help prop up the real estate market. With the rise in property value, property owners see real estate as security and profit and international investors enter into the arena and expect to gain from rising property prices and/or yuan revaluation. These land-induced logics contributed toward the real estate inflation and led to talk of a 'property bubble'. According to Colliers International, residential prices in 70 large and medium-sized cities across China rose in 2009, with 50 to 60 per cent increases in Beijing and Shanghai. Such increases reduce housing affordability, measured by the conventionally calculated income-to-price ratio in Beijing at 1 to 22 (Smith 2010; Powell 2010; FlorCruz 2009). This ratio means that housing prices for a standard property are 22 times the average annual income of families.

## **11.2 The 'Real Estate Coalition' and the subalterns in China**

This inflationary rise has added a political dimension to the housing question. This was acknowledged by the Premier Wen Jiabao when he remarked on 27 February 2010 that 'property prices have risen too fast' and this 'wild horse' has to be tamed. Indeed, in order to avoid social and political unrest, steps have been taken by the central government from 2009 onwards to dampen the market. These include the tightening of credit, raising deposits for the purchase of new land to 50 per cent; arranging for the exit from this sector of state-owned developers whose core business is not property, imposing a property tax on residential housing in some cities, etc. According to a report in the Hong Kong daily newspaper *MingPao* (2011), data published by the National Bureau of Statistics in

February 2011 showed that, out of 70 cities surveyed, 35 of them experienced price falls. Thus it was claimed that these dampening measures have proven to be effective. In the same newspaper report, this conclusion was disputed as delusory by Zhang, a researcher in the Chinese Academy of Science Finance Research Section, because housing is still unaffordable for the majority of the population.

**Table 3. Discourses and Practices of the ‘Real Estate Coalition’ in China**

Actors of the Coalition	Discourses and Practices
Central government	<ul style="list-style-type: none"> <li>• Discourses of growth and GDP growth rates</li> <li>• GDP growth as a reflection of the strength of the nation and source of political legitimacy</li> <li>• Land as a source of revenue for local governments</li> <li>• High wages and powers for officials</li> </ul>
Local governments (municipal, district or sub-district levels) and related investment companies	<ul style="list-style-type: none"> <li>• Discourses of growth and GDP growth rates</li> <li>• GDP growth as a reflection of the strength of the local and source of political legitimacy</li> <li>• Revenue depends on land sales and property development</li> <li>• Status (especially that of mayors) is linked to their rank in the urban hierarchy and promotion relates to performance targets and personal gains</li> <li>• Related investment companies to borrow and invest</li> </ul>
State-owned and private property developers	<ul style="list-style-type: none"> <li>• Discourses of growth, GDP growth rates and profit</li> <li>• Profit- and performance-oriented</li> <li>• Use of connections with state-owned banks to get loans</li> <li>• Borrowing overseas when there are austerity measures</li> </ul>
State-run commercial banks	<ul style="list-style-type: none"> <li>• Discourses of growth, GDP growth rates and profit</li> <li>• Profit- and performance-oriented</li> <li>• Bank employees’ remuneration based on basic wage and performance-linked bonus</li> <li>• Incentives to expand loans</li> <li>• Safe to lend to state-owned developers and local governments with quasi-governmental guarantee</li> <li>• Loan officials seek to protect themselves by requiring letters of guarantee and demanding collateral</li> <li>• Personal gains</li> </ul>
(Potential) property owners	<ul style="list-style-type: none"> <li>• Real estate as object of ownership, investment, security, speculation, further borrowing and social status (and promoted by the business media)</li> <li>• Private economic-investment calculation</li> <li>• Borrowing from banks and relatives</li> </ul>
International investors	<ul style="list-style-type: none"> <li>• Discourses of ‘China’ as a growth object</li> <li>• Profit and guarantee against yuan revaluation</li> </ul>

Source: Author’s own compilation.

Despite debates of this kind on the media and the internet, this stimulus-loan-property ‘boom’ is supported by vested interests associated with what can be seen as a real estate coalition. For different reasons, actors within this coalition participate, support and negotiate the meanings and practices of land and real estate development for their particular purposes, e.g., central and local governments are more interested in growth promotion and the maintenance of political legitimacy; whereas property developers and banks are more interested in profit and commercial performance (for details, Table 3).

It is impossible within the remit of this chapter to examine the intricate nexus of personal, institutional, and material relations within the coalition and how its members negotiate the trade-offs between growth, political legitimacy and profit in specific conjunctures. However, what appears to be good from the viewpoint of these (inter-)national-regional-local elites is less beneficial to other parts of the economy and other sections of the population. Indeed, over-investment in real estate projects destabilizes the economy and has a markedly uneven impact upon the socio-economic positions of ordinary citizens and the 'subaltern south'. This chapter seeks to briefly illustrate this from two social issues: the affordability of housing and the plight of migrant workers in rural towns.

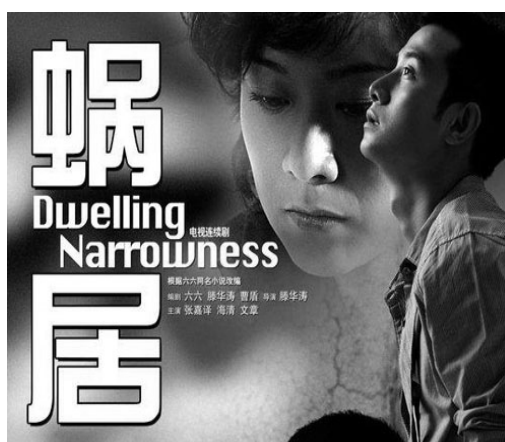
First, the rise of property prices is based on and reinforces the view that property ownership is a profitable investment and provides personal security. This supports the stimulus-loan-property boom and its socio-economic underpinnings. But rising property prices, wealth accumulation, regular land auctions and excessive borrowing co-exist with growing social unrest triggered by the poor levels of resettlement compensation, by forced land clearance, declining affordability of housing/schooling, deteriorating conditions of migrant workers, general inflationary pressures, and petty and major corruption (Wu et al 2007; Lin 2009). These socio-economic issues have supplied material for countless newspaper columns, policy speeches, and appeals for action and have also been dramatized and popularized in TV programmes.

A well-known example of how Chinese television has depicted this plight is a TV drama broadcast in 2009 and entitled *Dwelling Narrowness (Snail House)* (蜗居) (Image 1). It is based on a novel by Tu Qiao, an independent journalist and writer. The story highlights a couple's struggle to buy an apartment in the midst of rising property prices in a fictional city that could well be Shanghai. Specifically, the story revolves around two sisters who have borrowed heavily to buy user rights to an apartment. To obtain the money, one sister begins an affair with a wealthy and corrupt official. He later falls from grace because of a scandal over the diversion of pension funds in order to finance property projects (He 2009). The story resonated with ordinary people, especially in relation to the impact of high property prices upon families and young couples as well the uneven distribution of wealth between property-owners and those without property. In spite (or perhaps because) of its popularity, the series disappeared from the airwaves and *Southern Metropolitan News* explained that its transmission was suspended due to 'technical reasons'. Nonetheless, its urban actualism continues to appeal and the series is still available on the internet and in DVD format in the black market. Up to December 2009, just a few months after its official disappearance, it had been viewed 41 million times on this medium and even top government officials admitted to having watched it.<sup>1</sup> This series finds echoes with the everyday life of white-collar workers by highlighting the conditions of 'house slaves' (房奴). These are the white-collar employees who, in the midst of soaring property prices which are propelled by an easy-credit and over-investment stimulus package, slave to save the deposit for flats and to pay their mortgage, and must constantly struggle to balance domestic budgets. In other words, it seems that these workers do not own their flats or houses, but that their houses and flats own them, dictating their working lives and family relationships

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<sup>1</sup> Viewing data are available on <http://chinasilicon.blogspot.com/2009/12/40-million-views-of-sitcom-housing-for.html>.

Image 1. Popular Sitcom on *Dwelling Narrowness (Snail House)* 2009



Source: China.org.cn.

Second, the uneven development of the Chinese economy is also reflected in the plight of migrant workers in rural towns on the periphery of cities. These workers constitute a significant part of the reserve army of labour and provide a bedrock for the Chinese export economy and the overall high rate of economic growth and rural towns are in turn major sites of affordable accommodation for migrant workers and families. While these workers have no opportunity to become 'house slaves', they (and their children in particular) risk becoming displaced by the same property boom dynamic. For this accelerates land clearance in rural towns and urban peripheries to make way for real estate projects and therefore displaces workers and raises rents for their accommodation. Cases of this kind are so rampant that there is rising social unrest related to land appropriation, under-compensation for land/property seizure, corruption, rising prices, etc. In October 2010, a blogger called '*Blood Map*' used *Google Map* to chart the distribution of sites where there have been land conflicts, use of violence against residents, and people's resistance to illegal land grabs and property demolitions in China. Often, these events involve clashes between residents, real estate developers, demolition companies, local authorities, police power, etc. There are two versions to the '*Blood Map*' – a revised version in which the blogger has verified the sites of conflict and an open version in which the public are allowed to add information.

Land appropriation and clearance also affect migrant workers especially children from these families. Migrant workers have no *hukou* (long-term residency permit)<sup>2</sup> in urban areas and they go to privately-run schools set up in slums in these rural towns. These schools provide inexpensive schooling. Urban clearance and housing demolition mean that this kind of affordable education may vanish due to school closures. Some schools are even categorized as 'illegal' (and hence ineligible for compensation for closure) by the local authorities. These 'schools' and authorities are locked in battles over whether they should be closed and over compensation, if any (Li 2010). Some children are locked out from schools, some are rehoused in make-shift schools, and some are sent back to home villages. In the last case, social issues arise around 'left-behind children' living with grandparents (or other relatives).

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<sup>2</sup> The *Hukou* system refers to residential requirements in China. Migrants, who do not belong to the *Hukou* system in the urban area, are not entitled to public housing, education for their children or local pension and health care benefits. This system is changing but it still favours the educated migrant communities.

**Diagram 1. A Revised Version of the Blood Map's Posted On-Line**



Source: France 24, International News 19.11.2010.

There are over some 20 million 'left-behind children' in China (China Labour Bulletin 2009). This also raises more general issues concerning the 'rights of migrant workers' and a *hukou* system that creates second-class citizens. In response to the resulting social problems, 13 newspapers throughout China issued a joint call for the abolition of the 'outdated' *hukou* system<sup>3</sup> on 2 March 2010, but this was silenced in a matter of days. The authorities continuously talk of reorienting policies and putting more resources into the social agenda (e.g., housing, education, health care, etc.). However, as the stimulus package is largely investment-centred, the injection of funds into healthcare and social housing tends to grow more slowly than economic expansion, especially where the latter is fuelled by easy credit, land sales and real estate development. These are tied very closely to the vested interests of regional-local governments, the property-owning elite, state-owned banks, state-owned/private property developers, infrastructure-related departments and organizations, etc.

There have been recent calls to increase the bank reserve ratio, tighten credit for property investors, lower the targeted growth rates, and acknowledge the need for social development, etc., but this is likely to be counteracted by some actors within these groups and their continual push for growth, investment and profit. These struggles will continue with some gains and some losses. Land/real estate will persist as the object(s) of accumulation and sources of social unrest.

### 11.3 Concluding remarks

The 2007 financial crisis saw the adoption of national stimulus packages in both the developed and developing worlds but these vary greatly in size, form, and impact. This chapter explored this issue for the case of China, with special reference to the relations

<sup>3</sup> 'Editorial calls for abolition of *hukou* system', in: <http://www.scmp.com/portal/site/SCMP>.

among central and regional-local governments regarding revenues, land, and real-estate development and its role in the intensification of land-induced financialization. The stimulus package enables the central government to give a 'green light' to the rolling out of 'pet projects' of regional and local governments. Given that these regional-local authorities have to come up with 70% of the stimulus fund, land is increasingly used as an instrument for leveraging loans and as a source of revenue. Local governments resorting to bank loans in this regard has consolidated a 'real estate coalition' that comprises central government, local governments, state-owned commercial banks, state-owned and private developers, property owners, and international investors. The motives for getting involved in this land-induced governance regime are also varied: they include enhancing individual economic security, making profits, promoting economic growth, and securing output legitimacy for government and government officials. Their activities contributed to the rise of property prices and, unsurprisingly, there is much talk of a 'property bubble' and, indeed, many national and international speculators are now betting in different ways on its collapse.

Land sales and property development have become important investment and speculative activities and have produced many environmental, economic, and social costs. This chapter focuses on the economic and social dimensions, which include increasing inequality, forced displacement from land, dispossession of the already vulnerable (e.g., migrant children), and state repression and terror tactics. These growing social tensions and unevenness characterize, in part, the dark side of a stimulus package that is too often narrated in exclusively positive terms. The importance of land-induced financialization in China's stimulus package reinforces a basic trend in Chinese development and has contributed to the accumulation of 'bad debts'<sup>4</sup> for the local governments that are being ignored by the central leadership for the sake of producing good GDP figures. It also intensifies the commodification of land/real estate which has serious and lasting effects on the everyday life of ordinary people. This chapter has identified some ways in which subaltern groups are adversely affected (e.g., white collar workers as house slaves, the closure of slum schools) as well as some ways in which everyday resistance is expressed (e.g., audiences for critical TV series) or represented (e.g., the production of the *'Blood Real Estate Map'*). This 'dark side' of the stimulus package is an integral part of the global crisis and its repercussions in China no doubt find parallels in other cases.

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<sup>4</sup> There is no official figure on 'bad debts'. However, Shih estimate that the 'bad debts' of local government amounted to 11.4 trillion yuan (USD 1.7 trillion), roughly 34 percent of GDP. He has also estimated that additional local government debt will amount to 12.4 trillion (USD 1.8 trillion) between 2010-11.

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## 12. Regulating Land Transfers: Steps towards Private Ownership<sup>1</sup>

Lui Pan and Wang Rui

In 1978, in the same year that China's market reform and opening policies were issued, 18 villagers in the Xiaogang Village of the Fengyang town in Anhui Province "risked their lives to sign a secret agreement to allocate communal farmland into individual pieces." In 1982, such behavior was officially permitted by the government. Since then, the spontaneous transfers of rural lands amongst individuals, households, organizations and enterprises have begun to emerge. In 2008, the 30th anniversary of the innovation in Xiaogang Village, a Resolution of the CCP Central Committee on Some Major Issues in Rural Reform and Development issued by Central Committee of the Chinese Communist Party (CCP) again announced the legal behavior of rural land transfers and moved forward to establish a rural land market, which proves again that, in the end, the behavior of market innovation or broken rules are sometimes welcomed by regulators.

The extensive experience of Xiaogang Village contributed greatly to China's agricultural development, and since then China has created a miracle that, with only 7% of its arable land, feeds 22% of the world's population. However, whether rural land transfers need to be approved or protected brought about serious debates concerning possible social instability amongst the large population of farmers without land, since giving up land means giving up farmers' social security, farmers rights may be deprived without land ownership rights (Zhang Zhenguang, 2009). Can this new rural land reform bring about another miracle? Can farmers truly benefit from it?

This paper analyzes the household contract responsibility system in China which is still the basic economic system in rural areas. With industrialization and urbanization, the income gap between the urban and rural areas was widened and a mass of farmers began to look for jobs in cities. Thus, spontaneous land transfers began to emerge. Since 2008, the land transfers have been legally approved and transfer markets have been built with government support. Finally, whether such reform can increase farmers' income or deepen urbanization and some barriers of land transfers are discussed.

### 12.1 Reform of the household contract responsibility system in 1982

In 1978, Deng Xiaoping initiated China's market reforms and the so-called "opening up" policies to the outside world. However, the introduction of private ownership principles was not extended to land holdings. As mentioned above, the 18 villagers in the village of Xiaogang had to keep their agreement to allocate communal farmland into individual pieces a secret. Allocating farmlands to individuals or to families was a crime during the Mao era in China, whereas collective farming brought low-level enthusiasm for production and productivity. They even agreed, "if any one of us is put to prison as a result, others shall be responsible for taking care of his children until they reach 18 years of age (Cheng

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<sup>1</sup> The paper is supported by *The perfecting mechanism of rural land transferring in China*, Western Program, China's National Philosophy and Social Science Fund 2009, permission No. 09XJY016.

li, 2009)." Thus this secret practice succeeded. Grain production of the village reached 66 tons per year which roughly equals the total five year production from 1966 to 1970.

A similar practice was experienced in Sichuan and Anhui provinces, and results were the same, dramatically increasing agricultural productivity. Deng Xiaoping accepted and praised such experiments in an opening speech in 1980 and sent explicit signals that rural reform would be initiated throughout China.

The Number One government document of 1982<sup>2</sup> which was also the first Number One government document concerning agriculture released by the Central Committee of the Communist Party on Jan. 1 1982. It explicitly expressed "allocating collective farmlands to households and fixing the taxes or fees", and "allocating collective farmlands to households and fixing output quotas which need to be handed in" as part of the production responsibility system in China (CCP 1982).

In the following four years, between 1983 and 1986, the main topics of the Number One government documents focused on affirming, complementing and perfecting the enforcement of the household contract responsibility system. The Central Committee of the CCP first confirmed the contract period for 15 years in 1984, with the new period to be extended to a possible 30 years in 1993 (some contracts would expire in 1994). Another contract period of 70 years was basically agreed in 2008 (CCP 2008).

The household contract responsibility system refers to an agricultural production responsibility system in which farmers in family groups contract land and other production material and production tasks from a collective organization. The collective organizations retain the ownership of land but allocate land and other production material to farmers under contract, and farmers can make business decisions independently on the basis of their contract and share the revenue after satisfying state and collective requirements. Such a system broke with the traditional rural land management system under which lands are held and managed by collective organizations. The new system separates management rights from property rights.

The implementation of the 1982 reform was swift. By the end of 1984, up to 99% of the farming production teams and 96.6% of all farmers had joined the household contract responsibility system (Huang, 2008).

The household contract responsibility system solved the problem of farmers' production autonomy and enhanced the incentive of farmers' productivity, which increased agricultural outputs and the farmers' living standard greatly. The gross value of agricultural output in China was increased by 42% from 1978 to 1984<sup>3</sup>, from which the contribution of such a system was 46% (Lin Yifu, 1994). Nevertheless, farm income trailed income from industry.

## 12.2 Non-farming employment of the rural population

With the industrialization and the urbanization of China, the gross value of industrial output began to increase rapidly after 1984, and the large income gap between the urban and rural areas began to widen.

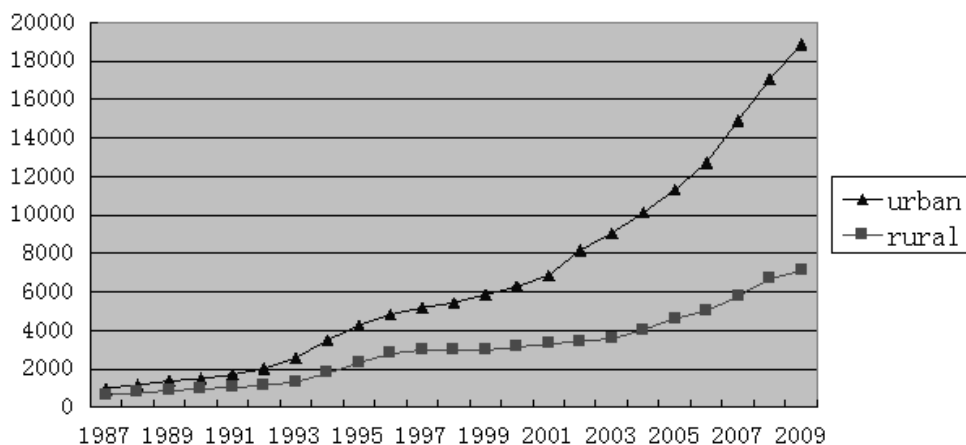
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<sup>2</sup> The Number One government document of China is the first document issued by the Central Committee of the Chinese Communist Party (CCP) every year, in which the government introduces the key points of its work for the whole year.

<sup>3</sup> Although the affirmation of the household contract system by the government was in 1982, actually the experiences had already begun in 1978, and up to 99% of farming production teams and 96.6% of all farmers had joined the household contract system by 1984 (Huang, 2008).

Figure 1 shows the income gap between urban and rural areas. We can assume that the income gap was not so obvious before the mid - 1990s, albeit larger during the 1990s, becoming extremely significant since 2000.

**Figure 1. Income Gap between Urban and Rural areas, 1987-2009**



Source: China Economic Information Network Database.

As a consequence, a large number of farmers began to migrate or take temporary jobs in cities. It is difficult to calculate the population of rural migrant workers<sup>4</sup> because they do not stay long in one place and there was not any accurate official or non-official data until 2008. The population of rural migrant workers in the following table reflects an estimate of the situation, whereby 7.5% rural migrant workers had jobs in cities and 62.5% worked in towns.

**Table 1. Population of Peasant Workers (1980 - 2005) in mio.**

1980	1985	1990	1995	2000	2005
31	79	116	195	206	232

Source: Congmin / Liyuan 2009.

Rural migrant workers in great numbers are generally low-educated and low-skilled, and their wages are usually kept at subsistence level. The Chinese Household Income Project Survey (CHIPS) (2002)<sup>5</sup> showed that 64% of all migrant workers earned less than 750 yuan (USD 100) per month, of whom less than 8% of the workers earned less than 250 yuan (USD 32) per month. In 2002 37.5% earned between 250 and 499 yuan (USD 32-63) per month.

The working hours are much longer than for local urban workers. CHIPS (2002) also showed only about 7% of the migrant workers worked 5 days per week according to the officially mandated number of working days. And the hours of work per day were much longer than 8 hours which was also mandated by the government. The data indicates that

<sup>4</sup> These are people with rural citizenship who work in cities or towns for at least 6 months.

<sup>5</sup> The CHIPS (2002) was designed to investigate household income and income inequality in China. The sample size of the rural household sample was 9,200 households, and the number of provinces covered was 22 of 31; the sample size of the urban household survey was 7,000 households and the number of provinces 12. A detailed description of the survey can be found in Li et al. (2007).

about 30% of all migrant workers had to work 9 to 10 hours daily, nearly 25% work 11 to 12 hours, and 12% 13 or more hours per day.

In addition, migrant workers have sometimes suffered from wage arrears. Rural migrant workers are occasionally refused payment for work done, which can bring instability to society. In 2003, Premier Wen Jiabao intervened in an affair involving wage arrears for a migrant worker. Since then, central and local governments have been paying more attention to migrant workers' rights protection, and situations have been improved (Li Shi, 2008).

Migrant workers do not usually have formal written contracts with employers, but depend rather on spoken promises. An investigation by GCAP (2010) shows that the ratio of jobs of migrant workers with formal contracts accounted for 30% in 2003, increased to about 44% in 2006, and began to decrease from 2007 and fell again to 31% in 2009. As a result, the job mobility of migrant workers is much higher than that of local urban workers (Knight and Yueh, 2006). It was shown by CHIPS (2002) that nearly 98% of all rural migrant workers had changed their job at least once and more than 60% had job changes more than twice.

High mobility and low income are probably the main reasons for the low coverage of social security. CHIPS (2002) indicated that the pension coverage of migrant workers is only 5%, unemployment insurance less than 2%, medical insurance 3%.

The fast growth in cities and relatively higher income opportunities entice more and more farmers to leave their land to work in cities. As a consequence, some farmers with land have given up cultivation and others want to have more land cultivated. Thus, the spontaneous transfer of rural lands has begun to spring up and develop.

### **12.3 The Emergence of spontaneous transfer**

The transfer of rural lands has become a common practice since the household contract responsibility system was generalized.

To a certain extent spontaneous transfer was approved by the Number One government document in 1984: "with sufficient negotiations the collective organization can make some small adjustments of the contract responsibility within the period of contract to satisfy farmers' requests in principle of keeping majority of responsibilities unchanged." Also, to, "encourage lands to be transferred to the green fingers gradually." (CCP 1984) became more acceptable. "If farmers claim to contract none or less lands within contract period because of inability to farm or for the sake of transforming into another business, they may leave the lands to the collective organizations arranged in a unified way, and they could also search for counter parties to subcontract the land by themselves". This subcontract, however, is restricted to a few collective organizations only (Zhang Shuguang, 2010).

Owing to the restriction of a short contract period, during the mid-1980s and early 1990s, the transfer of rural land took place only among farmers in the same collective organization or among friends and relatives; the rent of land was about 100-150 kilograms of rice or corn per mu<sup>6</sup> (Wang Ligu, 2007). The main causes of the transfers in 1980s were as follows: (1) some of the farmers were employed by township enterprises or other non-agricultural sectors (they had temporary jobs), (2) some farmers moved to towns or cities

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<sup>6</sup> 1 acre=6.07 mu

(with relatively stable jobs or small businesses), (3) specialized farming in agricultural sector was developed. Transfers were generally spontaneous and voluntary.

The land burden became much heavier after the mid-1990s. In some rural areas, the net earnings were even negative as a result of exorbitant taxes, and farmers' willingness to cultivate declined. Owing to the heavy load, cultivation became unprofitable, more lands were left desolate. In order to prevent their land from being abandoned and left uncultivated, some local governments began to impose 100 yuan tax per mu for non-cultivation. Within this period, two kinds of transfer appeared: (1) farmers paid 100~200 yuan per mu for transferring their own lands to others without receiving any rents; (2) to avoid the heavy loads, farmers just let the land be. In this situation, the collective organizations had no choice but to take over such lands (after adjustment and integration) and rent them to major cultivating farmers in the form of "contract" with period of more than 10 years (Jia Yang, 2009).

Under the leadership of Hu Jintao and Wen Jiabao more attention was paid to "agricultural development, rural affairs, and farmers" wellbeing, the so-called *sannong* in China"<sup>7</sup>. Since the early of 2000s, China has issued a series of policies especially to support and serve farmers and rural migrant workers. In 2004, the significance of increasing the incomes of farmers was focused on by Hu and Wen. Afterwards, they called for an effort to "build a new countryside", and set up a set of policies to improve rural infrastructure and develop the culture of rural areas with the greater financial support.

On January 1, 2006, the agricultural taxes of Chinese farmers were completely abolished, which had a deep influence on China's 0.9 billion farmers. Both central and local governments began to care more about the main problems of rural migrant workers involving work safety, housing, education, health care, and social welfare, etc. In 2007, a new concept for building modern agriculture including the use of modern science and technology, management ways, market mechanisms, and mechanized equipment to increase agricultural productivity was put forward.

Without paying agricultural taxes and other preferential policies in agriculture, cultivation became more profitable. Since then, the transferring began to expand. By the end of 2008, there were about 109 million mu of lands that had been transferred which accounted for 8.9% of the total contracted land, compared with 5% in 2001 (Xi Baoguo, 2004). The main features of transferring in this stage are as follows:

(1) The circulation scale expanded gradually. A survey conducted by Chen Xiwen (2002) showed that the circulation scale of land has increased since 2000. He investigated the ChongQing province, and found that the circulation scale of rural land increased from 1.04 million mu in 2003 to 2.17 million mu in 2006, and the average annual growth rate was about 20.2%.

(2) Differences among areas are significant. According to some surveys, we have found that the transfer of rural lands differs sharply among different regions. The transfer in the Midlands and the West is quite small compared to the East of China. The ratio of circulation to all cultivated lands for the West range from 1.74% to 13.8%, while the ratios for the East range from 20% to 30% and some are run by non-native sub-contracted farmers (Jia Yang, 2009).

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<sup>7</sup> In the eighth five-year plan (1991–95) of China, the budget for investment in the rural infrastructure accounted for only 2.8% percent of total investment.

(3) Along with spontaneous transfers, the forms of the transfer tend to be diversified. Sub-contracts used to be the main form in some collective organizations, but other forms, such as leasing (land transferred to others with contracted land-use rights unchanged), swaps (exchange contracted land-use rights), assignments (transfers without reclaim rights retained), and the shareholding of cooperatives began to emerge (Chen Xiwen, 2002). According to his investigation, the major form of transfers is the sub-contract; the second highest form is leasing which is on the increase..

(4) The participants of transferring have not just been restricted to the farmers within the same collective organization but of the specialized farming households, specialized farming cooperatives, farming enterprises, skilled technicians, etc. According to an investigation, statistics issued by the Agriculture and Animal Husbandry Bureau of Chengdu (2004), the land transferred among farmers accounted for about 60% of total transferred lands, while transferred land to enterprises and other individuals such as skilled technicians and urban residents accounted for about 40%.

In some places, the enterprises have become the main forces of land transfers. For example, in Jingshan Town Hangzhou City, some leading farming companies, such as the Zhejiang Senhe Seed Industry Co., Ltd., Zhejiang Lantian Eco-agriculture Development Co., Ltd., or Hangzhou Jingsheng Flowering Plant Co., Ltd. etc. took part in land transferring one after another. In Henan Xinyang city, there are over 1200 agricultural industrialized organizations, among which the lands planted by the top 50 leading farming enterprises with a production value of over 50 million yuan account for 1.45 million mu, the lands agriculture produced 80,000 mu and 40 million animals raised, which accounted for 18%, 11% and 14% of the total respectively citywide (Qiao Zhen, 2006).

**Table 2: Participants of Transferring in 6 Counties of Chengdu**

Participants	Farmer	Enterprise	Skilled Technician	Government Functionary	Urban Resident	Others
Acreage (hm <sup>2</sup> )	8866.4	4000.4	468.48	318.44	789.98	313.35
Proportion (%)	57.92	26.13	3.06	2.08	5.16	2.05

Source: Agriculture and Animal Husbandry Bureau of Chengdu 2004.

Large-scale spontaneous transfer is still not officially approved, and the regular market and market mechanism have not been formed, so many conflicts may still emerge. For example, some individual transferring is traded just on the basis of spoken promises which are not binding or legally protected. As more subsidies for farming become available, some farmers who had promised to transfer their land may choose to break the contracts.

Another situation can include rural cadres that might abuse their power to dispose such "collective property" under undemocratic conditions, and the interests of farmers are likely to be damaged. Due to the lack of public participation or public supervision, the situations of "force to transfer", "force to buy" and "force to sell" might surface. When the household responsibility contracts and the relative rights began to be certificated in 2004, the villagers in Nananhe village, Beijing City found 2000 mu of land that had already been rented to *Beijing Nuor Kuangbiao Sports Limited* by their village committee for 60 years at 700 thousand yuan per year. The village committee promised to give such rentals to villagers, but the price was too low. The rental fee was 350 yuan per mu but the income for planting,

such as planting cherries can reach 20,000 yuan per mu. Now the villagers are trying to use legal processes to take back their lands.

#### **12.4 The 2008 reform on land transferring markets**

Although transferring had become more popular than ever before, such transferring still was not approved or protected legally by the government before 2008. Thus, how to deal with such problems attracted a lot of attention by many groups in the society. Some people, such as Zhang Zhenguo (2009), do not agree with transfers for they see no real benefit for farmers, and the reasons are given as follows: (1) giving up land is the same as giving up their social security, (2) some cities in China such as Beijing and Shanghai have become too large and the capacity of these cities cannot withstand further urbanization with more immigrants any longer, (3) social instability may develop amongst the large population of farmers without lands, (4) rural land still belongs to collectives, and the farmers are still unable to hold their rights.

With those debates, however, in 2008, the 30th anniversary of “China’s reform and opening”, a *Resolution of the CCP Central Committee on Some Major Issues in Rural Reform and Development* (hereafter referred to as Resolution) was passed by the 17th Central Committee of the Chinese Communist Party (CCP) in October, which can be seen as another landmark on rural reforms since 1978.

The direction of such a Resolution is to improve the rural economy and social development, involving “build ‘new rural area’ as strategic goals, implement agriculture modernization, abolish the difference between urban and rural areas, support agriculture with industry resources, support rural areas with urban resources, innovate systems, enhance the basic position of the agricultural sector, enhance income increase of farmers, protect farmers’ interests and rights”.

The Resolution also mentions rural development requirements to double the per capita disposable income of farmers, abolish poverty, develop democracy at the grassroots level, equalize urban-rural public services, and basically set up rural social security by the year 2020. With these goals, a set of policies and measures are being prepared and will be carried out by the government.

Among them, the most ambitious policies are about rural land reform. It is the first time that such a request for establishing transfer markets of rural lands has been put forward. The main policies emphasize:

(1) Improvement of the regulation and services of the transfer of rural land, establishment and perfection of land circulation markets, allowing farmers to transfer their lands in forms of sub-contracts, leasing, swaps and shareholding cooperatives, etc. This is conducted according to the principles of law, voluntary basis and fair value, develops diversified appropriate scale economy and expands specialized large-scale households, family farms and farmers’ specialized cooperatives under specific conditions.

(2) Collective ownership of land cannot be changed into the circulation of land.

(3) Usage of land for agriculture cannot be changed in the circulation of land.

(4) All rights or interests of farmers with contracted land cannot be damaged.

(5) Arable land needs to be seriously protected, and the volume of arable land should not be decreased to less than 1.8 billion mu (about 0.3 billion acre)<sup>8</sup>.

The Number One government document of 2009 released by the Central Committee of the Communist Party—*Promoting Stable Development of Agriculture and Persistent Increase of Farmers' Income*—once again emphasized the necessity to establish and perfect the land transfer market. In addition, it further proposes to:

regulate the transfer of rural lands according to the requirement of improving management and enhancing services. Intermediary services are encouraged and organized under specific conditions, to provide services of information communication, legal consultation, price evaluation, contract formation, dispute mediation and so on.

## 12.5 The many actors and forms of rural land transfers

Since the new rural land reform issued by the government in 2008, the central government and locals began to help establish rural land markets. The governments built local exchanges, used special funds and issued preferential policies in support of such markets. Then, new forms of land transfer and new actors began to emerge. Li Yixue (2009) concluded and investigated the situation and new forms of land transfers, as following:

A new form of transferring is *traded in exchanges*. Local governments set up tangible exchanges, build up market administrative service systems to collect, sort and issue information, formulate market management mechanisms for both sides of supply and demand. The first rural land exchanges in China were built by the local government of Tengzhouxigang Town in Shandong Province. Only three years since being established, it realized transfers of 13,000 mu, which accounts for 20% of the total contracted lands in this town, involving 4,000 farmers.

*Local governments*: This form of transaction is operated by special fiscal funds which are set up by local governments in support of land transfers in order to realize scale farming. For example, the "rural land reserve system" is typically one of these forms. According to statistics, in Funing Town Jiangsu Province, with these fiscal funds, 16 efficient and unified planting bases with more than 500 mu of land and 5870 standard greenhouses were built in 2007. And in the first half of 2008 another 17 efficient planting bases, 8700 standard greenhouses and 18 large animal farms were newly built.

*Specialized farmers*: This form of land transferring is driven by skilled farmers who are experts in farming or animal alimentation. After mergers and acquisitions of rural lands, such skilled farmers realize agriculture mechanization, unified operation and management. For example, a farmer named Fan Hengjin has contracted and leased land with 14,500 mu in Inner Mongolia to specialize in industrialized planting, managing and selling potatoes and sweet potatoes. He has innovated a mode combined with "example leading, order planting, base management and contract sales" in the popularization of agricultural technology and production and the circulation of agricultural products.

*Agriculture enterprises*: This form of transferring is driven by leading agricultural enterprises which have realized mechanization and industrialized production and

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<sup>8</sup> The state could confiscate collective rural lands with power, and then sell them at a much higher price to others such as real estate explorers. Huge economic interests drive many local governments to expropriate rural collective land. It is merely from 1986 to 1994 that the arable lands decreased by 2.3 million hectares (34.4 million mu). What's more, arable lands declined from 0.46 million hectares (6.9 million mu) in 1997 to 0.6 million hectares (8.6 million mu) in 1998.



operation. In order to guarantee the quality and quantity of raw materials, they usually integrate land in different ways according to different rural conditions. For example, Cofco Great Wall wine (yantai) Co., LTD is one of the leading national agricultural enterprises which first carried out a form to connect industrialized operation to farmers by means of "order agriculture". "Yantai Nanwangshangu Grape Production Cooperative", sponsored by a subsidiary named "Nanwangshangu Investment Limited Company" under "Cofco Great Wall wine (yantai) Co., LTD", with a capital investment as shares, organized 1,980 farmers with land as shares to specialize in the standardized production of grapes in 2005.

*Agricultural cooperative organizations:* This form of land circulation is launched by agricultural cooperative organizations which organize farmers for the purpose of integrating land resources, realizing scale management and enlarging a collective economy. For example, a land shareholding cooperative in Shanglin Village, Suzhou City, Jiangsu Province with 1.2 million registered capital was set up in 2007, which was sponsored spontaneously by 117 local farmers with 240 mu lands as shares. One unit mu of land had been converted into one share with a value of 5,000 yuan, and the total registered capital was 1.2 million. Since then, every operating activity is in the name of this cooperative.

All forms such as the above-mentioned are not necessarily completely independent, and more often than not these forms are combined with each other. For instance, leading agricultural enterprises generally need to use shareholding cooperatives to fully mobilize farmers to help realize land circulation and integration. The fiscal levers tend to foster and strengthen shareholding cooperatives, specialized farmers, leading agricultural enterprises, etc.

## **12.6 Prospects and challenges in the future**

Since market reform was started under the leadership of Deng Xiaoping along with the opening policies in 1978, China has changed a great deal. China's GDP has exceeded that of Japan and become the second largest economy in the world. However, farmers' income is still very low and the gap between rural and urban areas is still very large. As discussed above, the household contract responsibility system experienced since 1978 has brought magnificent improvement in the agricultural sector and what can be expected from the new rural land reform will be discussed as follows:

-- Increased income of farmers

Since 2004, *Issues and Proposals for Increasing the Income of Farmers*, the first Number One government document issued in the new era, the central government began to pay a lot of attention to "rural areas, agriculture, and farmers (*san nong*)", and gradually increase the input to *san nong*.

The budgetary growth rate of the central government to *san nong* was up 20% compared to 2008, and the total budget reached 716.1 billion yuan in 2009. Such a budget not only covers the investments in rural infrastructure but also the kinds of subsidies which involve subsidies granted directly to farmers according to farming acreage, subsidies to buyers or sellers who buy or sell farming material including fertilizers, diesel oil, seeds, farming equipments, etc., subsidies to farmers who use improved seeds in special regions, and subsidies to buyers who buy large farming equipment. The buyers of large farming equipment can be individual farmers, staff working on farms, enterprises and organizations that are specialized in providing service for mechanized farming. Such subsidies issued by the central government amounted to nearly 20 billion yuan for the five years between

2004 and 2009. In 2009, the subsidies reached 13 billion yuan, an increase of 9 billion compared to 2008. The growth rate was 225%, while 3.4 million sets of subsidies of large equipment were realized in 2009.

The *Issues and Proposals on More Efforts for Rural-Urban Integration and Further Improved Rural Development Bases*, released in 2010, is the 7<sup>th</sup> Number One government document on rural areas, agriculture and farmers (*san nong*). The first priority is to perfect and strengthen a preferential policies system of *san nong*, and to put forward resources allocated in rural area. It includes increasing input to rural areas and agricultural sectors, perfecting subsidies and the market regulation mechanism, increasing the level of financial services, encouraging social resources to invest in rural areas and explore the rural market. Chen Xiwen, the Associate Head of Rural Work Leadership, has estimated that the budget of the central government to *san nong* may exceed 1000 billion yuan in 2011, which was 818.3 billion yuan in 2010. Besides, the growth rates of the budgets of local governments need to be more than the growth rates of fiscal current income. Financial capital involving banks, funds and organizations, etc., are being encouraged to invest in *san nong*.

The purpose of a large input to *san nong* aims at increasing the income of farmers. However, the government does not simply give money to farmers directly, but rather help them increase their capabilities of earning money. Rural input, such as subsidies for improved seeds, farming material and large equipment, etc., and investment in rural infrastructure could help increase agricultural productivity, as well as realization, modernization and mechanization. Without mechanization or technological improvement, the farmers cannot enlarge production or increase productivity, but can only sustain themselves. This situation makes it demotivating for them and robs them of the ambition to increase investment. Thus, low income is the reason, caused by such a small farmer economy. If outside investment can resolve or partly resolve the initial investment, an increase in productivity can be made possible. The improved rural infrastructure including irrigation and drainage can make rural lands more valuable. The two options farmers would then have include continuing to farm at a higher level of productivity, or to leave the rural areas and transfer lands at higher rents. The farmer who chooses the second option could even enjoy both incomes, from land and from work in the cities.

--Land circulation helps to further urbanization.

China is still a dualistic economy, and to a certain extent, land plays the role of social security for the rural population:.

- (1) It provides enough food and supplies plus the basic costs of living allowances.
- (2) The income of collective lands is a kind of pension for the rural population as other forms of social security are lacking.
- (3) Land could also play the role of unemployment insurance for absorbing large surpluses of rural labor.

The farmers could not easily give up their land because of insufficient social security coverage in rural areas. To date, farmers have only been able to take part in non-agricultural industries to a limited degree, which has led to the consequence that the urbanization process is unable to catch up with the industrialization process in China.

The government began to resolve inadequacies in the rural social security system several years ago. "In 2002, the central government indicated that the cooperative medical

insurance should cover nearly all the rural areas and farmers by 2010”<sup>9</sup>. “In 2009, the State Council decided to experience a new type of rural pension system with payment by individuals, collective organizations and subsidies from the government. The experiments would cover 10% of all rural areas in 2009, gradually expand the coverage, and realize basically 100% coverage before 2020”<sup>10</sup>.

*The Resolution of Solving Problems of Rural Migrant Workers*, issued by State Council in 2006 introduced plans to build a wage payment security system, increase and regulate the level of wage for rural migrant workers, regulate and administrate a labour management system according to laws, and to provide public services including their employment, employment training and education for children, etc..

Rural mechanization will further release some rural labor to go to cities, while the rural social security will make them more willing to give up their land. Public service and social security for migrant workers will allow them to stay in cities longer. They will even be able to enjoy both the income from transferring land and from work in the cities.

#### --Restrictions of land property rights

According to the Land Management Law of China, the Regulations for the Implementation of the Land Administration Law of China, and a series of documents released by the Central Committee of the Communist Party or the State Council of China, urban land is owned by the state and rural land is owned by collective organizations. The clear definition of rural land property rights, however, could influence transaction costs on land circulation, and then affect the size of the rural land circulation, specified as follows:

*The subject of land ownership is blurry:* The owner of rural land is a member of a collective organization according to the law but the hierarchy of collective organization is not clear, while clear subjects of ownership are necessary in the process of land leasing, land assignment and land shareholding cooperatives, etc. According to the relevant laws and regulations, there are four subjects of ownership for collective land: Village-level agricultural collective economic organizations, villagers' committees, villagers' groups and town-level agricultural collective economic organizations. In this way, the subjects of ownership for collective land have a variety of possibilities.

*The contracting right is incomplete:* The contracting right is one type of utility a right which should include transfer, lease, mortgage, inheritance, income and so on. The contracting right of rural land in China, however, contains merely utility rights, income rights and to some extent disposable rights, etc. while other rights, such as the sale or mortgage of property is still banned or not yet clear.

Although not originally permitted by the government, the risky innovation project undertaken in Xiaogang Village started a new page in China's agricultural and rural area transformation. The household contract responsibility system based on “allocating collective farmlands to households and fixing the taxes or fees” and “allocating collective farmlands to households and fixing output quotas which need to be handed in” is still the basic production system in China. Under such a system, spontaneous land transfers emerged and have become popular since the early 2000s along with rural migrant workers

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<sup>9</sup> In: *Resolution on Strengthening the Rural Medical System* issued by Central Committee of the Communist Party of China and State Council, 2002.

<sup>10</sup> In: *Indication about Expanding Experiences of New-Type Rural Pension System*, issued by China's State Council, 2009.

moving to cities and the abolishment of taxes on agriculture. The new reform of rural lands issued in 2008 not only complied with land transfers but also proposed to establish land markets. With the help of governments, new forms of land transfers and new participants evolved. The increase of farmers' income is now foreseeable with large subsidies and other governmental support. With the problems of social security, further urbanization with more rural migrant workers is possible in the future. Without more complete and comprehensive ownership rights of rural land, however, farmers' interests or land transactions may not be fully protected and could even be diminished.

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