



# CHINA'S CHANGING WORKPLACE

Dynamism, diversity and disparity

Edited by Peter Sheldon, Sunghoon Kim,  
Yiqiong Li and Malcolm Warner

# China's Changing Workplace

This book explores the diversity and dynamism of China's workplaces and the wider labour market experiences of its workforce. Drawing on the authors' extensive recent research, it considers how change is affecting a variety of issues and types of workplaces. These include: the continuing spread of market-oriented human resource management across public and private sector organisations; greater employment rights for workers; local diversity in regulatory control alongside the governmental priority of a 'harmonious society'; persistent shortages of skilled labour co-existing with vast underemployment among the unskilled; uneven access to education and training across regions; and changes in union behaviour and influence.

Unlike other studies – which tend to assume changes to management, work and employment are relatively uniform across modernizing parts of the economy – this book conveys the rich variety among contemporary China's local labour markets by looking at them, and the institutions that influence them, from the bottom up. It focuses on other under-explored but emerging phenomena such as family-owned firms, the role of private services businesses, and the emergence of employer associations.

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# Preface

As editors of this volume, we see two connected observations as major motivating factors in conceptualizing, planning and coordinating the outcome. First, while there have been some good treatments of the subject in recent years, there is no book that adequately covers a number of critical changes in China's workplaces and its workforce that have taken place over the last decade. For example, we have begun to see severe shortages of skilled labour, the rapid growth of family-owned businesses, the emergence of the services industry – including a large business services sector, changes to the ways that unions influence Chinese labour markets, informal disputes and even strikes and the emergence of employer associations. Moreover, until this book, there has been none that explicitly address these issues from a local labour market focus, as well as a national one. We feel that there is no book that sufficiently covers these new developments systematically and comprehensively as they affect work, employment relations and the management of people in China.

Second, we have become increasingly aware that the existing literature largely remains attached to a dominant narrative that focuses on China's transition, since the late 1970s, from a centrally-controlled state-owned and largely egalitarian economy of a poor country to one which has embraced capitalism, welcomed foreign investors, and through this achieved enormous success in economic development. Although this traditional framework may still have some value for tracing the historical roots of current events, it appears to be losing its explanatory power to account for the emerging institutional dynamism, regional disparity and sectoral diversity marking the Chinese workplace. Thus we need new, credible conceptual frameworks that may better guide future research.

We therefore organized the book to address most current features of China's changing workplace with fresh theoretical lenses. This concern has shaped our choice of authors to work with us, some of them long-standing eminent experts in the field, others starting to make a name for themselves through innovative research. We thank them all for their goodwill, generosity of spirit and commitment to the project and their tolerance of our deadlines and interventions. From our side, it has been a most rewarding set of collaborations.

In briefing our collaborators, we wanted to combine a strong thematic structure and a focus on current developments with the latitude to chapter authors to develop their own approaches. We hope therefore that the reader finds this volume more

cohesive in direction and focus than most edited books but with plenty of variety in perspectives, research approaches, argument and style of reasoning.

Each chapter contains an up-to-date review of current knowledge together with some ideas as to where the field and the reality it examines are going. As part of their remit, chapter authors have included some discussion of their own, recent or ongoing work in the area as a way of highlighting innovative developments that they are contributing to. We think that this path-breaking research, often not published elsewhere (yet), contributes a great deal of value-added to the volume.

We were fortunate enough to secure funding to hold a symposium at University of New South Wales for chapter authors in February 2010. More fortunate still for us and the project, many of our authors were able to attend, some of them travelling from different continents to do so. Those two days in which we all presented and then discussed draft chapters were a wonderful example of intellectual community. Other authors, who could not attend, came to visit and present and discuss in subsequent weeks. Overall, we are convinced that these events contributed greatly to the intellectual cohesion of our volume. We thank Professor John Piggott, Associate Dean, Australian School of Business, as well as the School of Organisation and Management at the University of New South Wales for their financial support, and our administrative colleagues, Yazmin Seremely and Terry O'Callaghan at the School of Organisation and Management, for their help in organizing it all. We also appreciated the support of Peter Sowden and his colleagues at Routledge, our publishers.

Peter Sheldon, Sunghoon Kim, Yiqiong Li and Malcolm Warner  
Sydney and Cambridge  
2 July 2010

# Abbreviations

ACFIC	All China Federation of Industry and Commerce
ACFTU	All-China Federation of Trade Unions
ACWF	All-China Women's Federation
CCP	Chinese Communist Party
CEC	China Enterprise Confederation
CEDA	Chinese Enterprise Directors' Association
CEMA	Chinese Enterprise Management Association
COEs	Collectively-owned Enterprises
EML	Employment Promotion Law
FB	Family Business
FDI	Foreign Direct Investment
FIEs	Foreign-invested Enterprises
GPNs	Global Production Networks
HEIs	Higher Education Institutions
HRD	Human Resource Development
HRM	Human Resource Management
IFA	International Framework Agreement
ILO	International Labour Organization
IOB	Individual-owned Business
IR	Industrial Relations
JEPZ	Shanghai Jinqiao Export Processing Zone
JV	Joint venture
LCL	Labour Contract Law
LLM	Local labour market
MNC	Multinational Corporation
MNE	Multinational Enterprise
MOHRSS	Ministry of Human Resources and Social Security
MPS	Ministry of Public Security
NIEs	Newly Industrialized Economies
NTCC	National Tripartite Consultation Committee
OEM	Original Equipment Manufacturer/Manufacturing
PA	Performance appraisal
PM	People management

PMDs	Party Mass Departments
POEs	Private-owned Enterprises
PPP	Purchasing Power Parity
PRC	People's Republic of China
R&D	Research and Development
SASAC	State-owned Assets Supervision and Administration Commission
SEC	State Economic Commission
SEZ	Special Economic Zone
SIP	Suzhou Industrial Park
SIPAC	Suzhou Industrial Park Administrative Committee
SIPHRD	Suzhou Industrial Park Human Resources Development Co., Ltd
SME	Small- and Medium-sized Enterprises
SOE	State-Owned Enterprise
SETC	The State Economic and Trade Commission
TULAC	Trade Union Legal Aid Centre
VET	Vocational Education and Training
WND	Wuxi New District
WOFE	Wholly-Owned Foreign Enterprises
WTO	World Trade Organization

# Introduction

*Peter Sheldon, Sunghoon Kim, Yiqiong Li and Malcolm Warner*

## **Our starting point for this book**

The eyes of the world are on China's workplaces, at the time of writing, as rarely before during this decade. As we were finalizing the last few draft chapters of this volume, during June 2010, a higher than normal frequency of reporting of what were to emerge as major stories about developments in China's enterprises was breaking in the international news media. For 'China-watchers', this was a boon, if not a blessing. There were, for instance, accounts of an allegedly high rate of employee suicides of mostly young production-line workers, at the Shenzhen factories of the world's largest electronics manufacturing multinationals, Foxconn, a subcontractor for leading brand-name Western and Japanese companies like Apple, Dell and Sony, all based in the Special Economic Zone adjacent to Hong Kong. In response, the Taiwan-owned firm in question said it was going to increase the basic wages of its employees in China by 30 per cent immediately, and a total of 122 per cent in October (Garnaut 2010; Hille and Mitchell 2010; China Labour Bulletin 2010b).

At about the same time, thousands of Honda workers at its car components factories were on strike, crippling production at a string of Honda plants depending on them across the People's Republic. Those workers appear to have elected their own shop stewards and to have angrily defied officials of the official and employer-compliant company union, a part of the official State-run All-China Federation of Trade Unions (ACFTU). A similar pattern occurred soon after among Toyota's component manufacturing plants. In Henan, female cotton mill workers went on strike, claiming higher pay but also paid holiday leave and demanding that the employer conform to labour law on a range of issues. While these *démarches* seemed to be dramatic, it must be borne in mind that labour compensation rates were often as low as 3 per cent of total production costs. Indeed, in recent years there have been many tens of thousands of labour protests, mostly unofficial of course, as recorded by the State authorities, and even more hidden in the shadows of time, as a number of chapters in this book will testify.

More broadly, foreign business media in particular have appeared increasingly concerned with growing shortages of skilled labour in China's more advanced areas and the influence of the 2007 *Labour Contract Law* which came into effect in 2008 (see Brown 2010). Commentators see both as giving more labour market

choices – or power – to employees, including some of the long-suffering internal migrant workers. Moreover, they point to evidence of greater employee expectations and determination to use those choices. Even the Chinese Communist Party's (CCP) leadership is publicly recognizing these developments (Bradsher 2010; BBC 2010; Pilling 2010; China Labour Bulletin 2010a; Shirouzu 2010).

A clear subtext is that China's labour markets, workplaces, employers and employees are generating a greater range of attention. Many share commonalities with what we know about what happens in advanced industrial societies. Some shared patterns still seem embryonic and remain conditioned by the CCP's central role. Overall, though, the picture that emerges is one that diverts attention, at least somewhat, from the dominant image of untrammelled economic dynamism and unstoppable economic growth, still close to 10 per cent per annum, breathtaking modernization, rapid wealth creation and spreading consumption growth among China's flowering middle class. In particular, it underlies the need to approach China – including its workplaces, employers and employees – as vastly varied in the ways it generates socio-economic disparities from patterns of economic dynamism.

This understanding was the starting point for our planning of this volume. As we mentioned in our Preface, one of our two main goals is to provide the most current empirical evidence, theoretical argument and forward-looking indications as to emerging trends in work, employment and the management of people in China. The second goal is more conceptual and more intellectually ambitious: we propose a radical shift in approach to studying these aspects of Chinese society. At the same time, we seek to demonstrate what this shift might look like through the chapters our collaborating authors have contributed to this book. That shift starts with the notion that dynamism, diversity and disparity are *the* emerging patterns shaping China's changing workplace, from outside and from within. This assumption stands in stark contrast to narratives which have dominated this field that mostly stress a melioristic, unilinear 'Long March' to the future.

In the existing literature, the focus has been on changes under way as a result of China's transition from a command economy under state ownership to one where private ownership and markets have become dominant, albeit 'with Chinese characteristics'. A fashionable notion in the modernization debate – 'linking up with the international track' – had emerged in the late 1980s and may be seen as an intrinsic part of how the PRC has tried to adapt to 'globalization', on the one hand, while not abandoning traditional 'Chinese' ways, on the other (see Warner 2009).

The 'transition' approach has focused on the consequences of economic reforms since the late 1970s as part of China's overall grand economic and social transition and transformation. In this view, ownership type – such as state-owned enterprises (SOEs), joint ventures (JVs), wholly-owned subsidiaries, family-owned domestic firms – are not just the starting point for research and analysis, they are also often the end point. Here, the degree of diversity relates to the degree of shift in ownership type from state-owned (under a command economy) towards private ownership (embedded in factor markets).

While this made good sense for studying the early transition periods, it tends to implicitly conceptualize China as an otherwise relatively uniform entity, often

ignoring regional variations, for example. It thus generates two mutually reinforcing types of myopia, one related to *time*, the other to *space*. We deal first with a temporal conceptual conundrum: if transition has been the handmaiden for transformation and modernization since 1978, when does this transition come to an end? All societies and their political economies are involved in change, but we do not refer to all of them as 'transitional'. If China's transition from a state communist political economy to a capitalist one – whether more or less 'Confucian' – produces capitalism, is the transition complete, irrespective of whether transformation (through modernization) still remains incomplete? Or, put differently, is the achievement of a modernized political economy sufficient to mark transition's end? In either case, as researchers we need to be clear that the notion of transition, as applied to China since Deng Xiaoping's reforms, is a finite process; at some stage it will just have to give way – conceptually at least – to 'change'.

Accepting this argument, the next question relates to making assessments based in empirical reality: how can we decide that transition is complete; when will we know? The literature on economic development in China clearly points to a great deal of uneven development across the nation; in a society and political economy of this size and under transition conditions, that is unremarkable. However, to date, the research literatures on human resource management (HRM) and employment relations have not always shown the same awareness or sensitivity to local variation. As a number of the chapters in this book show, some areas of the country are now highly advanced – under a number of criteria – whereas others show considerably less economic dynamism or, even, appear to have gone backwards. This suggests that it will be possible to make many different assessments as to transition's end and that the timing of these assessments will reflect patterns of geographic variety. However, the purpose here is not to try to identify a multitude of local processes and paths towards a 'post-transition' political economy in China. What interests us, as editors and authors, are the implications and meaning of these diverse trends for work, employment relations and the management of human resources in China.

This step necessarily takes us to the question of spatial or territorial diversity. The transition approach overwhelmingly ignores regional and local patterns of dynamism, diversity and disparity. This renders it outdated and overly simplistic. There is also, to a lesser degree, a tendency to underestimate the interaction between local and sectoral patterns. As a result, the rapidly growing number of scholarly accounts in this field – while increasingly sophisticated, theoretically and methodologically – risk not asking the most apposite research questions, not addressing the most pressing issues and looking in the wrong places. We need to look again at China's workplaces, managements and workforces but in their own terms rather than only through the lens of China's macro-historical transition.

This book accepts that transition is still occurring in many places but we emphasize that it is happening in different ways and at different speeds. Nonetheless, a number of our chapters find evidence of interactions between labour market contexts and actors that suggest that they either are beyond transition, or are on the way there. We focus on China's non-agricultural sectors and, given our interest in



emerging trends and new directions, we pay particular attention to China's most advanced sectors and localities. There, successful development is creating varieties of a new Chinese economy and society marked by dynamism and diversity and outward orientations. As a number of our chapters also show, diversity and disparity also create economic stagnation, socio-economic decline for localities and their inhabitants as well as the sorts of exploitative employment and working conditions that lie behind the suicides at Foxconn, the strikes and other forms of labour unrest, and the high levels of labour turnover.

Our aim is therefore to present a new model for studying China, one that shifts attention from 'what was' to 'what is' and 'what is becoming'. We aim to convey how China is continuing to be different and special but that, at the same time, we need also to look at it as we would other fast-developing and developed capitalist economies. To do this, we have divided the book into four sections. The first places recent changes affecting China's workplace into broader historical, economic and institutional contexts. Its three chapters trace the processes and effects of the broad transition and analyse the critical aspects of China's business systems and legislative context. In doing this, they provide a sound basis for discussion in the following sections which then elaborate, in more detail, how the broad transition has been generating diversity, dynamism and disparity affecting China's workplaces.

The second section provides a dynamic picture of labour market developments and China's urban workforce. More importantly, it illustrates how the supply and demand sides of labour markets interact to generate challenges for both employers and employees. Chapter 4 provides a broad picture of the overall dynamics of the urban workforce, highlighting emerging elements of diversity. Chapter 8 explores some of the human implications of those changes for two large segments of the workforce who have found themselves in contradictory positions: one marginalized and expelled by the new dynamics; the other drawn in, but in a manner that still marginalizes them. Between those two quite different accounts, Chapters 5, 6 and 7 combine to explain the relationships between diversity and dynamism in local and sectoral labour markets and the ways these engender disparity. They include treatments of skill development for China's workforce and pervasive shortages of highly skilled employees.

The third section examines how recent changes in HRM and employment relations have played out in different types of firms and in different sectors. In addition to confirming the diversity across ownership types, chapters in this section also uncover emerging variations within the same ownership type. Furthermore, this section includes a chapter about the rapidly growing service sector, which adds another layer of diversity to the Chinese economy and labour market.

The book concludes with a section that offers fresh perspectives on different forms of labour market disparity, and measures to cope with or respond to them. With different foci, its four chapters examine the role of government, multinational companies, trade unions and employer associations in the making or moderating of social inequalities that have emerged as a core characteristic of China's workplace. We now briefly summarize the book's 16 chapters, referring mainly to their main contribution to the arguments developed so far. After that, we offer a few, very brief conclusions.

## **Part I. Putting change in context**

### ***Chapter 1: Transition to a socialist market economy: factor markets, management and human resources in China***

Malcolm Warner and Grace Lee provide a comprehensive overview of the stages, paths and effects of transition since the Maoist era – and their meaning for China's changing workplace. They see this transition as a successful shift from central planning and state ownership to the development of factor markets, with major roles for private ownership, foreign direct investment (FDI) and the profit motive. In particular, Warner and Lee point to how this broad transformation of China's political economy has generated the emergence of labour markets that provide opportunities for much greater employee mobility, whether geographical, between employers or within organizations. The authors also find that the emergence of labour markets has helped foster a shift from personnel management – under the jobs-for-life, 'iron rice bowl' employment regime previously enjoyed by SOE employees – to explicit use of HRM, albeit 'with Chinese characteristics', as noted earlier.

For Warner and Lee, the 'new status quo is highly segmented', including by ownership models – evidence that China's labour market is reaching a mature stage. There are also growing inequalities in income and life chances, very different to those in the Mao era. For all this diversity, the authors also identify two new factors that might make for greater economic consistency and socio-economic cohesion; but not uniformity. The first is the development of a more consistent legislative and policy framework in support of employee rights at work and in the wider labour market. The second is the official adoption of a form of 'neo-Confucianism' as ideological guiding spirit to temper tensions between social expectations for more (or less) individualism/collectivism in China's labour markets and workplaces (see Warner, 2010).

While Warner and Lee make an important point that so many changes arising from Deng's transition resulted from pragmatic governmental experimentation across all levels – 'without a detailed road map' – it is interesting that these two potentially countervailing forces are very much products of central government action. They represent its public embrace of the goal of a 'harmonious society' in the face of centrifugal forces that transition itself has unleashed. For Warner and Lee, the likely effectiveness of these measures remains unclear.

### ***Chapter 2: Chinese business systems and the challenges of transition***

Michael Witt and Gordon Redding also stress diversity and dynamism as well as the importance of governmental experimentation in the unfolding of the processes and outcomes of transition. They point out that much of this experimentation has occurred in restricted locations before spreading, with success, across the country. They too take a 'big picture' political economy view, this time using a 'business systems' approach as a means to comparatively analyse critical aspects of major components of the 'indigenous' parts of the Chinese economy. In particular, they

are interested in SOEs and the ‘private sector’, made up largely of family-owned, small- and medium-sized enterprises (SMEs).

This approach allows Witt and Redding to develop a model that brings together, for China, three levels that explain ‘a society’s way of doing business’: ‘cultural underpinnings’, ‘institutional context’ and ‘organizational patterns of coordination’. Each includes multiple components. For example, culture disaggregates into the rationale for action, attitudes to identity and to authority. Institutional context defines the availability of financial, human and social capital – including trust – within a business system. These shape not only the economic approaches of entrepreneurs (firms), but also the interactions of employers and employees. One example is how rationale (building family wealth), identity (family membership) and authority (family headship) have combined to create the propellant for the extraordinary growth in family businesses since the early 1980s.

Witt and Redding are interested in how using these categories for societal analysis of ‘a complex adaptive system’, like China, may provide guidance for predicting and working towards making a more successful economy and society. Many of the challenges they raise find an echo in later chapters of this book. From international comparative research, they suggest that diversity and dynamism are complementary ‘starting conditions’. They stress that fostering spatial diversity – by empowering local socio-economic actors – frees individuals, organizations and institutions across China’s regions, provinces, cities, towns and districts to experiment more boldly. In turn, this generates substantially more dynamism, innovation and adaptation. Not surprisingly, this process requires the central government’s continuing commitment to decentralized administration and regulation. The authors also look for sources of national coordination and consistency that encourage efficiency. They identify these in emerging national transport and communication infrastructure and, more important for this book, the fostering of greater levels of trust within workplaces.

### ***Chapter 3: Changing legislative and institutional arrangements facing China's workplace***

Reform via local experimentation is also central to Hans Hendrichske’s chapter. While the party-state retains central political and ideological control, it has greatly decentralized functional control of the economy and the labour market, thereby vesting a great deal of actual and discretionary power in officials at provincial and lower levels. Responsibility for drafting of legislative detail for national laws, of regulations and policy now resides across those levels. So too does responsibility for their implementation through day-to-day administration. At these local levels, decentralized legislation and implementation interact with local forces of economic dynamism, diversity and disparity. In an innovative approach, the author addresses the controversial labour market legislation of 2007 and, in particular, the Labour Contract Law (LCL). He explores debates as to whether it signals a significant development and the likelihood of its effectiveness at local levels by examining research – including his own fieldwork – on localized employer responses.

The author's focus on the political and institutional aspects of policy debate sheds further light on our themes of dynamism, diversity and disparity. The political dimension involves the central government balancing private profit-led economic development with its own need to retain political legitimacy – as a socialist regime – from China's workers. The institutional challenge arises from the different interests between central and lower levels of government over how the localized shaping of national laws, like the LCL, should occur. Hendrischke finds that this decentralization can encourage adaptive experimentation but can also block it when local stakeholders withdraw their support for change. This makes the LCL particularly hard to implement. In any case, as implementation will have to come from below, any real change will be 'gradual and display local characteristics'.

The depth of policy controversy at national and local levels reflects different attitudes over whether China should remain the world's low-wage manufacturer, replete with employee exploitation and abuse. Hendrischke's own localized research confirms a larger study he reports: implementation of the LCL does raise labour costs and, for this reason, many employers are choosing 'to not strictly obey' it. On the other hand, he finds instances of companies that, for reasons of higher-level corporate strategy, have found full, formal compliance with the LCL advantageous. They are in the sorts of advanced, capital-intensive localities that we might consider as having moved beyond transition. Overall, the author sees some trends towards national convergence. However, due to its vastness and complexity, the decentralized interactions of its laws, institutions and markets mean that, 'for the foreseeable future, China will not have a unified labour market'.

## **Part II. Emerging dynamics in labour markets**

### ***Chapter 4: Change and continuity in China's urban workforce: recent trends***

Beibei Tang furnishes detailed data on emerging labour market patterns, particularly as they concern China's urban workforce. The author supplements this valuable macro-level evidence with data disaggregated by sector, ownership and occupation. Tang's data and her commentary help us make more sense of the discussions of dynamism and change discussed in Chapters 1 and 2. They also provide a basis for the specific patterns of diversity and disparity that later chapters explore. Even taking into consideration the need for caution in accepting official statistics from China, the story the data tell is impressive.

In particular, the data demonstrate the long-running Chinese economic boom, the emergence of multiple forms of ownership and a rapid diversification and modernization of industrial sectors. Other data – on levels of wages and bonuses, living standards, working conditions, occupational attainment and mobility – indicate how broader labour market changes have brought change to the lives of China's workforce. The author also reveals cross-regional and cross-organizational disparities within China with regard to workers' life chances and access to resources. For example, educational attainment and skill levels now play a more important role in

offering opportunities to China's workforce to improve their lives. However, these flow preferentially to those employed *within* the public system. Such questions of preferential access – including the loss of that access – receive further exploration in Chapters 8 and 14.

### ***Chapter 5: Local labour markets***

Yiqiong Li, David Morgan and Peter Sheldon introduce a local labour market (LLM) approach to exploring the structures, processes and outcomes of the interactions between employers, employees and local institutions. This in itself is an innovation for studying employment and HRM in China. It is also a logical conceptual development from arguments in Chapters 1 to 3 as to the great variety of economic and labour market experimentation across China and how this both reflects and encourages localized patterns of dynamism, diversity and disparity. An LLM approach can foster a more systematic yet sensitive approach to capturing these diverse developments. The chapter therefore provides a different way of looking at developments in China as well as interesting current data and explanation not easily found elsewhere.

The authors enter this perspective historically, through an overview of two particular forms of LLM in China: special economic zones and industrial parks. These were central government initiatives to create geographically-bounded 'laboratories' for FIE-led development. The resulting local economic dynamism carried with it other socio-economic consequences, including the creation of local labour markets. This strategy is an example of that economic development model, discussed in Chapter 1, which has used local experimentation as a pilot and then pathway to subsequent broader diffusion.

The authors then turn to capturing some of the complexity and counter-intuitive realities of the localization of labour market dynamics. They do this by disaggregating data on five key economic indicators, 'scoping down' from the national level to LLMs via regional and provincial levels. This allows them to move away from common over-generalizations. In particular, they are able to identify that patterns of labour market diversity and disparity are replicated at each level because economic dynamism remains so uneven in its intensity and spread. Nevertheless, the authors suggests there may be many localities in China whose more advanced, complex and diverse labour markets exhibit features we might use to define advanced competitive capitalism, albeit with local economic and institutional characteristics. As the authors argue that some of these areas appear – as a group – distinguishable from others that are still experiencing transitional processes, we might see them as carriers of post-transition experiences.

### ***Chapter 6: Education, training and skills***

Yiqiong Li, Peter Sheldon and Jian-min Sun take advantage of this LLM perspective by introducing the idea of 'strategic choices' available to employers for resolving their problems with skills shortages within the local labour market. Employers have the choice to 'make' (train their own), 'buy' (source employees

externally) or ‘cooperate’ (develop external networks to provide skilled employees). Underpinning the effectiveness of any choice is the quality of the educational system in general, and its vocational education and training (VET) component in particular. A better standard of education makes for more adept employees at the point of hiring as well as for employees better able to benefit from further workplace-based training. Both are necessary for workplaces that are skill-intensive and responsive to requirements for organizational and technological change and complexity.

Unfortunately, as Li et al. show, the current picture for public education in China is not promising, particularly given quite diverse patterns of educational access and development across regions and provinces. Educational institutions in the Middle and West areas generally have poorer teaching and learning conditions compared to those in the East. Uneven provision of education facilities and opportunities, as a reflection of funding availability, largely reflects and undoubtedly contributes to patterns of regional economic diversity and disparity discussed in Chapter 5.

Public sector decentralization appears to compound these disparities. Local governments now carry almost the entire burden for public sector education funding. More advanced and economically dynamic localities generally produce higher levels of local government revenues, fostering substantial localized disparities in public funding available for schools. One result is systemic education under-investment in many areas. In turn, this generates disparities in the capacities of local education systems to respond to the employment requirements of advanced sectors and to those areas moving towards a post-transition economy. One feature is the apparent inability of VET schools to modernize curriculum content and teaching methods to meet those needs. Severe skills shortages in some areas therefore co-exist with large numbers of under-skilled and under-employed employees in others.

The authors also find general neglect of an LLM perspective in research on workplace-based training in China. Most scholars disaggregate their focus by types of employers (for example, ownership type) or sector, ignoring a local focus. Yet China’s more developed sectors and localities have been generating persistent skill shortages and, in turn, employee poaching among local market competitors. This discourages firms from investing in the workplace-based training that could redress their own skill shortages, further reinforcing negative linkages between external and internal labour markets.

By locating their study within an LLM perspective, the authors find examples of employers strategically engaging in external collaborations with local VET schools (and through their employer associations). This may work as a substitute, given the identified weaknesses in the educational system and the ways that the threat of poaching heightens the vulnerability of firm-level investment in training.

### ***Chapter 7: Skills shortages: where labour supply problems meet employee poaching***

This chapter furnishes an integrated, dynamic explanation of the causes of skill shortages in China. To achieve this, its authors, Yiqiong Li and Peter Sheldon, explore both the labour supply elements (mostly discussed in Chapter 6) and the

demand side of local labour market dynamics. They find that, within the most advanced and dynamic sorts of LLMs, the choices of individual employers relative to their external and internal labour markets create self-defeating vicious cycles of labour shortages.

Chapter 7 follows Chapter 6 in demonstrating how weaknesses in education and training contribute to skill shortages. Much research on China's skill shortages treats them as a contextual challenge. Li and Sheldon instead examine skill shortages as a phenomenon worthy of study in its own right. They directly address its three dimensions – recruitment difficulties, internal skill gaps and retention challenges – within an LLM focus. This allows the authors to capture, with greater sensitivity, patterns of change in all their diversity.

On the one hand, shortages manifest across almost all skill levels; on the other, they vary in extent and pattern by occupational demand across local labour markets. Again, local diversities and disparities are products of significant variations in economic and labour market dynamism across and within regions. Thus, use of an LLM perspective allows Li and Sheldon to posit how skill shortages manifest with 'Chinese characteristics', albeit in a post-transition direction.

### ***Chapter 8: Remaking China's working class: gongren and nongmingong***

Luigi Tomba brings his fascinating ethnographic research to explore some of the negative human consequences of transition processes. His research points out how particular labour market dynamics are creating unequal life chances for certain segments of the Chinese workforce. These disparities reflect diverse patterns of economic dynamism where ownership type and regional location intersect. As Tomba explains, this unevenness reflects how some employees benefit from their employment *within the system* while other categories of workers suffer from falling outside. He focuses on two groups of the excluded and hence marginalized, struggling within the low to middle skill strata of urban local labour markets.

The *gongren*, underemployed or unemployed former SOE workers, were once the prime insiders within China's Mao-era working class. Those who have lost their jobs through SOE de-industrializations and mass lay-offs are overwhelmingly concentrated in north-eastern 'rust-belt' provinces that are not producing 'good' jobs of the type those workers previously enjoyed. No longer 'masters of the country', instead they are largely dependent on minimal state income subsidies and their residential communities. Their (older) age and (lower) skill profiles make them surplus to more advanced, emerging sectors. These factors and their one remaining major asset, their own or former employer-owned housing, are incentives to remain in those economically depressed localities rather than migrating to the more dynamic and job-rich, 'sun-belt' areas of the south and east.

The *nongmingong* – migrant workers from rural areas – on the other hand, have long been disrespected outsiders. Now, however, economic dynamism in those booming south-eastern provinces in particular, is generating sustained demand for their labour. Working in labour-intensive industries – often without a formal

employment contract that is their right at law – these migrant workers receive low salaries and few social benefits, endure poor housing and very long working hours and have greatly constrained access to better-paying employment. Younger, if not more skilled than the *gongren*, the *nongmingong* have particularly struggled with problems of maintaining family cohesion in the face of the discriminating effects of the *hukou* residential system that is the mechanism for accessing local public services like education. These factors and the changing institutional context – for example, rights offered under the Labour Contract Law – appear to be encouraging them to develop higher aspirations and expectations for rights and opportunities.

Tomba contrasts these two groups and the ways in which occupational and employment histories and locality interact to create different patterns of disparity and inequality. They also generate quite distinct sets of identity, as well as of political response, as the two groups engage, as claimants, with the state.

### **Part III. China's changing workplace: emerging divergence**

#### ***Chapter 9: Human resource management and employment relations in state-owned enterprises***

Although the importance of the public sector has continued to decline over the last decade, state-owned enterprises (SOEs) still play a significant role in the Chinese economy and remain a preferred avenue for the state's development strategy. Indeed, some of the largest SOEs are world-ranked organizations and multinational enterprises (MNEs) in their own right. Shuming Zhao and Wansi Chen examine the contemporary status of SOEs in the journey of transforming their HRM from traditional Soviet-style personnel management to market-oriented strategic HRM. Based on a case study of an industry-leading manufacturing SOE, the authors suggest that SOEs face the challenge of combining market-oriented HRM practices with the development of high levels of organizational commitment. In particular, one source of dissatisfaction seems to be the higher than accepted (by employees) pay differentials across the organizational hierarchy. A particular HRM challenge therefore concerns managing highly educated, early-career workers who are attracted by abundant job opportunities outside the firm.

The authors' approach is innovative in that they also explore the role of Party organizations within SOEs. Their particular concerns are issues of organizational culture and people management. From what the authors' work suggests, although a Communist Party organization within a firm represents a legacy of the pre-reform era, Party organizations in SOEs appear to successfully justify their existence by visibly contributing to the HRM function.

#### ***Chapter 10: Foreign-invested firms and their human resource management: beyond the early transition period***

Since the introduction of China's 'Open Door Policy', foreign-invested enterprises (FIEs) have acted as institutional entrepreneurs in China in the sense that



they have facilitated the de-institutionalization of ‘iron rice bowl’ personnel systems and introduced new ways to manage employees. The scholarly literature documenting their role in organizational innovation during the early transition period describes FIEs as unique, within the then Chinese context, for offering generous compensation, implementing HRM based on western policies and practices, and recognizing individual workers’ performance.

Sunghoon Kim and Sunwook Chung trace more recent changes in the HRM profiles of FIEs. Using their own extensive recent research as well as other studies, the authors draw a picture that differs substantially from earlier scholarly output. First, the authors suggest that FIE HRM should not be seen as having western origins any more, given that the major foreign investors in China are, in fact, neighbouring East Asian countries rather than ‘western’ ones.

Second, Kim and Chung present evidence that the HRM approaches and outcomes in FIEs may not be that different from those observable in domestically-owned firms. This may reflect efforts, by FIEs, to ‘localize’ aspects of their organizational cultures and HRM. It could also have come about as domestically-owned firms attempt to imitate what they perceive as best international practices carried to China by FIEs. Finally, the chapter examines two critical HR issues that FIEs are facing: soaring compensation for managerial workers; and increasing external pressures on managers to contain excessive overtime work hours – particularly those at levels vastly beyond legislated limits. In an empirical examination that factors in locality, sector and level of job position, the authors explore how FIE practices concerning compensation and overtime work are shaped by China’s emerging regional disparities.

### ***Chapter 11: People management practices in family firms***

Family businesses have long played a central role in economies of Confucian culture. While the Mao era banished this form, since the start of Deng’s reforms, the situation in mainland China has increasingly reverted to those earlier and wider traditions. The explosive expansion of the private sector over the last two decades has opened more space for families to start and develop their own businesses. Youngok Kim, Xiaobei Li and Fei Yi Gao provide a path-breaking investigation of the people management practices of this critical but under-studied segment of the economy.

They find that family firms lean toward informal practices such as relationship-based recruitment and preferential treatment for family members over non-family members. This conforms to Confucian as well as particularly Chinese cultural norms. However, as family firms grow in size and complexity, they face pressures to adopt more systematic approaches to people management. They also face external pressures in the same direction. These come from changes in their operating environment, for example from skills shortages, and greater regulation of commercial and labour market activities. Other factors, apparently inherent in China’s recent development, are the weakening of familial cultures, and the shrinking pool of business successors that results from China’s one-child policy. An empirical study of 205 family firms shows that the reactions of their leaders to

these changing environmental conditions are partially moderated by firm-specific factors such as firm size and the personal characteristics of owner-managers.

### ***Chapter 12: HRM and employment in the service industry***

Although China is still characterized as a manufacturing-based economy, the rapid growth of the service industry is beginning to reshape the landscape of China's economy and its labour market. Nevertheless, it remains under-researched. Bing Bai and Jian-min Sun's chapter is therefore a very welcome contribution to understanding China's changing workplace. The authors start by surveying recent changes in four major but very different service sectors: accommodation and catering; health care and social services; finance; and information technology. The evidence they present indicates clear signs of growth in employment.

However, their evidence of low educational levels and low wages suggests that the quality of workforce – in terms of skill levels – in many service sectors remains poor. Furthermore, the authors remark on three other aspects of service industry labour markets. The first is the apparent prevalence of workforce discrimination based on gender and age. This is evident in women being disproportionately concentrated at the lowest levels of the labour market in those sectors which are least advanced technologically, have least engagement with the global economy and which are least skill-dependent. A good example is accommodation and catering – where gender and skill and educational levels seem mutually reinforcing. More advanced sectors, like finance, show little of these patterns of segmentation and discrimination and have workforce qualification profiles much more heavily weighted to tertiary qualifications.

A second feature is that local variation is particularly important in the other two sectors. For health and social services (as in education: see Chapter 6), patterns of infrastructure, staffing and opportunities reflect the diverse dynamics of economic development across the country. Given its central role in the flowering of commercial activity in the information technology sector, Beijing is the crucial local labour market for that sector. For its part, Dalian, a centre for software outsourcing, suffers many of the same sorts of skills shortages that Chapter 7 discusses with respect to manufacturing.

Bai and Sun also report on their own research of job posting patterns in service industry. This is very interesting as the study takes into account multiple localities – including different-sized cities – as well as sector. It too finds evidence suggesting labour market discrimination. The authors find that the majority of Chinese firms explicitly specify required gender and age – but also 'looks' – in their recruiting advertisements. The third factor they notice is the high job mobility within the service industry, especially among the younger cohorts of employees who show least organizational attachment. Bai and Sun suggest that this high labour mobility reflects the co-existence of a lack of promotion opportunities within organizations and plentiful job opportunities in external (local) local markets, particularly for younger, skilled employees with experience in the relevant sector.

## **Part IV. Change, divergence and disparity: some consequences**

### ***Chapter 13: Institutional conditions for organizing decent work in global production networks***

Although China has achieved unprecedented economic development since the reform process started, the fruit of this economic growth is not equally shared among workers and, even less, between classes. There is a vast number of reports on how Chinese employees working for local suppliers to MNEs endure sweatshop conditions at work and substandard accommodation outside it. The Foxconn events touched on at the start of this Introduction are one recent example. Indeed, recent reports of wildcat strikes and worker suicides make us wonder whether and how, in the near future, these sorts of Chinese workers can make their living by ‘decent work’.

Steve Frenkel and Jörg Sydow offer an interesting perspective on the role of ‘global production networks’ (GPNs). In particular, they explore how offshore-based global supply chains might improve conditions for employees within their China-based suppliers. In the process, they develop a model that links the nature of the relationship between a local supplier and an offshore MNE to whether that supplier is likely to provide decent work.

Their central argument is that, given the right sort of supplier–purchaser relationship, GPNs may function as a channel through which local Chinese firms can import decent work arrangements into China. Specifically, the authors argue that Chinese suppliers are likely to treat their workers decently when the companies establish long-term (‘obligational’ or ‘quasi-obligational’) relationships with high-profile multinational firms. Furthermore, Frenkel and Sydow anticipate that Chinese contractors to global companies will lead the spread, into Chinese workplaces, of decent work. Although the validity of this argument remains to be demonstrated by future research, the chapter opens up a new avenue of discussion regarding the role of GPNs in employment relations, particularly in China.

### ***Chapter 14: Labour market disparities and inequalities***

In her comprehensive and thought-provoking chapter, Fang Lee Cooke looks at indicators of labour market disadvantage and discrimination, some of which may be frictional (related to recent transition experiences), others more pervasively structural, or yet perhaps more deeply rooted in China’s culture. She finds, overall, that labour market disadvantage and inequality have increased as a result of reform processes. Pointing out that this disadvantage and inequality have particular contours, the author identifies four major groups of disadvantaged workers. They are: labourers in informal employment settings; female workers; migrant workers from rural areas; and older workers. Importantly too, Cooke also notes that some workers, such as older women and female migrant workers, suffer from double disadvantages.

Cooke argues that the opportunities and protections available to those employees who are *inside* the formal employment system are fundamentally superior to those

experienced by those *outside* – those toiling as informal workers or in the informal sector of the economy. For those informally employed, inequality and disadvantage manifest in their lack of access to ‘employment security, training and career advancement, social security and pay equity’. Furthermore, there is little evidence that public authorities or unions are interested in addressing their grievances.

Indeed, the author makes an important point that social inequalities and workplace discrimination in China are shaped and even promoted by some government policies, beyond the effects of transition. One aspect has to do with labour market regulation – or its absence. Another concerns state restrictions on trade unions’ capacity or willingness to defend the most disadvantaged. Yet another instance is workplace discrimination against migrant workers through the national residential status system (*hukou*) whereby migrant workers outside their registered home town remain excluded from its legal protection and advantages. In contrast with the approach taken in the previous chapter, for the vast numbers of workers that Cooke identifies, the changing face of China’s workplace provides a much more critical and gloomy picture that helps us contextualize the labour conflicts discussed at the start of our discussion.

### ***Chapter 15: Chinese trade unions in transition: a three-level analysis***

Widely publicized unionization cases such as that at Wal-Mart surprised those who did not expect much from Chinese unions. However, whether or not China’s rapidly growing official unions can effectively represent workers’ interests is still an open question. In this chapter, Mingwei Liu, Chunyun Li and Sunghoon Kim examine the changing nature of Chinese trade unions. Focusing on government-endorsed unions linked to the ACFTU, they attempt to identify the progress Chinese unions are making in their efforts to strengthen their employee representative roles. For this, the authors bring to bear their substantial fieldwork-based, multi-method research conducted over a number of localities, sectors and ownership characteristics.

According to the authors, the best way to understand recent changes in Chinese unions is to recognize vertical diversity within the organization of the ACFTU. Specifically, they suggest that national, regional and enterprise-level unions pursue different strategies in their efforts at institution-building, organizing and welfare service provision. The authors argue that Chinese trade unions at all levels have started to improve their representative roles and they give special credit, in this, to the innovative approaches – such as union associations – pioneered by regional unions. However, they conclude that it seems as if it will be a long time before government-endorsed unions become truly employee-centred organizations.

### ***Chapter 16: Employer coordination and employer associations***

Since the early 2000s, Chinese employers have begun to organize collective responses towards worsening labour shortages, new labour regulations and growing labour unrest. This involves, for the first time, the development of

‘bottom-up’, member-based employer associations alongside those that the state has officially promoted in a ‘top-down’ manner in recent years. In their chapter, Chang-hee Lee, Peter Sheldon and Yiqiong Li provide pioneering research that uncovers these emerging trends.

They focus on three main concerns. First, they explore the current status of employer associations in China. The authors offer original accounts of existing employer associations at the national level as well as at regional/sectoral levels. Important observations include the emergence of multiple channels of employer voice and the growing vitality of and connections between regional/sectoral employer organizations. This picture is very varied, too, with quite different sorts of firms – by locality and ownership form – developing different types of association. Second, the authors locate China’s employer associations within broader international trends of employer associations and identify particularly Chinese characteristics of the phenomenon. Third, the authors offer their views as to how employer associations will evolve in the future. By bringing to light the emergence of more independent employer associations in China, this chapter complements others in highlighting the growing dynamism and diversity in China’s labour market.

## Conclusions

Looking across the 16 chapters of this edited book, we find that varied patterns of economic, political and social dynamism have generated a wide gamut of socio-economic diversity and disparity. Indeed, diversity itself may be one of the determining factors generating dynamism. Previous research on HRM and employment relations in China has to a degree already engaged fully with disparities and diversities in terms of firms of different ownership type, different sector and sometimes even by firm size. But this *démarche* is no longer a sufficient response to the very varied emerging realities now found across China.

Our collection of specific studies, we believe, clearly demonstrates that diversity and disparity can occur even within firms of the same ownership and in the same sector. More importantly, the work explicitly illustrates the crucial role of variations in economic and institutional development across regions and localities. These create their own patterns of labour market dynamism, diversity and disparity. In particular, we propose that what we call a *local labour market* (LLM) approach offers enormous benefits for studying what is happening to China’s changing workplace. This conceptual initiative has, in our view, profound implications for the both theory and practice.

Some areas of China have now moved beyond the ‘transition’ stage and demonstrate post-transition characteristics. Previous research has emphasized that advantages of natural endowment, geographic location and central government policy preferences mainly explain the more advanced development of those areas. However, there is not enough research on how effective and efficient local institutional arrangements and local authorities have encouraged more effective and flexible local labour markets and contributed to the success of the local economy. Again, we would argue that this requires an LLM perspective.

In concluding, we would like to say that, in presenting this volume, we hope that it offers researchers a stimulus for more work along the lines sensitive to location we have proposed, as well as sensitivity to the residual consequences of 'Culture'. As noted in a recent paper (Warner 2009), one might argue that, after the pre-reform 'thesis' and the reform 'antithesis', the new post-reform 'synthesis' which has emerged clearly has Confucian family resemblances.

*Time* (namely history) is an essential pillar of our argument but so is a concern with *space* (namely, spatial patterns of variety and disparity). We would also hope that the book's thematic treatment and up-to-date data prove instructive for improving theory-based approaches to the study of China's workplaces, as well as to policy-makers and practitioners. The field needs to generate new ways of thinking as we all attempt to come to grips with the complexity of events and trends emerging from China's changing workplace. This is particularly the case now as it stands between tradition, on the one hand, and modernization in its contemporary globalized guise, on the other.

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## **Part I**

# **Putting change in context**





# 1 Transition to a socialist market economy

## Factor markets, management and human resources in China

*Malcolm Warner and Grace Lee*

### Introduction

Economies rarely undergo a complete sea-change in a short period but the People's Republic of China (PRC) (*Zhonghua renmin gongheguo*), which we subsequently refer to as 'China', did indeed move from 'plan' (*jihua*) to 'market' (*shichang*), from a centralized 'command economy' to a decentralized 'market socialist' one, in less than a decade, after the death of *Mao Zedong* in 1976 (Naughton 1996; 2007). With the demise of the old ruling group came a set of major reforms (*gaige*) in the institutional and organizational environments which Chinese enterprises faced.<sup>1</sup> After 1978, the new leader, Deng Xiaoping, launched his own 'Economic Reforms'. The World Bank, of which China became a member in 1980, wanted China to optimize 'resource allocation' and 'factor productivity' in what it saw as the country's highly inefficient economy, with loss-making state-owned enterprises (SOEs) at its core. As a result, China began evolving, gradually but inexorably, into a market-driven economy, in less time than anyone in the chaotic years of the 'Cultural Revolution' (*wen ge*) might have conceivably imagined. In the train of Deng's reforms, a change in the management paradigm was soon to follow.

China's rulers, at that point, faced a 'strategic choice' as to how to best implement their modernization programme (see Child 1994). Their choice was, once more, for Chinese society to definitively 'look outwards', as it had done a century earlier and when, through the choice to emulate the USSR in its post-revolution years, China's leadership had enjoined the nation to become 'Soviet and modern' during the 1950s. In the late 1970s, however, the new leadership's choice was for 'linking up with the international track' (*yu guoji jiegui*) (Wang *et al.* 2007: 13ff). This entailed China adapting to globalization but, at the same time, the reformers also tried to portray it in a local context (Zhu 2009) and as socialism 'with Chinese characteristics' (*juyou Zhongguo tese de shehuizhuyi*) (Warner 2008a).

To crystallize the implications of this particular configuration of choices, we now present three empirical propositions to which we will return in the conclusions section of this chapter.

- 1 *China was to undergo a successful economic reform process which has moved it from a command to a market economy, plus or minus.*

- 2 *The introduction of factor markets was to lead to the introduction of labour markets, plus or minus.*
- 3 *Subsequent system-change was to transform the employment system from one based on 'personnel management' to an 'HRM-centred' one, plus or minus, albeit 'with Chinese characteristics'.*

## Historical context

China had been a leader in science and technology long before Europe's 'Industrial Revolution' (see Needham 1954–2004). It was also advanced in its manufacturing and much more prosperous than most other countries, even European ones. Indeed, China exported a vast cargo of manufactured goods to the West before the tide turned and flowed in the reverse direction (Maddison 1998). China's subsequent economic decline during the nineteenth century made it easy prey for foreign exploitation. This and the brutalities suffered under Japanese occupation during the Second World War provided fertile soil for a revolutionary movement that combined patriotic and communist ideologies.

After Mao's takeover of power in 1949, the new People's Republic faced increasingly tumultuous times. The 'Great Leap Forward' in the late 1950s, the 'Cultural Revolution' of the mid-to-late-1960s and, most recently, Deng's Economic Reforms have all been sustained, top-down policy re-directions that turned the world of the average Chinese worker upside-down. And the last of these events, though important, is but a short step in what we might call the *longue durée* of Chinese history. Appendix 1 provides a timeline of events that have contributed to changing modern China.

## From plan to market

In the post-1949 Maoist system, the ideas and practices of 'Economic Management' (*jingji guanli*) were anchored in China's new 'command economy'. The foundations of this edifice were state-owned enterprises (SOEs) (*guoyouqiye*) and their distinctive 'iron rice bowl' (*tie fan wan*) cradle-to-grave welfare system and relatively equal wages (Child 1994; 2000). The 'jobs-for-life' regime in key work-units (*danwei*) was a paternalistic hangover from pre-communist times, as well as from experiences under the Japanese occupation of Manchuria where employers had introduced the 'golden rice bowl' (*jin fan wan*) derived from Japanese domestic experience (Warner 1995).

Within the SOE sector, management policy included the 'three old irons' (*jiu santi*): the 'pillars' of life-time employment' (or 'iron rice bowl'); centrally administered wages ('iron wage', *tie gongzi*); and ministry-based appointment and promotion of managerial staff ('iron chair', *tie jiaoyi*) (Taylor *et al.* 2003). Most of those workers were employed in the economy's larger SOEs and high percentages were enrolled as union members, at least on paper. Once taken on from school, these workers kept their jobs for life and sackings were infrequent. These advantageous conditions reflected their formally preferential status. Regarded as the avant-garde

of the working class, those employed in SOEs officially enjoyed the title ‘masters of society’.

Even so, only a minority of Chinese workers were to have such a cosseted, protected niche within the urban SOE sector where this system was dominant. Many others in cities and towns worked in ‘collectively-owned enterprises’ (COEs) and the majority of the rest tilled the land. They enjoyed few advantages. ‘Top-down’ Party as well as managerial power was, however, mitigated by varying forms of worker representation at different times, but it was always an uneasy balance. The Cultural Revolution even appeared to put ‘worker power’ further to the fore, but the experiment fizzled out (Ng and Warner 1998).

The death of Mao in 1976 ended this ‘formative’ phase in what was then called ‘Red’ China. After a short interregnum, Deng, whom Mao’s faction had previously accused of being a ‘capitalist-roader’ (*zou zipai*), became the ‘Paramount Leader’. He set out on a new direction with pragmatic, problem-solving slogans such as: ‘It doesn’t matter whether the cat is black or white, as long as it catches mice’ (*heimao baimao, daizhe laoshu jiushi hao mao*) and ‘crossing the river by feeling the stones’ (*mozhe shitou guohe*). Economic reforms proceeded gradually, experimentally and pragmatically. Working without a detailed road-map, China’s new leadership allowed for local implementation, on a trial basis, of pragmatic reform initiatives from lower administrative levels. The central leadership then adopted successful initiatives as national policies. Indeed, Deng gave his protégé, Zhao Ziyang, space to experiment first in Sichuan Province, then across the country.

Deng’s leadership launched its ‘Four Modernizations’ (*sige xiandaihua*) and then the ‘Open Door’ (*kaifang*) policies that were to ultimately up-end a wide range of hide-bound institutions (Child and Heavens 1999; Child 2000). Even so, afraid of a Polish *Solidarity*-style reaction (Wilson 1990), Deng tried to sweeten the pill of reform by reviving a ‘safe’ form of workers’ representative committees (Ng and Warner 1998), even as he was creating a ‘nascent’ labour market that heralded the demise of the ‘iron rice bowl’. But, in 1992, with the ‘Three Systems Reform’ (*san gaige*), comprehensive labour contracts, performance-linked rewards systems and contributory social insurance became mandatory (Korzec 1992; Warner and Ng 1999; Zhu 2005; Warner 1995). Managers were finally allowed to manage, through access to the power to hire and fire. The reforms gradually cut back the ‘cradle-to-grave’ mini-welfare state (*xiao shehui*) but this took some years to ‘bed down’, given the infertile soil of preceding decades (Zhu and Warner 2004a, 2004b, 2008).

Over 1.3 billion people now live in China. It has a workforce of over 800 million, of whom around 43 per cent work in the urban sector. Entry into the World Trade Organization (WTO) in 2001 gave a significant boost to China’s economic prospects. Foreign direct investment (FDI) has flooded in and Chinese exports have soared, pushing foreign exchange reserves to a record high by the end of 2008. According to the State Administration of Foreign Exchange, China’s balance of trade surplus amounted to US\$360.7 billion in 2008, a rise from US\$315.4 billion in 2007. Exports amounted to US\$1.4 trillion and imports US\$1.1 trillion in 2008 (see ADB 2009). That year, China’s economy accounted

for about one-eighth of world output in purchasing power parity (PPP) terms and its per capita GDP (in PPP terms) was over US\$6,000.

### **From personnel management to HRM**

During this process of dramatic change and growth, management training and development have become *de rigueur*. The establishment of university business schools (Warner and Goodall 2009) has fostered teaching about new ways of managing, especially in the field of people management. Prior to the Deng reforms, the employment system had been contingent on the practice of straightforward ‘personnel management’ (*renshi guanli*). With those reforms came its supersession by ‘labour force resources management’ (*renli ziyuan guanli*), itself soon a synonym for what was, in effect, HRM (Warner 1995, 2005, 2008a, 2008b, 2009, 2010a and 2010b). ‘Labour-management relations’, as an overarching concept, had another description, ‘*laodong guanxi guanli*’. From the 1990s too, a number of Chinese-language texts began to appear on the Mainland using many of these terms (Cooke 2005; Zhu 2005).

Deng’s consolidation of the economic reforms survives. His successors, Jiang Zemin and those following him, have made some additions in the details but little in strategic terms. The demise of the ‘iron rice bowl’ system and the ‘in-house welfare state’ for state sector workers has constituted a ‘sea-change’ in the Chinese way of managing people, as Chapter 9 explains further. Health care provision, for example, is now to be based on contributory insurance (Wang *et al.* 2007). As well, the Chinese Communist Party (CCP) (*Zhongguo Gongchan Dang*) continues to dominate trade unions and the All-China Federation of Trade Unions (ACFTU) (*Zhonghua quanguo zonggong hui*), in turn, has sought new ways to survive (see Chapters 9 and 15).

Alongside the enormous economic successes, economic restructuring in the 1990s and early 2000s has brought heavy costs for some groups. There have been rising job losses, especially in the SOEs and particularly among older workers and, disproportionately, among female workers in industries such as textiles, as Chapters 8 and 14 examine further. Unemployment (*shiye*) leapt to over 4.5 per cent officially by 2000. In reality, it was probably at least double this in urban areas and even higher in the countryside (Lee and Warner 2007).

The indicator of economic in/equality, the Gini coefficient, has, over the last decade, been moving in the direction of greater inequality. This coefficient had been as low as 0.20 at the highpoint of Maoism in the 1960s but has steadily risen as the years of economic prosperity unfolded. At around 0.45, it is in recent years arguably one of the most unequal in Asia (Khan and Riskin 2005). The rich, it is said, are getting richer and the poor poorer. Indeed, the richest 10 per cent of households account for over 40 per cent of the nation’s wealth and the poorest 10 per cent for only 2 per cent. There is also a spatial element to this: the per capita GDP of the country’s wealthiest province is more than ten times that of the poorest province (BTI 2008). Chapters 4 and 5 explore these dynamics further.

Overall, the labour force has been growing in recent years (see also Chapter 4). This has included rapid increases in levels of employment in the private, foreign, joint-stock enterprise and self-employment categories, perhaps balancing declining

levels of employment in the SOE and collective enterprise sectors. The informal sector – people employed by urban private enterprises, the self-employed and rural migrant labour in informal employment – is steadily gaining ground. As laid-off SOE employees and low-skilled rural migrant workers find new jobs in the informal sector, this sector becomes more important for releasing employment supply pressures in important but disadvantaged segments of the labour market (Knight and Yueh 2009). The extent of the informal sector may be as high as half of total urban employment and may include over 135 million migrant workers (*mingong*), although estimates vary widely on this too (Fan 2008). Chapters 8 and 14 examine these phenomena in more detail.

The issue of internal migration is an increasingly serious one. At the opening of the 11th National Committee of the Chinese People's Political Consultative Conference (*Quanguo Zhengxie*) in spring 2009, the conference put migrant workers' employment problems at the top of its agenda. In the context of the global recession, Jia Qinglin, chairman of the CPPCC National Committee (and allegedly the fourth-ranked Party leader), exhorted industry to adopt a 'no layoffs, no pay cuts and no wage default' policy in the following terms:

We encourage people from the non-public sector . . . to shoulder their share of social responsibilities and work hard to ensure that no employees in their enterprises are laid off or suffer pay cuts, or wage arrears, in order to create harmonious labour relations . . . Reassuring (the people) is an important way the government maintains stability . . . We must face the complex and severe economic situation. We must do everything in our power to resolve issues affecting the well-being of the people and promote social harmony and stability. (Reuters 2009: 1)

At the same time, the Ministry of Human Resources and Social Security (*renli ziyuan he shehui*) estimates China's labour oversupply increase to be as large as 24 million people, taking into account 13 million new job seekers, 8 million laid-off workers and 3 million unemployed workers (Ministry of Commerce 2009). This stands in stark contrast to the persistent localized shortages of skilled workers in advanced and high-technology manufacturing sectors examined in Chapter 7.

The central government leadership has been promoting a new, almost Confucian *démarche* to mitigate emerging social conflicts that are increasingly in evidence. Known since the mid-2000s as the 'Harmonious Society' (*hexie shehui*), this model represents an attempt by the dual-leadership of President Hu Jintao and Premier Wen Jibao to advance an ideological formula that might help rectify perceived inequities among different interest groups in Chinese society. Whether it has any practical effect is yet to be seen.

## From job allocation to labour market

The evolution of a nascent 'labour market' (*laodongli shichang*) was to fundamentally transform both institutions and behaviour (see Warner 2005). This

phenomenon was relatively new in China, compared with the rest of Asia (see Zhu 2008). Labour was formerly directed to enterprises by the planning authorities who held the personnel file (*dang'an*) of each worker; neither firms nor individual workers had much say in the matter. In one sense, this may be described as constituting a 'non-market', as labour was immobile, for the most part, in a system based on this kind of 'job allocation' (*fenpei*).

During the 1990s and after, the new system of labour markets was beginning to function fully. In 2003, an IMF Working Paper noted: 'A more market-oriented labour market has emerged in China in the past twenty years with growing importance of the urban private sector, as state-owned enterprises have downsized' (Brooks and Tao 2003).

Previously, there had been minimal movement of workers in and out of firms. Employees usually entered firms after school and left on retirement; few workers changed jobs, so there was hardly any inter-organizational *horizontal mobility*. As some employees did sometimes receive promotion there was a form of *vertical mobility*. There was also an apprenticeship system, where the trainees (*tudi*) worked for the master (*shifu*) who taught them how to do the job, but this was often reserved for the offspring of existing workers (*dingti*) (Warner 1995). With the economic reforms, however, a host of new firms appeared with new personnel requirements. Many grew over time, hiring workers from both urban and rural areas. This created dynamic labour growth demonstrating, early on, a form 'with non-market characteristics'. Over time, the system became more flexible as the labour laws were loosened and market conditions began to prevail.

If we attempt to model what has happened to the factor market for labour, we find the following. First, a 'nascent' labour market emerged in the 1980s; after this came an 'interim' stage in the 1990s. Later, a 'mature' dual labour market slowly emerges after 2000, in that large firms of various kinds exhibit different characteristics – such as more formalized HR procedures – from the more informal ones of small and medium-sized firms (SMEs), whether indigenous or foreign owned. Chapters 9, 10, 11, 12 and 13 explain different aspects of these developments as they relate to ownership type or sector.

The new status quo is now highly segmented, with a spectrum of ownership models which today characterizes the Chinese economy. SOEs now constitute about 30 per cent of the urban labour force (*chengzhen laodongli*) and COEs around 20 per cent. POEs have a 20 per cent share, FIEs about 10 per cent and there is a residual group with about 20 per cent. China has therefore moved out of the 'nascent labour market' stage, through its 'interim' one and is now evolving a 'mature' version (see Warner 2009).

In recent years, HRM has become more a 'reality' and less based on mere description. As Chapters 9 and 10 explain further, we increasingly find formalized employment and HRM practices in the more 'open', now corporatized, giant SOEs, in large joint ventures (JVs) between overseas-based and local firms or in wholly-owned foreign enterprises (WOFEs). In the JVs and WOFEs, we are also likely to find new management practices that have been initially transplanted by the overseas partner or owner. These are the locations of greatest organizational

innovation through inbound knowledge transfer (see Warner 2005, 2008a, 2008b, 2009; 2010a, 2010b).

### **Institutionalizing the labour market**

The above kind of HRM, ‘with Chinese characteristics’, may now be found in the greatly changed institutional setting of contemporary China. The labour market is now institutionalized in a triangular structure, involving the trade unions, the employers and the state, which we will now briefly look at in turn (and which Chapters 15 and 16 explore in greater detail). This tripartite arrangement is supervised by the Communist Party, although more at arm’s length than previously.

Trade unions in China have a long history as an institution set up to defend and promote workers’ interests (Warner 2008a, 2008b). Upon the proclamation of the PRC, the ACFTU was institutionalized as the nation’s trade union central body in 1949. Subsequent important regulatory changes came through the Trade Union Law of 1950, which was updated in 1992 and amended in 2001 so as to work in harness with the Labour Law of 1994. As Chapter 3 explains in more detail, this has been supplanted by 2007 legislation, implemented in 2008.

The ACFTU is the world’s largest national trade union body in terms of formal membership, although some say much of its membership display only minimal adherence. One Western source claims current membership is over 193 million (*The Economist* 2008). According to other estimates, the total is over 212 million members, organized into 15 industry-level unions (*People’s Daily* 2008: 1). There has been, by any account, a significant recent rise in membership numbers in absolute terms and as distributed by types of enterprise ownership categories (see Table 1.1) although, as with most other Chinese official statistics, we should be rather sceptical regarding their accuracy.

According to a respected Western source (*The Economist*), China has imposed one of:

the most far-reaching labour laws in the world. It included provisions requiring firms to consult employees on ‘material’ work-related issues. Some companies responded by forming in-house workers’ groups, but the ACFTU

*Table 1.1* Union development among different enterprise ownership categories (Unit: 10,000; Year: 2007)

<i>Sector</i>	<i>No. of union branches</i>	<i>% of total</i>	<i>% change</i>
SOEs	9.4	11	–1.9
COEs	7.3	9	–1.2
DPEs#	57.1	70	2.3
FOEs	8.0	10	0.8

*Source:* The ACFTU Research Office, 22 May 2008.

# Domestic privately-owned enterprises



objected, claiming that this amounted to the creation of an alternative labour union, and was thus illegal. Instead, it has used the new law as the basis for a huge registration drive by the ACFTU that began in June and is intended to sign up 80% of the largest foreign companies by the end of September. And that, in turn, is a prelude to the stated goal of having trade unions in all of China's non-state-owned companies by 2010.

*(The Economist 2008)*

At the national level, employers are represented by the China Enterprise Confederation/Chinese Enterprise Directors Association (CEC/CEDA) (*zhong guo qi ye lian he hui*); trade unions act through the ACFTU. Yet, as Chapter 16 explains, despite the long-standing formal monopoly preference that CEC/CEDA has enjoyed from the state and its more than half a million members, it is now facing severe competition from new employer associations more attuned to and representative of the needs of employers at the local level.

The Ministry of Human Resources and Social Security (MOHRSS), formerly the Ministry of Labour and Social Security (MOLSS), is the main state body in the triangle. The changeover occurred during 2008, as part of a wider governmental restructuring, itself part of a larger government strategy of institutional restructuring aimed at improving the efficiency of governmental administrative systems. As one of China's five new 'super ministries' the Ministry of Human Resources and Social Security is integrating two existing groups: the Ministry of Personnel and MOLSS. Analysts predict that with this institutional restructuring will come increased enforcement of labour regulations, and particularly of the new Labour Contract Law (Pacficbridge 2008).

## Discussion

Factor markets are now de rigueur in the PRC, particularly vis-à-vis labour. The outcome is light years ahead compared with the command economy experience, although some caveats remain (Zhang 1996; Zhao 2004; Huang 2008). In the 1980s, labour flexibility remained low; in the interim stage in the 1990s, it was medium but in the 2000s, in the emerging mature stage, it has become high, albeit in a relative sense. While the Chinese are apparently becoming richer, they do not appear to be getting happier; in reality, they seem to be becoming more unhappy, according to recent research (Brockmann *et al.* 2008).

Migration from the countryside continues unabated; there has been reform of the locality residence permit (*hukou*); wage differentials are standard and so on. The private sector has proved the most flexible of all in terms of labour practices (Zeng 2005). Although there are a substantial number of foreign-owned firms in China, some of which are multinational corporations (MNCs), the majority of enterprises remain Chinese-owned (Krug 2007). Recent research, according to one critic, suggests that the newly globalized, formerly SOE, *Red-Chip* listed corporations are still under the thumb of the State (Huang 2008).<sup>2</sup> There is now also a multitude of indigenous and privately owned companies (Garnaut *et al.* 2005), whose

concerns are indeed mainly national and local (see Chapters 2, 11 and 12). They, as well as the FIEs, also have to comply with essentially indigenous legislation and other regulation.

New challenges face Chinese society. Having survived the 1997 Asian financial crisis and the 2003 SARS epidemic, the PRC is now responding, apparently successfully, to a major global recession. The 2008 Beijing Olympics symbolically confirmed China's rise to superpower status but the boost to the economy it engendered proved to be temporary.

In November 2008, the government responded to the serious economic implications for China of the world financial/economic crisis. Unable to avert the slump in international trade, the government instead intervened powerfully to bolster domestic sources of aggregate demand, launching a US\$586 billion recovery package to stimulate the domestic market and absorb growing unemployment (*shiye*).

A substantial report during 2009 – *The International Financial Crisis Challenges Reforms in China* – from a prominent think-tank, the China Institute for Reform and Development, saw

the economic crisis as the biggest problem the country has faced in the 30-year history of its reform-and-opening policy (and it has faced some big ones, not least the Tiananmen protests of 1989, the Asian financial crisis of 1997–98 and the SOE restructuring . . . [This] has added to the policy imperatives to achieve greater 'harmony' at *micro*-, as well as *macro*-, and indeed *societal* levels.

(*The Economist* 2009a)

At the end of 2008, around 20 million workers (as much as 3 per cent of the labour force) were reported to have been 'laid off' by export-led firms in the coastal regions (*The Economist* 2009a) with more job losses on the way. Already, social and more recently even ethnic tensions have been surfacing in the Chinese workplace, particularly where migrant workers are involved (see Choi 2008; Chan and Ngai 2009).

The Party has feared that if the annual growth rate falls below 8 per cent there will be social instability, and the spectre of widespread social disturbances has been prominent in the minds of the Chinese leadership in recent years (Choi 2008). Indeed strikes and protests are becoming more common, and apparently larger but they seem to reflect China's recently renewed economic strength and tightening labour markets as much as the impact of recession (*The Economist* 2010a).

Most of the stimulus spending went to large-scale infrastructure projects but, in early 2009, Premier Wen Jiabao also announced a three-year programme of health reforms to cost US\$124 billion. The enormous fiscal stimulus package helped push China's economy into rapid recovery during 2009. GDP grew by 8.7 per cent despite continuing stagnation in China's export markets. Indeed, even the picture for exports began to improve and, in December 2009, China's total exports were again growing (ADB 2010: 133, 134). The recovery and growth have continued during 2010 despite fears that the economic stimulus may have worked 'rather too

well' (*The Economist* 2009c), raising concerns about inflation and an asset bubble. Despite quantitative easing, economic growth rose to over 11 percent in early 2010 (*The Economist*, 2010b).

Stronger macro-economic circumstances also brought some relief to labour markets, particularly in construction and services as well as the recovering manufacturing industry. While the government had set a target of 9 million new jobs for its stimulus package, its intervention was so successful that, by the end of 2009, the actual total was 11 million, but this was still well below the average level of new job seekers each year (ADB 2010: 135).

## Conclusions

To sum up, we can confirm that China has now moved from 'plan to market' across a wide range of practices. Indeed, the three empirical propositions we proposed earlier have, in our view, been vindicated by the analysis presented above.

First, the PRC has clearly undergone a successful economic reform process which has moved it from a command to a market economy, plus or minus, as may be seen from the evidence we have presented. Second, we can see that the introduction of factor markets has led to the introduction of labour markets, plus or minus, as our presentation has made clear. Third, the subsequent wider system-change we have described and analysed appears to have transformed the Chinese employment system from one based on 'personnel management' to an 'HRM-centred one', plus or minus, albeit 'with Chinese characteristics'. These three outcomes may also be seen as inter-linked and often mutually reinforcing, although the causal and/or linear connections may not always be necessarily that clear-cut. Admittedly, it perhaps mainly all 'makes sense' when seen retrospectively – but that is no bad thing.

Confucianism is now to be blended with Sino-Marxism and revived and the Party thus now marches forth under the flag of the 'Harmonious Society' (*Financial Times* 2007; Makeham 2008). Party leaders, through this ideological initiative, seek to reconcile the apparent contradictions generated by major income and wealth inequalities but without having to take on board Western-style civil society.

Even so, the themes we have explored in this chapter do portray a narrative which shows, *grosso modo* at least, how China has moved from 'plan to market' over the last three decades. But wrapped within the story are a number of paradoxes which we have set out elsewhere (Warner 2009, 2010b). Resolving the tensions between values like *collectivism* on the one hand and *individualism*, among others, on the other may not be easy. The notion of the 'harmonious society' may or may not help 'square the circle'; only time will tell. It will probably in any case constructively influence the way Chinese enterprises of all kinds manage their human resources in future, as we now move deeper into the new millennium.

## Notes

- 1 In the 1980s, there had been considerable interest in Western institutional economics in the PRC, particularly the works of Williamson (1979, for example).

- 2 The findings go on to suggest that the high-point of the Chinese reforms was in the 1980s – when the entrepreneurial spirits were unleashed in especially the rural sector – but were in effect compromised by the move in the 1990s to bring back urban-inspired, top-down state capitalism under Party control. The line of argument contrasts what has been called the ‘Zhejiang’ entrepreneurial model with the Shanghai state capitalist variety.

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## 2 Chinese business systems and the challenges of transition

*Gordon Redding and Michael A. Witt*

An appreciation of labour relations is a prerequisite for understanding Chinese development and its likely future trajectory. At the same time, such appreciation *alone* is not sufficient, neither for understanding the larger picture of the Chinese economy nor for accounting for changes in the labour relations system itself. Economic activity in China, and indeed anywhere in the world, is embedded in, and shaped by, a complex web of societal factors that in their entirety form what is known as a ‘business system’ (see Redding 2005; Whitley 1999). Labour relations interact with many of these societal factors, in the process both receiving and exerting transformational influences.

The objective of this chapter is thus to complement and contextualize the other chapters of this book by providing a brief exposition of the main business systems present in today’s China – state-owned, private and local corporate. We begin by explaining the notion of a business system and its component parts. We then apply the business systems approach to the case of China; given space constraints, we will by necessity be painting with a broad brush, and we refer readers in search of finer differentiation than this chapter can provide to our earlier work (Redding and Witt 2007). We conclude by posing three major questions for the future evolution of the Chinese business systems, and thus for the future of the Chinese economy more generally.

### **Understanding business systems: a framework**

Societies are complex adaptive systems in which change, generated both internally and externally, is constant (Beinhocker 2005). Analysis of these systems requires recognizing certain basic rules, including: that the categories of a given framework are simplifying abstractions from reality, created to facilitate thinking about common features across societies; that these categories do not exist in isolation from one another but are interlinked and interdependent with reciprocal flows of causality; that both the contents of categories as well as their connections change over time; and, even though stable patterns – punctuated equilibria – may evolve, that they will not remain stable forever. Lastly, even if the entire system remains in flux, stable patterns can be identified within it, with enough staying power to explain a society’s business system at present and to help judge its emerging direction.

Following Whitley (1999) and Redding (2005), we propose that a society's way of doing business – its business system – can be understood in terms of three main categories. These are its cultural underpinnings, that is, the realm of meaning; its institutional context, that is, its structure of societal order; and its organizational patterns of coordination, that is, its means of creating cooperation within and among firms. Each of these breaks into further component parts, which we shall now briefly define.

Culture, defined as the social construction of reality (Berger and Luckmann 1966), forms the basic layer of the model. It is what holds functioning societies together psychologically. It interprets meaning for the members of a given society, that is, it helps make sense of reality so individuals can understand it sufficiently to cope with it and to attribute significance to certain actions and characteristics.

For the sake of analytical convenience, we disaggregate culture into three main components. The first, and arguably most important, is *rationale*. It captures a society's notion of the ends of economic behaviour and the accepted tools toward these ends. In the context of a business system, one key question thus becomes: what are the reasons for the existence of firms? In other words, what ends do people have in mind when they do business? Attached to this is the question: what means do they think appropriate in its conduct? The answer students usually receive in today's business school environment is, 'shareholder value', with concomitant notions of appropriate means including corporate governance, HR management, and financing. The reality is far more complex, with different societies having developed vastly different answers to the question – shareholder value being the exception rather than the rule – as well as very different notions of the ideal shape of the economy (Witt and Redding 2009a, 2009b).

The other two elements of culture define societal order and thus underlie a society's basic architecture. Horizontal order, or *identity*, refers to a sense of belonging, of identification with others. Broadly speaking, do members of a given society think of themselves as independent individuals, or as members of one or several groups commanding their loyalty? If the latter, what group(s)? Vertical order, or *authority*, relates to a person's position in a power structure. How strong is hierarchy in society? How does one get authority, and who has it?

The middle layer of the framework refers to the institutional context in which firms are embedded, and, specifically, the institutions governing the availability of the three major main forms of capital: financial, human and social. Under *financial capital*, the model explores the rules governing the availability and allocation of capital. Pertinent questions refer to the main sources of capital – such as banks, markets and informal finance – as well as the rules for its allocation and the extent to which capital is 'patient' (i.e. not quickly withdrawn). Under *human capital*, the framework captures the rules governing skill acquisition, organization of labour, and how long workers usually stay with the same firm (Bourdieu 1986). *Social capital* is that which enables voluntary cooperation among people – in essence, trust (Coleman 1990; Putnam 1993). It comes in two varieties: interpersonal – that existing between two individuals, usually on the basis of past positive



interaction; and institutionalized – trust on the basis of legal systems, as in most of the West, or of social pressure, as in Japan.

The top layer of the framework is the business system in a narrow sense, that is, the forms of coordination by which necessary components in business come together into stable and understandable arrangements. These govern how financial, human and social capital ultimately combine to produce positive economic outcomes. We categorize this layer into three components. The first is coordination through *ownership*: who owns firms, and to what extent does the owner have control? This category thus incorporates corporate governance in its original sense. Second, firms may coordinate across firm boundaries through social *networks*, that is, repeated interaction among actors that are formally independent from each other. Third, *management* refers to the question of how things are coordinated inside the firm – how the key resources are made to flow together, as managers seek the necessary efficiency, learning and adaptiveness for the firm to prosper.

Understanding the interactions among the various component parts of the three layers requires a sense of history, and in particular of the key events that shape a society's sense of self and its distinctiveness. All societies have definitive historical experiences. Some of them are very clear, such as the Code Napoleon in France or the social reforms of Bismarck in Germany. Others are less specific but not necessarily less powerful, such as the notion of 'manifest destiny' with concomitant access to untapped resources in North America during the nineteenth century, or the importance of Hong Kong as an economic intermediary between China and the West.

Influencing and shaping the elements of the framework at all levels is the state as a key conditioning force. Though the state is an actor rather than an institution, the actions of the state themselves are governed by formal and informal institutions and, as such, it is possible to discern general patterns of state behaviour. For example, some states are more interventionist than others, and there tend to be patterns in the areas in which states intervene and how they do so. Some states share economic risk with firms; others refuse to do so. State decision-making patterns, and the avenues for civil society to influence them, also vary. In short, how the state proceeds with governing the economy has a major impact on the remaining elements of the system and the resultant outcomes, as illustrated, for example, by the contrast between China's 'strong' state and India's 'weak' state.

Last but not least, a full account of the forces shaping a business system needs to take into account that any system is open to outside influence. Such influence can be crucial in its effects. Examples include the impact of Marxist ideology on Russia and the effect of access to Western markets and technology on Taiwan after 1950. We see two main kinds of influences operating here: the material and the ideational.

Figure 2.1 provides an overview of the resultant model. It is clear that this model is not built for maximum parsimony but for affording a holistic view of the rules of the game shaping economic action in a given society and their interdependencies.

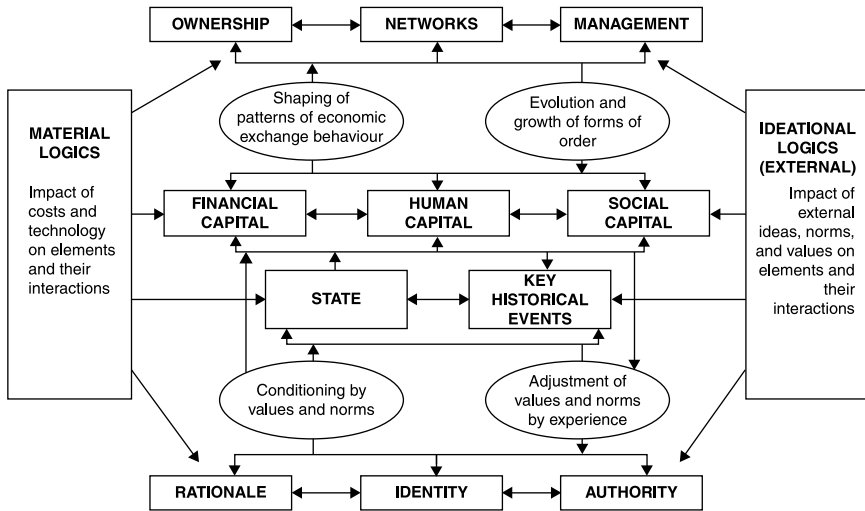


Figure 2.1 Business systems framework.

## Business systems in the People's Republic of China

There is no one single dominant business system in present-day China; there are many. The challenge scholars have been facing is finding sensible broad categories that help make sense of the overall picture, with the understanding that there are bound to be plenty of exceptions and special cases as well as geographic variations. With this caveat in mind, we propose that China today features three main forms of business systems, as follows:

- 1 The *state-owned sector*. This used to be the dominant form under Mao, but it has since undergone reforms – most clearly in the 1990s under Zhu Rongji – that put these firms under pressure to perform or go under – as chapters 1 and 9 discuss in greater detail. Most state-owned enterprises (SOEs) are large, bureaucratic and capital intensive, and they are commonly protected from controlling outside ownership.
- 2 The *private sector*. Illegal until the 1980s, it now accounts for about two-thirds of GDP. It consists mostly of family-owned small and medium-sized enterprises and exhibits high levels of entrepreneurship, as Chapter 11 explains further.
- 3 The *local corporates*. This business system comprises a large variety of firms, with a common theme that many of them evolved out of so-called collective enterprises – those where a local level of government administered their state-ownership. They tend to blend private initiative and investment with local government involvement and concomitant use of state resources, including access to plants, land, labour and financial capital.

The above three systems are products of Chinese cultural, political and economic evolution to date, and they continue to adjust their contents and boundaries. There is at the same time a large sector made up of foreign enterprises and their various alliances with organizations in China. This sector is not a primary focus of this chapter because our analysis deals with Chinese historical trajectories. But it is necessary to acknowledge the very important role of the foreign sector, and much of the book elaborates on its interface with the local. In the light of that, we make a number of points about the flies that came in when the windows were opened, before returning to the indigenous systems themselves.

- 1 Most of the foreign direct investment came in from ethnic Chinese sources abroad, significantly from Taiwan, Hong Kong and Singapore, but also from North America. With it came managerial skills and systems of connection into global markets and sources of technology that had been acquired in the diaspora, often over decades. Many of the workings of SME manufacturing for global markets stem from this importing of know-how.
- 2 China became the world's most powerful magnet for manufacturers struggling with cost competition, and its attraction was enhanced for many by its growing internal market.
- 3 Large companies tended to bring with them their own 'best practice' in various fields of management. 'Technology transfer' became a highly legitimate basis for the approval of many joint ventures in the early phases of the 1980s and 1990s.
- 4 The acceptance by China of changes related to the World Trade Organization's standards has been significant in changing the nature of many Chinese institutions and legal frameworks.

The resulting mixing of foreign and domestic ways of organizing and managing has been generally beneficial for societal progress, but the processes involved are extremely complex and diverse. So too do the influences come from many sources, and for that reason especially it is difficult to describe the foreign sector as one type. It spans many cultural origins and many industrial responses in scale and scope. Its overall influence is high, but that influence cannot be pinned down to a set of straightforward processes. Whether they are sought, and whether they are adopted for use, will depend on the local party's capacity and interest, but the outsiders will in most cases carry with them a number of approaches: rational objectivity that can de-personalize methods of control; a bureaucratic system that can foster efficient large-scale order and cooperation; methods for decentralizing decision-making; and high levels of applied technology.

This chapter now proceeds to explore the three indigenous types of business systems inside China through the lens of the business systems framework introduced earlier. Given space constraints, we will, by necessity, be painting with a broad brush. For an exposition in more detail as well as an exhaustive list of references, please see Redding and Witt (2007). In particular, we will omit a discussion of key historical events. Some of these appear in other, more specialized chapters

of this book as well as Chapter 1, and we also refer readers to Appendix 1 at the end of this book. Furthermore, we will for the most part refrain from explicit discussion of the characteristics of local corporates, noting that their characteristics generally lie between those of the other two business systems, if tending more toward those of the private sector.

### ***Rationale***

In present-day China, there appear to be two main motivating notions as to why the firm exists: to make money; and to aid economic development and thus the re-emergence of China as an economic great power. The salience of these objectives varies by business system. In the private sector, especially in smaller family businesses, the focus is very strongly on the generation of a means of living and, ultimately, family wealth. This mode of thinking resonates with the historical focus of Chinese family business, as is visible among the Regional Ethnic Chinese in Southeast Asian countries, Hong Kong, and Taiwan. Suppressed under Mao, this rationale began to reassert itself after his death and the beginning of economic reforms in 1978. It received final re-legitimation with Deng Xiaoping's equation of wealth with glory. At the same time, many entrepreneurs do seem to believe that personal enrichment also serves the second rationale of Chinese economic development (Redding and Witt 2007).

Conversely, the state-owned sector seems to prioritize the importance of working towards national economic re-emergence. In this view, especially the large 'core SOEs' under the umbrella of SASAC (the State-owned Assets Supervision and Administration Commission), represent state tools for driving economic development and a Chinese presence in industries considered strategic. At the same time, in recent years, government has increasingly pushed these firms to earn their keep (Naughton 2007; Redding and Witt 2007).

### ***Identity***

Like the resilience of the objective of family wealth, the traditional sense of identity in Chinese society proved stronger than Mao's reform efforts in this area. Chinese society is collectivist (Hofstede *et al.* 2004), with the family as its key reference group. Around this follow successively weaker concentric circles of affiliation; these are usually the extended family and clan, friendships of various depth, and, loosely, people from the same general geographic area of origin. Identification with the workplace is usually weak to non-existent within private firms. In the state-owned sector, affiliation to a work unit may still represent one of the concentric circles, albeit one that is likely to have weakened after years of market-oriented reforms in that sector.

### ***Authority***

Chinese society continues to be strongly hierarchical (Hofstede *et al.* 2004). Some of the bases of authority have carried over from olden times, and especially from

Confucian traditions. These include respect for education and age as well as the residual preference for males over females, evident in the high number of abortions of female foetuses by parents keen to produce a male heir to carry on the family lineage. On the other hand, wealth – disdained in the Confucian world order and, under Mao, a potentially lethal attribute – has emerged as a powerful basis for status. In addition, the Communist Party represents a basis of social hierarchy most acutely felt in the state-owned sector (Redding and Witt 2007).

### ***Financial capital***

The rules of the game for finance vary considerably by business system. The state-owned sector has access to both banks and the stock market, and some authors estimate that up to 99 per cent of bank loans made to Chinese enterprises go to SOEs (Tsai 2007). The cost of capital here is typically very low, and creditors – effectively, state-owned banks – are very patient in terms of getting their money back. Conversely, the private sector tends to be starved of capital. Stock market listings are possible but mostly for the very few large firms whose owners are well-connected enough to secure permission for an IPO. Banks usually do not lend to private businesses, with the result that these tend to be dependent on equity and informal loans from family, friends and unlicensed lenders. Local corporates usually tend to have good access to finance through their close connections with local governments.

### ***Human capital***

As this directly relates to the theme of this book and chapters 5, 6 and 7 explore it in much more detail, we will be brief on this point. In general, the availability of skills remains a problem throughout the economy. Public training is weak. On-the-job training in the private sector is hampered by short employment tenures; state-owned firms appear to continue to keep their employees for relatively longer periods, though it is not clear whether those who do stay – rather than leave to open their own business or to receive a higher wage working for a foreign firm – are good-quality workers. Organization of labour occurs through unions at the company level, with the All China Federation of Trade Unions (ACFTU), a branch of the Communist Party, as umbrella organization; Chapter 9 expands on this theme.

### ***Social capital***

Social capital, or trust, tends to be interpersonal in nature. It is strongest at the core of the concentric circles of affiliation noted under identity and weakens with distance from the core. People outside these circles usually meet mistrust, and the relationship with them is seen as one of zero-sum competition. Institutionalized trust – the ability to trust strangers by virtue of the presence of a system keeping people honest, such as a legal system as in the West or strong social pressure as in Japan – is basically absent (Chen *et al.* 2002; Fukuyama 1995; Redding and Witt 2009).

### ***Ownership***

This again represents an area of much variability across business systems. State-owned enterprises are obviously state-owned, though many of them are now listed on stock exchanges and thus, at least partially, in the hands of domestic and foreign shareholders. Ultimate control, however, continues to lie with the state, which also usually appoints top management from among Party ranks. By contrast, private business tends to be owned and controlled by individuals and their families. The picture is somewhat murky for local corporates. Some may look like private enterprises, only to reveal, upon closer inspection, considerable government ownership. Overall, most seem to be co-owned by private and local government interests, which exert joint control.

### ***Networks***

Lateral, non-hierarchical connections across enterprises tend to be relatively weak in the Chinese context. In the private sector, cooperation among enterprises can and does occur. This is visible, for instance, in the vaunted production networks that account, among others, for 70 per cent of the world market in cigarette lighters (Zeng and Williamson 2007). In many cases, these networks are coordinated on the basis of personal connections, either of the owners or of a purchasing agent. In the state-owned sector, horizontal coordination tends to be rare unless government wills it, in which case it becomes hierarchically imposed and ceases to be a form of networking in the usual definition (Podolny and Page 1998).

### ***Management***

Decision-making in China tends to be a top-down affair. Delegation is hampered by a lack of institutionalized trust. To the extent a firm has middle managers, their role is mostly to serve as a conduit and enforcer of orders rather than as a contributor to steering the firm (Lieberthal and Lieberthal 2003; Zhu *et al.* 2008). In the private sector, power tends to be concentrated in the hands of the owner-manager, the *laoban*. In the state-owned sector, the state remains the ultimate decision-maker, especially on major strategic matters. Promotion through the ranks is partially based on skills in the private sector, though top management roles are usually reserved for family members or very close confidantes. In state-owned enterprises, seniority seems to continue to matter. However, top-management appointments often come from the outside, on the basis of state appointments (Naughton 2007; see also Chapters 9 and 11).

### ***The state***

The Chinese state today is very decentralized, particularly with respect to economic activity. Because of the size of the country and the available slack in the government structure, full enforcement of central government policy has always been a challenge.

As the old proverb goes, 'The heavens (also: mountains) are high, and the emperor is far.' Since the beginning of economic reforms in 1978, policy-makers have found that this historical feature might be useful for evolving information about the feasible directions of economic policy. For instance, the municipality of Wenzhou in Zhejiang prefecture registered extremely high levels of growth in the early 1980s, in the process devising its own local regulatory framework and breaching many central government economic laws and regulations (Witt and Lewin 2004). Upon discovery of Wenzhou's success, national media widely presented it as a new model for other localities to follow. Formal decentralization followed in the 1990s and, in terms of the proportion of taxes received and spent locally, China's government structure is more decentralized even than Western federal states such as Germany and the United States (OECD 2005). The overall effect is that while the central government may seem all-powerful to outsiders, in reality it exerts very limited control over economic activity in the country's regions, where local governments largely drive economic policies.

The role of the state thus represents another source of large variations across, but also within China's business systems. Policy has re-legitimized the private sector and has created a basic regulatory framework, though even where well-written laws exist, implementation is spotty and at times arbitrary, as the next chapter examines in depth. Beyond this, the promotion of the private sector's business does not seem to be a major priority within the national policy agenda. This is evident, for example, in the poor availability of financial capital already noted.

By contrast, the state-owned sector has been on the receiving end of much state policy. One element has been the privatizing or closing down of SOEs deemed to be non-essential. On the other hand, government has heavily promoted those SOEs seen as essential, using industrial policy measures reminiscent of those Japanese governments pursued during Japan's post-war miracle (cf. Johnson 1982; Nolan 2001). The ultimate goal seems to be for China to cultivate its own large-scale, national champions in a range of industries that policy-makers consider strategic. These include the resources sector as well as a large range of manufacturing and service industries. The main beneficiaries of Chinese industry policy have been the SOEs supervised by SASAC. At the time of writing, SASAC on its website identifies 150 firms as 'central SOEs'.

The experience of local corporates again seems to fall somewhere in between those of the other two sectors. While the central government tends to treat them in similar ways to private businesses, local governments often foster their growth, be it through local policy measures or plain preferential treatment. Local officials have multiple incentives for doing so: their future career prospects depend on the economic performance of their respective territories; local corporates add to the local tax base; and it is apparently quite common for local government officials to hold a personal stake in some of these businesses.

### *External influences*

Three sources of external influences have been particularly important for China. First, there is inward foreign direct investment (FDI) as both a driver of economic

growth and a source of learning and institutional innovation. Second, as a subset of this first item, there is the heavy involvement in the Chinese economy of Regional Ethnic Chinese of East and Southeast Asia, providing more than half of total FDI. In addition to the general effects already noted for FDI, the Regional Ethnic Chinese have played a crucial role in re-establishing family business as a form of doing business, having preserved the basic principles of the family business model outside the mainland during Mao's rule. Third, there is the ongoing influence of Western and Japanese perspectives and ideas relating to economic and organizational management.

All of these elements of the three business systems are in constant complex and reciprocal interaction, simultaneously shaping other elements and being shaped by them. Often, elements form complementarities, that is, they depend on one another in order to function properly. The result is that economic reforms are fraught with difficulty and the risk of unintended consequences. At the same time, the decentralized, bottom-up nature of institutional changes in present-day China somewhat mitigates the risks of these challenges.

### **Challenges on the road ahead**

So far we have argued that you have to look at any society, and especially one of China's scale, as a *complex adaptive system*. It is also useful to bear in mind a belief, shared in much Chinese philosophy, that social systems are capable of ordering themselves if the ground rules for conduct are clear and well protected. One of those ground rules in China is that the state must always retain enough control to discharge its sacred responsibility to the people. But along with that belief in constrained self-ordering goes a logical consequence – that planning the future is largely fruitless and unnecessary. Adjustments can be made to shape things as they go along, but new combinations emerge of their own accord rather than from a drawing board (Nisbett 2003).

Unlike under Mao, for example, there is now no specific industrial policy being pursued that would contain a component devoted to generating or maximizing employment. There is an intention, expressed as a target for living standards, but not a chosen route except for the all-encompassing 'socialist market economy'. As the authors in Chapter 1 suggest, this is now an experimental state, a huge laboratory. Its varied collection of results includes trends that are clearly visible, and that could be predictable, but no authoritative source of future intended structures exists. We say this not as a critical comment – in fact quite the opposite – as such a response shows a sophisticated attitude to state governance. It compares favourably with societal planning often conducted elsewhere, as well as previously in China. In those other cases, there is often too little acknowledgement of the restricted nature of human control over complex events, and an ignoring of the human motivations that underlie action.

At the same time, the evolving of societal systems is not entirely random. Certain ground rules for successful progress can be defined and observed to be working. It is with these in mind that we now look ahead, not so much to predict



specific outcomes but instead to identify challenges and tensions. These will likely present the battlegrounds over which contending solutions will compete to shape outcomes. By this means, we hope to define the issues in coming debates and to raise awareness of what lies beneath many of the trends so ably described by our colleagues elsewhere in this book.

So what are the rules that govern the successful evolution of societies and economies? Can anything be said that applies to all societies? We start with two fundamental conditions. In societies that have prospered there has always been a mixture of *diversity* and *dynamism* as starting conditions. When diversity is absent – as under the universal sameness of 1960s China, when everyone depended on the state and wore blue or grey denim – then this hinders the chances of progressing. People stop thinking of alternatives, and conformity becomes an ingrained habit, often perhaps because if diversity is punished as deviance, fear reinforces the choice to conform. Without the space for diversity, there is no room for the multiple experimentations needed for successful formulae to emerge. For example, the farming reforms of the 1970s that started the post-Mao revolution were regional deviations conducted at high risk. Hong Kong and Taiwan acted like revolutionary cells until the central government created special economic zones to limit their effects. It took time for diversity to become legitimate but it has since become standard and pervasive. Looking forward it would be hard (but not impossible) for authorities to reverse this trend; people have got used to having options, and this is a version of freedom.

Dynamism is different in nature to diversity, but the two forces complement each other. Dynamism results from interchange and exchange, but that can only happen when people are free to take initiatives; in other words, they have enough independence to conduct exchange, and enough command of resources to make it worthwhile. Over its longer history, China was a very dynamic society, in that it was buzzing with commerce, industry and trading within its many regions. The Grand Canal was a major trade route, and markets thrived in a highly organized fashion under the watchful eyes of the mandarin administrators. But organizations were generally of small scale, except for those involving the state, a tradition perpetuated today. Even though the sheer scale of the country and its natural barriers of distance and topography have always inhibited the emergence of national markets, there was usually enough economic diversity and dynamism within each region to maintain a thriving commerce (Fairbank *et al.* 1965; Shiba 1970).

Until very recently, it seemed that China might revert to its accustomed regional structure. Certainly, the power and competitiveness of its provinces have been indicators of that. But two features are clearly new: the Internet is reducing the effects of geographical distance; and massive investment in new transport infrastructure is ushering in an age when a national market in goods and capital may appear for the first time in Chinese history. In addition, new legislation that permits geographical labour mobility without penalty is likely to make labour markets national also, even though the full effects may take a long time to appear. These new features are likely to foster an increase in dynamism as the forces of competition take a stronger hold over wider areas of economic life.

The Deng revolution let loose these benevolent spirits, at first by giving farmers some rights of ownership, and then later in decentralizing power to the provinces and cities. It has fostered economic variety and experimentation away from the gaze of the centre. Since then, China has been experimenting on a scale that has now reached colossal proportions. Its variety of organizational types is a tribute to this, even while that variety is not endless. The choices are restricted by limits set by the context. These include the *hukou* system of individual registration for benefits that limits labour mobility, the restrictions on capital availability via the banking system, and the backlog of infrastructure building that still leaves handicaps for the distribution of goods geographically. Even so, the progress overall remains historically very significant.

Having got the machine running, the next question is how to make it perform to best effect. Here the question may be subdivided. First, can performance within organizations match global standards of competitive efficiency? Can Chinese society progress towards goals such as – among others – generating incomes per capita similar to those in other societies they would like to match? How do societies progress to reach the highest levels of income, longest life expectancies, the equal distributing of benefits, and the most stable conditions for conduct? The answer – again working backwards from successful cases to search out factors that seem to apply to the majority – lies in three achievements (Beinhocker 2005). These can be simply stated and can act as criteria against which a society can measure itself: *innovativeness*, *adaptiveness* and *efficiency*. However, they are not easily achieved. They speak to all three levels of our business systems model.

This innovativeness can be in products, processes, new combinations, new methods of communicating, new institutions, new rules, or some or all of the above. Adaptiveness is a necessary corollary if the innovation is to generate its maximum effect, and it applies at all levels – people, organizations, institutions, government. We see the example of Japan as a state where innovation runs high in many industries – although not all – but where the political superstructure and upper echelons of big companies remain cripplingly conservative in their non-adaptiveness.

The question of efficiency is, at heart, a question of whether key resources such as financial and human capital and technology flow to the opportunity spaces where they can be combined in the most productive way. This calls into question efficiency in allocation (as with flexible labour markets or efficient capital markets) as well as efficiency in use via productivity. Variations are clearly visible in data for productivity per unit of input, and rates of return on capital. In this, the role of human and social capital can be as crucial as that of finance, and the relevant use of all three will determine the global competitiveness of industry. We may therefore question China's capacity to meet these universal demands, but in doing so we must accept that the way the demands are met may well show distinct Chinese responses.

A simple review of major trends must begin with a realistic acknowledgement that the miracle of China's resurgence since 1980 has been supported by the availability of huge resources within the state. Just as the nineteenth-century prosperity

of the USA rested on access to an entire resource-rich continent treated as empty, so too it is arguable that China's current economic power rests on a historically abrupt use of one of the world's last huge land banks owned entirely by government. Added to this has been the massive value in being able to access a vast and flexible supply of low-cost labour open to skill development. Such comparative advantages are rare and are especially valuable in conditions of strong central control when their uses can be orchestrated, even if that is now by remote control. The remark by Mrs Thatcher that India had done the hard part first raises some serious questions. Once the slack has been taken up, what other factors are then available to enable China to advance at the same rate? Will that be the hard part for China? When will this juncture and the challenges it raises kick in? How will China find within itself a response that is competitive in a very fast-changing world?

The emergence of China's three different business systems and their characteristics noted earlier in this chapter would not have been possible without a great deal of loosening of control over business behaviour and, at the same time, a great deal of improvement in the predictability and effectiveness of the surrounding fabric of societal order. Law became both more predictable and less controlling, as rights began to be incorporated and acted on. Standards of openness in information improved, as did accounting. In fact, the World Trade Organization strongly sponsored competition and 'level playing fields' as conditions for China's WTO membership.

The China we see today is still in radical transition away from its past, and yet it carries much of that past with it, and that legacy will shape its response to meeting the challenges noted above. Let us now review the probable future states of tension between those challenges and the legacies of China's five-thousand-year history.

### ***Innovativeness***

Just as Japan may be praised for innovativeness and efficiency but criticized for weak adaptiveness, China may be praised for adaptiveness and efficiency but criticized for weaknesses in innovation. This means that to understand this criticism requires us to unpack the meaning of innovativeness, as China does display certain forms of innovation. And it certainly has an alternative in the technical borrowing that has served it well so far. To understand the issues we have to enter into the worlds of human and social capital.

A society with high levels of innovation does not have one single feature that produces that effect. Innovation rests on a configuration of connected features. That is why it happens differently around the world (Dutta and Mia 2009). But however it is organized, it still has to be worth peoples' while to take risks, to explore options; in other words, they need to be able to capture for themselves enough of the value they create to make the effort worthwhile. So too there needs to be a way of connecting the purer forms of scientific enquiry to the commercialization of discoveries. Furthermore, there needs to be a way for risk capital to

flow to where it can meet opportunities. So too there needs to be a demand for new kinds of output.

All of these requirements call into question the institutions of a society that surround innovation: stock markets and banking; venture capital; scientific research; intellectual property rights; forms of education; forms of entrepreneurship; market needs and expectations; intermediaries such as R&D firms and incubators; the sharing of knowledge. In firms there is also the crucial question of whether the workforce takes part in the innovative process in partnership with management—as in Japan and Germany—or whether it remains relatively uninvolved.

Evidence to date suggests that innovation will remain a serious point of weakness in China that can only be counterbalanced by continued technical borrowing. There are three immediate sources of that weakness: inadequate legal infrastructure; organizational traditions of autocracy and tight control that stifle close manager–worker interdependence; and scale limitations in small enterprise that stem from mistrust. Lying in the background is the larger question of China's political adjustment to the demands of modernity. Looking across the variety of modern economies, we can identify an array of methods for achieving (i) the stable decentralization of authority that fosters the release of individual initiative and (ii) the capacity for widespread and intensive cooperation in conditions of trust. Without these complex societal achievements, incomes per capita of US\$40,000 are impossible to achieve, at least on the evidence to date. Our first question is therefore:

*How will China structure its society so as to release the creativity of people and the cooperativeness among them beyond the level of SME entrepreneurship with borrowed technology that has been the leading basis so far?*

An example of this is in the dominant 'workshop of the world' formula of OEM where design is brought in from abroad, and with it the necessary machine tools.

### ***Adaptiveness***

In a fast-changing world, societies themselves need to change, and China is the ultimate object-lesson in how this may be achieved. Its record here in the past 30 years is astonishing given the scale of elements it has to contend with. To date, the adjustments and experiments have rested on the slack we talked of earlier. In the future, it is predictable that much more difficult adjustments may loom. They stem from the nature of global market competition and the intensity with which business now have to battle managerially.

One of these issues has been the subject of a long series of studies by Nolan (2001, 2004), which examine the condition of the large SOEs that, since the mid 1990s, have experienced intense pressures to raise productivity. The adaptiveness required here is organizational, and it presents such a challenge because the world of global organizations itself has been through the turmoil of organizational change as it responds to the new world of information technology. Management

in the classic MNE is now unrecognizable from its earlier forms. International teams, virtual organizations, multi-tasking, project structures, flatter hierarchies, intense performance drives and applied rationality, downsizing, delaying, outsourcing; the list reflects a new world. Our second question, therefore, is:

*Can the large Chinese organization join this world and escape from its traditionally hierarchical structures to encourage widespread participation, or find a formula with equivalent beneficial effects on performance?*

### ***Efficiency***

A high-efficiency economy gets the maximum out of its human, financial, knowledge and technical assets. It can only do this if it solves two core problems: releasing human creativity and motivation to the highest levels; and fostering intense cooperation and exchange at low transaction costs. We have indicated earlier how this has been done to date in China, and we acknowledge that achievement as formidable. The issue is what to do for an encore, especially with regard to the employment of people.

The highest productivity in China is associated with the entrepreneurial private sector and its close collaboration with global markets via OEM (Original Equipment Manufacturing) in 'the workshop of the world'. Following closely are the local corporates, many based on assets acquired serendipitously in the 'golden years' of the 1990s when the collectives were up for grabs. These local companies have also often benefitted from the inflow of foreign managerial and physical technology via joint venture partners. Efficiency in the state sector remains a work-in-progress as suggested above.

Whichever sector (or sectors) takes the lead in moving future productivity to higher levels, core societal issues will need to be faced: fostering individual initiative, creativity and commitment; and, in parallel, building the quality of societal trust to raise the density of economic exchange. This latter issue does not just relate to trade in goods and services, but also in trading cooperation in a boss-subordinate relationship.

In most societies that have trodden this path, two things have flowed together. One is the rise of a 'bourgeois' consciousness that permits the evolution of civil society. In turn, the latter then induces spontaneous forms of order such as societies, professions and forms of voluntary association, all capable of widening circles of trust. The second feature is the decentralization of political power and eventually – in most cases – individual voting rights over national issues. This process of individuation brings into being a new psychology that enhances the sense of community and sponsors (with the help of other features) personal initiative.

It would be against the spirit of our general theory to suggest that China has to follow the paths of other societies towards full market-based democracy. Its deeply embedded history and culture would make that surprising. But it is legitimate to ask how China might face universally applicable questions in its own way. So our final question is:

*If efficiency rests on the furthering of innovativeness and cooperativeness, how will China encourage the emergence of those responses that move it towards these capabilities in the economic sphere?*

China's enormous laboratory is full of people struggling with these issues. Some are trying to get rich, some are trying to provide good government, most are simply earning a basic living so as to feed their families, educate their children, and honour their forebears. But all are doing so with a sense of pride in their country's accomplishments in recent years. It is that pride that will drive the system to avoid failure, and that will perhaps allow it to adapt to the new challenges coming. At the core of those challenges lies the distribution of power, the 'hard part' as we have noted. China's long-term wealth will depend on how that is handled, and it will be handled in a way found nowhere else, and still invisible, perhaps even not yet conceived.

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### 3 Changing legislative and institutional arrangements facing China's workplace

*Hans Hendrichske*

#### Introduction

Changing legislative and institutional arrangements in China's workplace have domestic and international implications which affect the lives of hundreds of millions of people. When three major pieces of labour legislation came into effect in 2008, 30 years had passed since China broke with communist paternalism and abandoned a labour regime that was geared to the planned economy and protected the interests of a relatively small number of urban workers in the state-owned industrial sector.

Today, not only has the state-owned sector lost its dominance over the national economy, but the greatly increased numbers of private-sector urban workers are no longer satisfied with institutional arrangements that delegate their rights of representation to the Communist Party and decisions about their working conditions to state bureaucracies. In addition, approximately 150 million migrant workers have joined the urban workforce on a seasonal or semi-permanent basis and demand basic labour rights and an end to discrimination (Huang 2009; and see also Chapter 14). From an international labour perspective, China's low labour costs and exploitation of its workers are often seen as part of a global 'race to the bottom' that draws investment, workplaces and jobs away from established industries in other countries. From an employer's perspective, increasing legal and administrative regulation of the Chinese workplace carries risks and advantages. Social stability is one of the attractions of investing in and employing in China's workplace but the increasing financial costs to firms of government-sponsored measures seeking to maintain this stability have to be taken into account as a cost factor which might diminish the attraction of China as a low-cost labour market. Changes in China's labour legislation are therefore bound to be controversial (e.g. Becker and Elfstrom 2010; AmCham-China 2010b).

Three new labour-related laws came into effect in China in 2008: the *Labour Contract Law*, the *Employment Promotion Law* and the *Labour Dispute Mediation and Arbitration Law*. The central piece of this legislative reform project, the Labour Contract Law (LCL), has been one of the most controversial pieces of legislation in China's recent legal history. It attracted over 190,000 submissions during the legislative process and underwent considerable changes before its final passage in



June 2007. Since coming into effect on 1 January 2008, it has generated continuing controversy.

The domestic debate between proponents and opponents of the LCL is robust and controversial as the stakes on both sides are high. Both sides defend their positions vigorously and don't shy away from polemics. The professional and public debates reflect well-entrenched and predictable positions of traditional labour advocacy and entrepreneurship. Supporters of the LCL see it as bringing an enlightened set of policies, reducing the most blatant forms of labour exploitation and, for the first time, improving job security, working conditions and social welfare for migrant workers. Beyond these immediate effects, the LCL has consequences for the formation of a social welfare net for workers, for labour representation and for relations between capital and labour in general. In this sense, the LCL will be of interest to the international trade union movement as much as to international investors and trade representatives dealing with dumping and related issues.

Its critics argue that it is a premature attempt to introduce social policies suited only to advanced economies. They predict negative consequences as, by increasing labour costs, the LCL will provoke retrenchments and rising unemployment (Hang 2009; AmCham-China 2010a: 106).

However, the Chinese debate about the LCL also reflects an additional dimension of controversy which is linked to the local and eventually national implementation of the LCL. Under China's institutional set-up, implementation of national economic legislation is not a simple top-down process enforced by the central government. Like enterprise reform and privatization before them, economic reforms involving changes to labour regulation proceed in a decentralized way and by local experimentation. This means that governments of each prefecture and county – in practice down to township level – have to decide how and when to implement the new legislation and the accompanying measures required. As a result, the public and internal controversies that accompanied the legislative process at national level are being replayed – albeit less openly and visibly – at provincial and local levels.

This chapter takes up controversies surrounding the LCL by focusing on two dilemmas: one political, the other institutional. In this way, it provides the reader with a context to understand how varied local responses to the LCL reflect and reinforce patterns of dynamism, diversity and disparity evident in subsequent chapters. All recent Chinese labour legislation faces the political dilemma of having to balance the interests of domestic and foreign investors against the interests of a highly diversified labour force while, at the same time, preserving a degree of socialist legitimization (Wong 2010). The institutional dilemma arises when central and local governments represent diverging interests during the complex, decentralized implementation and governance processes.

Following a section placing these 2008 statutes within the context of post-1949 Chinese labour legislation, the chapter discusses their implications for unionism and industrial relations (IR). The subsequent section then provides an institutional perspective focused on enterprise reform and local governance. It addresses the institutional aspects of implementation and illustrates the interplay between

national labour legislation and local implementation and the interdependence between labour and social reform. It argues that, in an institutional environment that relies on gradual implementation and local autonomy, the implementation of labour legislation will similarly be gradual and display local characteristics. The importance of local implementation is documented in recent media coverage and confirmed by two recent case studies the author carried out in Jiangsu and Zhejiang. In the process, the chapter will attempt to answer the pervasive question as to why this law, since its inception, has been called 'hard to implement' (Chen 2008; Hang 2009). Further, it addresses itself to what an institutional perspective can say about the likely effectiveness of the new legislation.

The conclusion suggests that the local diversity which characterizes China's corporate environment equally characterizes China's labour market environment and that achieving overall improvements in labour rights and labour representation will continue to depend on gradual, bottom-up implementation in a decentralized if not fragmented labour market.

### **Recent labour legislation and its implications**

We can divide the long-term changes in China's workplace regulatory environment into three broad periods which, for our purpose, are covered by major studies. Andrew Walder's (1986) ground-breaking study of Communist Neo-Traditionalism defines the paternalistic labour system of the pre-reform period. The regulatory landmarks in China's pre-reform labour legislation were the 1950 *Trade Union Law* and the *Regulations on Procedures to Resolve Labour Disputes* of the same year. The 1957 abolition of all Labour Arbitration Commissions marked the end of officially acknowledged and legally regulated labour conflict and gave way to the bureaucratic clientelism described by Walder (1986), which politicized labour relations under Communist Party control. Table 3.1 illustrates the major labour-related national laws since the beginning of the reform period.

Hilary K. Josephs' (1990) study of labour law in China covers the second period, that of early economic reforms and defines the trajectory for more recent reforms. Labour regulation reappeared initially during the early reform period so as to provide a framework for Chinese-foreign joint ventures. From 1986 onwards, labour regulation heralded the introduction of a labour contract system for state-owned enterprises (SOEs) (Gallagher and Jiang 2002: 5). Two observations are crucial in this context. Both help underpin some of the general themes that this book presents. First, systematic reform of enterprises preceded the beginning of labour reform to the degree that labour policies were dependent on institutional changes promoting and enabling enterprise reform (Josephs 1990: 8). Second, reforms arrived through local experimentation (Josephs 1990: 22). The local and gradual implementation of labour legislation is detailed in Chapter 4 of Josephs' study, which analyses the different ways in which the three localities of Beijing, Shanghai and Shenzhen adopted national legislation. The broad theme of distinct local implementation of national laws is well documented in the literature on Chinese economic reforms (Weingast, Qian and Montinola 1995) and local governance (Li 2009; Chung and Lam 2010),

*Table 3.1* Major labour-related national laws since 1992

<i>Law</i>	<i>Year</i>	<i>Main contribution</i>
Trade Union Law of the People's Republic of China 中华人民共和国工会法	Adopted 3 April 1992, effective 3 April 1992	Expands trade union mandate to cover non-state sector and to sign collective agreements on behalf of workers
Labour Law of the People's Republic of China 中华人民共和国劳动法	Adopted 5 July 1994, effective 1 January 1995	Creates flexibility for employment in market environment through use of contracts
Trade Union Law of the People's Republic of China (2001 Amendment) (2001) 中华人民共和国工会法 (2001 修正)	Adopted 27 October 2001, effective 27 October 2001	Expands trade union legal rights and mandate to cover foreign-invested joint venture sector
Labour Contract Law of the People's Republic of China 中华人民共和国劳动合同法	Adopted 29 June 2007, effective 1 January 2008	Improves contractual security of employees and protects migrant worker's rights against employers
Employment Promotion Law of the People's Republic of China 中华人民共和国就业促进法	Adopted 30 August 2007, effective 1 January 2008	Confirms the role of the government in maintaining employment and employment services
Law of the People's Republic of China on Labour Dispute Mediation and Arbitration 中华人民共和国劳动争议调解仲裁法	Adopted 29 December 2007, effective 1 May 2008	Establishes and expands rights of workers to call upon mediation, arbitration tribunals and courts
Trade Union Law of the People's Republic of China 中华人民共和国工会法 (2009 Amendment) (2009 修正)*	Adopted 27 August 2009, effective 27 August 2009	Technical amendment
Labour Law of the People's Republic of China 中华人民共和国劳动法 (2009 Amendment) (2009 修正)**	Adopted 27 August 2009, effective 27 August 2009	Technical amendment

*Notes:*

\* Editorial Group (2010: 126)

\*\* Editorial Group (2010: 60)

but is often overlooked in areas where the central government claims top-down jurisdictional authority (Liebman 2007).

Increasingly detailed central legal and administrative regulation and attempts at top-down policy implementation define the third period of China's labour legislation. Several studies cover this period, which began with the promulgation of the 1994 Labour Law which came into effect the following year (Gallagher and Jiang

2002; Cooney 2007, Cooney *et al.* 2007). It was preceded by the new Company Law, which came into effect on 1 July 1994. These were the first major laws to cover non-state enterprises. The most recent advances in labour legislation are the LCL and its companion laws. Following on the work of Cooney *et al.* (2007), Ngok (2008) and Ho (2009), Ronald C. Brown's (2010) book is the most extensive study of the content of these laws so far. Virginia E. Harper Ho (2009) gives us the most detailed account of the implementation to date.

Ho (2009:30) summarizes the major changes the LCL brings as follows.

The Labour Contract law generally marks a clear retreat from the broad deference given to employers under the 1994 Labour Law. While the 1994 Labour Law was designed to facilitate greater flexibility and mobility within the workforce, many new measures in the Labour Contract Law, such as limits on terminations, protections for temporary and seconded workers, and rules on open-ended labour contracts, are intended to increase workers' job security. Most of the rules contained in the Labour Contract Law are in fact already in force under current administrative guidance, judicial interpretations, and implementing regulations at the provincial and local levels. However, the law contains more detailed prohibitions and new penalties for a wide range of common violations and anticipates and forecloses avenues for evasion.

She also notes that the LCL does not extend to a reform of industrial relations as 'it makes no fundamental changes to the existing institutional roles of unions, the labour bureaucracy, and the courts in implementing and enforcing labour law' (Ho 2009: 30).

Complementing the LCL, with its focus on protecting the rights of workers in their workplaces, are the two other new laws. The *Law on Arbitration and Mediation in Labour Disputes* establishes and expands rights of workers to call upon mediation, arbitration tribunals and courts. Like the LCL, this law brings improvements of existing regulations and facilitates procedures for workers.

The *Employment Promotion Law* confirms the role of the government in maintaining employment and employment services such as training and labour market programmes. The hallmark of these laws is the gradual and pragmatic adaptation to an increasingly diversified labour market and private employers.

## **Trade unions and industrial relations**

The role of the trade unions does not feature prominently in discussions of the LCL. This is largely because the role of the All China Federation of Trade Unions (ACFTU) and of unions in general has not yet been clarified, in particular in regard to the requirements for employers to communicate with employee representative groups on workplace changes (AmCham-China 2008: 48). Observers from different perspectives agree that the as yet undefined role of employee representatives, in particular their dependence on management, is one of the impediments to establishing a widespread collective bargaining system (Han 2008; Ma 2008; and see Chapter 15, this volume).

Indeed, the LCL missed the chance to strengthen the representative rights of workers. During its first drafting stage, one major change was to omit clauses that would have required the approval of trade unions and workers' representatives to workplace changes. Instead, employers now only have a weak obligation to consult with those employee representatives (Batson and Fong 2007).

While the new laws maintain a legal presence and legal role for trade unions (see Brown 2010), they do not attempt to redefine that role in the new privatized environment. Brown (2010: 44–5) cites local examples of union activity which show that trade unions were involved in instances of collective bargaining, as do chapters 15 and 16. However, these are only local examples. Chan (2008) and Howell (2008) see more wide-ranging changes on the horizon, either in the form of greater representational powers for the ACFTU or independent trade unions. However, all observers agree that the current legislation is not trying to break new ground in redefining the role of trade unions or to redefine a new institutional framework for industrial relations.

The LCL also does not touch upon industrial relations in any detail. Issues such as the role of local Communist Party bureaucracies in handling personnel archives and records were obviously not part of this legislative reform agenda. Brown (2010) follows earlier accounts of industrial relations regulation by Warner (1996) in pointing to numerous inconsistencies between corporate and labour legislation. Together, these would suggest that there is no activity at the moment to bring those two areas of legislation together.

Hilary Josephs (2009: 391) concludes that the LCL 'does not represent a radical substantive change from the structure created by the Labour Law and the Trade Union Law'. In her view, the LCL 'does nothing to advance fundamental rights of freedom of association and collective bargaining, deemed essential in the 1998 ILO Declaration of Fundamental Principles and Rights At Work' (Josephs 2009: 391).

On the other hand, the OECD (2010) estimates that, under the new law, labour protection in China is comparable to that of some OECD member countries in terms of changes to employment conditions and severance payments. Indeed:

Translating this into the overall OECD indicator measuring the strictness of employment protection, China appears in the upper quintile of countries for which the indicator is compiled, along with Mexico, Turkey, Spain, France and Indonesia and only slightly above India.

(OECD 2010: 171)

However, another recent OECD publication also notes that this form of legal analysis has to be seen in the framework of implementation and enforcement and that '*de facto* employment protection is far less than *de jure*' (Herd *et al.* 2010: 2).

### **The 'hard to implement' law**

Work on the LCL began in 2004 and the first draft was submitted in 2005 (Batson and Fong 2007). The LCL then passed through 13 internal drafts before it was

released for public feedback and invited comments in 2006. This process continued into 2007 (US–China Business Council 2007). The issues identified as most problematic were the requirements for all workers to sign labour contracts, for collective bargaining and for the involvement of local governments in the implementation of the LCL.

High-level central government agencies, such as the Ministry of Human Resources and Social Security (MOHRSS), do not feature highly in actual implementation. They are involved in setting policies or promulgating and interpreting rulings for local bureaus and Labour Offices, but they themselves have little power to enforce policies on the ground.

Similarly, the ACFTU has limited power to enforce its rights. Highly publicized cases of successful interventions in collective bargaining by the ACFTU show that it can mobilize political and legal support. Interestingly, given its strongly anti-union stance in its US home, one of the most prominent foreign companies to sign collective bargaining agreements for its employees was Wal-Mart. That agreement, stipulating pay rises for 2008 and 2009, was the result of a public campaign by the ACFTU (Harris 2008). Beyond such high-profile cases, however, the ACFTU has little power at the local level (see also Chapter 15).

Nevertheless, there are cases to prove that formal legal mechanisms can be used to enforce stipulations of the new Labour Contract Law. Huawei and Carrefour are two companies singled out for national prominence as a result of their attempts to require their employees to resign their jobs and then re-enter new contracts. Shortly before the LCL came into force, Huawei had asked 7,000 employees to sign voluntary resignations and then sign on again under new contracts which would have given them less employment security. In Huawei's case, the Guangdong Supreme Court and the Guangdong Labour Arbitration Commission interfered and nullified the resignations. Carrefour asked most of its 40,000-strong workforce to sign new contracts, also with the aim of changing their legal status before the LCL took effect (Harris 2008).

For those large numbers of workers and employers involved, the question as to what makes implementation of the LCL difficult revolves around the role of local governments. In fact, the US–China Business Council (2007: 43) summarized the challenges facing the implementation of the LCL as follows:

While the existing legal protections provided to workers under China's regulatory environment are generally considered quite comprehensive, compliance with and enforcement of these protections varies and central government authorities have uncovered many abuses. Local labour bureaus, labour arbitration commissions, and courts are frequently under the influence of local governments, whose interest may align more closely with those of local employers than with workers. Local governments face conflicting pressures and numerical targets, and local government officials may believe that many Chinese small and medium enterprises would shed workers if they had to pay the full, legally required costs of employment.

These concerns about the employment effects of full enforcement of the LCL receive repeated, even incessant coverage in the Chinese press where they receive corroboration by widely publicized stories and reports about foreign and domestic investors absconding from their factories. Indeed, during early 2008, there were stories of thousands of factories lying idle after investors had absconded. Reports spoke of thousands of investors from Taiwan, Hong Kong and South Korea closing down or moving to other locations (Adams and Ko 2008).

Chen Siyi's (2008) summary of the Chinese debate identifies the crucial role of local governments. Chen takes up the issue of the new LCL gaining the reputation of being 'hard to implement', to the extent of it being called a 'beancurd law' (*doufu fa*) in allusion to the popular reference to shoddy building practices as 'beancurd engineering'. Chen notes in particular the reluctance of both employers and workers to embrace the law. Employers resist because of its potential for raising labour costs; workers resist because of the increased risk of retrenchment they face in the absence of a social security net. The reservations of both these major stakeholders feed the reluctance of local governments to fully implement the law. For local governments, rising labour costs reduce municipal revenues. Any resulting retrenchments or rising unemployment increase municipal financial, social and organizational burdens.

In Chen's analysis, this reluctance of local governments manifests itself in their slowness in developing the necessary ancillary or supporting regulations and policies for the implementation of the LCL. Such regulations relate, for example, to local wage guidelines or workplace inspections. The reason why local bureaucracies are slow or reluctant to put required measures in place lies in the well-known 'dual leadership' structure of local governance, which subordinates local agencies of central bureaucracies, such as local Labour Offices, to the local government and party leadership (Krug and Hendrichske 2008). Where the local leadership perceives conflicts between, for example, economic growth and employment and workers' rights, it has the authority to take sides and institute measures which are in the interest of local employers.

One particular dilemma arises out of the discrepancy between a locally-centred governance structure needed for the LCL – that is local regulations and enforcement – and the necessity to create translocal institutions serving the interests of the large numbers of migrant workers. As detailed in Chapter 14 of this book, workers are reluctant to sign work contracts which require them to make payments into local welfare funds as they lose payment of interest and cannot transfer the employer's contribution once they leave a location. Translocal institutions are indispensable to make the social aspects of the LCL function. However, short of creating a national insurance scheme – which is under preparation but currently not feasible – these institutions cannot be imposed from the top. Not only are workers unable to transfer payments to other locations, but employers who make payments to local welfare funds also lose out as their contribution reverts back to the local government once a worker leaves the local jurisdiction. This creates an unintended conflict of interest between employers and local governments. Details of such cases are mentioned in the case studies in the section below.

## The Labour Contract Law in operation

The findings of a survey of 820 companies in Zhejiang Province in 2008 illustrate the reluctance of local governments to engage in LCL implementation (Zhou Bijian 2008; and see Appendix 3.1 at the end of this chapter). One surprising point the survey notes is that employers are considering non-compliance with technical stipulations. This has the potential to create conflicts between local governments and enterprises in their jurisdictions. More immediately, the survey reflects the widespread concern among employers that labour costs would rise. Of the surveyed companies, 74 per cent of respondents expected rises of around 10 to 15 per cent, 23 per cent of companies expected rises of 5 per cent and fewer than 1 per cent of respondents expected increases below 5 per cent. Interestingly, 434 companies or 53 per cent of respondents stated they were not planning to strictly obey the LCL during 2008. The survey calculates the costs of employers' contributions to social insurance funding (*wujin*) – if they comply with the LCL – at 472 Yuan (or 43 per cent) for a minimum monthly wage of 1103 Yuan.

This is in line with information this author obtained from a small number of control interviews conducted during July 2008 and 2010. The research sites were in the rich, industrialized region of Jiangnan, the southern part of Jiangsu Province, and the adjacent northern part of Zhejiang Province. In both, increasingly sophisticated industrial production requires a skilled and motivated workforce and social welfare is instrumental in attracting and retaining skilled labour.

The following two cases are based on the author's interviews with entrepreneurs and managers of two enterprises. Both enterprises are fully integrated into national and international markets. The interviews therefore reflect both domestic and international experiences and perspectives but from two slightly different angles. The cases show that the LCL has indeed led to a considerable rise in personnel costs. But they also demonstrate that, all things considered, these rises seem manageable burdens (at the time of the interviews).

### *Domestic textile company*

This domestically-owned textile company has two separate enterprises – one in Shengze, a township under Wujiang City, and the other in Jiaxing, Zhejiang Province. The sizes of their respective workforces were 1,400 and 2,100 people. The new LCL had increased personnel costs for both locations by 30 per cent. However, overall production costs had only gone up by 2 per cent. Total personnel insurance costs payable by the employer amounted to approximately 40 per cent of the salary volume and covered five items.

The five items – with employers' and workers' contributions indicated in percentages of the salary – were pension insurance (employer 20 per cent; worker 10 per cent), unemployment insurance (employer 8 per cent; worker 5 per cent), medical insurance (employer 10 per cent; worker 5 per cent), workers' compensation (employer 3 per cent; worker 0 per cent) and housing fund (not applicable, only for the public sector (*shiye danwei*)). The total, representing just above



40 per cent for the employer's contributions, is similar to the figures given in the report on Zhejiang enterprises quoted above. One specific feature was that the company was able to pay the insurance sums on the basis of the local minimum salary of 800 Yuan per month, slightly lower than the 850 Yuan for Suzhou, rather than on the basis of actual salaries.

In fact, actual salaries in the company were substantially higher. The minimum salary for entry-level high-school graduates was 1,000 Yuan and college graduates received an average 1,200 to 1,500 Yuan. The employer also provided free dormitory accommodation for workers and subsidized half the daily 6 Yuan cost of meals. According to the manager, young people are now more demanding. Because these are their expectations from home, they expect air conditioning in their dormitories and salaries of 1,500 Yuan.

The manager explained how cost increases resulting from implementing the LCL have had a positive side for his company. Implementation of the law's requirements was useful in the firm's preparation for its planned stock market listing as this process required detailed social auditing by specialized companies from Hong Kong. In this context, LCL stipulations were helpful to demonstrate compliance with the audit requirements. Also the firm's high-profile foreign clients, like Nike and Adidas, were demanding social acceptance certificates, and higher costs could be shifted to these buyers (see also Chapter 13).

### *Taiwanese electrical components manufacturer*

This Taiwanese-owned enterprise is located in Suzhou Industrial Park. With a workforce of 1,300 people it produces electrical components. The manager claimed that their personnel costs had increased by more than 15 per cent as a result of implementing the LCL. However, this was only half of the 30 per cent rise experienced by a factory owned by the same group in Dongguan in Guangdong Province. Average salaries in the Suzhou factory were 1,200 Yuan – a sum arrived at through coordination with other Taiwanese investors in the area. Insurance costs were said to amount to 30 per cent for the employer and to 17 per cent for the worker's contribution. The local Labour Office was supervising implementation of the LCL. This supervision, to that point, consisted of one visit over six months and was not felt to be intrusive.

In response to the effects of the LCL, the company was avoiding overtime as it calculated that employing 1,500 people over an eight-hour day would be cheaper than employing 1,000 people with overtime. Interestingly, this one small case suggests that the LSL might, on occasion, also have substantial employment stimulus effects rather than only the negative effects on employment that many of the LCL's critics warn about. Overall, for the Taiwanese-owned factory, the increase in personnel costs of 15 per cent through the LCL was the biggest item in rising costs during 2008. Transport costs had gone up by 8 per cent and changing currency exchange rates had produced an overall cost increase of 5 per cent.

These two case examples confirm the general claim that the new LCL is placing additional cost pressures on enterprises. However, those pressures have

differential effects across enterprises for a number of reasons. Furthermore, a 30 per cent or higher rise might even be affordable for some enterprises under special circumstances. Interviews that the author carried out in the same region raised other labour issues which point to complexities that are not easily subsumed under existing legal structures and which involve local governments in various informal ways.

One seemingly informal practice seems to involve recruitment channels for young people hired from other provinces through arrangements with companies in the Yangzi Delta region and local schools in their home places. These young school-leavers arrive under relatively flexible arrangements which allow them to change workplace after a while. However, the standard expectation seems to be that they will stay as a group with one employer. The presence of a schoolteacher from their home town – who looks after them in their dormitories – appears to help enforce their ‘commitment’ to stay. Living arrangements are completely separate from working arrangements in that the employers are not responsible for accommodation. Instead all workers are ferried by bus between dormitories and work. They do not have freedom of movement inside the industrial zones where they work and where lunch is also provided through outside suppliers.

Another unregulated practice was the above-mentioned retention of insurance contributions made by the employer when workers change to other locations. While employees can take out part of their own contributions, the employer’s contribution is not returned to the employer but retained by the local government. To what extent this is a common problem was not evident during the interviews.

Finally, employers made statements about other locations which could not be verified but which tally with the survey from Zhejiang quoted above. Some employers stated that the increases in labour costs were greatest for those companies which had not implemented regulations under the 1994 Labour Law and were not paying benefits prescribed under the previous regulations, including adherence to the local minimum wages. Some entrepreneurs with operations in other provinces stated that the impact of the LCL on their operations in Jiangsu Province was minimal compared to changes required by their operations in the Pearl River Delta. As far as reference was made to inland or western areas, it was assumed that the LCL would not be strictly implemented there. Interviews conducted by the author in 2010 as well as the large Honda strikes in Guangdong in 2010 (Wong 2010) confirm the ongoing local differentiation. With rising demand for labour in 2010, social protection for workers is crucial in attracting and retaining skilled labour, while on the other hand implementation of the LCL is lax in industries and places where local governments do not want to interfere with local labour markets.

This mixed evidence from a survey and interviews supports what other chapters in this book confirm about informal practices and the involvement of local governments in implementing national legislation. However, the way in which this evidence is interpreted generally does not take account of the institutional settings found in China. To argue that local governments slow down or even prevent the implementation of the LCL is misleading when one considers that the degree of local autonomy is such that there is room for local labour practices to be at

variance with central rules as much as there is room, as the authors of Chapter 2 point out, for different local business systems under China's institutional architecture.

From an institutional perspective, the implementation of labour legislation is not a top-down process controlled by the central government against limited local interference. Rather labour legislation is no different from other economic legislation and policies which are trialled by local experimentation and allow for co-evolution and local differentiation.

## **Conclusion**

This chapter takes up some of the main legal, economic, political and institutional dimensions of the implementation of the Labour Contract Law. It draws attention to the local dimension and the role of local governments in creating China's business and social environment. This role of local government as principal as well as agent is easily overlooked given the official representation of China as a highly centralized state under the rule of the Communist Party's top-down line of command. The involvement of local governments in the implementation of national laws with a translocal component, such as the LCL, by necessity gives localities a major constitutional role which is not always appreciated in the legal literature and which has immense practical consequences for the formation of labour rights in China's workplace. For the foreseeable future, China will not have a unified labour market and labour conditions as well as protection of the workforce will be issues to be addressed at local levels under consideration of but not in strict conformity with national legislation.

This is not to deny that there is a trend towards national convergence and an increasing reach of national legislation. There are parallels with the corporate sector, where different local rules apply to forms of ownership and access to resources without standing in the way of a gradually expanding national domestic market and integration in international markets. Local differentiation in labour policies at the sub-national level can be caused by differences in industrial structures. For example, there are cases, like those cited above, where an industrial locality that needs unskilled labour will pursue different policies from localities where skilled labour dominates the workforce. In the latter case, local entrepreneurs and, by extension, local governments stand to gain more from strict compliance with formal regulations, including documentation for their international clients.

Regarding the international repercussions of labour regulations, it is easy to pay attention to the small number of prominent cases such as Carrefour or major sporting goods producers who attract headlines. These companies are prominent and can be held accountable for their actions by the domestic and international press if they violate national norms and regulations. But the same does not apply to most of the more than 100,000 foreign-invested enterprises operating at local levels, where neither the workforce nor clients have access to the national or international press to air grievances. At local levels, international as well as domestic investors and their workers rely on cooperation with local governments and their

local institutional embeddedness. National legislation in this context is negotiated rather than strictly enforced. As a result, progress in labour protection and social welfare will be gradual and dependent on local improvements as much as on national policies.

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## APPENDIX 3.1

### Summary

'The Impact of the Labour Contract Law on Enterprises in Zhejiang: A Survey of 800 enterprises' (Zhou Bijian 2008).

#### 1. Sample description

820 enterprises, covering each sector and all 11 municipal cities in Zhejiang Province, were investigated by questionnaires for this survey.

The following results emerged from the survey.

#### 2. Positive effects of Labour Contract Law on enterprises

Positive responses: The Labour Contract Law is helpful

- to introduce new concepts of labour costs 80.8%
- to adjust the employment relationship and encourage enterprises to consider corporate social responsibility 80.5%
- to improve enterprises' human resource management 76.6%
- to change reliance on low labour costs 63%
- to regulate the labour market 60.5%

According to the Labour Bureau of Zhejiang Province, 95 per cent of employers had signed labour contracts.

#### 3. Negative effect on enterprises

- increase in labour cost 98.1%
- complicate employment management 76.9%

- greater risk from employment 67.4%
- restricting illegal employment 63%

*3.a. Labour costs will increase*

The questionnaires show that 51.75 per cent of enterprises consider that increases in labour cost will be the most obvious effect of the Law.

What will be the increase in labour cost?

- less than 5% 0.9%
- around 5% 22.9%
- around 10% 47.5%
- around 15% 26.3%
- more than 20% 2.4%

*3.b. The law will influence the mode of employment in two ways*

(a) Open-ended contracts

45.98 per cent of the respondents consider that avoidance of open ended contracts will become one of main factors that will influence hiring decisions.

(b) Seasonal employment

Among the respondents 25.2 per cent consider this to be a main problem. Enterprises which rely on seasonal employment are afraid that the contracts will make them pay more salary during the non-employment period.

*3.c. The risk from employment will increase*

23.3 per cent of respondents consider that they have to change the employment management, while 15.1 per cent consider the increasing risk to be important for them.

The risks mainly concern the following aspects:

- (a) Likelihood to lay off employees: 54.9 per cent enterprise consider this to be important.
- (b) Employees may resign easily as they only have to inform their employers one month in advance without other restrictions.

*3.d. The risk of illegal employment for enterprises will increase*

*3.e. Other points*

The Law includes specific rules about working hours. 39.5 per cent of the respondents consider the restrictions in working hours will have a negative effect for them.

#### 4. Summary and advice

Most of the enterprises evaluate the implementation of the Law positively. The main disagreements focus on three aspects:

- 4.a. An increase in labour cost is not beneficial for enterprise at this moment.
- 4.b. The Law emphasizes the interests of employees, but ignores the present situation of SMEs.
- 4.c. The main direction is right, but the implementation may be difficult. There are three problems with the implementation of the law.
  - Among the respondents, only 52.93 per cent of enterprises (434 enterprises) implemented the law in strict accordance with the new law.
  - Employment lawsuits have increased in number.
  - Some employees are not willing to sign contracts.

#### 4.d. Alternatives for enterprise to reduce risk

- |   |        |
|---|--------|
| • To change the employment mode                           | 7.20%  |
| • To reduce the workforce and increase capital investment | 49.27% |
| • To use labour agencies and part-time workers            | 25.49% |
| • To expand outsourcing                                   | 22.07% |

#### 4.e. Need to amend the Law

- |   |       |
|---|-------|
| • Some specific clauses of the Law need to be amended | 45.2% |
| • There is no need to amend the Law                   | 54.8% |





## **Part II**

# **Emerging dynamics in labour markets**



## 4 Change and continuity in China's urban workforce

### Recent trends

*Beibei Tang*

#### Introduction

China's economic reforms over the past three decades have facilitated the fastest economic growth in the world. In the process, they have transformed China's labour market from a 'redistributive' state socialist system, under which goods were allocated primarily by government officials ('redistributors') according to plans, to a market or an 'economy with market allocation'. These changes have influenced many aspects of China's workforce, the structure of its economic interests, employees' well-being and lifestyles and their labour mobility patterns.

This chapter provides an overview of these changes – as well as of continuities – in terms of employment, reward systems and employees' life chances. Largely based on analysis of published statistical information and other secondary materials, it shows that China's workforce has been experiencing a transition due to the emergence of multiple forms of ownership, a diversification of industrial sectors, and a differentiation in the labour market that is characterized by more unequal access to the mobilization of resources. Following changes in labour market structure, urban employees have also been experiencing changes in their everyday life. Paradoxically perhaps, those now employed in the public sector appear to be better-off than others, in terms of remuneration and opportunities for upward labour market mobility.

The data used here come mainly from the *China Labour Statistical Yearbooks* of 2002 to 2009. They illustrate national-level trends – for urban populations and labour markets – in economic and employment growth, changes in ownership and industries, as well as income distribution across different types of employment. The chapter then provides data disaggregated around national-level categories: industrial sector, ownership category and occupational categories. These allow comparison of the evolution of employees' life chances in terms of their living standards, working conditions, their occupational attainment and mobility. This allows for a more detailed portrayal of the enormous dynamism discussed in chapters 1 and 2 as well as some of the macro-level patterns of diversity explored in later chapters. In order to explain those broad trends and to complement the survey data, I also make reference to Chinese and English-language scholarship on these themes. In order to identify some spatial dimensions of this dynamism, diversity and disparity, the following chapter will further develop this approach by shifting our focus from the national to the regional, then provincial and finally the local levels.

China’s workforce since reform

Overview

China’s workforce changes are based on the boom of Chinese economy since reform. Figure 4.1 provides a snapshot of Chinese economy development trends from 1980 to 2008. GDP showed a continuous acceleration with 3 to 15 per cent annual increases until the first half of the 1990s. Since 1995, the GDP growth has been relatively stable, staying around 10 per cent. The fast-growing GDP over the three decades has been accompanied by bigger jumps in money wage and consumer prices. The money wage growth has stayed around 14 per cent since 1984, with its peak of 20 to 30 per cent annual growth in the mid 1990s. The consumer price has experienced an unstable and relatively slower growth of 5 to 20 per cent annual increase in most of years. Similar to money wage and consumer price growth, the increase of real wages fluctuated before 2000, but was followed by a more stable annual growth of around 12 per cent since then. From 2000 onwards, the real wage increase gradually catches up with the rising money wage, while consumer price experiences a lower growth speed than the GDP growth and wage growth.

China’s consistent annual high speed GDP growth since the 1980s has been due mainly to growth in the manufacturing and service sectors. Figure 4.2 shows the percentage changes to the overall composition of GDP since 1985. As relative contributors to GDP, tertiary industry has been growing steadily – from about 28 to 40 per cent of GDP – at the expense of agriculture, now contributing some 11 per cent but compared to 28 per cent in 1985. With a gradual fluctuation over the two decades, secondary industry’s proportion of contribution – about

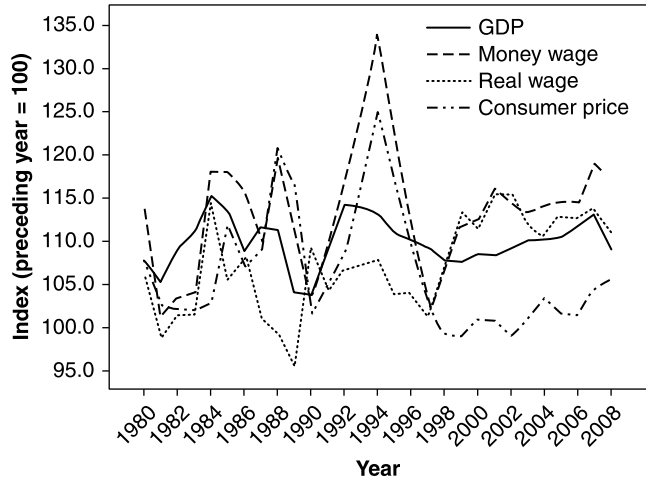


Figure 4.1 Growth of GDP, wage and consumer price 1980–2008.

Source: China Labour Statistical Yearbook 2009, p. 5.

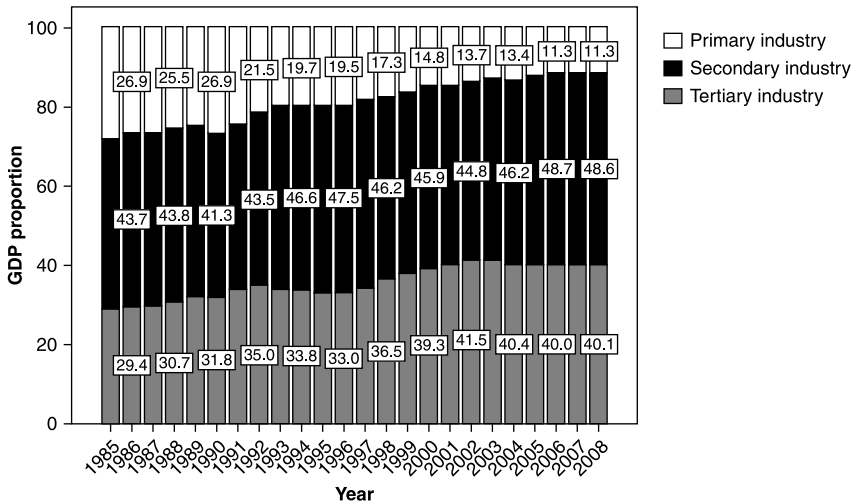


Figure 4.2 Gross domestic product composition 1985–2008.

Source: *China Labour Statistical Yearbook 2009*, p. 4.

48 per cent – is now slightly (6 per cent) higher than it was in 1985. This is not an unexpected picture for a rapidly diversifying and modernizing economy, one which already had extensive heartlands of heavy and light manufacturing, and one that has undergone a shift from operating through central planning to reliance on market impulses.

There have been similar changes to the composition of employment. The 1980s reform era brought new work opportunities to the Chinese labour force. The overall share of national employment relative to total population rose from 41 per cent in 1978 to 58 per cent in 2008 (NBS 2009: 6–7). As Figure 4.3 indicates, agricultural employment's share of total employment dropped by nearly 30 percentage points over the three decades, while the relative contributions of secondary and tertiary industry increased by around 10 and 21 percentage points respectively. Tertiary industry employment growth accelerated particularly in the first half of the 1990s and 2000s, as a result of large numbers of urban lay-offs and rural migrant workers changing their employment tracks. Despite continuing declines in its contribution to total urban employment, the most recent figures show that about 40 per cent of the national workforce is still registered as employed in primary industry.

Official data on unemployment in China are hardly indicative of the real number of people out of work or underemployed, and they generally only include registered urban populations. Nonetheless, they provide indications of broad trends and fluctuations in urban employment. Figure 4.4 shows the increase of urban unemployment in the past three decades. There were increasing employment opportunities at the beginning of the reform – unemployment dropped about 10 per cent from 1980 to 1984. However, since 1984, when there was a sudden jump of 14 per cent,

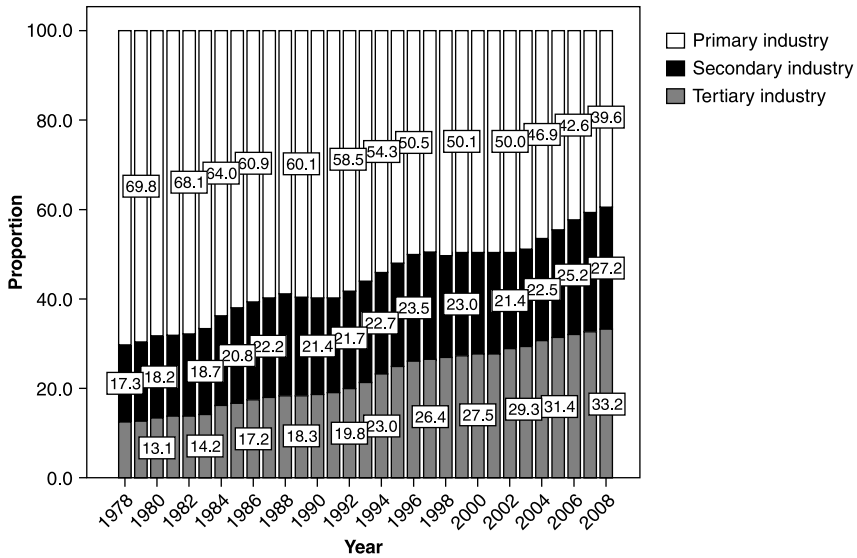


Figure 4.3 National employment composition 1978–2008.

Source: China Labour Statistical Yearbook 2009, pp. 6–7.

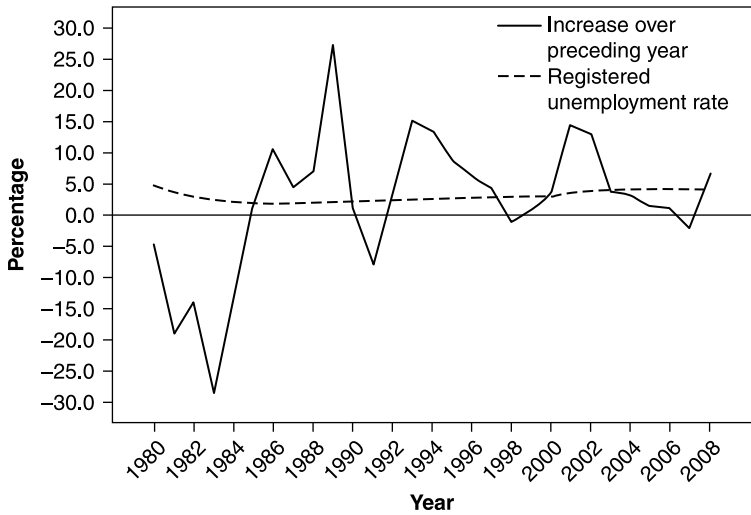


Figure 4.4 Urban registered unemployment 1980–2008.

Source: China Labour Statistical Yearbook 2009, p. 163.

unemployment increased in most years, with the biggest increase of 27 per cent in 1989 when large numbers of SOEs were undergoing structural reform through redundancies. Since 1990, unemployment has continued its increasing trend, with registered official rates of urban unemployment reaching 4 per cent in recent years.

Undoubtedly, these data do not reflect the actual unemployment levels in Chinese cities, especially among those who experienced the most dramatic consequences of the restructuring of state-owned industrial plants during the second half of the 1990s. These effects were most marked in the north-east provinces, a theme that Chapter 8 explores in detail. As well, despite a labour market that increasingly requires high skills, university graduates have recently also become potential unemployment casualties, as the expansion of higher education apparently exceeds labour market demand (Bai 2006). A 2009 survey shows that university graduates constitute nearly 10 per cent of the unemployed in the job market and those with higher educational achievements face a more challenging situation (Li and Chen 2009). Chapter 6 returns to this phenomenon.

### ***Ownerships and sectors***

Since the late 1980s, with more ownership forms permitted, all forms of private and mixed property have become more widespread and protected. The number of employees registered as belonging to the urban workforce increased from 94.99 million in 1978 to 115.15 million in 2008, having reached a peak of 149.08 million in 1995 (NBS 2009: 24). We need to note that the official statistics generally only include registered urban labour, but excluded the groups who are not officially registered, such as large numbers of rural migrant workers and urban residents working in informal sectors.

Figure 4.5 summarizes the composition of the urban workforce by different types of ownership: state-owned units; collectively owned units; and other ownership units – normally including private, foreign-invested and joint-ownership enterprises and firms. The proportion of employees working for state-owned units remained stable at around 70 per cent from 1985 to 2000, but from 2000, the pace of decline has increased to reach about 53 per cent of the urban workforce in 2008.

While state-owned units were continually retrenching employees, 'other ownership units' were employing larger shares of labour supply. By 2008, they employed about 41 per cent of the urban workforce, an enormous increase given that they employed only 0.4 per cent by 1985 and that their share grew slowly during the 1980s. In 1994, their share was still only 5 per cent, followed by a jump to 13.2 per cent in 1998. Growth has been particularly rapid during the last decade with a 28 per cent increase.

Despite this growth of different forms of ownership, urban residents are, nonetheless, still more likely than rural residents to be employed in the public sector, or 'within the system' (*tizhi nei*). These are powerful indicators of the greater access to opportunities available through urban residence. Traditionally, significant differences have existed not only between the public and the private sectors



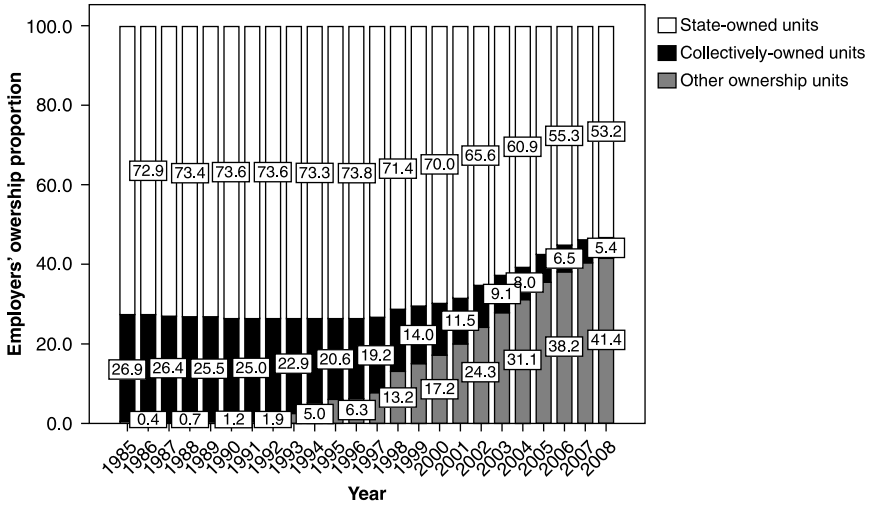


Figure 4.5 Employers' ownership composition 1985–2008.

Source: China Labour Statistical Yearbook 2009, p. 24.

but, as chapters 1 and 2 explain, also between the state-owned and the collectively owned sectors (Wang 2008). As Figure 4.5 indicates, the share of urban employment in collectively owned units gradually declined from 26 per cent in 1985 to only 5 per cent by 2008 as the urban-based collective economy has suffered progressive abandonment in favour of other forms of ownership deemed more appropriate for competition in global and domestic markets. This shows that, while the reform of state-owned enterprises led to their consolidation, a dramatic increase in efficiency, and a newfound ability to take advantage of both public investment and market opportunities, collectively owned units gradually lost their edge in the urban economy.

With the development of a market economy, demand for labour in sectors that are close to the market economy has also increased. Over time, opportunities to escape manual work increased, and there has been rapid growth in both private sector employment and in service occupations. Figure 4.6 reports changes of the numbers of employees in selected industrial sectors between 1985 and 2008. Agricultural sectors continuously lost their employees, falling from 7.7 million in 1985 to 3.6 million in 2008. As the largest employment sector, manufacturing has absorbed 8 million more employees since 1985, rising to 54 million in 1995. However, since then, manufacturing has taken 16 million fewer employees until the early 2000s. There has been a gradual increase since 2004, but the total number of employees by 2008 reached 33 million – about 30 per cent less than its peak during 1985 to 1995.

A similar trend characterized the formal construction sector with steady increases until 1993, at which point employment levels had almost doubled. After

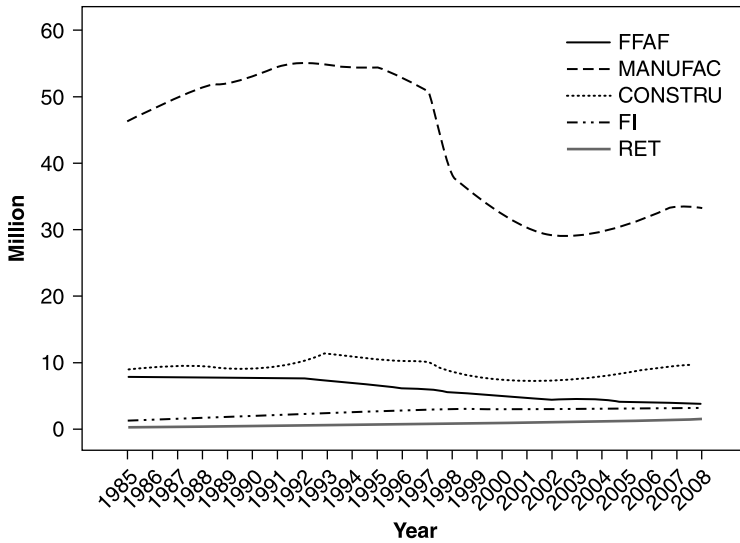


Figure 4.6 Numbers of employment by sectors 1985–2008.

Source: China Labour Statistical Yearbook 2009, p. 25, pp. 29–31.

Note: FFAF: Farming, Forestry, Animal Husbandry and Fishery; MANUFAC: Manufacturing; CONSTRU: Construction; FI: Finance and Insurance; RET: Real Estate Trade

that, there was a gradual decline until 2004. On the other hand, new sectors, such as Finance and Insurance and Real Estate, have increasingly absorbed some of the more skilled and experienced urban workforce. Their employment levels were about three to four times higher by 2008. Although their absolute numbers are less than other sectors, the rapid and continuous growth of market-economy-related sectors shows the reshaping process of the Chinese labour market.

These changes resulted not only from the development of a market economy, but also state policies to increase employment and consumption opportunities (Tomba 2004). Changes in the rate of growth of non-agricultural employment and of ownership composition are at the basis of the structural changes in the labour market (Naughton 1999: 41). Besides the macro trends I have presented above, the shift away from capital-intensive heavy industry and towards labour-intensive and export-oriented light industry since the 1980s has had substantial consequences for the composition of the workforce, its working conditions, remuneration and characteristics, as I will show in the following sections.

## Wages

Wages are an important indicator of power and resource re-allocation in the labour market. As a shift away from socialist redistribution (low-salary, high-welfare)

during the reform era, employees have been increasingly rewarded in cash. If we compare average wages across different ownership types, however, the results suggest that, while state-owned units provided marginally lower average wages than ‘other ownership units’ for many years in the early reform era, they are now the employers with the highest capacity to redistribute economic resources to their employees. Perhaps this is related to the removal of vast numbers of the least profitable units in that sector, which produced the general decline in their share of employment mentioned above. It also probably reflects the growing economic power and profitability of some of the largest remaining SOEs.

As indicated in Figure 4.7, the nominal average wage of urban employees has increased tremendously since reform from 1,148 Yuan to 29,229 Yuan, but at different rates in different types of units. State-owned units raised their annual wage from 1,213 Yuan in 1985 to 31,005 Yuan in 2008, a 30-fold increase. Both ‘collectively owned units’ and ‘other ownership units’ experienced a fast-paced increase over two decades, their average nominal wages rising to 18,338 Yan and 28,378 Yuan, respectively, about 20 times higher than in 1985. Compared to non-public sector units, state-owned units are the only group with wages higher than the national average all the time. ‘Other ownership units’ was the highest wage group until 2000. From 2000 onwards, they gradually lost their competitive wage advantage to state-owned units, with their wage level closely following the national average. There are not only now fewer employees in collectively owned enterprises, they are also the worst paid among urban residents. By 2008, their

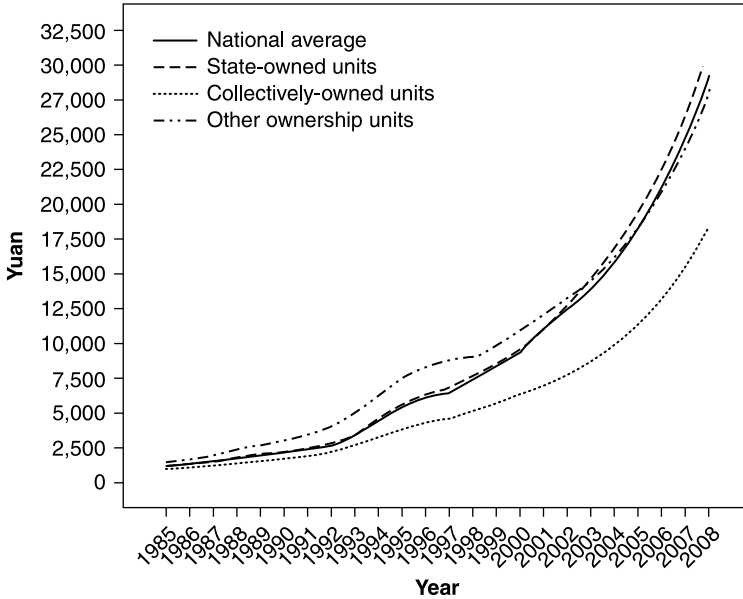


Figure 4.7 Average wage by employers' ownership 1985–2008.

Source: China Labour Statistical Yearbook 2009, p. 61.

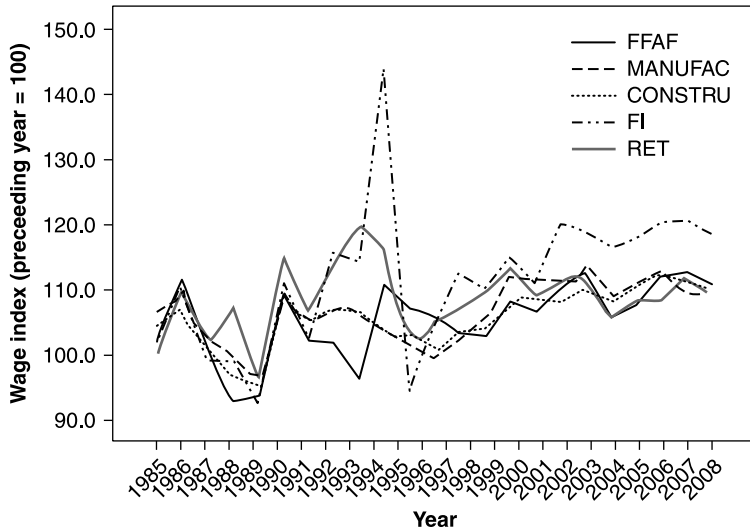


Figure 4.8 Growth of average wage by sectors 1985–2008.

Source: China Labour Statistical Yearbook 2009, p. 64, pp. 74–6.

Note: FFAF: Farming, Forestry, Animal Husbandry and Fishery; MANUFAC: Manufacturing; CONSTRU: Construction; FI: Finance and Insurance; RET: Real Estate Trade

wage was about 40 per cent lower than state-owned units. Comparison of average wage levels by industry sectors also reveals a new hierarchy in the labour market. As Figure 4.8 suggests, similar to their growing trend in employment numbers, wages in sectors such as Finance and Insurance (31 times) and Real Estate (28 times), grow much faster than manufacturing and construction sectors. Agricultural sectors experienced the slowest wage increase over the years.

### Bonuses

Wages are not the only indicator of the ability of a sector or an industry to redistribute resources. Bonuses and non-monetary rewards can also make a big difference to employees' well-being. The use of bonuses picked up rapidly after the beginning of reforms. For example, Bian and Logan (1996) found that base salaries as a percentage of a worker's total income dropped from 95 per cent in 1978 to less than 50 per cent in 1993. By then, bonuses had already become the principal component of employees' total earnings. While the government continued to largely regulate base salaries, the ability to generate bonuses and to reward employees varied considerably from one employer to another. Therefore, by the early 1990s, variations in bonuses (as well as in-kind benefits) became a principal source of inter-organizational and within-organizational inequality (Zhao 1993;

Sun *et al.* 1994). Post-reform work organizations, particularly enterprises and firms, have generated income inequality among urban employees through distributions of bonuses, because employees of profitable enterprises or firms could receive higher bonuses which normally exceed the gap between their basic salaries (Wu 2002; Chan and Unger 2009).

Workers and staff have become increasingly dependent upon their employers distributing extra income, openly or under the table (Bai and Xie 2010). Xie and Wu (2008) argue that the employer's financial situation, its profitability in particular, is one of the most important determinants of earnings – including regular wages, bonuses and subsidies – in urban China today. Because of these differential capacities to generate bonuses, income inequality across employing organizations remains pronounced. Substantial premiums for well-placed workers therefore are often not labour market-driven or productivity-based but rather an entitlement that flows from higher levels of firm profitability. As 'what one does' and 'where one works' matter greatly to employees' remuneration, the economic relationship between workers and their employers has become stronger (Tomba and Tang, forthcoming).

### ***Working conditions***

In addition to the average wage, one should also consider changes in other aspects of workers' well-being, such as working hours and access to welfare and insurance. Table 4.1 shows the average weekly working hours of different groups from 2003 to 2008. In general, the weekly working hours remain steady at around 45.5 hours, with about two hours' increase in 2005 and 2006. The younger generation's (aged under 45) weekly working hours normally exceed the national average by between one and three hours. Those aged between 45 and 59 tend to work a few hours less. Those above the age of 60 gradually work less and less: by 2008, workers in the 60–64 age group still work a hefty 37 hours per week and those aged over 65 work about 32 hours per week. The youngest age group (aged 16 to 19) work the longest hours in most of the years, normally two to four hours longer than the national average.

As to different occupational groups, managers tend to work longer than average hours, but it was Business Service Personnel who were the longest working hour group over the six years – they normally work five hours longer than the national average, and by 2008, they are the only group who work nearly 50 hours per week. Meanwhile, employees in Agriculture and Water Conservancy agencies tend to work fewer hours. Their weekly working hours dropped six hours over the years and they work under 40 hours per week by 2008. The gap between the longest and shortest working-hour groups expanded from about 7 to about 12 hours during the six years.

Those with lower educational attainment (senior high school and below) tend to work longer hours than college or higher education graduates. The exception is the least educated group, who gradually work the least; in 2008 their average working time was about 36 hours per week, eight hours less than the national average. Junior school graduates have the longest working hours, about 47 hours, one to two hours longer than the national average and five to seven hours longer than those with university degrees or higher education.

Table 4.1 Working hours among different social groups

Group	Year					
	2003	2004	2005	2006	2007	2008
<b>Age</b>						
16–19	48.4	48.7	51.8	49.9	48.1	45.8
20–24	46.2	46.4	49.4	48.4	46.9	45.6
25–29	45.7	45.9	48.6	48.1	46.5	45.7
30–34	45.7	45.9	48.6	48.4	46.9	46.0
35–39	45.7	46.0	48.4	48.3	46.7	45.9
40–44	45.1	45.3	47.7	47.7	46.1	45.4
45–49	44.9	44.7	46.9	46.5	45.2	44.5
50–54	44.5	44.5	45.9	45.2	43.9	43.3
55–59	44.2	44.0	44.8	43.9	41.8	41.0
60–64	42.7	43.0	42.9	41.8	38.4	37.3
65+	40.7	40.7		36.8	33.4	32.7
<b>Occupation</b>						
Unit Head	44.3	44.0	47.2	47.3	47.7	47.5
Professional Personnel	43.4	44.1	43.2	44.1	43.4	43.0
Clerk and Related Workers	41.8	42.4	44.4	44.4	43.8	43.5
Business Service Personnel	49.4	49.3	52.0	52.0	50.3	49.1
Agriculture Labor	44.2	42.9	43.0	41.9	38.2	37.7
Production and Related Workers	47.5	48.1	51.4	50.8	49.8	48.2
Others	46.7	46.8	48.9	48.4	46.7	46.8
<b>Education</b>						
Illiterate	44.9	44.8	44.4	41.5	37.3	36.4
Primary School	47.2	46.1	47.8	46.4	43.4	41.7
Junior School	47.4	47.4	50.0	49.3	47.3	46.1
Senior School	44.4	44.9	47.8	47.7	46.8	46.0
College	41.6	42.0	43.2	43.8	42.9	43.0
University	41.1	41.2	41.9	42.1	41.7	41.7
Graduate	41.4	42.2	41.3	42.2	41.4	41.1
<b>Sector</b>						
FFAF*	44.1	42.9	42.9	41.9	38.2	37.6
Manufacturing	46.4	46.9	51.1	50.4	49.4	47.9
Construction	48.4	48.0	51.6	51.3	49.7	48.2
WRT*	49.2	50.1	52.5	52.5	50.9	49.6
HCS <sup>a</sup>	50.1	49.1	53.9	54.4	52.1	50.7
RE*	42.2	42.4	45.8	45.8	45.7	44.9
POS*	47.5	47.0	52.3	52.1	50.2	49.0
PASO*	40.9	41.1	42.2	42.0	41.8	41.5
<b>Average</b>	45.4	45.5	47.8	47.3	45.5	44.6

Source: China Labour Statistical Yearbook 2009 (pp. 111–12)

Note:

\* FFAF: Farming, Forestry, Animal Husbandry and Fishery

WRT: Wholesale and Retail Trade

HCS<sup>a</sup>: Hotel and Catering Service

RE: Real Estate

POS: Personal and Other Services

PASO: Public Administration and Social Organizations

Employees in different sectors also experienced different levels of pressure to work more. Employees from Farming, Forestry, Animal Husbandry and the Fishing Sector appear to have reduced their working hours over the years, and by 2008 they are the only group whose weekly hours are under 40. Together with employees in Public Administration and Social Organizations, they are the only group working less than the national average. Meanwhile, there is a gradual increase of working hours of employees in the Manufacturing, Real Estate, Public Administration and Social Organizations. Employees in Wholesale and Retail, and Hotel and Catering Services have become the longest working group since 2003, spending more than 50 hours per week at their workplace.

The statistical information available on the urban registered population needs to be taken with a pinch of salt. Information on actual working hours in several industries that employ large numbers of rural migrants, or of workers who do not sign a labour contract (see also Chapters 4 and 10), are likely to reveal that many of the provisions on working times and working conditions set out in China's Labour Contract Law are far from being fully implemented (see Chapter 3).

Although gradually adapted to the rationale of the market, China's economy is still under the influence of state policy intervention. During the socialist period, as the urban economy was mainly a state-owned economy, employers 'took care' of their employees by providing comprehensive social welfare. As the earlier chapters have pointed out, employees now need to contribute, alongside their employers, to their insurance schemes (Davis 1989; Croll 1999). Figure 4.9 summarizes the general access to unemployment insurance, medical insurance and work injury

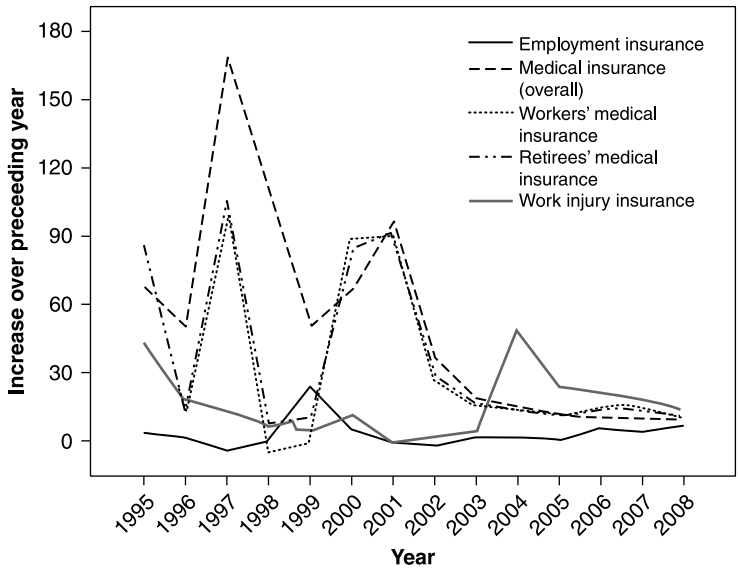


Figure 4.9 Insurance participation 1995–2008.

Source: China Labour Statistical Yearbook 2009, pp. 486, 493 and 498.

insurance of urban employees. Participation in medical insurance experienced great growth, from 7 million participating in 1995 to 318 million in 2008 (NBS 2009: 486). Especially, the participation of retirees experienced at least a 50 per cent annual increase in the second half of the 1990s, which made them the highest increase group in social insurance participation. Compared to retirees' participation, the increase in the number of employees who contributed to unemployment insurance was much lower at the end of the 1990s. Since 2000, the increase of both groups tends to be in accordance with each other. After a gradual slow-down increase in the 1990s, work injury insurance has experienced a two-digit increase since 2004. Among social insurance participation, unemployment insurance participation experienced the slowest increase over the years.

Recent studies have revealed that welfare provision is no longer allocated by the state as a public good, but increasingly became associated with the degree of success of one's work organization (Wang 2008). Healthcare benefits have been increasingly linked to employment status, sector and type. As a result, those with higher wages are also likely to enjoy better health benefits (Gao and Riskin 2009: 35). It is worth noting that the national statistics presented above only include registered urban labours. Large numbers of urban laid-off workers and rural migrant workers do not participate in social insurance, due to the policy restrictions (favouring officially registered public sector employees), regional boundaries (limited to those with local urban household registration) and insufficient social security system (Wang and Gao 2008: 270–3).

### ***Living standards***

The direct impact of economic growth and of changing employment conditions on people's lives is revealed in general improvements to living standards among the wider urban population. Table 4.2 illustrates the changes of basic conditions for urban households in selected years since 1990. Among the most striking changes is that the average household size has declined from 3.5 in 1990 to 2.9 in 2008. Second, the nominal per capita annual income increased nearly 10 times from about 1,516 Yuan in 1990 to 17,067 Yuan in 2008, while the per capita annual consumption expenditure also increased about ninefold. Third, the percentage of expenditure on food, clothing and household facilities gradually declined. There were increases for housing, health care and medical services, transport and communications. As a testimony to China's substantial improvement in living standards, food consumption, which used to constitute more than half of the total expenditure, has declined by 18 percentage points since 1990 to about 37 per cent. It is still the largest component of family expenditure. Clothing and household facilities expenditure declined much less, about 3 to 4 per cent less over the years. The biggest expenditure increase was in transport and communication, which jumped from about 1 per cent in 1990 to 13 per cent in 2007. Education, cultural and recreation services remained relatively stable during the two decades, at about 11 to 13 per cent, despite the huge increase in available income and overall consumption.



*Table 4.2* Basic conditions of urban households (selected years)

<i>Household Situation</i>	<i>Year</i>					
	<i>1990</i>	<i>1995</i>	<i>2000</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
Average household size (person)	3.5	3.2	3.1	3.0	2.9	2.9
Per capita annual income (Yuan)	1,516	4,279	6,295	12,719	14,908	17,067
Per capita annual consumption expenditure (Yuan)	1,278	3,537	4,998	8,696	9,997	11,242
Composition of per capita annual consumption expenditure (%)						
Food	54.3	50.1	39.4	35.8	36.3	37.9
Clothing	13.4	13.6	10.0	10.4	10.4	10.4
Residence	7.0	8.0	11.3	10.4	9.8	10.2
Household facilities	10.1	7.4	7.5	5.7	6.0	6.2
Health care and medical services	2.0	3.1	6.4	7.1	7.0	7.0
Transport and communication	1.2	5.2	8.5	13.2	13.6	12.6
Education, cultural and recreation services	11.1	9.4	13.4	13.8	13.3	12.1
Others	0.9	3.3	3.4	3.6	3.6	3.7

*Source: China Labour Statistical Yearbook 2009 (p. 156)*

### ***Occupational attainment***

Changes in the general employment structure affected employees' opportunities and positions in the labour market. The median age of China's workforce is now only 32 and it is expected to increase steadily to 40 in 2025. Individuals aged under 40 are found to be much more willing and able to adapt to major work changes than workers over that age (Naughton 1999: 43). And those between the ages of 25 and 44 are more needed in the job market than those aged under 25 or over 45 (Li and Chen 2009: 6–7).

The gender split is changing. The proportion of male employees in urban units dropped by about 9 per cent over four years to about 41 per cent in 2005, while there is a 6 per cent increase in male employees in the private sector. The increase in female employment is even bigger – nearly 8 per cent (NBS 2002: 54; 2003: 68; 2004: 74; 2005: 82).

Otis (2009) finds that forms of recruitment, training and promotion mobilize and produce distinct job hierarchies for men and for women, for the young and for the middle-aged. Gender essentialism that sorts men and women into different tasks illuminates labour segregation and gender divisions: male strength and youth become proxies for managerial competence; female youth and beauty for interactive competence and deference (Otis 2009: 68).

In the early stages of reform, economic growth depressed returns to education and work experience and did not affect the net differences between party members and non-members and between men and women. According to Xie and Hannum (1996) the overall inequality in earnings remained low and was only marginally

correlated with economic growth, largely due to the lack of an efficient labour market in urban China. As reform deepened, however, significant changes were recorded in the overall returns to education (Zhou 2000). Those who did not attend high school have less and less opportunity to get into urban units. By 2005, less than 5 per cent of the illiterate and semi-illiterate worked in urban units but about 22 per cent of junior high school graduates did so. Among the less educated, more and more of the illiterate and semi-illiterate ended up working in agricultural employment – about 56 per cent by 2005 (NBS 2005: 84).

Data from the *China Labour Statistical Yearbook 2002–2009* also suggest that those who finished primary school and junior high school were more likely to work in the private sector – 4 and 9 per cent, respectively. And women seem to be more likely (about 4 per cent) to take up private sector jobs than men with the same educational level. Among those who achieved higher levels of education, senior high school graduates also gradually lost their edge in terms of access to employment in urban units. By 2005, about 54 per cent of them worked in urban units, with a drop of about 12 per cent over the previous four years. In the same period 10 per cent more of them were employed in the private sector (NBS 2002: 55; 2003: 70; 2004: 76; 2005: 84; 2009: 109).

The great majority (about 90 per cent) of those who completed tertiary or postgraduate education work in urban units, and female graduates' ratio is 2 to 3 per cent higher than that of male graduates (NBS 2005: 84). People with lower educational attainment (primary school or lower) have fewer opportunities. By 2008, about 75 per cent of the least educated are working in Agriculture and Water Conservancy, and the proportion is about 20 per cent higher than it was in 2002. The intermediate education level (junior and senior high school) employees are more likely to be employed in Business Service Personnel and Production, or as Transport Equipment Operators. Meanwhile, as should be expected, those with tertiary and/or postgraduate education are the most competitive for professional and technical positions. With the same level of educational achievement, women are more likely to end up in Agriculture than men (NBS 2002: 61; 2003: 86; 2004: 92; 2005: 100; 2007: 117; 2008: 95; 2009: 109).

About 50 per cent of university graduates end up working as professionals or technical personnel, and the proportion of people with postgraduate education in this type of employment has increased about 10 per cent over six years to about 61 per cent in 2008. Among the better educated, men are more likely to take up managerial positions, while women are more likely to take up positions as professional and technical personnel (NBS 2002: 61; 2003: 86; 2004: 92; 2005: 100; 2007: 117; 2008: 95; 2009: 109).

### ***Mobility patterns***

During the early stages of reform, large numbers of people moved from state-owned enterprises or institutions to the private sectors (Zhou *et al.* 1997; Lu 2004; Liu 2005). They were attracted by higher economic rewards and market opportunities while at the same time trying to preserve the benefits of their membership in

a state-owned work unit. A survey in 2000 found that the three main considerations when seeking a new job had changed. Before the reform they were 'authority's assignment', 'answering the Party's call' and 'income and welfare'. They had now become 'income and welfare', 'personal interests and advancement opportunities' and 'working conditions' (Liu 2004: 65–6).

Since 1985, more channels have become available to look for work and find more desirable positions. Personnel examinations and other forms of open hiring have become the most common means of recruiting people into urban workplaces. Examinations and greater competition have helped move China towards a more meritocratic system and to increase returns on education. Both market and network channels offer numerous opportunities for skilled and unskilled jobs, but networks, especially those with weak ties, are also key channels for upward mobility into non-manual, high-skilled and managerial jobs (Bian 2009: 187–8).

Given the fact that the hierarchy of workplaces in China was, and still is in many respects, closely related to the structure of political authority (Bian 1994; Zang 2004; Zhou 2004), occupational attainment and mobility patterns reflect the interaction of China's economic institutions and political institutions. Some state sector occupations, such as government agencies and public organizations, have maintained their traditional advantages and are still highly desirable in the reform era. The growth of a market economy does not seem to result from people leaving these occupations. Rather, mobility to private firms is mainly from low-level state units and non-state organizations (Zhou 2004).

The promotion of meritocracy in China is also connected to the goal of a more efficient and dynamic bureaucracy. Merit-based hiring procedures have been extended from elite recruitment at national levels down to local levels, especially for positions requiring formal credentials and expertise (Lee 1991; Walder 1995; Davis 2000; Zang 2001, 2004). Moreover, the government has repeatedly raised salaries, improved work conditions, and adopted a more merit-based appointment process for officials (Tomba 2004). Not only public servants, but also professionals within the system, benefit more from public employment today than in the 1980s. Along with social welfare, pensions, medical insurance and housing subsidies, large state-owned enterprises, in particular monopolistic state-owned enterprises, create a more meritocratic environment for professionals and a favourable structure of rewards (Tomba and Tang, forthcoming). Even the emergence of a salaried middle class according to some (Li and Niu 2003; Tomba 2004) is the consequence of intensive, ideologically justified and coordinated policy-making, which manifested itself in a steep rise in public sector salaries and protection of the welfare privileges of the skilled, publicly employed urban population (Cao 2001).

A 1999 survey showed that 'leading cadres in government offices and institutions' was still topping the ranking of most desirable jobs, among different educational achievement categories and throughout political affiliation. The younger generation (aged 16 to 30) ranked 'IT engineer' as the top preference, followed by 'leading cadres', but the over-30s picked 'leading cadres' as their first choice (Xu 2004: 141–51). The national public servant exam has attracted more and more

university and graduate school applicants since 2000. In 2010, there were 1.46 million applicants who registered for the exam for national public service positions, which made the acceptance rate 1:93 (Yang 2009).

Individuals are more likely to work in a 'good' work unit if their fathers had a high position in state-owned work units. At the same time, the influence of the family's political background on individuals' chances to find a good job gradually diminished as the reform deepened. Since the 1990s, comparatively speaking, the influence of fathers' work unit identification on employment opportunities started to decline, while individuals' educational credentials such as degrees and professional certificates become more and more important in getting a desirable position in the labour market (Liu 2005: 83–4; Zhang 2004: 195).

Those who took up an administrative position as their first job are more likely to stay in their positions, while those who started with professional technical positions have more flexibility in switching to other positions. The most open group is clerks, but they have less ability to obtain better resources and opportunities than administrative personnel or professionals; the most static group is the self-employed, who have the least opportunities of upward mobility (Liu 2004: 78–9; 2005: 99–100).

Table 4.3 summarizes the reasons for unemployment among different social groups. Generally speaking, 'work unit reasons' is ranked the main reason for unemployment (28 per cent), followed by 'unemployed after graduation' (22 per cent) and 'individual reasons' (19 per cent). Men are more likely to lose their jobs than women because of the work unit reasons – about 33 per cent of them became unemployed due to the poor performance of their work units, which is about 9 per cent higher than women. Women are far more likely to leave their jobs for the reason of 'taking care of housework' – 23 per cent of the women chose this reason but only 1 per cent of men did so. Compared to the mid-aged group (those who are between 40 to 55), more than half of whom are unemployed by their work units, the younger generation are facing a severe challenge in the graduate job market – 77 per cent of those aged under 20 and 60 per cent of those aged under 25 reported they failed to find a job after they finished their education. Those who finished tertiary or higher level education suffered the most from the unpromising labour market. Fifty-five per cent of university graduates and 43 per cent of postgraduate students become jobless after they completed their degree. Those who have the highest educational achievement seem to be more likely to leave the job because of 'individual reasons'. The higher investment in their education and the higher expectations of their jobs make postgraduate degree holders become the most 'selective' employee group – 43 per cent of them left their previous job because of individual reasons, which is at least 20 per cent higher than people who finished other, lower levels of education.

Table 4.4 compares the job searching channels among different unemployed groups in terms of their gender, age and educational credentials. In total, informal personal networks remain the most popular source of job information. More than half of the unemployed choose to ask their friends or relatives when looking to get another job. Far fewer unemployed people use formal recruitment channels to

Table 4.3 Unemployment reasons among different social groups

Unemployment reasons								
	Retirement	Taking care of housework	Unemployed after graduation	Work unit reasons	Individual reasons	Land expropriated	Others	Total
Gender								
Male	1.6	1.1	24.9	33.6	20.9	4.1	13.6	100
Female	2.6	23.8	19.4	24.1	17.4	3.1	9.6	100
Age								
16–19		0.8	77.6	2.3	14.3	0.2	4.8	100
20–24		4.8	60.9	4.7	19.1	1.1	9.3	100
25–29		17.2	28.0	12.2	27.3	1.9	13.4	100
30–34		23.3	4.8	29.2	21.8	4.2	16.7	100
35–39		19.4	2.9	39.0	19.4	7.3	12.1	100
40–44	0.2	13.6	0.8	53.5	15.7	5.4	10.6	100
45–49	1.2	11.5	0.6	56.4	17.6	3.2	9.5	100
50–54	14.3	7.2	0.4	50.0	10.6	5.1	12.4	100
55–59	20.9	5.1		45.5	11.9	4.3	12.3	100
60–64	35.7	16.7		7.1	14.3	14.3	11.9	100
65+	41.4	10.3		17.2	20.7	6.9	3.4	100
Education								
No Formal Education	2.9	23.5	5.9	2.9	5.9	5.9	52.9	100
Primary School	4.0	18.8	3.8	19.8	20.4	12.6	20.4	100
Junior School	2.4	16.9	13.8	29.1	19.8	5.6	12.4	100
Senior School	1.9	11.0	23.1	35.2	17.9	1.0	9.8	100
College	1.1	4.8	46.3	19.8	18.0	0.4	9.6	100
University	0.9	2.1	55.0	15.9	21.8		4.4	100
Graduate			43.8	6.3	43.8		6.3	100
Total	2.1	12.9	22.1	28.7	19.1	3.6	11.5	100

Source: China Labour Statistical Yearbook 2009 (pp. 125, 127)

Table 4.4 Job searching channels among the unemployed

	Employment agency offices	Asking friends/ relatives	Employment hiring meetings	Employers' advertisement	Planning for own business	Others	Total
<b>Gender</b>							
Male	13.9	52.9	2.1	9.7	8.3	13.1	100
Female	11.1	51.8	2.1	9.4	6.1	19.5	100
<b>Age</b>							
16–19	9.4	64.2	2.3	8.8	4.8	10.5	100
20–24	15.2	46.3	2.0	20.7	5.2	10.7	100
25–29	12.2	45.5	2.4	13.8	7.5	18.7	100
30–34	11.0	50.7	2.5	7.4	7.7	20.7	100
35–39	12.1	54.2	2.3	5.6	9.8	16.0	100
40–44	10.9	58.9	1.6	3.3	7.5	17.8	100
45–49	14.9	53.6	1.9	4.6	6.9	18.0	100
50–54	12.9	57.1	1.9	3.0	8.7	16.3	100
55–59	11.1	61.3	0.8	2.0	4.7	20.2	100
60–64	4.8	47.6		2.4	4.8	40.5	100
65+	6.9	44.8			10.3	37.9	100
<b>Education</b>							
No Formal Education	2.7	40.5	5.4	5.4	10.8	35.1	100
Primary School	9.3	56.6	2.0	3.0	7.9	21.1	100
Junior School	10.0	59.2	1.4	4.7	6.7	18.0	100
Senior School	13.5	53.0	2.0	8.2	7.9	15.4	100
College	18.3	35.6	3.3	24.3	6.5	12.0	100
University	18.8	23.2	5.6	33.4	6.2	12.9	100
Graduate	5.9	17.6		47.1	17.6	11.8	100
<b>Total</b>	12.5	52.4	2.1	9.5	7.1	16.4	100

Source: China Labour Statistical Yearbook 2009 (pp. 131–2)

look for other jobs – only 12 per cent registered with employment agency offices, less than 10 per cent look for jobs through job advertisements and only 2 per cent participate in employment hiring meetings (*zhaopin hui*). Those who are between 20 and 30 are more likely to look for job information through job advertisements than other age groups. And the higher education they have, the less likely they are to use personal networks and the more they prefer to search for jobs through job advertisements. Less than 20 per cent of those with postgraduate education ask for job information from their friends or relatives, which is about 40 per cent lower than those with junior school education. Thirty-three per cent of those with university education and 47 per cent of those with postgraduate education use job advertisements as the main source of information, while only 3 per cent of those with primary school education and 4 per cent of those with junior school education do so. Compared to other educational groups, those who did not go through formal education and those who completed postgraduate education are more likely to plan to start their own business after they lose their jobs. About 10 per cent and 17 per cent of those two groups choose to plan for their own business, respectively, while only 6 or 7 per cent of other educational groups consider this option.

## Conclusion

This chapter is by no means exhaustive in its attempt to provide a snapshot of the changes in China's workforce during the last three decades. The rapid economic growth was accompanied by a rapid decline in the share of GDP produced by agriculture and an increase of tertiary industry contribution to the national economy. Economic development has been accompanied by the emergence of different forms of ownership and a different emphasis on industrial sectors, with export-oriented manufacturing taking the lion's share.

The proletarianization of many Chinese farmers, but also a significant change in the priorities of public investments, produced a substantial overhaul of China's urban workforce. Progressively, and at a slow pace, a labour market was established where skills and education became important factors but where the traditional distinction between 'within' and 'without' the system remained crucial in determining opportunities. The public sector continued to attract the best workforce, and to shield some of the new generations of urbanites from the risks and fluctuation of private employment. Chinese workers have become more mobile, younger and more educated although inequality at the workplace, between workplaces and between areas has continued to increase.

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## 5 Local labour markets

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### **A societal approach to local labour markets**

Local labour market (LLM) approaches are well understood and widely used in the literatures on labour markets in developed countries. They are particularly useful where they assist in making sense of the local within larger, more populous and more diverse societies (Hoynes 2000; Chapple and Lester 2010; Dustmann, Fabbri, Preston and Wadsworth 2003; McQuaid *et al.* 2006). This suggests that a local labour market approach would be particularly appropriate for analysing spatial patterns of employment and unemployment, turnover and labour mobility and migration within China, a large, populous and diverse country *par excellence*.

Orthodox economic theories view LLMs as a relatively confined geographic space in which the matching processes between labour demand and supply take place. In this sense, a local labour market perspective merely investigates the same universal ‘labour market laws’ within different localities (Peck 1989, 1996). However, this definition tells us little about the local mix of characteristics that may generate diversity across local labour markets, even among neighbouring ones. Factors such as geographic location, climate and natural resource endowments can play primary roles in historically shaping local dynamics. Informal institutions such as local culture, customs and norms more gradually influence local labour market traditions, their power relations and inter- and intra-organizational relationships, including the formal institutional arrangements discussed above.

Indeed, each LLM is the outcome of its particular embedded context in which legal, geographic, economic, political, cultural and other social systems follow localized patterns of interaction. These systems vary geographically by structure, functions and authorization and combine, dynamically, to produce different outcomes across localities (Jonas 1996, 1997; Peck 1989, 1996). This ‘societal’ approach is sensitive to historical dynamics as well as ‘institutional embeddedness and geographic differentiation’ (Peck 1996: xv).

The next section explains the approach we have chosen for analysing local labour market dynamics in China. Following this, we introduce two particular forms of LLM in China – special economic zones and the much smaller industrial parks – and then briefly discuss how research on labour markets in China neglects

the LLM dimension. The chapter then provides empirical evidence and argument regarding labour market diversity and disparity across different spatial dimensions in China. To do this, we ‘cascade’ data from the regional, to selected provincial and finally local scales. Our findings allow us to identify further fruitful areas for studying Chinese labour markets by using an LLM approach. We conclude by discussing our notion of a post-transition local labour market by briefly presenting a case study based on our own research.

### **Local labour markets: structures, processes and outcomes**

The above discussion implies the need to study both local labour market structures and processes. According to Peck (1996), these, in turn, refer to three aspects: the labour process and labour demand; labour supply and social reproduction; and labour market regulation and the regulation process itself. Examination of labour process and labour demand at the local level can include various dimensions of demand – such as volume, type, wage structure and skill level – as well as trends and changes in those dimensions. Such an examination also needs to investigate underlying reasons for patterns of or changes to labour demand. Those reasons include questions of industry structure, broader economic and technological development, product market dynamics, patterns of protective labour regulation (including through collective bargaining or legislation) and inter-enterprise relationships, including through employer associations. Finally, there is the role of policies encouraging investment.

Studies of labour supply mainly focus on characteristics of the local workforce. Special attention typically flows to questions such as changing demographic patterns related to age and gender, labour migration and mobility, and localized patterns of job turnover. They also include attention to local skill profiles by type and level, local delivery of education and training and the role of trade unions and employer associations – if relevant. There is also obviously a role for regulation of hours worked and pay as well as for public policy initiatives, including particular funding schemes for skills development, parental leave and family-friendly policies. As for the demand side, on the supply side in many countries the nature of welfare and taxation systems can have important local implications.

Studies of labour market regulation examine laws and other regulations emanating from the national down to the local level. Formal arrangements like central–local government relationships and the functioning of local authorities can be important. So too are policy priorities – again from national to local – and the particular character of local administration (Peck 1996).

The dynamic material outcomes that result from the interplay of labour demand, supply and regulation can include workforce size and participation rates, employment and unemployment levels – and their composition by age, gender, origins and working arrangements – as well as wage levels, skill and education levels. They also affect job search and recruitment processes. More broadly they can feed back into the general local context by influencing population profiles and movements, the demand for housing and other amenities, local economic performance,

industry type and composition, and FDI levels. The overall patterns are of seemingly continual feedback between context, structures, actors, processes and effects that generate diversity and disparity.

The above discussion orients the existing local labour market literature on developed countries towards our interest in developing a societal perspective on LLMs in China. The next section looks at two particular forms of LLMs in China. These have developed as an integral part of the central government's objectives for modernization and rapid economic development since 1979. The main government strategies chosen for these goals – a major shift towards a market-oriented economy, deep integration within the global capitalist economy, inbound knowledge transfer and decentralization of much public policy and administration – have been tightly bundled into and managed through its particular locational strategy. In practice, this has meant the creation of 'special economic zones' (SEZs) and 'industrial parks' together with their local labour markets. These have carried much of China's transition process. It is also our contention that the more advanced of those localities and their labour markets are also the carriers of China's post-transition story. Following this discussion, we present discussion on the general lack of scholarly attention to LLMs in the literatures on management, employment relations and HRM in China. In doing this, we explain why an LLM focus – and not just on SEZs and industrial parks – is particularly important in the Chinese context.

### **Special Economic Zones and Industrial Parks**

For the purpose of examining LLMs in China, we have divided the period since 1979 into four phases (see also OECD 2000). Table 5.1 illustrates the parameters of each phase as well as the content of each for selected local labour market dimensions. The establishment phase came through Deng's 'socialist market economy' policy that concentrated rapid economic development into four specified Special Economic Zones (SEZs). SEZs are extensive, geographical areas that the central government designated for special economic development through foreign investment. To encourage this process, the central government has provided SEZs with an array of comparative advantages to attract foreign capital. These include preferential taxation rates and custom duties, easier access to importation and exportation, private access to industrial land, and local and more entrepreneurial administrators with the authority to plan and implement. This made SEZs, by design, more complex and diverse arrangements than export processing zones in other countries (Yeung *et al.* 2009). Industrial parks, which developed later than the early SEZs, are much smaller geographically and often have a particular industry focus. A SEZ may contain a number of quite different industrial parks.

Most of the investment for the initial SEZs came as foreign loans. While loans continued to be important during the second phase, from 1984 to the early 1990s, the central government encouraged growth through FDI and an increase in the number and geographic dispersion of SEZs. This investment came from the region,

*Table 5.1* Phases in China's development of local labour markets

<i>Time period:</i>	<i>Phase 1</i> 1979–1983	<i>Phase 2</i> 1984–1991	<i>Phase 3</i> 1992–1999	<i>Phase 4</i> 2000–
<i>Phase type:</i>	<i>Proto-market</i>	<i>Transition</i>		<i>Post-transition</i>
Rationale	Reform Policy Realignment – opening up	Enterprise Development – regional extension	Enterprise Development – technological/ global	'Great Development of the West' – balanced national development
<b>(i) Labour Demand and Labour Process</b>				
Capital inputs	External loans; FDI	FDI; external loans; JVs	JVs/FDI	JVs/FDI/direct ownership
Investment/ production location	Southern provinces	Coastal	Eastern region; some central	National – 4 pillars
Production	Manufacturing processing; intermediate goods	Manufacturing processing; intermediate goods	Manufacturing value chain; Technological development	Multi-sector; technological; mature economic regions
Labour market scope	Local/ provincial	Local/regional	Local/regional	Local/regional/ national
Skill level	Low/semi	Low/semi	Low/semi/high (technical)	Semi/high and professional
<b>(ii) Labour Supply and Social Reproduction</b>				
Labour supply	Local/ provincial	Local/ provincial	Local/regional	Local/regional/ national
Training	Provincial/ local	Provincial/ local	Regional/ provincial/firm	National/ provincial/firm
Social insurance	National/ Local SOE (‘iron rice bowl’)	Local/SEZ agencies decentralised	Local/regional decentralised; firm (?)	Local/regional; firm (?)
<b>(iii) Labour regulation and labour management</b>				
Regulation	National/local	National/ provincial/local	National/ provincial/local	National/ provincial/local
Management	Local/wage system	Local/wage	Local/wage/ HRM practices	Local/wage/HRM practices

*Source:* The authors

predominantly from ‘overseas Chinese’ sources – Hong Kong, Taiwan, Macao and Singapore (Ma 2006; OECD 2000:4). During the third phase, from the early 1990s to 1999, the character of investment changed as FDI from multinationals based in OECD countries became increasingly prominent. Taken together, these three phases drew hundreds of millions of workers and their families into the wage sector

of the 'market' economy through internal migration and local development. Some of its effects – primarily on inequality – have been of central policy concern and they receive extensive discussion in Chapters 4, 8 and 14. The fourth phase, from 1999 – with the 'Great Development of the West' – has further embedded localized economic and socio-political practices.

In reacting to perceived difficulties, each phase demonstrates important shifts along the road to greater reliance on market mechanisms, the global economy and the localization of administrative control and support. One outcome, of central concern for this book, is that many important geographic areas of China are experiencing post-transition complexity and challenges in their local labour markets.

A crucial starting point came in August 1980, with the establishment of the first four SEZs: in Guangdong province, there was Shenzhen near Hong Kong, Zhuhai across from Macao, and the smaller Shantou. The fourth SEZ, Xiamen, was in rural Fujian across from Taiwan (OECD 2000:4). This process decentralized economic allocation decisions governing investment and, importantly, labour market regulation to provinces and municipalities on the assumption that this decentralization would create administrative and production efficiencies. One central government objective was for SEZs to greatly boost production, primarily for exportation. This in turn was to support other central objectives – the amassing of foreign-exchange earnings to underpin China's modernization. As part of administrative decentralization, the project of establishing SEZs incorporated infrastructure development and, importantly, employment in private firms and supporting entities like government administration.

The central government judiciously placed the initial four SEZs in the south. The SEZ policy initiative served three primary purposes. First, it sought to make the locations, and their economic advantages, highly visible and easily accessible to nearby potential capital sources. In fact, foreign firms soon recognized the economic advantages of SEZs. Of particular importance to them were central government market liberalization policies such as the 1981 Provisional Labour and Wage Regulations allowing local-level wage contracts and job dismissals. The second purpose of SEZs was for them to serve anticipated population growth in those regions, taking into consideration existing strong drifts to urban areas. This meant the formation and rapid growth of specifically planned local labour markets. In this, the four foundation SEZs also faced ambitious goals. The first provisional plan for Shenzhen SEZ, for example, outlined a city population target of one million by 2000, a labour force of half a million and 1,500 firms. In 1980, Shenzhen's population was only about 30,000 (Wu and Ip 1985: 217–18; Yeung *et al.* 2009: 223). The final purpose of SEZs was for their bounded locational design to allow social and economic experimentation, fostering dramatic changes while geographically isolating any potential political instability that might have arisen.

The Shenzhen model – with its leading regulatory, enterprise and management initiatives – became an exemplar for SEZs and industrial parks, continuing its influence into subsequent phases (see Yeung *et al.* 2009: 226–30). With this success and policy groundwork, from April 1984 the central government greatly

expanded its policy of development through decentralized administration and localized initiative. A first important step was to extend the SEZ model to 14 other coastal cities and further encourage a greater role for FDI in those zones. More than 70 per cent of those funds flowed to manufacturing operations as regional Asian firms – particularly from Hong Kong – sought access to lower labour costs for relatively low-skilled, standardized work (OECD 2000: 6–7).

Significantly lower wages allowed investors to comply with localized infrastructure and social wage requirements (Wu and Ip 1985: 221–30). While firms could directly recruit labour, they largely relied on existing labour bureaus or agencies operated by the local government authorities or development organizations. To meet rapidly rising demand, recruitment efforts quickly expanded from local to wider provincial sources or to adjacent provinces. Although extension of the SEZ model to the 14 other locations eased recruitment and migration problems, as Chapter 7 makes clear, skilled labour shortages remain a major challenge for local labour markets.

The extension and elaboration of SEZs marked Phase 3, particularly through the growing profile of FDI from MNEs in OECD-based countries. Initially, the central government approved zones like Pudong New Area (1990) but, in 1992, it opened all inland cities and regions to SEZs. Of particular significance was the policy shift through which new SEZs and industrial parks – and the FDI they hosted – were to elevate China's technological skills and knowledge profile within the global capitalist value chain. One leading example was the establishment of the Shenzhen High-Tech Industrial Park, as the first of five provincial parks. Another was the establishment, in 1994, of the highly successful China–Singapore Suzhou Industrial Park (SIP), a joint venture (JV) between the two central governments to facilitate the transfer of Singapore's 'administrative software' to China. By the end of the 1990s, in the exemplar Shenzhen SEZ, high-tech industries accounted for 40 per cent of industrial output (Yeung *et al.*, 2009: 230). Finally, the nature of enterprise development broadened, with the opening of high-tech industrial development parks, technological development parks and science parks. At that time, more than one hundred of these diverse local entities were operating across China, each with particular local labour market dynamics and conditions that marked them as quite different from phase one and two SEZs that specialized, for example, in manufacturing clothing, shoes, toys and basic consumer goods.

Phase 4 marks the extension of the national policy imperative for growth to cover the central and western regions so as to address uneven development. In the process, the 'special' nature of SEZs as locations of unique policies and regulations has become significantly diluted. China's admission to the WTO symbolically bound all parts of the country to the same liberalizing trade and investment rules. The current Five-Year Plan (2006–2010) embeds future Chinese development on the 'four pillars' of high-technology industrialization, logistics, finance and the culture industry. A post-transition trajectory from the early twenty-first century increasingly rests upon the rise of an innovation economy emerging from the earlier reliance on manufacturing production. These factors will continue to generate different incentives and pressures towards local labour market diversity

practice (Altenburg *et al.* 2007: 340; Yeung and Shen 2004; Yeung *et al.* 2009: 231, 236).

### **China and the local labour market research gap**

China's most important labour market reforms since the 1980s have sought to create a more market-oriented system of labour administration that improves 'the mobility, flexibility, incentives and efficiency of labour' (Knight and Song 2005: 13). Existing research overwhelmingly focuses on the processes and implications of transition from command to market economy (Knight and Song 2005; Warner 2004; Zhao 2005). It prioritizes a few often interconnected themes. These include themes that directly reflect the dramatic transition story: substantial retrenchments from the state-owned and collective sectors and the dramatic increases in private sector employment (Dong and Xu 2009; Cai *et al.* 2008); and the end of the Chinese version of the 'iron rice bowl' employment system and the shift to individual employment contracts (Ding *et al.* 2000; Warner 1996). Then there is the new labour legislation and administrative arrangements intended to underpin these broader changes (Qiao 2008; Wang *et al.* 2009). In a similar vein, there is extensive work on labour mobility and the impact of the *hukou* system (Cai *et al.* 2008; Fan 2007). Another theme addresses some of the effects of these changes: rising inequality of income distribution in terms of gender, rural/urban residence, and region (Wan 2008; Ligon 2007; Benjamin *et al.* 2008); and new urban poverty related to lay-offs and unemployment (Liu and Wu 2006; Cai *et al.* 2005).

However, most of this literature treats the Chinese labour market as a simple national entity or, at most, a series of regional ones. Reflecting prevailing scholarly trends, a recent survey of the field through examination of two leading journals did not even list local labour markets as a level or topic of analysis (Poon and Rowley 2007). The same was true of a more recent, comprehensive overview of the field (Warner 2008). Where scholars disaggregate their attention, it mostly focuses on types of employers (FIE, SOE, JV, MNE) or sector, leaving the local focus unexamined.

This obvious gap is particularly surprising given historical as well as contemporary factors: China's great size and enormous population; its very long societal history and diversity in local conditions across regions. These differences manifest in many ways including in natural endowment, population density, political environment, economic development, skill and technology development, culture heritage and language. More recently, there has also been the impact of great diversity – across China's landscape – in the origins, volume, type, purpose and composition of FDI. There are also spatially different levels of dynamism and diversity with regard to local engagement in the global economy through international trade. All these dimensions interact generating the evolution of diverse LLMs in terms of size, composition, culture and level and pace of development.



## **Making pictures of the local**

Chapters 1 and 4 explain how rapid urban economic development has been a major source for creating plentiful job opportunities in China. Yet it has also made uneven labour market development more glaring across and within regions. In Tables 5.2 to 5.4, we explore this unevenness as it manifests through official data on five key economic indicators: per capita GDP; per capita income; level of FDI; level of foreign trade; and unemployment rate. Of these, the unemployment rates are perhaps the least credible (and were not available for the local level). We have used the years 2000, 2005 and 2008 (the most recent available) to capture trends as important parts of China shift from transition to post-transition status.

Our approach is to ‘cascade’ from the national aggregate down to the local labour market level via regional and provincial levels (or scale). At each level, we have selected the wealthiest or most developed available and chosen to disaggregate its component level to demonstrate the variety and disparities in outcomes that reflect uneven development even within an apparently leading region or province.

Table 5.2 presents data from the national level and China’s five areas. It demonstrates noticeable but well-known unevenness in development, with the East Coastal region displaying by far the highest GDP per capita, reflecting its overwhelming national share of FDI and dominant share of foreign trade. Per capita income is also highest in that region but the gap is smaller. Unsurprisingly, the West scores worst in all four indicators but unemployment rates vary little across the regions.

A *World Bank Report* (2007) briefly generalized several advantages East Coastal areas enjoy that contributed to its better economic performance. These areas have the advantages of geographic location and, as our discussion of the early SEZs (above) made clear, of an early start. Compared with other areas, they have more developed, flexible and efficient labour markets. East coastal areas also enjoy preferential policies such as tax incentives and flexibility of employment, especially attractive for FDI. As a result, they have larger proportions of private firms and listed firms, demonstrating a greater degree of vitality and market-orientation.

In Table 5.3, we take the East Coastal region and disaggregate by a selection of provinces or cities that help capture the same great disparities apparent at the inter-regional level. For example, Shanghai has a similar profile within the East as the East has within the national level. At the other end, Hebei’s GDP and income figures are not that distant from the West although they have improved more quickly since 2000. What is different is the increasingly much larger roles – compared to Shanghai – of Guangdong and Jiangsu Provinces as destinations for FDI and as contributors to foreign trade. Again, there is greater compression of income than GDP per capita figures and relatively little difference in unemployment rates.

In Table 5.4, we disaggregate the data for Jiangsu Province by selected cities. At this point, we are at or near the local labour market level. Our aim and strategy are the same: demonstrate diversity and disparity within an apparently very developed

Table 5.2 Key economic indicators by region in China

*Per capita GDP and income, 2000, 2005 and 2008 (Unit: RMB)*

Region	2000		2005		2008	
	<i>Per capita GDP</i>	<i>Per capita income</i>	<i>Per capita GDP</i>	<i>Per capita income</i>	<i>Per capita GDP</i>	<i>Per capita income</i>
Nation	7,858	6,280	14,040	10,493	22,698	15,781
East Coastal	13,821	8,099	23,768	13,375	37,213	19,203
Northeast	9,483	5,099	15,982	8,730	25,955	13,120
Central	5,463	6,526	10,608	8,809	17,860	13,226
West	5,116	5,648	9,338	8,783	16,000	12,971

*FDI participation and foreign trade, 2000, 2005 and 2008 (Unit: billion US dollar)*

Region	2000		2005		2008	
	<i>FDI</i>	<i>Foreign trade</i>	<i>FDI</i>	<i>Foreign trade</i>	<i>FDI</i>	<i>Foreign trade</i>
Nation	803.8	474.3	1,685.8	1,421.9	2,324.1	2,563.3
East Coastal	537.6	410.1	1,159.8	1,278.2	1,776.7	2,248.7
Northeast	7.4	27.1	114.9	57.1	158.4	108.9
Central	14.5	18.5	324.2	41.5	166.9	98.9
West	4.8	18.6	87	45.1	159.7	106.7

*Unemployment rate, 2003, 2005, 2008 (Unit: per cent)*

Region	2003	2005	2008
Nation	4.3	4.2	4.2
East Coastal areas	3.8	3.0	3.3
Northeast areas	5.0	4.7	3.8
Central areas	3.8	3.8	4.0
West areas	3.1	4.1	4.0

*Sources:* Adapted from *China Statistical Yearbook* (in various years), National Bureau of Statistics of China.

*Notes:*

- a East Coastal areas include 10 provinces and municipalities: Beijing, Tianjing, Hebei, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong and Hainan.
- b Northeast areas include three provinces: Liaoning, Jilin and Heilongjiang?
- c Central areas include six provinces: Shanxi, Anhui, Jiangxi, Henan, Hubei and Hunan.
- d West areas include 12 provinces, autonomous regions, and municipalities: Inner Mongolia, Guangxi, Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shanxi, Gansu, Qinghai, Ningxia and Xinjiang.
- e Per capita income refers to per capita disposable income of urban residents.

*Table 5.3 Key economic indicators in selected provinces/city in East Coastal areas*

*Per capita GDP and Per capita income, 2000, 2005 and 2008 (Unit: RMB)*

<i>Region</i>	<i>2000</i>		<i>2005</i>		<i>2008</i>	
	<i>Per capita GDP</i>	<i>Per capita income</i>	<i>Per capita GDP</i>	<i>Per capita income</i>	<i>Per capita GDP</i>	<i>Per capita income</i>
Shanghai	29,671	11,718	51,530	18,645	73,124	26,675
Jiangsu	12,736	6,800	24,560	12,319	39,622	18,680
Guangdong	11,765	9,762	24,435	14,770	37,589	19,733
Shandong	11,194	6,490	20,096	10,745	33,083	16,305
Fujian	9,326	7,432	18,646	12,321	30,123	17,850
Hebei	7,592	5,661	14,782	9,107	23,239	13,441

*FDI participation and foreign trade, 2000, 2005 and 2008 (Unit: billion US dollar)*

<i>Region</i>	<i>2000</i>		<i>2005</i>		<i>2008</i>	
	<i>FDI</i>	<i>Foreign trade</i>	<i>FDI</i>	<i>Foreign trade</i>	<i>FDI</i>	<i>Foreign trade</i>
Shanghai	98.5	54.7	200.67	186	294.0	322.06
Jiangsu	75.00	49.2	265.72	223	415.9	392.27
Guangdong	216.51	175.49	288.92	428	372.6	684.97
Shandong	38.95	28.25	78.62	76.8	101.2	158.41
Fujian	47.08	22.96	75.33	54.4	112.1	84.82
Hebei	14.01	5.49	21.93	16	33.8	38.42

*Unemployment rate, 2003, 2005, 2008 (Unit: per cent)*

<i>Region</i>	<i>2003</i>	<i>2005</i>	<i>2008</i>
Shanghai	4.9	4.4	4.2
Jiangsu	4.1	3.6	3.3
Guangdong	3.6	2.6	2.6
Shandong	3.6	3.3	3.7
Fujian	4.1	4	3.9
Hebei	3.9	3.9	4.0

*Sources:* Adapted from *China Statistical Yearbook* (in various years), National Bureau of Statistics of China.

and wealthy province. Here, for GDP and income, Suzhou City (including SIP – see above) plays the role of the East and Shanghai within the East – but with much greater success. Suqian City, on the hand, takes the place of the West and Hebei, but with apparently even less recent dynamism and improvement. Suzhou City also shows remarkable growth in its levels of FDI and foreign trade due to the great success of SIP since 2000. We discuss SIP itself in the next section.

Table 5.4 Key economic indicators by areas and in selected cities in Jiangsu Province

*Per capita GDP and Per capita income, 2000, 2005 and 2008 (Unit: RMB)*

Region	2000		2005		2008	
	<i>Per capita GDP</i>	<i>Per capita income</i>	<i>Per capita GDP</i>	<i>Per capita income</i>	<i>Per capita GDP</i>	<i>Per capita income</i>
South areas	22,297	8,403	50,508	15,083	61,823	22,756
Middle	9,298	7,278	18,591	11,659	33,735	16,574
North areas	6,288	6,611	11,148	10,303	19,555	12,536
Suzhou city	30,470	9274	59,518	16,276	106,863	24,680
Suqian city	8,186	4617	9,269	7,212	13,709	9,885

*FDI participation and foreign trades, 2000, 2005, 2008 (Unit: billion US dollar)*

Region	2000		2005		2008	
	<i>FDI</i>	<i>Foreign trade</i>	<i>FDI</i>	<i>Foreign trade</i>	<i>FDI</i>	<i>Foreign trade</i>
South areas	5.63	34.44	9.87	209.26	16.80	350.13
Middle	0.31	4.72	2.51	13.25	5.40	29.20
North areas	0.49	1.47	0.80	5.43	2.92	12.94
Suzhou city	1.03	9.72	2.49	75.01	8.13	228.53
Suqian city	0.004	0.01	0.012	0.11	0.10	0.48

Sources: Adapted from *Statistical Yearbook of Jiangsu Province* (in various years), Bureau of Statistics of Jiangsu Province.

### Making sense of patterns across local labour markets

The above data suggest a number of fruitful areas of study for Chinese LLMs. First, there is the crucial and continuing role of rising FDI. Once again, FDI is not uniform in its nature and composition within and between regions and provinces. Nor are the conditions within the local labour markets hosting this FDI. Given local labour market conditions, this means that FDI also has diverse impacts on productivity and technology spill-over, on HRM policies and practices and, more broadly, on local economic, technological and social development (Lau and Bruton 2008; Cooke 2004a).

Second, there is an urgent need to examine localized skill shortages in China. Skill shortages have become a constraint on industrial development and are most apparent in developed areas, such as the Pearl River and Yangtze River Deltas, creating something of a vicious circle for employers within those LLMs furthest along the post-transition road (Li and Sheldon 2010; Cooke 2004b). Chapter 7 explores this question further.

Third, Chinese economic development usually demonstrates a cluster effect – the rapid development of a large municipality brings along its surrounding small

cities and towns through spill-over effects and industrial relocation. For example, the Pearl River and Yangtze River Deltas explicitly follow this city cluster model. Thus, an LLM perspective addressed to China needs to move beyond a precise delimitation of geographic boundaries, paying more attention to the links between the dominant city and its hinterland and how this model expresses itself across different provinces and regions (Zhu and Yang 2009; Chen 2007).

Fourth, labour migration significantly influences development of LLMs in large Chinese cities. China has experienced massive labour flows from rural to urban areas and from small to large cities since the mid 1990s as Chapters 4, 8 and 14 explore in more detail. This important emerging phenomenon leaves room for a local labour market focus to examine China's internal labour migrations and associated labour-related issues that directly and indirectly affect work and employment in local labour markets.

Fifth, there is a particular need to study firm-level HRM in the Chinese context with a local labour market perspective. Existing research on HRM in China mainly focuses on the HRM implications of the transition, comparison of Western and Eastern management characteristics and degree of globalization versus localization of management functions (Warner 2009). A perspective that places the study of HRM in China firmly within the study of local labour markets has yet to attract explicit attention. Firms formulate HRM policies in response to challenges from internal and external labour markets. In turn, those policies can operate within the firm as well as link the firm and the local labour market. A fuller understanding of local labour market dynamics not only helps explain the interaction between firms and their local context but also explains which factors enable or constrain firm-level HRM policies and practices (Li and Sheldon 2010).

Finally, as Chapter 3 explains further, China's labour legislation system demonstrates its own particularities and complexities. Since the early 1990s, China's government has decentralized and delegated control of labour market management to provincial and local authorities, with the aim of fostering a more thriving market development at local levels. National laws function as statements of intent and a general legal framework to guide lower-level governments, whose job is to stipulate regulatory and enforcement details according to local circumstances (Yusuf and Nabeshima 2006). Some areas enjoy particular autonomy over these policies, creating even more motivation for a local labour market perspective. We conclude this chapter with a local labour market case study, largely based on our own research. We hope that it brings together some of the above suggestions.

### **A post-transition local labour market? Suzhou Industrial Park (SIP)**

Opened in 1994, just outside Suzhou city in Jiangsu Province, SIP began as a joint venture between the Singaporean and central Chinese governments. SIP has become one of China's fastest-growing and most competitive industrial parks. At the end of 2009, there were 79 Fortune 500 companies in SIP which had invested in 125 projects. In fact, SIP's spatial investment intensity reached 1.7 billion USD

per square kilometre so that, with 'only 3.4% of the total land and 5% of the total population of Suzhou, SIP contributes around 16% of Suzhou's GDP' (SIPAC 2010). The electronics-related sector was SIP's principal early focus and remains its dominant source of investment and employment.

Alongside its economic expectations for SIP, the central government's principal aim was for SIP to act as a mechanism for public policy and public administration knowledge transfer from Singapore, mainly via SIP Administrative Committee (SIPAC), its local government authority. Featuring very high-quality infrastructure and highly efficient and honest administration, SIP has succeeded as both laboratory and model for transferring public sector knowledge, skills, values and attitudes (Pereira 2003).

All this makes SIP an excellent site for examining local labour market dynamics in advanced areas of China. It has a purpose-designed and efficient local labour market which enjoys relative autonomy, administratively and economically, from its neighbours. SIP also presents advantages of being largely independent of direct effects of 'transition' from state control to the market. Shaped by transparent Singaporean administrative norms, rising FDI and a dominant, very advanced productive sector, electronics, it presents as an advanced case of central government aspirations.

SIPAC has some autonomy over labour market policies. Here, we give two examples to capture the uniqueness of SIP's labour administration. First, SIP has its unique social welfare system. SIPAC has established a Provident Fund system based primarily on pre-contributed personal accumulation accounts. The scheme, exclusively implemented in SIP, is different from the usual one adopted in some big urban cities such as Shanghai, Beijing and Guangzhou, which functions as a mandatory saving system managed by the employer (Pereira 2003). In addition, the admission to local *hukou* for migrants is more easily accessible in SIP. Migrants to SIP enjoy lower levels of institutionally differential treatment and higher participation in social insurance (Wu 2008). All this is due to SIPAC's authority for issuing 'blue residency permits'. This assists SIP companies in recruiting employees nationwide as blue permit holders enjoy similar rights to Suzhou local *hukou* holders, in particular, in regard to social security benefits and children's education. Thus, this residency-permit system helps SIP companies overcome restrictions on labour mobility within China. Nevertheless, there are still some impediments as workers who hold vocational education and training (VET) qualifications are only able to apply for a blue residency permit after working in SIP for two years, unlike job seekers holding bachelor degrees or above, who can receive their blue residency permit upon signing an employment contract with a SIP employer.

The following discussion explores the dynamics of SIP's labour market through examining how its major players – employers, employees and local government – respond to localized skill shortages, poaching and labour turnover. From SIP's inception, entering FIEs have had to meet more demanding criteria for the sophistication of their products and processes than was usual in development zones. Since then, composition of labour demand within SIP has shifted steadily towards

more highly skilled workers, aggravating skill shortages and poaching, in particular, by SIP newcomers. According to Sheldon and Ruan (2004), those most affected have been larger and longer-standing SIP firms, which also tend to have lower wage levels. Poaching does not target just single workers as is common for high-technology professionals. New entrants sometimes literally 'strip' cohorts of experienced skilled workers from long-established firms.

Furthermore, employees in SIP who choose pre-term turnover have also had advantages relative to those of China's state-owned enterprises. The latter must, by law, lodge their personnel file (*dang'an*) with their employer, who can retaliate by refusing to hand back that file. Without it, an employee can't take employment elsewhere. Employees in SIP lodge their personnel files with SIP Human Resources Development Co. Ltd (SIPHRD) but an aggrieved SIP employer has no right to control SIPHRD's use of that file. In fact, SIPHRD has preferred not to involve itself in these grievances, removing from local employers one avenue for a retaliatory response at the intra-firm level.

SIPHRD, under the authority of SIPAC, has adopted measures to alleviate skills shortages and restrict poaching. The most important have been to: support employer association behaviour through the 'SIP HR Club'; initiate a collective 'gentlemen's agreement' against poaching among SIP-based firms; organize nationwide recruitment of skilled labour; and help enhance collaborative programs between SIP firms and local technical schools (Li and Sheldon 2010; Sheldon and Ruan 2004). However, responses at the inter-firm level – whether through the HR Club or SIPHRD – generated high hopes that were soon dashed. The nature of SIP's local labour market, with its constant inflow of new FIEs quickly hiring experienced small groups of skilled workers, undermines expectations of institutionally constraining opportunism, whether from employers or employees.

In this context, employers have to choose to respond within single firms. Research by the authors (Li and Sheldon 2010) indicates an apparently idiosyncratic but telling finding concerning the choice by a majority of employers to provide training with a substantial component that is transferable between one employer and another. They choose this despite recently having experienced poaching themselves. That choice means that they discard a powerful defensive response and furnish opportunities to poachers and employees alike. It also runs counter to the transaction cost and training literatures but co-exists, perhaps necessarily, with the overwhelming choices of SIP employers to use other less effective defensive policies like training contracts and non-provision of training certificates. Why do employers adopt this combination of choices?

There are a number of reasons for this. To start with, most SIP electronic sector firms' production processes are similar enough that, for their own training programs to be useful, they must – by definition – contain a large transferable component. Then, many firms have a business strategy designed increasingly around higher-end manufacturing. Given SIP's local skills shortages, if those employers chose not to provide substantial transferable training, they would not be able to guarantee production quality or organizational development in a technological sense. Further, employers who don't offer training will, in any case,

suffer poaching and other pre-term turnover of disgruntled employees seeking to better themselves. Providing training is thus also an investment that defends itself by aiding retention. Finally, with skilled workers in short supply in the local labour market, larger firms, whose production processes call for more highly skilled workforces, are in no position to rely on the external labour market to supply their skilled workforce needs. Most employers clearly choose other defensive policies in such high numbers precisely because they have no choice but to offer transferable training and thereby make themselves vulnerable to poaching.

This then also explains employer choices of creative tangible responses, such as seniority-based pay, that attempt to strengthen employees' psychological contracts and hence intention to stay. It also explains more intangible organizational innovations including leadership development, improvements in communication and consultation, career development and providing a more positive working environment. In the absence of a voice option through independent unionism, some employers intend their HR staff to play a voice role. All of these employer choices show their engagement with their local labour market.

## **Conclusion**

China, as a large country in its post-transition period, demonstrates significant variations across the country, deeply embedded in very varied regional political, economic and institutional environments. There is China's vastness, its great multiplicity of local population and production centres, its millennial local traditions, customs and identities, the very diverse spatial patterns of economic development pre 1949, after 1949 and particularly since the early 1980s. More recently, the inflow of FDI and local engagement in the global economy through international trade have intensified great diversity and dynamism in labour market development across and within regions in China.

China's uniqueness, vastness and diverseness make it an interesting and meaningful context in which to apply an LLM approach. However, what has emerged is that there have been few studies on this topic in the Chinese contexts. Existing research either treats the Chinese labour market as a national entity or a series of regional ones. There is a significant lack of in-depth research on Chinese LLMs. Therefore, we argue for a greater attention to diverging LLM development and more importantly, its institutional embeddedness.

To capture the localization of labour market activism, we cascaded data on five key economic indicators, from the national aggregate to LLM level via regional and provincial levels. To make the picture of uneven development more vivid and convincing, we selected the most developed at each level and further disaggregated its component level. The variety and disparities in outcomes clearly demonstrates the well-known uneven development across regions, and more important, uneven development within an apparently leading region or province.

Finally, this approach leads us to the discussion of SIP, a highly advanced local labour market (or post-transition?). It looks more like a capitalist labour market, with local economic and institutional characteristics rather than transitional ones.



By exploring how employers, employees and local government respond to localized skill shortages, poaching and labour turnover, we demonstrated the interactions among these key local labour market players and how these interactions explain firm-level HRM practices that reflect context and contingency relative to FIE purpose in SIP.

In summary, our discussion has attempted to shed light on how a local labour market perspective would benefit several important labour market issues on macro and micro levels in the Chinese context – for example, inflow of FDI, skill shortages, internal labour immigration and firm-level HRM. An LLM perspective draws particular attention to the presence and impact of contextual factors in a specific local labour market. This encourages simultaneous explicit emphasis on the interactions among various labour market players with their local labour market and how these interactions together influence LLM conditions. These complex and dynamic interactions reflect mutual if uneven dependencies among labour market actors and hence explain diverging local labour market outcomes resulting from varied local institutional arrangements.

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## 6 Education, training and skills

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### Introduction

China's workforce is the world's largest (ages 15 to 64). It has grown from 418.13 million people in 1964 to 966.80 million people in 2008 (*China Statistical Yearbook 2009*). China also has the world's largest workforce participation rate: 96 per cent for males and 80 per cent for females (Zolingen 2006). The sheer scale of these numbers implies the need for well-established, formal education and training systems to equip people with skills and knowledge required by the rapidly modernizing Chinese economy. This is particularly the case given China's increasing and more complex relationship with the global economy as this engagement increases the importance of education and training for China's changing workplace.

By an education system, we mean a formal organizational framework that provides teaching and learning activities and experiences where the main purpose is for students to learn general knowledge and skills. This is different to training which, whether carried out in a formal institution or within a workplace – in a classroom setting or on the job – implies the acquisition of vocational or practical knowledge, skills and competencies that relate to specific occupational requirements. That said, institutions providing a general education mostly provide some training as part of that process or in addition to it. Similarly, institutions dedicated to vocational skills training typically include at least some foundational general education. Workplace-based training is the site most clearly dedicated to vocational skills learning. The fields of labour economics and HRM research contain numerous studies focusing on capturing the positive and significant effects of training on firm performance, in terms of profitability and productivity (see a review in Hansson 2007).

In this chapter, we discuss the current and emerging profiles of education and training in China, the major reforms already undertaken and the most pressing challenges that remain to be solved. As Chapter 3 explores for a range of other institutional and regulatory arenas, education and training in China have also undergone substantial decentralization as a result of legislative and other reforms. This has created enormous diversity in who delivers education and training, how and where they do this, where they draw their funding from, the content of what

they deliver, and the quality and usefulness of that content and its delivery. These processes of diversification have generated quite different levels of dynamism or apparent stasis across different categories resulting, in turn, in great disparity of access, effectiveness and outcomes. In keeping with the approach adopted throughout this book, we examine both national aggregate level data and disaggregated data, in this case by industry, type and level of education and training, and locality. We supplement data from Chinese government sources with an OECD study, our own fieldwork research and with secondary materials.

The chapter therefore identifies the main characteristics of education and training in China, who the major providers are, the respective roles of government, public and private educational institutions, and employers' own workplace-based training or other schemes. A central theme concerns the preferences and strategies of employers in the most advanced sectors and localities with regard to gaining sufficiently educated and skilled workforces. To help conceptualize these choices we adopt the model, from strategic management, of choices to 'make, buy or cooperate' in order to garner requisite resources (Balakrishnan and Cheng 2005). Greater understanding of the relationships between formal, institutional systems and workplace-based training assists in explaining how widespread, chronic skill shortages in the most developed sectors can coexist with vast workforce segments of under-skilled people living and working in the situations of pervasively informal employment discussed further in chapters 8 and 14. In the process, we also hope to advance some modest suggestions for improvement. In highlighting public policy and employer perspectives, we need to remember that government and public administration – at all levels – and employers have their own interests and that employees are also important stakeholders in their education and training with interests and needs of their own.

Formal education and workplace training function as two important pathways to skill formation. Taken together, human capital theory and matching theory illustrate how interactions between formal education and workplace training can generate both complementarities and substitution. Human capital theory posits that formal education complements workplace training in terms of enhancing employees' trainability. On the other hand, according to matching theory, workplace training substitutes for formal education in order to fill skill gaps when there are mismatches or deficiencies in formal education (Brunello 2003; Heijke *et al.* 2003). Where an educational system performs poorly, it therefore provides less support for subsequent effective training of employees as well as leaving greater gaps for that training to fill.

China's recent past of rapid economic growth was largely based on its great mass of cheap and compliant unskilled or semiskilled labour. Increasingly, the speed, scale and scope of this development have generated raised expectations for quantitative as well as qualitative improvements in China's educational and training performance. This involves policies and practices that can produce a well-educated and well-trained labour force to meet the qualitative leaps in Chinese economic performance amid the widespread if uneven embedding of a market-oriented economy.

However, China's working population still suffers from low educational quality. Figure 6.1 indicates the low level of educational attainment among China's workforce population (aged 20 to 64) in comparison with the OECD average. This constrains skill development and upgrading. As well, it produces more and larger skill gaps left for training to fill. Both effects constrain labour productivity. Indeed, China's overall labour productivity remains low, at only around one-seventh of that of the USA and one-fifth of Japan's. In fact, it is even lower than some other developing East Asian countries like Malaysia, Thailand and the Philippines and just a little ahead of Indonesia and India (Asian Productivity Organization 2008). These significant lags in education attainment and labour productivity imply an urgent need for more effective provision of education and training to improve the skill levels.

Despite growing attention to questions of skill development in China (Cooke 2005; Ng 2005; Zheng and Hyland 2007), China lacks a systematic, up-to-date review of its educational system and training practices. Scholarly research, which we briefly note, provides only a very fragmentary picture. Our choice here is to address the whole through examination of some important dimensions. The first is the way that the education and training systems appear bifurcated by addressing themselves, on the one hand, to managerial and professional staff and, on the other, to employees in China's mass workforce. The second is the division between general education, from secondary schooling through to university, and vocational education and training systems (VET), again starting in secondary school and going beyond it. Finally, there is the division between the training that

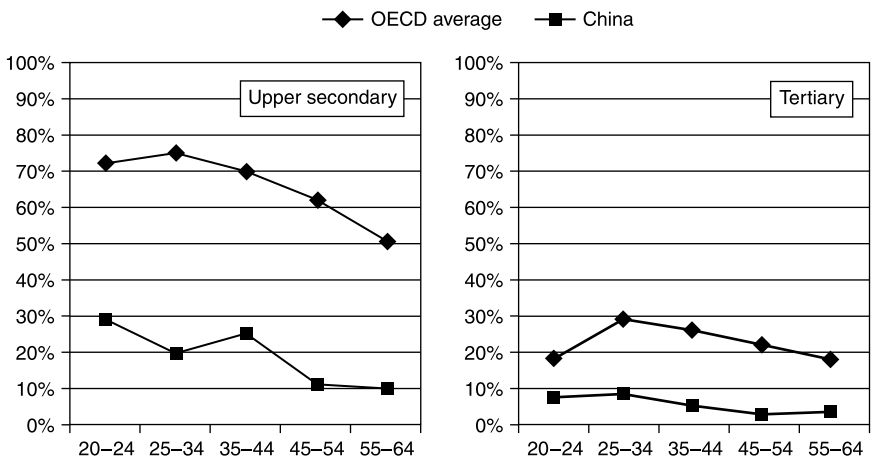


Figure 6.1 A comparison of educational attainment by age group between China and the average of OECD countries, percentage of people who completed at least upper-secondary or tertiary level of education, 2003.

Source: OECD (Organization for Economic Cooperation and Development) (2007) 'Labour Markets in the BRICs (Brazil, the Russian Federation, India and China)', retrieved 14 August 2009, from OECD website.

happens in VET institutions and that which employers conduct within their enterprises. In choosing these focuses, we ignore two other important, well-established – and high-status – post-secondary educational and training pathways in China: for those employed in public administration; and for Communist Party leaders.

We continue by reviewing China's formal education and training system and its development since the major reforms of the 1980s, focusing on two aspects – VET and higher education. Then we discuss current and major deficiencies. The second section reviews the provision of workplace-based training for management and employees respectively.

## Provision of formal education and skill development

### *Education system reforms and development*

China's education system has undergone rapid development and improvement, however uneven, since major education system reforms, starting in the 1980s, began to promote greater institutional diversity. Table 6.1 provides data on all types of educational institutions – in terms of number of schools and student enrolments – by decade since 1980. All students between six and 15 are expected to take the nine-year compulsory education: six years at primary school and three at a junior secondary school. The additional non-compulsory three years involves attending either a general senior secondary school or a secondary VET school. At the age of 18, students from general senior secondary schools can enter a university or college after passing national university entrance exams. Those graduating from secondary VET schools, on the other hand, may enter higher VET schools or enter the workplace directly. This two-pronged education system – with separate paths through general or vocational education – leads graduates towards different career paths.

*Table 6.1* The development of all types of education institutions by number of schools and levels of student enrolment. Selected years: 1980, 1990, 2000, 2008

Year	Higher Education institutions		Regular secondary schools		Vocational secondary schools		Primary schools	
	Schools	Enrolled (thousand)	Schools	Enrolled (thousand)	Schools	Enrolled (thousand)	Schools	Enrolled (thousand)
1980	675	1,144	118,377	55,081	3,314	454	917,316	146,270
1990	1,075	2,063	87,631	4,586	9,164	2,950	766,072	122,414
2000	1,041	5,561	77,268	73,689	8,849	5,032	553,622	130,133
2008	2,263	20,210	72,907	80,505	6,128	7,661	300,854	103,315

Source: Adapted from *China Statistical Yearbook (2009)*, National Bureau of Statistics of China.

Notes:

- 1 Vocational secondary schools include vocational junior and senior secondary schools.
- 2 Regular secondary schools include junior and senior secondary schools.

Two of the main themes of educational reforms since the 1980s are decentralization and social partnership. Decentralization has meant that local government and educational institutions have gained greater autonomy to implement educational reforms. The aim of social partnership policy is to promote more participation by ‘social partners’ – such as local communities, individuals and other non-state actors – in creating educational opportunities and improving the education system. This opens possibilities for inter-organizational networks that can foster cooperation in gaining access to a larger supply of skilled employees. An important funding change follows precisely from these themes of decentralization and social partnership. Compared to the Mao period, when the state took full financial responsibility for education, the central government nowadays contributes only about 7 per cent of total educational spending. This implies that local governments and educational institutions have to mobilize other financial sources for the remaining funding. In fact, about 56 per cent of total funding comes from local government.<sup>1</sup>

In line with its preferences for decentralization and social partnership, the central government has allowed individuals and social organizations to run VET schools and higher education institutions (HEIs) since the early 1990s, and mid 1990s, respectively. This implies a significant change compared with the Mao period, when all schools were public and fully subsidized by the government. The changes have encouraged remarkable flows of private funding into all levels of schooling, most notably through the opening of private schools and colleges that compete with or supplement public-sector institutions. These private educational institutions have expanded fast in terms of numbers of schools and student enrolments. Private VET school enrolments have been increasing particularly dramatically. By 2007, about 16 per cent of all secondary VET school students were in private institutions compared to just over 12 per cent for regular secondary schooling. Yet in 1996 there had been no or negligible private involvement in either sphere.<sup>2</sup> The participation of other non-government stakeholders in promoting China’s public education system not only helps alleviate the financial problems facing those education institutions in the absence of greater government funding, but also appears to enhance its relevance.

### **Challenges facing China’s education system**

The rapid development of China’s formal education system has also highlighted its deficiencies. Employers, as major users, do not see it as providing graduates with the most important workplace skills needed for their companies. Dissatisfaction with this situation is common among employers across firms of different size, ownership form and sector. One implication is that employers experience difficulties in filling job vacancies from the new graduate pool, irrespective of level of appointment and of educational attainment. They particularly perceive these deficiencies manifesting as a poor fit regarding technical qualities (Venter 2004; Lai and Lo 2006; Xu 2008; Cooke 2005; Zolingen 2006). We now examine several underlying systemic problems that generate these deficiencies.



First, as mentioned above, taken as a whole, the central government underfunds the formal education system (ADB 2010). Table 6.2 – with data for 1991, 2000 and 2004 (the most recent available data year) – clearly shows the low levels of China's public spending on education as a percentage of national GDP compared to international averages. Indeed, China's ratio of public spending on education to GDP is even lower than the average of low-income countries. Moreover, China has been criticized for its inefficient use of government funds on education, a larger portion of which is used for personnel expenses, half of which goes to non-teaching staff. The result is lower portions being spent on infrastructure and equipment compared to other countries (OECD 2006).

Insufficient and inefficient public spending on education explains the relatively poor teaching conditions and the unmet needs for ever-increasing academic activities. This severely constrains the speed and scale of development of educational institutions and creates the need to resort to fees and funding from other sources. Thus, the ratio of private spending on education (calculated as net of public subsidies for educational institutions) as a percentage of GDP is higher in China than other OECD countries. In 2006, for example, tuition and miscellaneous fees contributed 24.5 per cent, social organizations and individuals 5.6 per cent and other sources 4.3 per cent.<sup>3</sup>

Another problem relates to substantial inequalities in education spending and outcomes among regions and by different types of education institutions. Recent data on public education funding, for example for 2007, suggests that this funding is highly decentralized, with local governments providing more than nine times the level of the contribution received from central government.<sup>4</sup> Given the vast disparities in development and affluence across China's geography that Chapter 5 highlights, this implies enormous disparities in local public finances available for funding local schools. Village-level primary schooling appears to be particularly underfunded. Indeed, our research on infrastructure provision in schools largely – but not wholly – corroborates how patterns of regional disparity in development find parallels in the provincial-level data on provision of educational facilities. Together, they suggest quite uneven patterns of education development across

*Table 6.2* A comparison of China and international averages of public spending on education

<i>Area</i>	<i>Public spending on education, total as % of GDP</i>		
	<i>1991</i>	<i>2000</i>	<i>2004</i>
World	4.08	4.14	4.59
High-income countries	4.99	4.82	5.46
Middle-income countries	3.89	4.17	4.35
Low-income countries	2.79	3.09	
China	2.23	2.87	2.79

*Source:* National Bureau of Statistics of China, *International Statistical Yearbook 2008*, China Statistics Press: Beijing.

regions in China. For example, Table 6.3 shows inequalities in infrastructure and teaching resources in secondary VET schools across regions. In particular, there are the relatively poorer teaching conditions in the Middle and West areas compared to the East areas whose local economies are more developed, allowing local governments to afford more educational expenditure.

*Table 6.3* Infrastructure and teaching resources in secondary VET schools across regions, 2007

		<i>The East</i>	<i>The Middle</i>	<i>The West</i>
Floor space per capita	>14 m <sup>2</sup>	Beijing, Guangdong, Hebei, Shanghai, Tianjing, Zhejiang, Shandong	Jili	Guangxi
	12–14 m <sup>2</sup>	Liaoning, Hainan	Hunan	Gansu, Xinjiang, Yunnan, Chongqing, Shanxi
	10–12 m <sup>2</sup>	Fujian, Jiangsu	Heilongjiang, Shanxi, Jiangxi, Henan, Hubei	Sichuan, Inner Mongolia
	<10 m <sup>2</sup>		Anhui	Guizhou, Tibet, Qinghai, Ningxia
	>25	Beijing, Guangdong, Shanghai, Tianjin	Jilin	
Library books per capita	19.9–24	Liaoning, Hebei, Zhejiang	Henan	Gansu, Xinjiang, Yunan, Guangxi, Inner Mongolia
	16–19.9	Jiangsu, Shandong, Henan, Fujian	Hunan, Jiangxi, Shanxi, Heilongjiang	Shanxi
	<16		Hubei, Anhui	Guizhou, Tibet, Qinghai, Ningxia, Chongqing, Sichuan
	>1,879	Beijing, Guangdong, Shanghai, Tianjin, Liaoning, Zhejiang, Jiangsu	Jilin	Guangxi
Equipment value per capita	1,500–1,879	Fujian, Hainan, Hebei, Shandong	Hunna, Jiangxi, Heilongjiang	Shanxi, Yunan, Chongqing, Qinghai, Ningxia, Gansu, Xinjiang
	<1,500		Shanxi, Hubei, Anhui, Henan	Sichuan, Guizhou, Tibet, Inner Mongolia

*Source:* Adapted from *China Education Statistics 2008*, Ministry of Education, available at <<http://www.stats.edu.cn>> (accessed 6 January 2009).

Inequalities in education are also visible if we compare educational spending and outcomes in VET schools with those for general education. We select two aspects to demonstrate these inequalities: comparisons of student–teacher ratios; and levels of public expenditure on VET schools compared to general schools. Table 6.4 shows that the numbers of teachers in regular HEIs and regular secondary schools have increased gradually between 2000 and 2008, while the number of teachers in secondary VET schools remains almost unchanged. The implication of the data in Table 6.5 on student–teacher ratios is that VET schools are facing more serious challenges in accessing sufficient qualified teachers and educational funds from government compared to the situation facing general education institutions.

Although the government has taken several measures to promote the development of VET schools, it is placing much more emphasis on the development of general education. There are ideological, cultural and historical reasons that may explain why China's policy preferences disadvantage vocational education. Traditionally, Chinese people have regarded vocational education as an inferior option behind more mainstream educational routes like universities. In part, this is

*Table 6.4* The number of teachers by type of education institution (unit: 10 thousand)

<i>Year</i>	<i>Regular HEIs</i>	<i>Regular secondary schools</i>	<i>Senior secondary schools</i>	<i>Junior secondary schools</i>	<i>Secondary VET</i>	<i>Primary schools</i>
2000	46.3	400.5	75.7	324.9	32.0	586.0
2001	53.2	418.8	84.0	334.8	30.6	579.8
2002	61.8	437.6	94.6	343.0	31.0	577.9
2003	72.5	453.7	107.1	346.7	28.9	570.3
2004	85.8	466.8	119.1	347.7	29.4	562.9
2005	96.6	477.1	129.9	347.2	30.3	559.2
2006	107.6	485.1	138.7	346.3	30.7	558.8
2007	116.8	490.7	144.3	346.4	31.7	561.3
2008	123.7	494.4	147.6	346.9	32.6	562.2

*Source: China Statistical Yearbook (2009)*

*Table 6.5* Student–teacher ratios and public spending by type of education institution, 2008

	<i>Primary schools</i>	<i>General junior secondary</i>	<i>General senior secondary</i>	<i>Secondary VET</i>	<i>Regular Higher Education</i>
Student–teacher ratio	18.38	16.07	16.78	23.47	17.23
Share of total public education spending (%)*	32.29	21.00	9.60	6.19	19.30

*Source: Adapted from China Statistical Yearbook 2009, National Bureau of Statistics of China.*

*Note:*

\* data of the year 2007, the most recent available.

because VET schools are seen as producing only manual workers whereas traditional Chinese society accords intellectual workers much greater status (Barabasch *et al.* 2009).

HEIs have expanded significantly since 1999 by lowering their enrolment requirements. This creates its own problems for the HEI sector. First, as Chapter 4 has already noted, HEI graduates are facing difficulties in gaining employment. Second, many HEIs themselves are experiencing problems with the quality of their programmes due to their rapid expansions in enrolments. Moreover, this type of expansion of HEI enrolments makes VET schools an even less attractive choice for students. This may partly explain why the overall number of secondary VET schools has been declining dramatically since the 1990s and students seem unwilling to enrol in VET schools (see Table 6.1). This is particularly problematic given the increasing demand for skilled process workers in China and skilled labour shortages discussed in the next chapter (Bai 2006; Li *et al.* 2008).

This raises the wider challenge of how to overcome the low responsiveness and apparent lack of relevance that the formal education system displays to providing graduates who can meet employers' skill requirements. These weaknesses manifest most obviously in out-of-date curricula and textbooks and other training resources that help explain employer claims as to the irrelevance of graduates' skills and knowledge. The main systemic culprits identified are: the too high priority the education system accords to rigid evaluation measures for qualification and certification; the ignorance among those in charge of the curriculum and teaching of needed work-related skills and, in particular, the 'people' skills favoured by employers; a lack of updated information on employment trends within the public educational sector; and lack of consultation for students regarding employment (Bai 2006; Cooke 2005; Lai and Lo 2006; Li *et al.* 2008; Velde 2009; Venter 2004; Xu 2008).

Moreover, Venter (2003) argues that China's education system seems to address itself to a more traditionally Chinese labour market. In contrast, FIEs, many of them companies operating in the most modern sectors, as well as those domestic companies more integrated into the global economy, are less likely to be satisfied with the current education system also because it is less responsive to the skill requirements of those types of employers.

If the formal system offers employers less attractive opportunities to 'buy', there are signs of variously creative forms of cooperation in order to meet labour supply shortages. There is a growing consensus around the need to build effective links between VET and secondary schools and the sorts of workplaces that will recruit those schools' graduates (Velde 2009). Despite the advantages to all concerned in enhancing the responsiveness and relevance of schools through such collaborative linkages, there appear to be many constraints to achieving these collaborations. In survey research we conducted during 2008 and 2009 at three leading industrial parks in the Yangtze River Delta – Suzhou Industrial Park (SIP), Shanghai Jinqiao and Wuxi New District – we found that 62 per cent of the 218 electronics FIEs we surveyed indicated that 'uncertainty of the benefits of the

collaboration for employers' is the most commonly perceived constraint, followed by 'cost consideration and time spent' among 45 per cent. Furthermore, earlier case study and survey research we conducted in SIP suggests that high levels of employer commitment to collaborating in the improvement of local VET schools may be linked to companies' own wider business strategies (Li and Sheldon 2008).

A most innovative example we found involves a firm's 'order model' of training in collaboration with local VET schools that produces students who meet the company's own specific technical requirements. To achieve this, the company closely involves itself in VET processes: setting courses; providing training to teachers and students; donating equipment and facilities; and providing industry practice opportunities. Specific courses target the company's own training requirements and are the joint responsibility of company staff and VET teachers trained by the company. In their third and final year, the company takes in these students so that they can receive industry practice and workplace training. During industry practice, line supervisors and internal trainers also conduct practice testing and appraisals of students' practical ability. To encourage students to become employees, HR staff also lecture on the company's culture and career development opportunities.

The company also sponsors VET teaching laboratories for specific courses and provides facilities for those aspects of the training programme on the company's special technologies and techniques. Furthermore, on the basis of confidentiality agreements about intellectual property, the company has VET school teachers receive specialized training inside the company to ensure that teaching within this collaborative project fits the company's technical requirements.

## **Enterprise training and skill development**

China's reforms and rapid development – discussed in Chapters 1, 2 and 3 – have encouraged systemic changes to the labour market structures and employment relationships explored in more detail in Chapters 4 and 5. In turn, these have implications for the provision of enterprise training (Zhu and Nyland 2004). Both state-owned and privately-owned enterprises have gained increasing autonomy over their own operations, placing a greater emphasis on efficiency (see Chapters 9 and 11). For their part, while FIEs have played an enormous, active role in the diffusion of ideas and techniques, bringing about changes in labour management, Chapter 10 suggests this leadership role may be attenuating as domestic firms catch up.

Employees have gained more freedom to enter into employment contracts and relationships and have greater job market opportunities. All these changes shape the need for enterprise training in a post-transition economy. On the labour demand side, employers have been increasingly shifting attention to workplace-based training devoted to employee skill development for the purpose of meeting product market competition. On the labour supply side, employees are taking more responsibility for their own skill development in competitive external labour markets. For management, there is an urgent need to be equipped with modern management skills and knowledge that are also suitable in the Chinese context, a topic we survey in the next section.

### ***Management education and training***

There has been substantial scholarly attention over how management education and training might contribute to meeting the challenges of China's specific transitional processes. Rapid economic growth and intensifying global integration have exposed Chinese managers to fierce competition amid dramatic organizational change. There is a consistent theme in the literature identifying how a lack of well-trained managers – in the context of changing management functions, roles and practices – has become a major impediment as domestic firms and even FIEs struggle with the challenge of attracting and retaining experienced and competent managers. These weaknesses include technical managerial skills but also a lack of those negotiation skills and other competencies necessary for dealing, for example, with local government (Alon and McIntyre 2005; Wang and Wang 2006; Warner and Goodall 2009; Zhang and Walter 2000).

Severe shortages of managers in the external labour market and the high value employers place on managerial skills for organizational development have pushed domestic and foreign-owned firms to make use of a variety of managerial training programmes (Au *et al.* 2008; Bjorkman *et al.* 2008; Goodall 2009; Walsh and Zhu 2007). These programmes reflect the impact of western ideology on management training in China as well as demonstrate its Chinese characteristics. At the same time, those firms providing management training have to fight continuously against poaching companies that use attractive salary packages to lure well-trained managers (Tsang 2007; Zheng *et al.* 2008). One response has been for employers to promote people into managerial classifications prematurely. While many Chinese employers see this as an effective form of on-the-job training, it also creates some inflation of managerial job titles.

Management training at the enterprise level takes various forms. These include in-house training, mentoring and coaching, regional training centres, local outsourced training programmes, and overseas training (Wang and Wang 2006). In particular, some large FIEs actively develop their own managers by setting up corporate universities or sending them for overseas secondments, job rotations and development programmes (Qiao and Wang 2009; Lynton and Bressot 2005). In our own recent research in Suzhou Industrial Park, we found that in one study case FIE, management training takes a 'cascade' form. The most senior managers receive training from external management consultancies from the USA, the home country of that FIE. Those managers, in turn, provide training and mentoring to junior managers through the firm's 'Leader Develop Leader' programme. At the same time, managers can also receive training and assistance from managers at the same level through 'learning groups'. Nevertheless, this more advanced form of enterprise-based management development does not appear common and shortages remain widespread.

According to Warner and Goodall (2009), Chinese governments have been actively seeking to improve management education and training over the last 30 years. There have been a number of strategic directions: sending managers overseas to receive education and training; promoting local management training

centres and educational institutions; and collaborating with international educational institutions to set up formal management programmes such as MBAs. For their part, Wang and Wang (2006) briefly discuss an unusual form of management training seldom reviewed in the literature. Taking advantage of FIEs' training capacities, the central government has sponsored SOE senior and middle managers to receive customized management training at FIEs' Chinese corporate universities.

While MBA programmes are highly regarded in terms of formal education, Executive MBA (EMBA) programmes, which are more popular in China in terms of workplace training, are enjoying boom conditions. Indeed more than 60 universities are accredited by the Ministry of Education to offer EMBA programmes. Joint and international EMBA programmes are also playing a role in promoting business education and training in China. At the same time, executive development programmes are also booming in some leading universities. China's EMBA and MBA programmes largely follow the western model. In recent years, there has been increasing debate on whether these imported programmes work well in the Chinese context and for students with Chinese cultural backgrounds (Lau and Roffey 2001; Warner and Goodall 2009).

### ***Workplace-based training for mainstream employees***

In comparison with management training, the question of how companies organize training for the 'mass' workforce has received very insufficient attention. Moreover, even on those relatively rare occasions where there is a spatial dimension to the analysis, the research tends to be based on surveys in very large, complex cities, such as Shanghai and Shenzhen, where local labour market effects may be less obvious (for example, Ng and Siu, 2004; Xiao and Tsang, 2004; Ng, 2005).

Previously, the dominant Chinese model for enterprise training for employees was compulsory apprenticeships upon employment. This has shifted to various combinations of pre-employment vocational education and training, pre-employment traineeships and a certain degree of workplace-based training. As well, enterprise training itself is moving from a limited focus on technical skills to more comprehensive training.

As for the form of enterprise training employers provide for skilled workers, our recent research in the three industrial parks (see above) indicates that among those FIE employers, 96 per cent (the greatest number of respondents) use 'on-the-job training for skilled workers provided by mentors and/or supervisors', followed by 92 per cent using 'classroom training for skilled workers provided by internal and/or external trainers'. Further, 37 per cent of companies indicate that they have a training centre/unit. Although still a minority, this is an important development. In contrast, the practice provided least (only 4 per cent) is 'sending skilled workers to overseas training'.

A recent report by the Enterprise Research Institute of the Development Research Centre of the State Council, *China's IT Industry Professionals Survey Report* (2009), says that, in the IT sector, internal training was most widely used (52.3 per cent), followed by external training (34.3 per cent). This suggests that

employers are more concerned with improving employees' job-related skills while also revealing a very large market for external training.

In the tourist industry, the pattern is very different. A China Tourist Hotel Association survey of 1,200 hotels in late 2004 received 293 valid responses (see Table 6.6). In this industry, over 80 per cent of employers consider workplace-based training to be the most effective method and, overwhelmingly, prefer on-the-job training to other forms of in-house delivery (such as courses). Moreover, most of this training is focused on 'professional' content, although whether this is really 'occupational' is not clear. It seems likely that the second most common training content – new employee orientation – mainly occurs through on-the-job exposure and induction.

The recent literature on training in China indicates the positive role of extensive training on firm performance (Chia *et al.* 2008; Zhang and Li 2009). Nevertheless, the literature also highlights the inadequacy of much enterprise training, in terms of quantity and quality (Cooke 2005; Jiang *et al.* 2009; Warner 2010; Zhu 2005). These inadequacies generate particular concern given pervasive skill shortages in China's more developed regions (see Chapter 7 for detailed discussion). On the other hand, employers have had little choice but to invest in enterprise training, given pressures from the increasing momentum of economic reform and technological development and the inadequacies of China's formal VET system. In this, FIEs have made a substantial contribution (Gamble 2006; Zheng and Hyland 2007).

Table 6.6 Overview of training for China's hotel industry

	<i>Per cent</i>
The most effective training method in hotels	
On-the-job training organized by the company	77.9
Send staff to overseas training	3.5
Enterprise Training School	4.2
Participate in various training courses and seminars	9.3
The most common training content	
Foreign language training	48.2
Professional training	90.3
New employee orientation	84.3
Employees' attitude towards training	
Quite positive	41.9
Average	56.7
Unwillingness	1.4
The biggest problem in training	
Lack of qualified trainers	26.6
The attitude of the trainees	21.8
Lack of funds	11.1
The time conflict between work and training	38.8

Source: ChinaByte.com: <<http://data.chinabyte.com/159/3052659.shtml>> (accessed 27 November 2009)



There are various constraints on more effective training at the enterprise level. Some research identifies cost as a major factor affecting training policies and practices. Jaw and Liu (2004), for example, have argued that many Taiwanese FIEs have reached a mature stage in their product cycle and, therefore, employ a low-cost strategy focusing on productivity increases and cost savings. This, in turn, constrains their investment in training. In general, insufficient training investment due to cost considerations may explain the inadequacy of much workplace-based training. Once again, the data in *China's IT Industry Professionals Survey Report* (2009) suggest insufficient levels of investment in training. Among the companies sampled, some 7.2 per cent invested less than 0.1 per cent of their total investment in training. Further, only about 1.5 per cent of the companies had training investment levels of 0.1 to 0.3 per cent.

In August 2009, responding to evidence of companies under-investing in training, the Legal Affairs Office of the State Council announced the *Occupational Training and Appraisal Regulation (Exposure Draft)*. According to this draft, employers would have to provide employee education and training funds at the rate of between 1.5 and 2.5 per cent of total staff wages. This would be a direct deduction before taxation, as a business cost. Furthermore, employers would have to ensure that at least 70 per cent of their total training expenses went to training front line staff (Legal Affairs Office of the State Council, 2009).

The literature also explains the impact of firm-level characteristics on workplace-based training. It suggests that FIEs, SOEs, large companies and those that are more integrated into the global economies and in the most modern sectors are more likely to have structured and systematic training approaches and provide more training (Cooke, 2005; Venter, 2003; Warner 2009). Further, Venter (2003) found that these categories of companies have access to the most qualified recruits. After recruitment, those companies further train their employees through their own structured training programmes.

In contrast, smaller, private Chinese-owned companies are less attractive to the highest-quality recruits and less likely to establish their own training system. Instead, they are more likely to utilize external, private training providers. This reflects the reality that provision of workplace training in China currently is not only concerned with enhancing productivity. Employers also use it to attract job candidates interested in their own skill development and skill-related career advancement. This is consistent with what we found in our research in SIP and explains why some companies are still providing training in the context of skill shortages and poaching.

Similarly, employers are also facing a training dilemma: to train employees at the risk of seeing them poached versus 'buying' (and potentially poaching) qualified employees from the external labour market by offering higher pay. This dilemma has contributed to employers' inadequate responses to the need for training (Cooke 2004; Wang and Chan 2006; Li and Sheldon 2010). Thus, a mass of individual decisions risks undermining labour supply provision within a local labour market. We take up this discussion in the next chapter.

## Conclusion

We have examined the increasingly diverse streams of education and training resulting from decades of reform. This diversity has fostered different levels of dynamism that contribute to creating substantial disparities in funding, access, effectiveness and relevance of education and training. One divide is between the public and private sectors; another is between general education and VET. Overall, insufficient central government funding appears to contribute greatly to the inability of many areas of the public system to respond to the demands that a post-transitional economy places on it. Furthermore, the decentralized public funding of public education and training appears to risk exacerbating inequalities between regions and localities. As well, public policy preferences for general education over VET would appear to risk creating a situation where unemployment among recent university graduates coexists with skills shortages in industry.

Weaknesses in the educational system furnish more and greater gaps for training to fill while undermining the effectiveness of that training. Given persistent skills shortages and employee poaching in the most advanced sectors and localities, employers face a training dilemma that discourages a willingness to risk investment in training. However, we have found examples of constructive creativity from firms that have chosen to develop cooperative network arrangements with local VET institutions. This would appear to be a path also open to encouragement through public policy.

## Notes

- 1 Calculated by the authors based on data from *China Statistical Yearbook* (various years), National Bureau of Statistics of China.
- 2 Adapted from *China Education Statistics 2008*, Ministry of Education, available at <<http://www.stats.edu.cn>> (accessed 6 January 2009).
- 3 Source: Adapted from *China Statistical Yearbook 2007*, National Bureau of Statistics of China.
- 4 Source: Adapted from *China Statistical Yearbook 2008*, National Bureau of Statistics of China.

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## 7 Skill shortages

### Where labour supply problems meet employee poaching

*Yiqiong Li and Peter Sheldon*

#### Introduction

China's rapid economic growth and technological development and, in particular, the ongoing shifts from a labour-intensive to a more skills-intensive and knowledge-based economy have created a challenge to provide sufficient highly skilled and highly educated employees, including managers. At the same time, this challenge has made more apparent existing inadequacies in meeting labour demand. More broadly, skills shortages contribute to China's low levels of labour productivity and constrain industrial development. The low skill quality of labour supply in China has triggered a lively debate among academic researchers, policy centres and practitioners regarding the challenges foreign and domestic companies face in addressing growing skill shortages (American Chamber of Commerce 2009; ADB 2010; Cooke 2005, 2008; De Cieri and Bardoel 2009; Sankaran 2008; World Bank 2007a). Yet much of this research simply treats skill shortages as a contextual challenge rather than a phenomenon worthy of study in its own right.

Changing objectives and strategies among FIEs have exacerbated the problem of skill shortages. Most FIEs set up manufacturing plants in China, at least in part, to take advantage of the promise of plentiful supplies of cheap labour. In the early years of FIE activity in China, their focus was on simple, lowest-cost manufacturing processes and products. In recent years, many FIEs have chosen to focus on higher quality, more sophisticated products, more complex manufacturing technologies and more efficient production. This calls for an increase of the capability and productivity of the Chinese workforce. However, many FIEs have been suffering difficulties in retaining their skilled employees from within tight local labour markets. This has been particularly evident in the more developed economic areas, where many early-entrant FIEs have chosen to set up their factories (see also Chapter 10).

In this chapter, we review existing research that identifies what we know about the magnitude, patterns, causes and consequences of skills shortages. Given China's vastness, immense population and uneven geographical development, it is particularly important and meaningful to examine skill shortages and related phenomena within local labour markets. To capture these emerging developments, we provide a brief survey of developments based on the most recently available official statistical data as well as our own local labour market case study research.

Our approach is valuable for a number of reasons beyond its use of recent research. First, it is more holistic and integrated than has been the norm. While there has been research into a number of the component elements of the skill shortages phenomenon – for example, on deficiencies in the formal vocational education and training (VET) system (see Chapter 6), employer provision of training and constraints on labour mobility – there has been little attention to integrate these impediments on the labour supply side. Furthermore, we redress a general neglect of the demand side as employers struggle with high rates of voluntary employee turnover (hereafter ‘turnover’) and poaching threats from other local employers targeting skilled, experienced employees. We bring supply and demand dynamics together to paint a picture of a vicious circle centred on employers’ training dilemmas. In doing so, the chapter reinforces the overall story of this book with its emphasis on local labour markets, diversity and disparity.

The next section examines the extent of skills shortages. It places particular attention on both regional and local patterns as well as those linked to levels of skill and experience. The following section explains the labour supply elements of skill shortages: weaknesses in the VET system; problems of skill transition of unemployed workers from SOEs; deficiencies in workplace training; and impediments to internal labour migration. A subsequent section examines how these shortcomings in labour supply interact with local labour market phenomena on the demand side – particularly through employee turnover and employer poaching of employees. The last section addresses research gaps and future research directions.

### **The extent of skills shortages**

Following Green, Machin and Wilkinson (1998), we view shortages of skilled workers as reflecting employers’ difficulties in securing sufficient numbers of skilled workers with appropriate levels of skills. According to Green *et al.*, these shortages can manifest in two ways. The first is as difficulties that employers face in filling job vacancies. The other is the existence of skill gaps within an employer’s existing workforce. Further, Cappelli (2001) adds a third useful element: the challenge to firm-level HRM of retaining skilled employees.

Skill shortages are most apparent in the high-tech-oriented industries in China, where they demonstrate particular features of China’s labour market. One outstanding feature is that shortages are manifest on almost all skill levels and in different job categories and industries. There are shortages of qualified labour from entry-level skilled process workers to experienced, professional engineers, from blue-collar staff to high-level managerial and professional employees, in manufacturing and in the private services sector. In recent years, researchers have identified a lack of well-trained managers in China and the urgent need to improve modern management education and training (Warner and Goodall 2009; Alon and McIntyre 2005; Zhang and Walter 2000). China’s rapid economic growth and its integration into the world economy create demands beyond the capacity of China’s labour market to supply sufficient qualified managerial staff with modern managerial skills and capacities.

In comparison, there is a lack of explicit attention to shortages of skilled employees – either skilled process workers or highly skilled engineers and technicians. Table 7.1 shows these shortages across different skill and qualification levels by providing data on demand and supply. The data concerns 112 regionally representative urban cities in the first quarter of 2009. We can see that demand for skilled labour accounts for 49.5 per cent of total labour demand. Supply for all the skilled positions falls short of demand, especially for technicians, senior technicians and senior engineers. This is important as these categories are among those whose development requires greatest investment in time, money and other

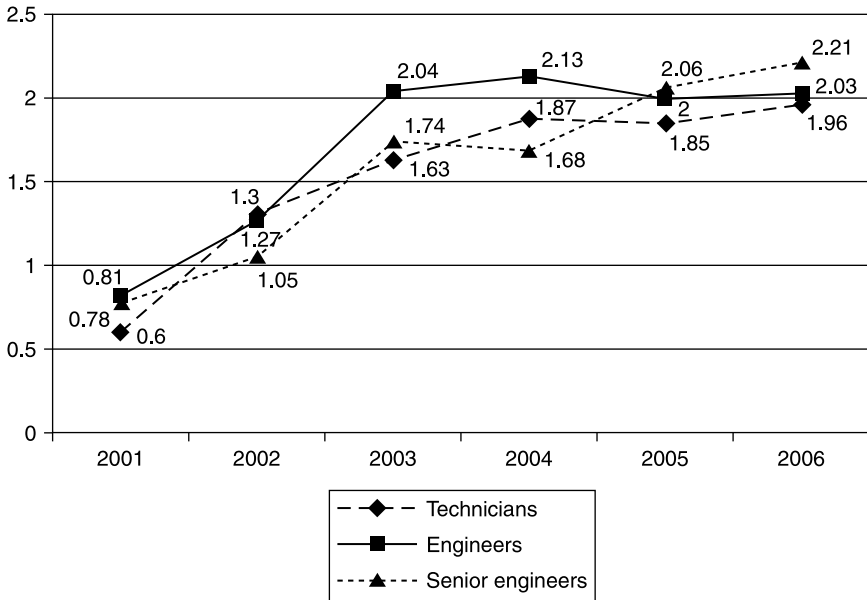
*Table 7.1* The gaps between the supply and demand for employees in some categories of technical positions in 112 cities in the third quarter of 2009

<i>Category</i>		<i>The comparison of demand and supply for labour</i>				
		<i>1 Demand (D) (number)</i>	<i>2 Demand (percent)</i>	<i>3 Supply (S) (number)</i>	<i>4 Supply (percent)</i>	<i>Ratio D:S (columns 1:3)</i>
Level	Qualification L5 (junior skill level)	1,071,150	18.6	1,122,361	18.4	1.43
	Qualification L4 (secondary skill level)	521,753	9	528,490	8.7	1.46
	Qualification L3 (senior level)	191,293	3.3	162,809	2.7	1.65
	Qualification L2 (technician)	107,222	1.9	72,969	1.2	1.95
	Qualification L1 (senior technician)	47,976	0.8	27,218	0.4	2.24
Position	Assistant engineers	609,016	10.6	586,568	9.6	1.52
	Engineers	254,245	4.4	245,375	4	1.51
	Senior engineers	52,053	0.9	28,845	0.5	2.28
	No qualification specified	—	—	3,330,502	54.6	
	No specification on skill levels	2,912,532	50.5	—	—	
Total		5,767,240	100	6,105,137	100	

*Source:* Adapted from the website ‘China Labour Market’ in the supervision of Ministry of Labour and Social Security, <[http://www.lm.gov.cn/gb/employment/2009-11/09/content\\_332846.htm](http://www.lm.gov.cn/gb/employment/2009-11/09/content_332846.htm)>, accessed 14 December 2009.

*Note:* The ratio of labour demand and supply in each category equals the sum of labour demand in this category and labour demand with no specification on skill levels multiplied by the ratio of the number of labour demand in this category and the total labour demand, and then divided by the number of labour supply.





*Figure 7.1* The ratio of labour demand and supply for technicians, senior technicians and senior engineers 2001–2006.

*Source:* Adapted from Ministry of Human Resources and Social Security of China, ‘*Analysis of labour demand and supply in some urban cities in China, 2006*’, available [http://w1.mohrss.gov.cn/gb/zwxw/2007-04/27/content\\_175320.htm](http://w1.mohrss.gov.cn/gb/zwxw/2007-04/27/content_175320.htm) (accessed 14 Dec 2009).

*Note:* The data is based on 121 of China’s regionally representative urban cities.

resources. Moreover, Figure 7.1, derived from data from 2001 to 2006, indicates that these shortages are chronic and perhaps increasing in certain categories.

These statistics are consistent with a World Bank report (2007b) which found that the majority of skilled workers in China are at junior skill levels. Only 4 per cent are engineers and senior engineers. Furthermore, these junior skilled workers account for only one-third of total manufacturing workers. The above data indicates the extent and nature of current and ongoing skill shortages in China, especially in manufacturing-related workplaces.

A second feature of skill shortages in China that rarely occurs elsewhere is the co-existence of severe skill shortages and growing unemployment. This implies the ultimate problem lies in the technical and occupational quality of the workforce rather than the quantity. Thus there is an urgent need for a general upgrading of the education and skills of the labour pool. Table 7.2 presents data for urban unemployment by educational attainment for the years 2002 to 2004 inclusive. On average, over 56 per cent of these unemployed have only attained a lower secondary education or below. Compared with university graduates who are experiencing greater difficulty and/or taking a longer time to find jobs than before,

Table 7.2 Urban unemployment by educational attainment, 2002–2004 (%)

<i>Educational attainment</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
College and above	5.9	6.6	8.5
Upper secondary	35.2	36.1	34.9
Lower secondary and below	58.8	57.3	56.7

*Source:* Adapted from Ministry of Human Resources and Social Security of China, *China Labour Statistical Yearbook 2003, 2004 and 2005*, available at <[http://w1.mohrss.gov.cn/gb/zwxx/node\\_5435.htm](http://w1.mohrss.gov.cn/gb/zwxx/node_5435.htm)> (accessed 14 December 2009).

those with lower secondary education attainment or below remain stuck outside stable employment.

Third, significant variations in economic and labour market development across and even within regions condition variations in the extent of skill shortages across local labour markets. Thus skill shortages are most apparent in the more developed east coastal areas, especially in the Pearl River and Yangtze River Deltas, and least apparent in the least developed western areas. Table 7.3 presents ratios of labour demand and supply in China's East, Middle and West areas that demonstrate these patterns of diversity and disparity. Moreover, since industrial structures are different across local labour markets, this creates different patterns of occupational demand for labour across localities. To display examples of those differences, Table 7.4 shows the very diverse patterns in labour demand in four selected large cities along the east coast: Tianjin and Shenyang in the north, Shanghai in the centre and Fuzhou further south.

Table 7.4 suggests that among those cities, secondary industry plays by far the greatest role in creating total demand in Fuzhou. Indeed, the most under-supplied occupation there is operator for making shoes and hats, an occupation typical of early, labour-intensive stages of industrialization. This reflects that the economic development of Fuzhou largely lies in its manufacturing industry, which requires a huge demand for manufacturing workers. In the other three cities, the vast

Table 7.3 The ratio of labour demand and supply in China's regionally representative urban cities, 2008–2009

<i>Areas</i>	<i>1st quarter of 2008</i>	<i>2nd quarter of 2008</i>	<i>3rd quarter of 2008</i>	<i>4th quarter of 2008</i>	<i>1st quarter of 2009</i>	<i>2nd quarter of 2009</i>
East	1.01	0.99	1.02	0.89	0.87	0.90
Middle	0.96	0.97	0.87	0.82	0.83	0.88
West	0.91	0.94	0.92	0.86	0.84	0.80

*Source:* Adapted from the website 'China Labour Market' in the supervision of Ministry of Labour and Social Security, <[http://www.lm.gov.cn/gb/data/node\\_4743.htm](http://www.lm.gov.cn/gb/data/node_4743.htm)>, accessed 14 December 2009.

*Note:* Data for 1st quarter of 2008, 2nd quarter of 2008, 3rd quarter of 2008, 4th quarter of 2008, 1st quarter of 2009 and 2nd quarter of 2009 are collected from 104 cities, 102 cities, 93 cities, 99 cities, 103 cities and 101 cities, respectively.

*Table 7.4* Differences in labour demand and supply in selected urban cities, first quarter of 2009

<i>Cities</i>	<i>D:S</i>	<i>% of total demand from secondary industry</i>	<i>% of total demand from tertiary industry</i>	<i>Most under-supplied occupation (D:S)</i>	<i>Most over-supplied occupation (D:S)</i>
Tianjin	0.57	15.8%	84.2%	Exhibitor (3:1)	Assembler (1:3)
Shanghai	0.88	15.3%	84.6%	Cold processing workers (44:1)	Job agent (1:10)
Shenyang	0.76	19.7%	73.3%	Game developer (5:1)	Junior accountant (1:4)
Fuzhou	1.11	58.1%	40%	Operator for making shoes and hats (2:1)	Security (1:2)

*Source:* Adapted from the website ‘China Labour Market’ in the supervision of Ministry of Labour and Social Security, <[http://www.lm.gov.cn/gb/data/2009-05/07/content\\_295197.htm](http://www.lm.gov.cn/gb/data/2009-05/07/content_295197.htm)>, accessed 14 December 2009.

*Note:* The third column represents the percentage of demand in secondary industry relation to total demand for labour. The fourth column represents the percentage of tertiary industry demand relative to total demand for labour.

majority of total demand comes from tertiary industry. This reflects the situation that the rapid development of secondary industry in these cities has produced a thirst for more tertiary industry, and accordingly an increasing demand of employees working in this industry.

### **Supply-side causes of skill shortages in China**

Recent research on growing shortages of skilled employees in China has largely focused on four main causal factors on the supply side. First, there are weaknesses in China’s formal education sector flowing from its rapid development as a transition economy (Xu 2008; Bai 2006; Cooke 2005). Second, there is the problem of the large numbers of less-skilled workers who previously worked for SOEs and are now unemployed. Third, there are concerns regarding employers’ preparedness to invest adequately in organizationally-based training. This is, of course, a phenomenon that appears elsewhere in situations of skills shortages and/or employer dedication to labour cost minimization (Cooke 2004, 2005; Zheng and Hyland 2007). Finally, there are problems that flow from national government policies on internal migration and residency permits, problems inherent to China in this particular phase of its development (Cai *et al.* 2008; Fan 2007). We provide a brief critical review of each of the four aspects as follows.

#### ***China’s formal educational system***

China’s education system has undergone rapid development and improvement since major educational reforms began in the 1980s. Here, we mainly focus on

two types of education provision – VET and tertiary education, since they are most relevant to labour market entry and skill shortages (see Chapter 6 for detailed information on China's education system). The former, provided by VET schools at various levels, is the major source of entry-level skilled process workers and technicians with technical knowledge and professional abilities. The latter, mainly referring to universities and colleges, turns out engineers and highly skilled professionals in different fields.

The biggest deficiency identified in these two types of education is the education–job mismatch between qualities the graduates have and those companies expect them to have. According to information in a World Bank (2007b) report, 'Of the 4.95 million students expected to graduate in June 2007 [an increase of 820,000 more than 2006], 1.4 million are unlikely to find a job befitting their degree.' A major reason is that students graduate without the knowledge and skills that employers expect them to have. Both domestic companies and FIEs complain about the inability of China's secondary and tertiary education systems to provide sufficiently qualified graduates.

Overall, the education system is weakly responsive to the need to prepare graduates to work in competitive labour markets marked by dynamic change. Lack of institutional adaptability blocks educational institutions from learning from the labour market in order to offer updated courses and develop necessary graduate attributes. A general absence of close relationships between educational institutions and enterprises also impedes efficient job market forecasting and relevant career guidance from those institutions. Students have few opportunities to gain practical experience and apply their classroom learning so that graduates have weak hands-on and problem-solving skills and face difficulties in finding proper jobs (Xu 2008; Bai 2006; Cooke 2005).

In research we conducted during 2008 and 2009 at three leading industrial parks in the Yangtze River Delta – Suzhou Industrial Park (SIP), Shanghai Jinqiao and Wuxi New District – we found that 92 per cent of the 218 electronics FIEs surveyed indicated that most of their newly-hired skilled process workers hold secondary and tertiary VET degrees. Fifty-six per cent of companies indicated that directly recruiting from VET schools is one of their most widely used avenues for skilled worker recruitment. Some 59 per cent of companies had experienced problems with the VET system's overall effectiveness in equipping VET graduates with the technical knowledge and skills that companies would like them to have. Sixty-two per cent of companies indicated that VET schools have not put sufficient emphasis on employability skills in teaching and assessment. Further, 51 per cent of companies indicated that VET schools do not have capacity to produce a sufficient number of graduates.

In examining VET deficiencies, our research in these three parks also highlights employers' efforts through collaborative programmes to forge closer links between knowledge/skills learned at VET schools and those needed in the workplace. Across the three parks, 36 per cent of the 218 FIEs surveyed had set up some kind of collaborative programme. SIP had the highest at 46 per cent and Wuxi the lowest. The most-used kind of programme overall – by 30 per cent of all companies – was

‘providing internship opportunities’, followed by 21 per cent involved in ‘providing financial sponsorship in terms of tuition reimbursement and scholarships’. While only a minority of total respondents indicated a choice to set up collaborations with VET schools, this is still an important development, most obvious at the more advanced SIP and Shanghai Jinqiao.

### ***Inadequate skills of laid-off SOE workers***

There is a major problem of low and outdated skill levels among laid-off workers, most of whom were retrenched from SOEs in traditional industries. These workers are mostly unable to enter newly rising industries that require higher-level and new skills. In response, the central government has instituted several re-employment policies and launched employment training programmes. However, it is difficult to evaluate how effective these programmes have been for the unemployed (World Bank 2007a; Bidani *et al.* 2009).

### ***Workplace-based training***

These two aspects explain employers’ recruitment difficulties in finding appropriately skilled candidates from the external labour market. A third aspect relates to skill gaps within an employer’s workforce. These gaps constrain productivity enhancement, technology development and innovation at the enterprise level. However, employers are mostly unable to solve this problem from the external labour market because candidates with relevant skills are also in short supply. Researchers have identified an urgent need for improvements in workplace-based skill development. However, in reality, there remains a problem as to who should shoulder the burdens of the necessarily huge training investment (Walsh and Zhu 2007; Cooke 2005). At the heart of this training dilemma lie the financial risks to employers of turnover and poaching.

Research suggests that there is also a qualitative weakness in much current workplace-based training. In particular, it receives criticism for its narrowly technical focus and neglect of behavioural training and training for employees’ career development. Further, researchers argue that employers have used training mainly as a means to develop skills and remedy skill deficiencies necessary for a transition economy rather than for enhancing productivity (Ng and Siu 2004; Yang *et al.* 2004; Ng 2005). Arguably, this mirrors the largely operational nature of most firms’ approaches to HRM in China (Warner 2008).

Our own research suggests that employer concerns over cost are a major factor affecting companies’ HRM policies and practices in general and training in particular. Indeed in research we conducted in SIP, Shanghai Jinqiao and Wuxi New District, ‘cost considerations’ – with 64 per cent of the 218 electronic manufacturing FIEs surveyed – was the most common factor constraining the effectiveness and sufficiency of companies’ training provision for skilled workers.

Unwillingness to invest or insufficient attention to training reflects many employers’ dedication to labour cost minimization in their operations in China

(Li and Sheldon, 2010). Moreover, this also reflects Lepak and Snell's (1999) more general argument regarding employer training strategy. They suggest a significant difference in employers' commitment to training of employees with high-value skills compared to those with low-value skills. As a result, employers provide much more internal training to employees in managerial and professional positions than to their production workforces in China. However, the inability of skilled process employees to access sufficient training opportunities hampers their skill development and intensifies skill shortages (Cooke 2005; Zheng and Hyland 2007).

### ***Labour mobility***

Since the mid-1990s, China has experienced massive internal migration from rural areas to meet continually rising labour demand in urban areas, particularly in the Pearl River and the Yangtze River deltas. Nevertheless, Chinese workers face various restrictions on their geographic mobility when moving from one city to another and, in particular, when moving from rural to urban areas. The main factor is the *hukou* system (see Chapters 8 and 14).

As a proof of official identity and citizenship, the *hukou* system represents a major formal tool of state social control to constrain labour mobility across regions by offering social benefits exclusively to local *hukou* holders. Institutional constraints on labour mobility undermine more effective labour allocation. In this case, labour immobility aggravates skills shortages by hindering movement from labour-surplus to labour-deficit areas. Yet labour flows are still growing rapidly, given significant disparities in economic development and income levels across regions which, in turn, generate diversity in the 'pull forces' of employment opportunities, and wages levels (Wu 2008, 2009).

Yet a relaxation of the *hukou* regime is, in itself, unlikely to resolve these labour market imbalances. The majority of China's rural-to-urban migrants are unskilled or semi-skilled workers, who have very low educational attainment and are only able to fill those urban jobs characterized as most dirty, dangerous and physically demanding. Unless there are great efforts to promote skill development among these migrants, any institutional relaxation on rural-to-urban migration will do little to alleviate skill shortages – although it would undoubtedly benefit those workers in many ways (see Chapter 14).

This section has explained how problems in various areas of labour supply have contributed to the growing skill shortages. The next section will discuss how these skill shortages have created something of a vicious circle for employers within their local labour markets. Furthermore, as employers seek to manage their demand for skilled employees in such unpromising conditions, many of their choices exacerbate local labour market shortages.

### **Demand-side causes of skills shortages**

Skill shortages encourage a seller's market for many categories of skilled employees, intensifying inter-firm competition for qualified candidates in more

developed local labour markets. All this generates continually rising wages, greatly troubling FIE employers. According to a study by the American Chamber of Commerce (2009), based on 108 FIE manufacturing companies, increasing compensation costs for managerial and technical employees are the main factors explaining why manufacturing costs jumped 10 per cent from 2006 to 2007 and another 5 percent from 2007 to 2008.

### ***Pre-term employee turnover and poaching***

This seller's market also explains the escalating rate of job turnover among some categories of employees in some parts of China. Interestingly, pre-term turnover – employees choosing to change employers during the life of their labour contracts – has now become an acceptable practice despite an entrenched official expectation to the contrary. Given a lack of real collective 'voice' through independent unionism, this 'exit' strategy probably appears to be the most effective route for advancement for employees working in tight local labour markets. High turnover appears particularly prevalent among FIEs, probably because territorial FIE clustering in China is a good proxy for advanced economic development. It may also indicate FIEs' higher propensities to train as part of their roles in global-to-local knowledge transfer. Finally, seemingly endless arrivals of FIEs and expansion of existing ones in successful economic zones and more developed areas engender increasing labour market competition among neighbouring firms (Lau and Bruton 2008; World Bank 2007a; Sankaran 2008; Li and Sheldon 2010).

In our recent research in SIP, Shanghai Jinqiao and Wuxi New District, 80 per cent of the 218 companies surveyed had experienced poaching of skilled workers by other companies in the preceding 12 months. This indicates the dramatic extent of the phenomenon. In particular, according to one of our case study companies in SIP, annual turnover oscillated between 25 to 30 per cent between 2001 and 2004 as a huge number of newcomer companies arrived at the park. Those groups most affected are engineers, technicians and experienced, skilled workers.

High levels of labour turnover have thus become an important challenge for employers, some of whom have also resorted to poaching employees from other firms. Competitive employee poaching by employers flowers at times of chronic labour shortages and reinforces those tendencies. Poaching, an intentionally aggressive business practice, purposefully targets recruiting of employees from a labour market competitor to meet the poacher's immediate needs (Gardner 2002).

In China, poaching is one mechanism within a wider phenomenon of employers enticing employees to switch companies during the term of fixed-term employment contracts by offering attractive incentives. The lure is not always (or only) higher pay and there is considerable local variation alongside the diverse patterns of shortages mentioned earlier. For example, in areas experiencing housing shortages or high housing prices, employer provision of housing becomes a highly valued employment inducement for employees at all levels within the labour market. Nonetheless, employers offer higher standards of housing to higher levels of employees. While the standard of housing provided to lower-level employees

is very basic, for non-local employees, the chance to gain separate accommodation for themselves and their families – rather than having to reside by themselves in company dormitories – is a very high priority (Ding *et al.* 2006; Morris *et al.* 2009; Zhou and Cai 2008).

Poaching appears to be particularly prevalent in the most advanced and booming local labour markets, where the continuing arrival of new FIEs generates additional demand for experienced skilled employees, technicians and managers from a relatively tight local pool already marked by shortages. As new entrants start small, they only require small numbers of start-up staff for whom they are willing to pay above prevailing rates. This allows them to poach from long-standing, local employers with much larger workforces who find it inadvisable to match the newcomers' higher offers and, in so doing, destabilize their own labour cost structures. This is particularly irritating for those FIEs attracted to China on the basis of stable, low wage costs.

These dynamics are neither accidental nor unpredictable. It is often local authorities – for example those running industrial parks – who continually encourage new FIEs into their areas, often in competition with each other. This brings widespread local development and employment and higher revenues for local government, whether through taxation, rent or service fees. In doing this, those local authorities continue to feed the dynamics that generate local skills shortages. At the same time, to respond to the complaints from employers, particularly FIEs, they also have offices or initiatives that seek to alleviate those shortages (Li and Sheldon 2010; Sheldon *et al.* 2010).

The poaching dynamic that the continuing influx of FIEs generates relatively quickly becomes a life-cycle story. Early poachers, once established and much expanded, themselves become targets of new generations of recently-arrived poachers. It particularly punishes those employers most committed to workplace-based training. For example, according to the production manager of one of our case study companies in SIP, the company's extensive, high-quality training programmes and workforce profile with its high proportion of employees with upper-level skills make it a particular poaching target. He recounted a story that placed this situation in stark relief. A newcomer company even parked a truck outside the main gate of his company and then poached workers with his company's skill certificates by offering twice the wage level. Once workers had agreed to leave, they were driven to the newcomer's factory in the truck.

As a result, connected problems of skills shortages and retention have pushed employers into a 'make or buy' dilemma. The first option, focusing on internal labour markets, involves investing in employees' workplace-based training, yet at the risk of seeing other employers poach ready-trained employees. The second can mean poaching as well as recruiting graduates and experienced employees from the external labour market through normal processes. The prevalence of poaching practices, in turn, discourages firms from investing in the training that could redress their skill shortages, further reinforcing the negative linkages between external and internal labour markets and aggravating shortages of skilled employees in local labour markets (Howard *et al.* 2007; Cooke 2004; Wang and Chan 2006; Li and Sheldon 2010).



This vicious circle has ramifications at a number of levels. At the local labour market level, it exacerbates gaps between skilled labour demand and supply. At the inter-firm level, it generates tensions around poaching that reduce the potential for inter-firm collaboration to improve local labour supply. Within firms, these tensions emerge as challenges to their HRM practices including recruitment, training, remuneration and retention.

### **Suggestions for future research directions**

This chapter provides an integrated, dynamic understanding of the dimensions, trends and causes of skill shortages in China. Its local labour market focus allows for analysis of interactions between the workplace and the external labour market. The story it tells provides for the identification of areas for ready improvement – particularly on the supply side. Yet the challenge of skills shortages remains an urgent one for public policy and for firm-level HRM, as well as being of intellectual interest to researchers. Greater success in addressing the problem offers advantages to many parties, including that vast number of employees currently without sufficient skills to improve their labour market chances.

To start, there is an urgent need for more convincing large-scale and up-to-date data on the dimensions and extent of skill shortages, across different regions and localities, in different sectors and for different job-positions. This in turn requires greater precision in the use of definitions. As well, there is a need for greater and more analytical discussion of public policy responses – from all levels of government – and the effectiveness of those initiatives in addressing skill shortages.

Moreover, there is a particular need to further investigate employers' experiences of and responses to skill shortages. Employers, as the users and trainers of skilled employees, have also aggravated the problem of skill shortages through their involvement in poaching but, more broadly, through their unwillingness to invest in training. All of these responses make sense in terms of the options that present themselves to employers, including the prospect of a continuing influx of local labour market competitors for restricted numbers of skilled employees. These responses are all common in other countries and well understood in the theoretical literature. Nevertheless, in China, because of its size and the rapidity of its development, the problem is a more dramatic one – for employers, public policy and for those employees who lack the skills to get those better jobs that are available.

Poaching is one area that should attract greater scholarly attention. While there is a thriving literature on poaching at the high-occupational end of high-technology sectors in other countries (Freedman 2000; Capron and Chatain 2008; Gardner 2005), there is little interest in the sorts of poaching of skilled processes workers and technicians discussed here. Employers' experiences of – and responses to – poaching in China appear to parallel those that elsewhere occur only for employees much higher up the occupational ladder. But then, in other countries, employers facing higher labour costs for factory labour respond by relocating to much

cheaper countries, notably China. Once located there, however, FIEs face more constrained choices. Although existing research identifies the negative impacts of poaching on workplace training in China, we think it underestimates the extent of such influence. Thus, we argue for more research on inter-employer employee poaching and its effects on localized shortages of skilled employees at the lower levels of the occupational ladder. Further research needs to explore how and why firms have modified their training strategies in response to the poaching threat.

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## 8 Remaking China's working class

### *Gongren and nongmingong*

*Luigi Tomba*

A middle-aged laid-off worker once said to me in the early hours of a summer day in the now shattered industrial 'paradise' of Liaoning's provincial capital Shenyang:

Things are no longer as they used to be. There is no place for old workers like me. Now, even if you manage to get a job you have no pension, no health care, nothing. You're in the hands of a boss and depend on the cash he hands out. Factories only hire those migrants from the outside, because they are willing to work with no guarantee.

For this worker the reform of China's labour market has broken the social contract that the Chinese Communist Party had established with a privileged (and relatively small) urban working class that manned the highly inefficient plants of socialist industry. The problem, for this worker, however, lies not so much in the breaking of the social contract or in the privatization of labour resources. It lies in the fact that the public resources that used to be allocated to industrial plants have now shifted to other components of the public machinery and tasks still performed by the public system (administration, services, education and highly profitable strategic sectors that are now employing a skilled workforce). In the process, other people, ironically those who had been ostracized during the Maoist years (such as intellectuals and professionals), have benefited from public employment and from the attached privileges, while the traditional 'elites' of the egalitarian redistributive system (urban workers in particular), have lost out.

What lies behind high levels of inequality in twenty-first-century China (Lin and Bian 1991; Nee 1991; Li 2000; Solinger 2002) is more complex and structural than most accounts assume. Inequality in labour markets is not simply the result of differences in individual abilities to compete, or uneven development among sectors. The ability to compete, as elsewhere, is dictated by the capacity to accumulate resources such as education and skills that are crucial to get ahead in a competitive labour environment. But the availability of those resources is, in China, often the result of a complex interaction between, on one side, the unequal distribution of life chances produced by the 'marketization' of production factors and, on the other, the continuing role played by those institutions that directly and

indirectly make China's contemporary labour markets (Lin and Bian 1991; Li and Niu 2003).

This chapter will appear slightly different from many of the other chapters in this book. By analysing the situation of two social groups differently affected by urbanization and industrialization (migrant workers and SOE workers), it makes explicit the real implications for people's lives of national level reforms since 1979 that are presented in chapters 1 to 3. By analysing the experiences of these groups, I focus on the uneven experiences of workers during China's rapid shift away from a state-dominated economy and towards labour market mobility. SOE workers have lost most heavily through the privatization and de-industrialization of the economy. In this chapter, the localized data provide a useful foil to the explanation of more successful 'reformed' SOEs in Chapter 9. As well, the chapter discusses emerging patterns of labour market engagement and urban residential settlement among migrant workers from rural areas. This will provide some useful contextualization for the first four chapters in the book as well as for Chapter 13 on decent work in supply chains and Chapter 14 on labour market inequality.

While the rewards for and the valorization of skills and education are something that makes the Chinese labour market similar to labour markets in capitalist economies, numerous aspects of its contemporary structure still suggest that institutions and policies are playing an important role in determining winners and losers in those markets. Cleavages in the fragmentation of China's urban labour markets are still emerging within a highly institutionalized background: despite what is perceived as a triumph of the private sector, life chances of employees who work 'within the system' (the expression generally used to describe those who work for the public sector and enjoy its advantages), for example, appear to be greatly enhanced. At the same time, while household registration institutions have lost, since the 1990s, their ability to contain geographic mobility, they still affect the likelihood workers can achieve or maintain a certain work position, sign a long-term contract or have access to welfare through their employer. Furthermore, work in the public service and in large state-owned enterprises is still a guarantee of significantly higher returns, if not in terms of income, in terms of resources that it makes available to employees – including housing, welfare and other services – that are still part of the corporate culture of public employers and large mixed-ownership enterprises. As well, employment within the system no longer prevents individuals and families from taking advantage of opportunities the market now offers: the choice between the 'work unit' and 'sea of business opportunities' – into which earlier generations of public employees 'plunged' (*xiaohai*) during the 1980s – is no longer an 'either or' decision. Nowadays indeed, working for high-status public employers – for example in research institutions or universities – often facilitates market opportunities. With public capital rapidly moving away from labour-intensive industrial production and concentrating on advanced industries, services, administration and research, the public sector is also attracting significant sections of the skilled workforce.

With public employment and the largest domestic and international corporations attracting the higher echelons of labour supply, two categories of workers

coexist in the lower and mid-skill labour markets in Chinese cities. One is made up by underemployed or unemployed workers from former state-owned factories, especially concentrated in the north-eastern rustbelt: the traditional working class of *gongren* (workers) (Hurst 2009). The other is the even larger category of the 'peasant workers' (*nongmingong*) (Solinger 1999), who have flooded medium and large cities over the last two to three decades and are now staffing most of the labour-intensive industries of the world's workshop.

The conventional wisdom about these two groups makes them out to be different in many respects, and often antagonistic or competing for the same labour opportunities. *Nongmingong* are younger, more mobile and flexible and less 'demanding', relying less on the state and more on social networks than other parts of the Chinese working class, but becoming more and more active in the assertion and protection of their (long ignored) rights (*weiquan*) as labourers and citizens (O'Brien and Li 2006). They are also seen as uneducated and of 'low quality', unkempt and prone to conflicts and violence (Pun and Lu 2010). These characteristics make them the easiest target of exploitation but also the segment of the working class with the greatest potential to improve. They are, potentially, on the way up.

The traditional industrial working class, the *gongren*, on the other hand, today struggling to make ends meet after a tsunami of lay-offs, is the outright loser of the industrial restructuring process. These workers are overwhelmingly in higher age brackets (in their forties and fifties), very immobile for fear of losing the residual welfare they depend on, often living in the now dilapidated neighbourhoods that used to be owned by their work units, but subject to the risk of eviction in the rapid reconstruction of Chinese cities. The loss of status connected to the demise of their work unit has left them deprived of what they considered their natural right to protection and lifelong employment. They are often dependent on public subsidies, and very hard to re-employ in the new informal sectors because of their age, lack of skills or high demands for welfare and social security. They also, however, consider themselves to be of 'higher quality' because of their long-term political and working affiliation with state-owned industrial plants, and thus entitled to public support for their lifelong contribution to state-building.

The situation of these two groups, often competing in the lower skill end of the local labour markets, is a consequence of the progressive disconnection from their social contract with the state and the loss of their respective institutional protection. For the ex-workers, losing the status provided by the work unit has meant the end of relatively privileged political and economic status inside the system (to the advantage of higher-skill employees) and has led to almost inevitable downward social mobility (Hung and Chiu 2003). For the migrants, on the other hand, the progressive relaxation of the boundaries to mobility imposed by the institution of the household registration system has turned into a hard-fought chance of upward mobility and an ability to exploit geographically distant market opportunities (Zhang 2001). In both cases the transition has meant a substantial change in the structure of opportunities in the market for labour.

As a consequence of these differences, defined by these distinctive relations with the state, these two groups also produce different discourses about themselves and different ways of framing their conflicts. Hurst (2008) has recently suggested a way to adapt the idea of framing processes, discussed at length in the study of social movements and collective action (McAdam *et al.* 1996), to the social conflicts that characterize the contemporary Chinese working class. He found that these frames, or 'mass frames' as he aptly terms them, are different in different areas (for example the rustbelt of north-eastern China and the more developed areas near Shanghai) and the result of structural factors, such as the nature of the local political economy and the dominant political discourses produced by the local elites and the central state. He found that while 'market hegemony' (individualism and opportunism) characterizes workers' (and officials') world views in the advanced parts of the country, 'socialist moral economy' (assistance and welfare as part of the social contract between the government and the masses) still dominates the way workers in the rustbelt frame their grievances.

In a similar way Lee Ching-kwan's (2007) work on the sunbelt and rustbelt workers' conflicts registers different attitudes, strategies and frames among different components of China's working class. Disgruntled members of the former worker elites in the rustbelt 'draw on political discourses of class, Maoism, legality and citizenship' (Lee 2007: 9) and take to the street to protest while workers in Shenzhen complain mainly about discrimination and more often undertake legal action. Lee attributes this diversity to the different nature of their employment and relationship to the state: social contract and traditional reliance on political bargaining and work-unit dependence in the rustbelt; legal contract and lack of a similar support structure in the city for the migrant workers in Shenzhen.

Also, significantly, migrants in the sunbelt show what Lee calls a 'muted' class identity, whereas workers in Liaoning mobilize the socially constructed idea of the socialist 'working class' at times of conflict. Mobility and the fluidity of social networks also tend to shorten the duration of conflicts involving migrants, while the continuing collective residence in purpose-built and now dilapidated residential communities of the many laid-off facilitates longer-lasting and more endemic conflicts.

A consideration of these two groups – the *nongmingong* and *gongren* – as the two new faces of the Chinese working class could bring criticisms for being simplistic and, indeed, much complexity and division exists within the groupings. Nonetheless, looking at the two groups somehow highlights the peculiarity of China's labour market fragmentation and the roles played by institutions, policy decisions and dominant political discourses in producing a new type of working class, divided and subject to unusually high levels of exploitation. In the next sections, I will present a general portrait of *nongmingong* and *gongren*, with particular attention to how their participation in the labour market, patterns of mobility and urban concentration, involvement in areas where they settle, and their relationship with the state affect their different perceptions as a component of the new working class.



### ***Nongmingong*: breaking away from institutional constraints**

The term *nongmingong* (or *nongmin gongren*) is composed of the word ‘peasant’ (*nongmin*) and the word ‘work’ (*gong*) or worker (*gongren*). The word is associated with people who have migrated either temporarily or permanently from the Chinese countryside to feed the – for a long time ever increasing – demand for unskilled labour. The word in itself is quite interesting as it does not suggest the mobile nature of these workers as another term, *liudong renkou* or ‘floating population’, does. The latter is generally used in government policy documents to identify the overall phenomenon of tens of millions of Chinese moving around the country, long or short distance, and to address the enormous problems this movement produces, continuing to characterize the nature of the worker as a peasant, a category that has long experienced discrimination in China and that is today generally associated with low ‘quality’ (*suzhi*) (Jacka 2009), poorly educated persons who find themselves sharing cities with much higher quality urban citizens. As Sun (2009) remarks, the paradox behind this word is that while out-migration is often seen as a way to escape the ‘peasant’ label, this label becomes an even bigger signifier once migrants go to live in cities, where they are easily identified as such by the resident population from their behaviour, look, language and habits. Indeed, dozens of ‘textbooks’ are published in different cities to teach these new proletarians how to behave in the more civilized urban areas.

More fundamentally, an institutional divide still hangs over the heads of these workers (Tomba 2009). The household registration system (Wang 2005) was established in the 1950s and, despite substantial changes to allow actual mobility by this unskilled workforce, it still defines the citizenship rights of *jumin* (local residents, with an urban registration) and *waidi* (outsiders, generally with a rural registration). The status defined by registration transfers from mother to child and is, even today, unchangeable. In the socialist period, this meant it was impossible to leave the countryside as, without an urban *hukou*, going to (not to mention working in) a city was almost impossible. While this system provided the basis for the extraction of resources from the countryside that China needed in order to establish an industrial base in urban areas, it also produced a dual system that still influences today’s *nongmingongs* and China’s overall structure of social opportunities. Despite numerous reforms, the principle of registration seems to remain an untouchable institution. The most recent push by Chinese political commentators to discuss the abolition of the *hukou* system, during the 2010 meeting of the National People’s Congress, only resulted in a stern reaction by the authorities.

During earlier parts of the reform period, migrants were not allowed into the same segments of the labour market occupied by workers in urban enterprises that were mostly state owned. More recently, with the introduction of contracts in 1986 (Tomba 2002) and the progressive restructuring of the state industrial sector, this restriction has progressively disappeared. *Nongmingongs* can now work in any factory, although it is very hard to find rural migrants occupying high-level positions in SOEs or mixed-ownership enterprises. It is also unusual to find them enjoying the same type of long-term contracts and benefits reserved for the profes-

sional and administrative personnel, who generally come from the ranks of the registered local population.

It is difficult to portray this large and heterogeneous group of migrants. Statistics are scattered at best, while abundant in-depth research by both Chinese and foreign academics generally provide at best a localized picture of the phenomenon.<sup>1</sup> To paint a short portrait of who is involved in this massive labour mobility, I will rely on the most up-to-date statistics provided by the Ministry of Public Security (MPS) in 2009. Ironically, it is not the Ministry of Labour and Social Security that collects this information but the MPS. The *paichusuo*, or local police offices, are responsible for the population registers and for the registration of so-called 'temporary residents' (*zanzhu renkou*). The MPS is therefore the only source of information on this matter in China, although this set of statistics cannot include the (allegedly large) number of those who escape registration (MPS 2009).

The MPS reports that, in 2008, 122 million people (71 million male and 51 million female)<sup>2</sup> were living away from their place of registration. This number is below many estimates of the number of people on the move, but the breakdown is nonetheless indicative of the characteristics of this social group. One sign of the increasingly long-term presence of unregistered population in Chinese cities is that the majority – 55.7 per cent or 68 million – have been living in an urban area for between one month and one year, while 35 per cent have lived there even longer. The remainder have been living there for less than a month, indicating that new migrants continue to arrive in urban centres at a rapid pace. Over 80 million of these people are migrants from a different province and 46 per cent come from a rural area in a different province. Long-distance migration is still very common, although almost a third of all migrants come from rural or urban areas within the province. By far the largest group works in manufacturing (83.3 million), while over 18 million work in commerce and services. One important category, possibly under-represented in these statistics, is the *baomu* or housemaids for which the number (490,000) probably overlooks a large number of unregistered maids who live and work in urban families' homes (Sun 2008).

The 2008 MPS statistics also reveal that migrants are becoming an increasingly important component of the urban workforce and are putting down roots in urban labour markets and society. Over 61 million, or half of the migrant population in this survey, live in rented apartments, 23.6 per cent in accommodation provided by their employer's factory and 7.6 per cent at the workplace; this last number probably accounted for by the numerous construction workers who live at or near the building site where they work. China's global cities host a large number of migrants, with Beijing and Shanghai each having more than 7.7 million. The provinces with the largest number of migrants are all on the coast, with Guangdong leading the ranking with 27.5 million, Zhejiang 19.4 million and Jiangsu 14.5 million. In 2004, 70 per cent of all migrants were working in coastal provinces (Han 2007: 40).

Peasant workers are highly mobile, and often travel long distances to work following social networks, experiences of relatives and friends or *tongxiang* networks (groups from the same county or village). In such highly volatile local

economies as Guangdong, they also change job very often, both because factories open and close and because they keep looking for better situations. From other surveys, we also learn, for example, that younger migrants are more likely to migrate longer distances (Zou 2007) and that only a few are schooled beyond junior high school (*chuzhong*). While their general education level is low compared to the urban population, those peasants who do migrate generally have more years of education than those who do not migrate, confirming the general rule that migration is a choice that does require resources, and that migrants do not come from among the poorest of peasants (Zou 2007: 94).

*Nongmingong* often work in labour-intensive and highly exploitative industries like construction. The apparently endless construction boom that China has experienced in the last two decades has produced one of the highest rates of homeownership in the world. It has also created a very large army of construction workers, often recruited in a manner that reminds me of the southern Italian *caporali*, local bosses who mobilize and control workforce for seasonal work. Due to construction regulations that allow and often encourage multiple subcontracting, the last operator in the chain generally recruits workers directly from the villages, often with the complicity or the blessing of local officials. In some villages in Hebei, for example, a quarter of the population, or almost all the able young males, are recruited in this way, while 18.7 per cent of Hunan migrants work in construction (Pun and Lu 2010). Small bosses, who only scrape the bottom of the profits barrel, become responsible for an alienated workforce, providing shelter and food, withholding documents and often salary that remain at the mercy of the higher level contractors (Chan 2001). Indeed, the harsh working conditions and frequently delayed payment of wages also spur major disturbances on building sites, contributing to reinforce the image of peasant workers as violent and unreasonable. To indicate the seriousness of these problems, there were 175.6 billion Yuan of recorded unpaid wages in 2007, an average of 1.4 million per construction project (Pun and Lu 2010).

While it is difficult to accurately estimate real incomes among migrant workers, most surveys suggest they receive relatively low salaries and work long hours. In one such survey, only 13 per cent of these workers report hours of work that conform to the eight hours a day established by law, and 68 per cent report not regularly having a rest day each week (Han 2007). Despite the introduction of the new Labour Contract Law (see Chapter 3), many migrant workers reportedly are not signing an employment contract (Pun and Lu 2010). In another survey, only 53 per cent of interviewees report having a signed employment contract, while more than 15 per cent entirely ignore the notion of a contract (Han 2007: 59). Gao and Riskin (2009: 34) also note that the distribution of income is more unequal among migrant workers than among the overall urban population.

In such cities as Shenzhen and Dongguan the distinction between registered citizens and outsiders has long become irrelevant. The greatest majority is coming from somewhere else, to the point that the *lingua franca* here is no longer the local Cantonese but the national *Putonghua* spoken by migrants. In the urbanizing countryside of Guangdong, migrants are in the majority but have very little control

over resources. While they are crucial to the development of the province into an economic powerhouse, they see little of the wealth they produce and lose out to the local residents. Traditional and socialist collective arrangements over land use rights have made sure that, in the process of urbanization, the income from renting land for industry and real estate development has remained solidly in the hands of a minority of resident villagers who, in some cases, are becoming a new type of land-controlling bourgeoisie (Chan *et al.* 2008).

Access to education has long been a problem for migrants who, until recently, used to leave their children with their extended families – at least for primary schooling – as they could not afford the high fees required to put them into urban schools. A change in policy in 2008 has waived urban education fees for children of migrant families, thus reducing potential financial burdens on long-term migrants (Xinhua 2010). However, no significant information is yet available on the outcome of this policy for migrants' livelihoods and their children's access to urban schooling. This policy change also comes in the context of the heavy devolution of overall public school funding to local governments discussed in Chapter 6. Similarly, there is no information yet as to the various potential consequences of the new access policy placing extra financial burdens on urban local governments.

After three decades of enforced labour immobility, the progressive unleashing of China's workforce since 1979 has substantially altered the face of the labour market. It has produced opportunities for impoverished parts of the countryside to participate in the industrialization and urbanization that characterizes China's transformation. Almost all research published in China recently emphasizes the civilizing consequences of this urbanization (Tomba 2009) while also highlighting the many problems of exploitation and unfair treatment that migrant workers face. However, this literature generally treats these problems as transitional problems in the development of a labour market). In fact, while 'tradition' (*chuantong*) is often associated with the peasants, modernity (*xiandai*) and even postmodernity (*hou xiandai*) are the names of the game in the cities, whose (urban) citizens often appear as exemplars of what peasants might turn into, once fully integrated (Tomba 2009).

*Nongmingong*, this heterogeneous group making up the majority of China's new working class, therefore find themselves exposed to both the risks and the opportunities of a deregulated labour market. Their experience in the countryside is one where livelihood largely depends on the characteristics and the conditions of one's family and village. As a result, they are believed to be willing to take more risks, to have greater hopes for their own futures, and fewer expectations of or sense of dependence on the state. In this respect they appear more competitive and less 'demanding' than the traditional and now ailing working class in the urban centres. They are not, however, willing to forfeit their rights and there is a flurry of organizations and activities today producing increasing awareness among migrants in the cities. In the absence of an established relationship with the state or a history of protection of their interests, the strategies of their 'rights protection' movements are oriented more towards legal avenues than by claims to public

sector support. As we will see in the next section, this is very different from the attitude of laid-off SOE workers in Shenyang, where the legacy of long-held socialist entitlements still defines attitudes and actions.

### **Gongren: losing positional and institutional advantage**

The section is thus devoted to a very different component of China's 'working class'. It is the one that still proudly calls itself a class despite having almost entirely lost the battle to remain the 'master of the country' and despite being excluded from the rewards from China's market reforms and from engagement with the global economy. I will base my discussion here on my research in Shenyang's dilapidated communities of *xiagang*, workers progressively but inexorably laid off in the largest process of state owned de-industrialization that China (or any other country for that matter) has ever experienced. This cluster of the working class is more easily described than migrant workers. Joined together by their grim destiny and their nostalgia for the 'golden' days of socialist industrialization, they are largely unemployed or underemployed, middle-aged and ageing rapidly, depressed and aggrieved against the loss of their livelihood and of their social contract with the state, largely dependent on long-term welfare and on the money sent down from Beijing to help Shenyang's transition away from a socialist industrial base.

Shenyang, and the north-east of the country in general, used to be the centre of China's heavy industry. One of Shenyang's urban districts, Tiexi, separated by railway tracks from the rest of the city, has been the main site of my investigation during a three-year research project on communities.<sup>3</sup> It was once home to many of the 156 Soviet-funded, very large industrial plants established in the 1950s. Wang Bing's (2004) gruelling nine-hour documentary, *Tiexi: West of the Tracks*, clearly portrays the pain and grief that accompanied the destruction of this industrial patrimony. Still today, amid the ruins and the real-estate developments that have replaced those factories, Shenyang's residents, when asked what makes up Shenyang's culture, mostly answer: 'its industrial culture'.

There is, however, little left of that industrial culture in today's Shenyang. The city has almost completely abandoned its industrial vocation to embrace the unlikely dream of becoming a post-industrial hub. Industrial production has been largely moved to new areas in the furthest periphery, in newly developed industrial zones where industrial production is almost entirely decoupled from urban life. Almost all of the industrial plants that made up Tiexi's landscape have disappeared; only sporadically preserved buildings, small museums and industrial 'public art' remain to remind the people of Shenyang of its industrial heritage. This transition has been rapid, painful, destructive and often merciless. Old industrial areas have been rapidly reconverted to prime real-estate locations. While many of the factories are gone, worker neighbourhoods still stand, inhabited by those who two decades ago constituted the industrial urban elite.

The populations in China's north-eastern cities have experienced a rapid decline in their livelihoods. The three regions of Liaoning, Jilin and Heilongjiang have a

total urban population of 55.4 million. Of these, about 11 million were considered 'impoverished' (*pinkun*) in 2007 as their income was less than half the provincial average. The minimum livelihood guarantee system (*dibao*), which supports families below a yearly defined line of indigence, was available to 4.17 million people, or 7.5 per cent of the population. This means that individuals in these families become eligible for cash handouts when their income drops below (in Shenyang) 320 Yuan per month. To put this in context, in 2006, 22.4 million people nationwide were entitled to the urban *dibao* with almost 80 per cent of them classified as unemployed (Chen and Barrientos 2006: 7).

The stories of Tiexi's residents all appear very similar. Almost all families I got in touch with during my fieldwork say they have experienced *xiagang* – people laid off by an SOE – a word Shenyang people do not even feel the need to explain to a foreigner. They are likely to have been entitled to a small pay-off (*maiduan*) or to an early retirement if they were older than 45 or 50. Unemployment rates in Shenyang reached more than 20 per cent during the late 1990s, when many of the socialist behemoths with 20 or 30 thousand employees completed their long agony and went broke (*daobi*).

Also, most families lost, with their jobs, their attachment to an administrative unit. When the factory disappeared it all but eclipsed a social system until then organized around 'work units' (*danwei*) that also administered the population, managed distribution and provided services. Without a job and a work unit, the population's only remaining point of contact with the state are the residential communities where they are still entitled to live, at least until the next high-rise development displaces them to suburban new towns. In comparison to other cases of industrial decline, some would say that, at least, the Chinese working class has kept a 'roof over its head' and, in fact, this is a 'luxury' that many migrant workers are not entitled to. With it, these families of the laid-off also keep alive their sense of moral entitlement to being 'saved' by the state.

In this deteriorating social situation, and given the potential risk of social instability in the rustbelt, the central government has intervened, providing substantial infusions of cash to urban administrations in the north-east between 2003 and 2005 in different areas (World Bank 2006: 43). Those administrations have used that funding to beef up the social security systems at that last remaining point of contact, the residential communities. At the beginning of our decade, Shenyang's 'Community Building' (*shequ jianshe*) became a nationwide model (*moshi*) and a crucial component of the attempt to contain the city's social decay and risks of instability (Benewick *et al.* 2004; Bray 2006; Tomba 2008).

This system, which has revamped traditional neighbourhood organizations, decentralizes social services generally provided by the district and subdistrict levels of government through the creation of highly visible and well-staffed service centres within the residential communities. In wealthier communities, where there is less need for these services, the government employees generally play a much smaller role and services are provided privately by management companies.

In Tiexi district, 1.02 million residents are organized into 16 subdistrict administrations called street offices (the lowest level of urban government), and then

further, into 126 communities. The latter are of different sizes, from small (up to 1,700 families), to medium (up to 2,800 families) and large (up to 5,500 families). The rationale for this distinction is that newer, better-off communities tend to be larger while the oldest and those with most problems tend to be smaller and abundantly staffed. Each community has 10 to 15 employees. These generally include one director and two vice directors (all three elected), and one Party Secretary. The relationship between director and Secretary can vary but, in Tiexi, it is almost always the Party Secretary who has the last word (*shuo le suan*).

Communities also hire so-called volunteers (*gongyi xing gangwei*). These often outnumber the community personnel and perform daily tasks such as monitoring and patrolling the community, and managing garbage collection. They also often help with the implementation of household registration regulations, family planning and the organization of political activities. These jobs pay a monthly 'subsidy' (*butie*) – it is not a salary – that has been recently raised to 700 Yuan. More importantly, they provide health and old age insurance.

There are tens of thousands of these jobs, reserved for *xiagang* workers in all aspects of public life, and they represent a fundamental safety net for many unemployed. According to interviews with provincial Civil Affairs officials, this community system employed 330,000 formal employees and an estimated 750,000 volunteers in the whole of Liaoning province, at the end of 2006. In Tiexi alone, the system of residential communities employs an estimated 5,000 people including cadres, employees and the 'volunteers'. They are the frontline of Shenyang's government of local industrial decline, but they are also its victims. The great majority of the employees are women.

Their duties include the distribution of various types of subsidies – including the all-important minimum income subsidy, certifications, re-employment services, family planning, household registration, authorizations for small community businesses, pet registration, security, monitoring of dangerous elements, maintenance of public areas and gardens, and housing maintenance. There are also campaign-like activities such as: collecting and distributing clothing to poorer families; recreational activities; registering and supporting local associations; people's education, including the 'community universities' and 'old age universities'; health and hygiene; organization of propaganda activities required by higher levels of government; and recruitment of volunteers, in particular for such tasks as 'community patrols'. Each employee is also assigned a certain number of families that he or she has to report on.

In Shenyang, middle-aged unemployed workers largely see their communities as the only remaining institution protecting their entitlements to welfare as former public employees. Orphans of their work unit, they are likely to have lost their extended social network as well. The generation of the 40- to 50-year-olds have experienced a 'series of opportunity-depriving events' (Hung and Chiu 2003), from missing out on educational and occupational opportunities during the Cultural Revolution to the restructuring of industrial enterprises in the 1990s, at a late stage of their working lives. As a result, they see public assistance as the only remaining vestige of their once-privileged status.

Among the numerous unemployed I interviewed in Shenyang, younger as well as middle-aged people, I noticed a remarkable reluctance to abandon the community and move to a different part of town or to a different city. Residence in the community allows families to maintain membership in the system and claim the residual support guaranteed by the state. Also, when material conditions are very harsh, the availability of housing is the single best reason to remain in the community. In fact, many of these workers had been able to buy their apartment, at extremely discounted prices, from their former work unit before it went bankrupt. Dependence on housing and on residence only ceases when the younger generation 'moves on' but, in cities with collapsed labour markets and low salaries, children remain in the small family apartment for a very long time and eat up resources, rather than producing them.

The fact that many housing compounds today are not a reflection of the same 'community' of co-workers these people used to share grievances with also makes it less likely that residential areas become arenas of collective, class-based protest. While grief about their situation is a daily exercise, collective protests are more common in factories than they are in communities. The relationship between state and unemployed at the level of the communities seems to be based on the mutual acceptance of a rhetoric of assistance. Having lost their job, former state employees often still regard the state as a provider. As one interviewee who has been on subsidies for a while said:

What job do I want? I would be happy with one that pays 800 to 900 Yuan a month, but that is about the same that my family makes in subsidies. Now it's impossible anyway. Nobody wants someone like me with only a basic education. Enterprises now only want you for a few months, no security, and they don't pay your health insurance. So I am better off staying at home. My parents were small cadres and have pensions, so they can help us, and my daughter is going to school. When she is finished she will get a job and help her family.

Another, 38, who gets a 350-Yuan-a-month unemployment subsidy to work as a security guard, said:

I am not really looking for anything else. This is enough to survive and the situation in the labour market is not good; I wouldn't be able to make more money. This is a clean and secure job and the state will take care of me if something happens.

This outlook, which combines resignation with entitlement, is largely also a consequence of the collective depression in the face of a shared destiny. It came up constantly during my interviews, given the fact that unemployment has touched almost every Shenyang working family. Dependence on community welfare is felt to be a right rather than a choice. A municipal official in Shenyang offered a typical response: 'These people have been working for the state and the revolution



all their lives and we have a duty to support them, whatever the cost.' The government has made efforts to favour the re-employment of laid off workers, with tax breaks for companies who hire them, and subsidization of the fixed costs of hiring, but those efforts do not seem to be paying off. A survey among 'minimum income support' receivers in Liaoning province in 2004 revealed that only 30 per cent of the receivers made use of community based re-employment services, while overall satisfaction with the minimum income subsidy scheme reached 70 per cent (World Bank 2006: 108).

Finally, the depressed middle-aged unemployed maintain almost no hope for themselves and invest all remaining social energies in the education of their only child. The visibility of community governance, the preservation of a roof, subsidies and a highly propagandized but inefficient re-employment system still meets the image of these workers' expectations. The welfare system managed by the communities constantly reminds residents of their situation but also keeps discontent at bay, through direct engagement and continuous monitoring of social conditions. The state's intervention through the community, which is visible but at best palliative, helps to perpetuate dependence, despite an obvious deterioration of living conditions and a reduction of opportunities likely to span two or three generations. It also turns the problem into an endemic but slow-burning, rather than explosive, issue.

While some of those laid-off workers do some casual or contract work, employment outside of the work-unit system or in conditions different from those offered by their old employers is generally not considered to be real work. As one interviewee put it, 'I have been bought out, and my kids also have no real work. These days the only jobs one finds give you no health insurance or pension; you depend on the little bit of cash that your boss gives you.'

The loss of work-unit status also constantly frames the views the unemployed hold of the state; they see it as having betrayed its employees but now expect it to perform a duty of care towards the unemployed. Apart from the increasing difficulties of economic life, the shock of 'why is suddenly no one looking after us?' is another challenge for many laid-off workers to deal with. As one told me:

China has developed quickly and ... sure, we can understand that the country has difficulties in these times of change. But why should we be the casualties? I am out of work but I am too young to get a pension. So the state wants me to pay tens of thousands of Yuan to get a pension in seven years time ...

Another said:

I am fifty but I am not entitled to a pension. They say one should not use the word 'unemployed' (*shiye*); if you use the word 'out of work' (*xiagang*), they say the country has difficulties, society is in bad shape. Our community has the highest number of unemployed in the district, the district the highest in Shenyang, Shenyang the highest in Liaoning, Liaoning the highest in the

country . . . in this harsh situation we are left eating our own fat (*chi lao ben*). We are all so servile: give us a place to live and a full – or even half full – tummy and we won't rebel . . .

Laid-off workers also lashed out at an employment system that has changed and where people of their breed do not belong anymore. For example:

Now in China, if you want to be part of the system you need to have connections. The new factories only hire migrants from the countryside, because they don't ask for insurance like we [the old public workers] do. I am unemployed, I am looking for a job, but most of those who offer work to someone like me are illegal organizations who would not pay any social security. We were fired and bailed out with 10,000 Yuan [1,300 USD] after 20 years in the factory. Aren't we the ones who have suffered? Now the state even wants us to pay for our retirement!

## Conclusions

To conclude, the migrant workers (*nongmingong*) and laid-off *gongren* have had substantially different experiences of China's transformation. Both groups experience and perceive exploitation and unfairness but the ways they frame and respond to their grievances are often very different (see also Lee 2007). In the case of migrants, exploitation is a daily experience that is articulated in different ways. Younger and more mobile, they are often willing to take risks to retrieve their unpaid salaries or to obtain better working conditions. They have little to lose. Dispersed and relying on fluid social networks, they end up relying on both direct and legal action but not on a class consciousness and on its discourses. Laid-off workers frame their grievances and their identity around the sense of entitlement produced by a lifelong experience of work for the state. Dependent on the state providing for them and at a stage in their lives where they have little to offer to the labour market, these groups are on a downward spiral where they can only rely on public support. They risk becoming a long-term liability for the already ailing welfare systems in Chinese cities.

Their experiences also reveal the substantial inadequacy of China's labour market. Both groups are exposed to extremely high levels of competition and to endless challenges from employers and the state that are both willing to maximize returns from a fast-growing and highly exploitative economic system. Both migrants and the laid-off also live inside the tension between the reality of a highly demanding, competitive and ruthless market for labour and the discourses of the state about its legal system, fair opportunities, promises of modernity and socialist egalitarianism: discourses that they sometimes espouse to redress their grievances. Those who manage to remain 'within the system' of public employment – now heavily concentrated in government and services and highly profitable, strategic industrial sectors – still fare much better than those who have been expelled from it (the *gongren*) or never made it inside (the *nongmingong*).

## Notes

- 1 Recent Chinese-language literature on *nongmingong* is very abundant. Some examples of recent research in Chinese include: Chi, Z. (2006) *Nongmingong yu jindai shehui bianqian* (*Migrant workers and modern social change*), Hefei, Anhui renmin chubanshe; Guo, J. (2006) *Chengshi nongmin gongren shehui baozhang zhidu yanjiu* (*Research on the Social Security System for Migrant Workers in the Cities*), Beijing, Zhongguo shehui kexue chubanshe; Cheng, X. (2007) *Zhongguo nongmingong ruogan wenti yanjiu* (*Research on some problems regarding China's migrant workers*), Beijing, Zhongyang bianyi chubanshe; Yang, H. (2007) *Zhongguo nongmin da qianxi* (*China's peasants great migration*), Hangzhou, Zhejiang wenyi chubanshe.
- 2 The 1 per cent population census of 2007 reports similar data, with the population resident in places different from their place of registration estimated at around 9.6 per cent of the total sample, although with a more balanced gender split (50.03 male and 49.97 female).
- 3 The project was funded by Australian Research Council Discovery grant DP0662894.

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## **Part III**

# **China's changing workplace**

Emerging divergence



# 9 Human resource management and employment relations in state-owned enterprises

*Shuming Zhao and Wansi Chen*

## Introduction

As China's market economy has developed, its state-owned enterprises (SOEs) have also faced reform and rationalization. With the implementation of SOE reform across the country, SOEs have been transformed into shareholding firms. Some have become privatized in full – leaving the state-owned sector. According to the National Bureau of Statistics of China (2009), SOEs are those organizations properly registered as such 'where the entire assets are owned by the State'. They do not include 'solely State-funded corporations in the limited liability corporations'. Nevertheless, many commentators use broader definitions to include those jointly-owned corporations where the state is the largest or even a smaller shareholder. This can also include corporations where provincial and city levels of government are the shareholding party (Shi 2010; Woetzel 2008). In this sense, China's state-owned sector is what Chapter 2 defines as a separate 'business system'. We define SOEs as the same thing.

A central challenge for SOE management is the reform of inefficient and inflexible production systems into competitive and productive ones. Indeed, some Chinese economists argued that it would not be possible to significantly enhance managerial efficiency within SOEs without first reforming the enterprise ownership system itself (Zhang 1995; Zhu 1995, 1998). This had direct implications for people management.

China's reforms of its SOEs began in 1978, but since then only a limited number of research-based cases have been developed to document their progress. This chapter looks at human resource management (HRM) and employment relations in SOEs in China's transitional economy. It includes a case study that provides an empirical assessment of HRM practices used in Baosteel Company, a subsidiary of the Baosteel Group, one of the world's top 500 firms, and one with a reputation for practising harmonious labour-management relationships.

In the context of China's continual economic reforms and opening to the outside world, the central government has shifted its control over SOEs from micro-management to more macro-level involvement. The Communist Party was to remove itself from day-to-day control (but not ultimate authority) over business decisions. This is to reflect the new belief that Party ideology and enterprise



management are supposedly separate (Moore 1989). Thus, local managements of SOEs have greater autonomy and they have assumed new functions. One such area is people management, including HRM. These pressures have continued in recent years. For example, the evolution of the Chinese banking system, China's entry into the WTO and the ongoing stock-equity reform in state-owned commercial banks have exerted great influence on labour relations in Chinese banks (Zhao and Zhao 2006a).

Broadly speaking, and as Chapter 1 discusses in more detail, HRM functions and practices have been changing in China as employers embrace imported approaches as well as local, cultural influences to produce varieties of modern HRM 'with Chinese characteristics' (Warner 2008). There are changes to recruitment, training and development, performance management and appraisal, and compensation system management. For their part, the experiences of SOEs suggest a more gradual change in this area, with the adoption of advanced HR practices less common in local management.

### **The context: from personnel management to HRM in SOEs**

Before the reform of SOEs, the traditional government planning system was based on the concept that the entire economic system was run as a single large enterprise (Ma 1993). Recruitment, allocation, employment permits, transfer, and dismissal of employees were all subject to official approval by the state labour personnel departments. The traditional employment system in SOEs had two categories: permanent employment and temporary employment. The overwhelming majority of workers were permanent employees with assured lifelong employment in urban state and collective firms. As Chapter 1 explains, this highly centralized labour allocation system shifted increasingly, during the 1990s, to a 'two-way' selection in the labour market, and the fixed wage system shifted to the enterprise-determined pay package (Zhao 1994, 1995; Warner and Zhu 2008).

As Chapter 1 explains, the 'three personnel reforms' of 1992 entailed the wider implementation of labour contracts, performance-linked rewards systems, and contributory social insurance. By this time, the system had already become a 'hybrid' one, mixing what remained of the old with the newer features. The practices from the 'three old irons' left the SOEs with visible weaknesses characterized by a surplus of total staff but a relative lack of talent among staff. Compounding this is the lack of clear planning of personnel management systems in SOEs (Guo and Che 2008; Warner 1995, 2008; Zhu 2003; Zhu *et al.* 2007).

The Labour Law implemented in 1995 changed the original tenets of employment in SOEs and it became one of the most essential steps in labour personnel system reform. As older staff gradually retired, SOE managements introduced the contract system of labour relations. Under the old system, an underlying philosophy within SOEs was that management should provide jobs for certain, more privileged categories of employees.

With the growth of a market economy and devolution of control to local managements, there has been a wave of mergers, organizational shutdowns,

privatizations and the pressure for ever leaner production to maximize market profitability. All these changes impact on organizational structure, job allocations and job design. Re-arrangements of position responsibilities have brought elimination of backward production techniques and optimization of management processes to reduce costs. These were all central to the reform and renewal of SOEs.

By the early 2000s, SOEs had either closed down or downsized their workforce (Tsui 2002). Chapters 8 and 14 explore the implications for those workers who lost their jobs through these processes. Warner and Zhu (2000) describe *xiagang* as internal unemployment, which occurs when SOEs are downsized. Lu (2003) estimates that in Shanghai alone there were more than 1.5 million *xiagang* furloughed by their firms but still counted as belonging to their *danwei* or work unit, almost one-eighth of Shanghai's registered permanent urban residents.

Historically, the attractive salaries and benefits available in SOEs made them attractive areas of employment for people from all social strata. At the same time, *guanxi* (connections or relationships) remained an important element in SOE personnel management. Recently, however, graduates have been less attracted to SOEs, often preferring privately-owned enterprises (POEs), government institutions and foreign-invested enterprises (FIEs) for employment, in part for their comprehensive HRM systems. This decline in the popularity of SOE employment among new graduates reversed in 2009, SOEs have enjoyed being a top priority for new graduates for the first time in some years (ChinaHR.com 2009). It would appear that career stability is again a most important factor.

## Changing employment relations in SOEs

Since the founding of the People's Republic of China in 1949, the Communist Party and central government have dominated China's trade union system (Zhu 1995). With the state centrally controlling most enterprises and institutions, employment relations were essentially relations between the state and individual workers. As Chapters 1 and 15 discuss in more detail, officially unions acted as a 'transmission' between the two. (Korzec 1992).

With economic and administrative reforms generating dynamic outcomes in so many areas, one of the critical subjects of debate remains employment relations. In particular, as a number of other chapters suggest, there are important issues to resolve such as implementation of international labour standards, the role of trade unions, working conditions, wage-price factors in relation to cost of production and export competition in global markets, social protection and social inequality, 'efficiency' versus 'fairness and justice', the power of multinational corporations (MNCs), the global division of labour versus Chinese labour diversity, 'industrial democracy' and so on (Chan and Chuen 2001; Song and Song 2006).

## Changing work and workers in China

Traditionally, ideal career development focuses not only on pay rises and promotion, but also on the opportunities for self-development and enhancement that

more of China's employees are coming to expect as a new standard. Instead of being loyal to a specific organization, staff, especially the higher-educated, more talented employees, may put the pursuit of career above staying at the organization. Employees also consider the balance between work and family, which has a potential influence on one's career progression. Nowadays, people born in the 1980s constitute the main group of young workers. Usually the only child in their family, because of China's family planning policy, they are more highly educated, brought up under peacetime conditions and with expectations for progress. Such young workers are more individualistic; they seek jobs offering more self-actualization. Cosseted by their parents, they are more particular about working conditions and less inclined to bear hardships than their parents' generation (Huang *et al.* 2009).

Yet, in China as in the West, rapidly changing technology and the rise of the knowledge-based economy foster the redefining of organizational structures and the streamlining of organizational hierarchies in ways that broaden responsibilities for employees but reduce the number of middle-level to senior-level posts. This translates, among other things, as fewer opportunities for promotion. Organizational downsizing and spinoffs of non-core businesses, or sometimes mergers and acquisitions, further impact on the promotion and advancement of employees. For example, to cut organizational costs, employers may outsource non-core business and this reduces the number of managerial opportunities. While much of this change reflects trends imported from advanced capitalist economies, within China's SOEs there remain countervailing influences that reflect central institutional features of the Mao era. Perhaps the most important of these is the role played within SOEs by Party Mass Departments – a largely ignored aspect of contemporary Chinese management and one we explore briefly in the next section.

### **Changes to Party Mass Departments in SOEs**

Party Mass Departments in SOEs began with the founding of the People's Republic of China. Under the model of political economy introduced at that time, the leadership of the Communist Party, China was to complete the socialist transformation of agriculture, handicrafts and capitalist industry and commerce. The idea was to link socialist modernization to a new phase of development to build a 'well-off' society. Following the basic economic system, the intent was to keep public ownership in a dominant position and have diverse forms of ownership develop side by side. Hence the Party came to enjoy overwhelming importance in the development of SOEs, evident in the establishment of a Party Mass Department within each SOE according to the organization rule of the Party. In this sense, those Departments – and their Party Secretaries – functioned as a parallel but supporting management structure for SOEs' professional management groups. Their role was to maintain close alignment between production goals and the Party's political and social goals and activities within a centrally-planned economy.

These special departments only exist in institutions with a government background and, particularly, in SOEs. The question today is what is the role of Party

organizations within SOEs that are now ever more committed to competing within a globalized capitalist economy? What is the relationship today between the new professional management groups and Party officials within SOEs? If those Party organizations are to continue to play an influential role within SOEs – themselves much more autonomous from central government control – is this an important element of capitalism and HRM with Chinese characteristics?

The sense of initiative and commitment of Party organizations in SOEs is directly related to the Party's class foundation, mass base and ruling basis. A fundamental assumption is that, at the core of their political authority, Party organizations in SOEs rely on Party members' exemplary vanguard role to engage in ideological and political work in its own grass-roots organizations. Within SOEs, this continues to mean Party Departments carrying out work that facilitates production and operations while playing an important and growing role in enhancing the company's 'soft power' (Liu 2006). This soft power is important in galvanizing worker commitment and morale in conditions of rapid and often dramatic organizational change. At an organizational level, it plays a crucial role in building the 'social harmony' that is now a core goal of government socio-political policy (see Chapter 1). Activities include provision of employee welfare measures, developing a sense of belongingness and social identity with the enterprise and shaping organizational culture. In this sense, the Party Mass Department incorporates aspects of the roles of line management, HRM departments and even trade unions.

Managers, with more real power now, and Party Secretaries are positioned in parallel chains of command within SOEs. This meets contemporary requirements for 'autonomy' and 'decentralization' in SOE management. However, given that the owner – the state – no longer exercises direct control over management, it raises the risk that, just as in privately-owned firms, excessive managerial autonomy might allow practices that generate economic losses for SOEs and the broader society. One sign of this is that those administrative departments most linked to production and operations – the main sources of enterprise profit – can tend to assume attitudes of superiority while ignoring the moral leadership roles of Party Mass Departments. This obviously impedes Party members and other employees from pursuing work in Party Mass Departments and can undermine the authority and the role of those departments. The next section explores these and the other dynamics discussed above through a case study of a large SOE. In particular, we point out some of the problems emerging for HRM and employment relations as SOEs attempt to meet the multiple internal and external challenges facing them.

### **Baosteel case study**

In this section, we report on a research project we conducted of firm-level developments in HRM and employment relations, drawing upon an analysis of three sequential internal studies conducted in the form of questionnaires and interviews. In particular, we examine the disparities between management policy and practice

through interviews with employees. This is unusual as much HRM research on China uses managers as research participants rather than ordinary employees.

Baosteel Group Corporation (hereinafter Baosteel) is the largest steel company in China. According to the company's website (Baosteel 2010a), it has been one of the Global 500 firms since 2004 and ranked number 276 in 2010. In 2009 – the latest year for figures available – its sales revenue of RMB 195.3 billion translated into a total profit of RMB 14.9 billion. Total group assets were RMB 402 billion with net assets of RMB 243 billion. The total group Baosteel Group workforce was 106,914. According to the World Steel Association (2010), by output Baosteel ranked as the third largest steel producer in the world that year.

In 2006, after gross production of crude steel in China reached 400 million tons – or one-third of the global market – China entered a new period of development to build and maintain its position in the global iron and steel industry. Technology and management talent are the primary organizational competencies among leading firms in other countries such as Japan, South Korea and the USA. China's iron and steel industry is now facing unexpected demand in the global market both from home and abroad caused by the fluctuation of global economic expectations and the important role that government heavy infrastructure spending has played in shifting the Chinese economy back towards boom conditions after the global financial crisis (Qi 2009).

Within the Baosteel Group Corporation, the Baote Steel Company is a large SOE with 4,350 employees that focuses on the development, production, and sales of specially-alloyed steel. The firm started as an iron and steel plant in Shanghai in September 1958. With the approval of the State Council, it became a subsidiary of Baosteel Group in 1998 (Baote Steel 2010).

Under the leadership of Baote Steel Company's Party Committee, there are 14 secondary Party organizations, 65 Party branches, 147 Party groups, and 1,480 party members. Under the leadership of Baote's trade union and youth league committee, there are also 14 secondary union organizations and league organizations. Party mass organizations play an important role in respect to politics and cohesion in the development of Baote Group.

### ***Brief introduction to HRM in the Baote Company***

Baote has its own HRM system that comprehensively covers each step of a formal HRM process. Underpinning this is a set of comprehensive and systematic regulations covering all aspects of HRM. To administer this system, senior management has set up HR departments with related support facilities – such as for training, appointment evaluation, and an employee service centre – as well as an advanced E-HR information system. In terms of career development, Baote has on-the-job placement and cross-functional training to further improve the overall quality of personnel.

The average age of all employees at Baote is 32 years. This reflects a more general rejuvenation within SOE workforces as a result of the reform and restructuring processes that particularly targeted older workers for retirement and

redundancy (see Chapters 8 and 14). Some of these young Baote employees have been promoted to key technical and managerial positions for outstanding achievements. This would not have been possible as recently as ten years ago when non-expertise criteria played more important roles in promotion processes. Indeed, an emphasis on expertise for career progression and reward is a central element in the company's objective of retaining talented professionals with international qualities and capabilities in key posts. In particular, management aims to retain 350 'talents' (highly skilled employees) – 8 per cent of the workforce – with valued job titles and technical qualifications. This has now become the first HR priority for Baote: to optimize high-quality, internationalized and versatile personnel.

However, there are obvious weaknesses facing Baote in that it lacks those versatile and multi-skilled professionals who have high-tech operational skills, or those with authority and reputation in this industry or, indeed, those with the capability to carry out research and design in relation to special metallurgy and new metallurgy. This weakness reflects the priorities given to recruiting or developing for managerial positions rather than technological roles, highly-educated ones rather than highly-skilled ones, short-term demands rather than medium- and long-term strategy. It also reflects preferences for recruiting new staff rather than developing company veterans. As a result, this has negatively impacted on the enthusiasm of some personnel, especially blue-collar employees. Weak execution of HRM policies and regulations leads to inefficiency, even of routine practices. What's more, the company's loss of university graduates through (voluntary) turnover due to the low income potential that employment at Baote offers, its poor production environment or high production intensity, especially disadvantages management.

### ***Questionnaire survey studies***

In order to have a comprehensive view of its HRM and any related problems as they pertained to the Group and its subsidiaries, the HR staff of Baosteel Group initiated a sampling questionnaire survey study in July 2007 that generated participation of 5.5 per cent of the Group's total staff. Of the participants in this phase of the study, 19 per cent are from managerial roles, 24 per cent hold technological positions, and 57 per cent are from operational posts. Based on the results of the first questionnaire survey, the ten main concerns of employees are ranked as follows: satisfaction with pay level; views of the income gap; evaluation of their quality of life; satisfaction with harmony; interest in corporation strategy; democratic participation at work; satisfaction with Communist Party spirit; satisfaction with the emphasis on prioritizing skills and qualifications; superior-subordinate communication; and the focus on the corporate culture.

As one of the first batch of pilot units, the HR staff of the Baote Company conducted a questionnaire survey in March 2008 and received 259 valid questionnaires. From this survey, the primary concerns for Baote employees involve income (pay), benefits and career development. As can be seen in Tables 9.1 and 9.2, Baote employee responses show lower levels of satisfaction than those

*Table 9.1* Satisfaction with level of pay (%)

	<i>Satisfied</i>	<i>Partly satisfied</i>	<i>Dissatisfied</i>
Group	34	52	14
Baote	21	50	29
Baote (managerial posts)	29	55	16
Baote (technological posts)	25	51	24
Baote (operational posts)	16	48	36

*Table 9.2* View of income gaps (%)

	<i>Large gap</i>	<i>Comparatively large gap</i>	<i>Reasonable gap</i>
Group	30	44	26
Baote	41	40	19
Baote (managerial posts)	38	45	17
Baote (technological posts)	43	32	25
Baote (operational posts)	41	42	17

coming from the overall Group. Higher levels of dissatisfaction with pay levels and the unequal dispersion of income across company levels are especially clear among those working in operational and in technological positions. In particular, the lower Baote satisfaction rates would seem to suggest that employees in Baote expect to share similar pay levels to employees in the rest of the Group with which Baote merged a decade earlier.

As China has sought to develop a well-off society, the people's main concerns have shifted from the basic survival need to a higher level of social respect and self-actualization. This suggests the need to change from those traditional HRM policies and practices that aim to enhance employee motivation into new modes that customize everyone's need to raise their levels of job satisfaction. At the moment, those different salary systems established for different levels of employees – position-based salary for operators, skill-based salary for technicians, and goal-based salary for managers – reinforce the sense of inequality and inequity among groups.

From Table 9.3, it appears that employees wish for more frequent communications with their organization's leaders and, especially, its top management. Only

*Table 9.3* Communication possibilities between you and leaders (%)

	<i>Frequent</i>	<i>Sometimes</i>	<i>Never</i>
Group	42	54	4
Baote	32	62	6
Baote (managerial posts)	40	60	0
Baote (technological posts)	35	61	4
Baote (operational posts)	29	63	8

32 per cent of employees agreed that they can gain frequent communication opportunities. On the other hand, only very few (6 per cent for all of Baote, 8 per cent for operational employees) feel they never have that opportunity. Yet it is possible to read the figure of about 60 per cent who respond 'sometimes' as indicating a lack of management involvement that may reflect a communication gap and power distance between managers and employees. This has the potential to contribute to a deepening misunderstanding on both sides, for example on pay levels and income inequality.

Table 9.4 suggests that the vast majority of Baote employees are satisfied or partially satisfied with the management style of the Party. However, if we read 'dissatisfied' together with 'partly satisfied' as indicating dissatisfaction, then it reaches 41 per cent within Baote, a much higher level than in the wider Baosteel Group (30 per cent). It may seem that employees expect that management can do more to raise the honesty and transparency of the Party.

Table 9.5 provides employee responses regarding satisfaction with harmony in their department at work. Here, interestingly, the responses for Baote (overall) – high levels of satisfaction – almost completely match those for the wider Baosteel Group. This may be because income differentials *within* departments – as against across the hierarchy or between different parts of the wider group – are relatively narrow. Equity has long been an important measure to evaluate the harmony of an organization. Equity theory (Adams 1965) suggests that meeting employee expectations of equitable contributions relative to rewards is a guide to satisfaction and motivation at work. In this case, the importance of clear regulations that promote expectations shared by all is therefore another contribution to harmony through perceived equity of treatment. So too, the extent to which employees perceive they

*Table 9.4* Satisfaction with construction of the Party conduct and of an honest and clean company (%)

	<i>Satisfied</i>	<i>Partly satisfied</i>	<i>Dissatisfied</i>
Group	70	23	7
Baote	59	30	11
Baote (managerial posts)	58	31	11
Baote (technological posts)	65	30	5
Baote (operational posts)	56	30	14

*Table 9.5* Satisfaction with harmony of your department (%)

	<i>Satisfaction</i>	<i>Part satisfaction</i>	<i>Dissatisfaction</i>
Group	65	30	5
Baote	63	32	5
Baote (managerial posts)	67	27	6
Baote (technological posts)	70	26	4
Baote (operational posts)	59	35	6



*Table 9.6* Understanding of corporate culture (%)

	<i>Aware</i>	<i>Unaware</i>	<i>Uninterested</i>
Group	82	14	4
Baote	62	34	4
Baote (managerial posts)	91	9	0
Baote (technological posts)	70	30	0
Baote (operational posts)	50	44	6

are appreciated by their supervisors – and can freely communicate with them – brings a sense of equity or inequity. In the absence of perceptions of equitable treatment – through tangible as well as intangible rewards – organizations like SOEs risk high rates of turnover to the detriment of organizational performance and morale. This is all the more important for those valuable skilled and highly qualified employees (see above) whom management has prioritized for retention. Indeed, levels of satisfaction are higher among employees in technological roles than overall in Baote or across the Baosteel Group. This does not mean that management cannot do more to retain and maintain a high level of harmony.

Table 9.6 suggests that 38 per cent of Baote staff have no interest in or are unaware of the company's corporate culture. This rises to 50 per cent among staff in operational positions. Although lack of awareness of corporate culture is common in China, these high levels in this company – particularly as the figures for Baosteel Group overall are much better (18 per cent) – suggest a strong need for introspection among Baote management.

### **Follow-up interviews**

So far, the results of the survey suggest distinct problems do exist from an employee perspective. These cover lack of communication with management, employees' sense of inequity regarding remuneration, and lack of awareness of corporate culture. For a more in-depth understanding of the opinions of employees, we randomly chose employees from different positions to conduct a follow-up interview. About 30 employees participated on an individual basis and the response rate is 100 per cent. The interviews were conversational and informal, creating a climate in which interviewees felt free to talk openly about their insights into the corporation. Three specific concerns emerged that were common across the interviews: employee morale; performance evaluation; and support services. We will now briefly discuss each of these.

#### ***Employee morale***

Some interviewees mentioned the negative perceptions that some managers held. They are those 'superior' ones, who seldom bother to get to know their subordinates' opinions; armchair strategists who make decisions without inspecting the situation

at work sites; and those bureaucratic managers showing no empathy, who reduce the employees' organizational commitment. The unsurprising result of these attitudes among certain managers is growing misunderstanding that unavoidably enlarges the gap between managers and their subordinates and leads to frustration and demoralization.

### ***Performance evaluation***

Some employees suggested that the interpretation of performance evaluation and motivation systems in some subsidiaries greatly needed improvement. To be specific, they argued strongly for more transparency regarding the extent to which salary is linked to work performance. Some employees reported only caring about how much they get paid rather than how much pay they deserve, while others perceive that they do not get what they deserve. It would appear that the company's performance evaluation systems lack sufficient variety in comprehensively engaging with different employee capabilities, specializations, interests and psychological conditions. Other interviewees agreed that employee development is strongly connected with the corporate management's show of concern and what that suggests about recognition of employees and their future prospects. Employee dissatisfaction with the development of the corporation, as well as their own development within the corporation, are both clearly triggers for voluntary turnover.

### ***Support services***

Another concern expressed is the lack of a timely response to suggestions on improvement of support services, such as working meals, transportation to and from factories, provision of bicycle sheds, work clothes laundry, paid overtime work, and employee lounge rooms. Although many employees have expressed their concerns to their managers, only some have seen the problems resolved. Such issues can be relatively small; however, if employees perceive that management cannot or will not solve problems in a satisfactory way, then this damages relationships between managers and workers.

### **Research on turnover of university graduates**

Since 1998, Baote has been recruiting highly skilled and professional employees from various sources so as to guarantee the company's sustainable development. However, these employees are also the most likely to leave when another opportunity appears. Given the need to understand which factors are important for retaining younger skilled and professional employees, we used interviews with some of those younger employees to explore their potential concerns. Based on those interviews, our findings (in Table 9.7) offer new insights into the factors that influence high turnover rates among younger employees, especially those with college degrees.

*Table 9.7* Baote's turnover rates among college graduates, 1998–2007

<i>Year</i>	<i>Recruit number</i>	<i>Turnover number</i>	<i>Brain drain rate</i>
1998	37	28	75.68%
1999	33	26	78.79%
2000	63	46	73.02%
2001	21	3	14.29%
2002	53	24	45.28%
2003	173	78	45.09%
2004	89	34	38.20%
2005	279	106	37.99%
2006	207	69	33.33%
2007	146	23	15.75%
<b>Total</b>	<b>1101</b>	<b>437</b>	<b>39.69%</b>

Declines showed in Table 9.7 are just a matter of probability. First, there are many temptations for new opportunities outside the company. As Chapters 5 and 7 explore in more detail, these sorts of skilled employees can find many job opportunities in the Yangtze River Delta Region and employee poaching by labour market competitors appears rife. Other employees have chosen to further their studies in universities both at home and abroad. A practical issue for many employees is that, after several years working in Baote, some college students from outside Shanghai still find it hard to obtain registered permanent residence (*hukou*) in Shanghai. Inside the corporation, frequent organizational changes and personnel changes also create a sense of instability and insecurity and the motivation to look for other opportunities. In addition, perceptions of inequitable reward distribution and punishment also intensify dissatisfaction.

Payment is not only an important material element for retaining employees, it is also an important symbolic measure reflecting employees' value to the organization. If levels of compensation are not competitive with other organizations, the company inevitably risks losing employees to poaching and other forms of turnover. In our interviews, some employees expressed the notion that, as pay levels are linked to substantive positions, the only way to gain wage increases is through being promoted. No promotion means no salary increase. Given that promotion is rarely available to young employees during their first three years at Baote, they perceive that they can better serve their salary expectations in the external labour market – by leaving the company.

With soaring commodity prices in recent years, many have experienced a significant increase in the cost of living. For example, the dramatic increase in Shanghai housing prices and the high level of consumption undeniably create financial pressures. Average annual individual spending on consumption in Shanghai has risen from RMB 8,868 in 2000 to RMB 19,398 in 2008 (Shanghai Statistical Bureau 2009), while, according to an official government news service (Xinhuanet 2009), the cost of buying a typical two-room apartment now is at least RMB 500 thousand (in 2008) in any suburb of Shanghai. Such high costs of living

frustrate the young staff person's enthusiasm if the remuneration does not increase in the short term.

The third factor is perceived weaknesses in the company's performance management systems. Some young employees do not think the positions that the corporation assigns them to are consistent with their ability. The unfairness of performance management, a lack of quantitative evaluation criteria, the lack of able management and of supervisory care for the new entrants also leads to high dissatisfaction. In the face of these difficulties, there are suggestions that some department managers do not play an exemplary role, particularly because of perceptions of supervisory bias in HR matters. Then there are complaints that some managers lack a more professional and systematic approach and that this can lead to them overlooking new employees during the period following recruitment.

Finally, career development is another determinant that has increasing significance in influencing one's career choice. From the perspective of the employee, if the employer cannot offer pay levels and personal development opportunities that match one's ability, job-hopping will be an attractive alternative. Baote has recruited about 600 employees with at least junior college degrees. Yet, soon after entry, employees face the realization that they are under-evaluated. It is common that young, new employees are assigned basic tasks during their entry period; as a result, it takes a long time for them to gain development opportunities and often those opportunities are not what they had expected from the job. As time goes by, employees who find it difficult to access career development will seek opportunities elsewhere.

## Research on Party Mass Departments

The existence of Party Mass Departments (PMDs) in SOEs has special status and advantages in managing employment relationships. Under the guidance of Party committees at a higher level, the PMD in Baote is seeking to help address the organizational challenges facing management discussed above. For this reason, it initiates the strengthening of the construction of party mass work and staff forces, further promotes the 'cohesion project' (initiated by the PMD and supported by all departments of Baote), and carries out the practice of the 'eight people-oriented' guidelines (promoted to all subsidiaries of Baosteel Group) as the main mechanism to serve the working masses. According to the PMD, the 'eight people-oriented' guidelines establish a sound work system for understanding people, caring for people, improving people, regulating people, inspiring people, and trusting people to achieve workforce cohesion and further achieve common development objectives of employees and the corporation (Baosteel Group, 2010).

PMDs at grass-roots levels play important roles in ensuring the transmission of messages and control from higher authorities and satisfying the needs of employees. In order to accelerate the realization of new production goals, for new projects Baote has initiated a 'mountain-climbing' plan, or *Deng Shan Ji Hua* (meaning overcoming difficulties and finally getting a desirable result). The PMDs seize this opportunity to promote activities with the theme 'higher quality, effective innovation', where Party

branches of different levels cooperate to solve technical problems. This translates into an expectation that Party members take a leadership role in problem-solving for improved organizational outcomes within Baote. According to the Baote material, some Party organizations initiate projects with the direct participation of Party branch members, Party group members and Party members so as to underline the important role of Party members, especially the experienced ones, are playing in tackling problems.

With a high rate of Party membership among Baote employees, PMDs have their own unique role in coordinating employment relationships and developing organizational culture. In terms of promoting employee morale and commitment, we found a number of different initiatives among Baote's PMDs with welfarist or celebratory themes. One PMD at primary level has established case files for needy workers in order to offer one-to-one aid. Another, during festivals, offers special consolation letters, gifts and a one-day tour around Shanghai to university students from outside Shanghai. A factory PMD always provides gifts when children of the employees are admitted to high schools or universities. Another offers best wishes to employees on their birthdays through an electronic screen in the newly-built company hall and sends birthday cakes.

## **Conclusion**

This study of HRM and employment relations in SOEs employs a case study to provide a snapshot of developing trends more broadly in those sectors where SOEs are an important part of a China that is developing rapidly out of its transitional period. The Baote case suggests that, although institutional reform of SOEs was initiated more than a decade ago, there is still some way to go before the achievement of necessary progress in the formalization and modernization of management practices.

Notwithstanding that company management may have a certain understanding of employment relationship management from a strategic perspective, the general feedback we received from employees reveals a gap between their expectations and aspirations compared to management's. Satisfaction levels regarding pay rates and distributional equity, management communication, management style and the harmony of one's own department suggest that management can find specific opportunities for improvement. This particularly concerns the situation for those employees with a bachelor's degree or higher – among those employees Baote is seeking to retain. For them, abundant employment opportunities outside the firm and the increasing expectation that they can manage their own career development together contribute to their high turnover rate. It is in just such a difficult situation for company management that PMDs in SOEs seek to inject their particular ways of working so as to help line management develop employment relationships.

Trust is a critical foundation for harmonious employment relationships. Furthermore, a sense of equity of treatment is fundamental to trust. The outcome of trust is loyalty, commitment, and a sense of belonging (Tsui *et al.* 1997). Payment, whether hourly wage or salary, is a primary concern for employees and

therefore often a perceived cause of equity or inequity. In any position, an employee wants to feel that his or her contributions and work performance are being rewarded equitably and fairly. The direct embodiment of equity is the equity of the relationship between performance evaluation and compensation systems that is a concern among most Baote staff. If an employee feels underpaid then the result will be the employee feeling hostile towards the organization and perhaps co-workers, which may result in the employee underperforming or leaving.

Despite the contributions of this study, it is important to recognize its limitations. In particular, our case study may or may not be representative. On the other hand, this study is one of the first to discuss Party Mass Departments in Chinese SOEs and the role they play in helping line management build organizational performance, organizational culture and organizational identity.

## Notes

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# 10 Foreign-invested firms and their human resource management

## Beyond the early transition period

*Sunghoon Kim and Sunwook Chung*

### Introduction

Foreign-invested enterprises (FIEs) have been carriers of innovation of human resource management (HRM) practices in China. The literature on HRM in China describes FIEs as a group of companies that offer generous compensation, implement Western-originated HRM, recognize individual workers' performance, and thereby stand in contrast to domestic firms still influenced by the legacy of inefficient 'iron rice bowl' HR systems (Ding *et al.* 1997; Ding *et al.* 2000). However, scholars have begun to question the relevance of this conventional characterization to the emerging realities of the Chinese workplace (Du and Choi 2010; Ding *et al.* 2006; Wang *et al.* 2007; Zhu *et al.* 2005). Furthermore, recent media coverage of disgruntled employees in FIEs, such as suicide cases at an iPhone/iPad factory, have made the general public wonder whether FIEs really do manage their people in a decent and effective way (Barboza 2010).

In this chapter, we aim to evaluate conventional understandings of HRM practices of FIE in China, offering new perspectives that may have a better fit with the changing face of the Chinese economy. Specifically, the chapter addresses three major concerns. First, we trace recent changes in the nature of Foreign Direct Investment (FDI) into China, highlighting two observations: the regionalization of foreign capital's country of origin and the diversification of foreign capital's target regions in China. By regionalization we mean that most active foreign investors in recent years are non-Western countries such as Taiwan and South Korea. This regionalization of FDI suggests that we should be cautious in uncritically characterizing FIE's HRM as 'Western originated'. By diversification of FDI's target regions we refer to the way that foreign capital began to explore investment in locations beyond the industrialized coastal regions.

Second, we re-assess the established view that FIEs manage their people quite differently and offer employees much higher monetary rewards compared to domestically-owned firms. We present evidence that shows this premise needs reconsideration, at least in part, given changes occurring both in domestically-owned firms and in FIEs. Thanks to policy changes, FIEs and domestically-owned firms are now placed under similar institutional rules of the game. Within this

context, domestically-owned firms actively imitate FIEs while FIEs attempt to assure local legitimacy by adopting local business norms.

Third, we explore emerging regional variations in multinational firms' HRM in China. Over the last decade, China's business environment has become increasingly fragmented and diversified. The growing regional labour market disparities have had profound impacts on managerial practices in China. This chapter therefore explores how multinational firms' HRM in China, particularly practices of managerial compensation and overtime work, are shaped by these emerging regional disparities in the host country environment.

This chapter draws on a mix of quantitative and qualitative datasets. First, we employ available regional and national datasets published by government institutions, such as the National Bureau of Statistics of China. Second, we use original qualitative data collected over four rounds of fieldwork between June 2006 and August 2009. In total, we interviewed 157 employees of FIEs, visiting 62 worksites across 16 cities. The parent firms of FIEs interviewed include American, European, Japanese and Korean multinationals. We also interviewed staff members of foreign employers' associations (Korean and European), local government officials, local union leaders and labour activists. Third, we analysed original survey data that we collected in 2007 from 234 Korean MNC subsidiaries operating in China. Respondent firms to this survey cover diverse industries and various regions (13 cities across six provinces), offering opportunities to examine cross-regional variations of HR practices among FIEs.

## **Recent trends of FDI inflows**

Foreign-invested enterprises are Chinese companies that are partially or entirely owned by investors from outside mainland China. According to the National Bureau of Statistics of China (2009), 'foreign-funded firms' are defined as all registered joint-venture, cooperative, sole (exclusive) investment industrial enterprises and limited liability corporations with foreign funds. In general, a Chinese company is recognized as a foreign investment enterprise when foreigners hold more than 25 per cent equity ownership. However, the 25 per cent rule does not always clearly distinguish foreign-funded firms from domestically owned ones because Chinese partners' contribution to FIE ownership may take the form of non-monetary assets, such as land.

Since China's Open Door policy began in the late 1970s, the Chinese government has welcomed foreign investors as carriers of capital, technology and decent employment. The central government has offered various incentives to FIEs, such as tax reductions and labour supply services. Furthermore, in order to promote capital flows into their jurisdictions, local governments have offered such diverse inducements to foreign investors beyond the nationally endowed incentives. Thanks to these forces of aggressive institutional support, the rapid growth of the domestic market, and relatively cheap labour supply, China established its status as one of the most attractive destinations for FDI during the 1990s. Burgeoning FIEs have generated high-paying jobs and transformed business norms and practices, particularly in coastal regions of China.

On the surface, growth patterns of FDI inflow during the 2000s have remained largely unchanged from those of the previous decade. The volume of FDI inflow grew by over 40 per cent during the five years between 2003 and 2007. Even though FDI inflow was temporarily low in 2004 and 2005, this was in fact not a poor performance given that global FDI flows recorded serious negative growth in the same period (UN 2009). In 2008 China became the largest FDI recipient country in the world after the USA and France.

As for FDI location, coastal regions remain most popular with foreign investors. Table 10.1 shows the number of registered FIEs in each province over the period from 2003 to 2007. Guangdong province, one of the areas where the Open

*Table 10.1* The number of FIEs

	2003	2004	2005	2006	2007	5-year average growth rate
<b>National Total</b>	<b>2,26,373</b>	<b>2,42,284</b>	<b>2,60,000</b>	<b>2,74,863</b>	<b>2,86,232</b>	6.6%
Beijing	9,185	9,890	10,980	12,064	13,237	7.7%
Tianjin	9,792	9,938	10,933	10,753	11,429	4.9%
Hebei	3,454	3,497	3,637	3,819	3,696	1.7%
Shanxi	760	705	776	905	779	0.8%
Inner Mongolia	923	847	914	1,030	1,071	6.2%
Liaoning	13,814	14,858	16,542	16,405	14,739	1.8%
Jilin	2,690	2,370	2,488	2,358	1,963	-4.6%
Heilongjiang	2,243	2,202	2,288	2,408	2,464	3.6%
Shanghai	24,133	26,657	28,978	31,568	34,218	10.3%
Jiangsu	26,925	29,939	33,321	36,463	38,998	11.2%
Zhejiang	15,140	17,792	19,009	20,956	22,059	13.0%
Anhui	2,034	2,114	2,165	2,436	2,637	6.7%
Fujian	16,884	17,236	17,854	18,629	18,655	3.7%
Jiangxi	2,939	3,415	3,980	4,276	4,542	13.0%
Shandong	17,237	19,251	20,153	20,909	20,084	6.6%
Henan	2,403	2,600	2,877	2,813	2,983	4.3%
Hubei	4,031	4,173	4,284	4,230	3,964	1.5%
Hunan	2,337	2,598	2,712	2,948	2,964	6.7%
Guangdong	51,672	55,259	58,762	61,999	66,789	6.0%
Guangxi	2,311	2,336	2,441	2,611	2,468	-0.2%
Hainan	2,366	2,329	2,456	2,536	3,194	7.6%
Chongqing	1,129	1,294	1,315	1,360	1,519	2.5%
Sichuan	4,162	3,789	4,075	4,491	4,247	1.9%
Guizhou	595	641	649	601	603	-1.0%
Yunnan	1,666	1,761	1,817	1,967	2,055	4.9%
Tibet	107	86	100	115	129	7.5%
Shaanxi	3,179	2,754	2,890	2,863	3,175	1.5%
Gansu	607	650	658	431	398	-9.3%
Qinghai	147	161	138	123	151	2.4%
Ningxia	481	454	463	375	285	-8.1%
Xinjiang	342	331	345	421	509	9.0%

*Source:* National Bureau of Statistics of China ([www.stats.gov.cn](http://www.stats.gov.cn)).

Door policy was first implemented, maintained its clearly pre-eminent position as a host location for FIEs. Other coastal regions such as Jiangsu, Shanghai, Zhejiang, Shandong, Fujian and Liaoning also maintained their reputation as highly attractive destinations for FIEs. Among these areas of high FIE concentration, Jiangsu, Shanghai and Zhejiang each had annual growth rates of more than 10 per cent between 2003 and 2007, while the national average was only 6.6 per cent.

When it comes to employment, FIEs have continuously increased their contribution to the Chinese economy over the last decade. As Table 10.2 shows, the growth rate of FIE employment has been consistently higher than the growth rate of overall employment, especially after China's inclusion in the WTO. As a result, the contribution of FIEs to total employment has increased from 1.5 per cent in 1995 to 7.4 per cent in 2007. The job creation role of FIEs over this period is outstanding, given the continuous reduction of state-owned enterprise (SOE) employment as discussed in Chapter 8. During the same period, SOE employment has been reduced by 40 million workers and the SOE's contribution to total employment has dropped from 73 per cent to 53 per cent. When compared to the national average during this period, the higher average wages in FIEs indicates that FIEs' contribution to Chinese employment has been positive, not only in quantity but also in quality.

Although FDI has continuously flowed into Chinese coastal regions during the 2000s creating decent jobs, some signs of change are emerging. First, the regionalization of FDI origins should be noted. The scholarly and practitioner literatures often portray FDI into China as the inflow of Western capital and technology. However, FDI into China over the last decade, in fact, appears to have been

Table 10.2 Employment and wages

Year	Total		SOEs		HK, Macao, Taiwan firms		All FIEs	
	Number of workers (10,000)	Average wage (Yuan)	Number of workers (10,000)	Average wage (Yuan)	Number of workers (10,000)	Average wage (Yuan)	Number of workers (10,000)	Average wage (Yuan)
1995	14,908	5,348	10,955	5,553	267	7,711	236	8,812
1996	14,845	5,980	10,949	6,207	259	8,557	268	10,084
1997	14,668	6,444	10,766	6,679	275	9,553	290	11,216
1998	12,337	7,446	8,809	7,579	284	10,330	280	12,927
1999	11,773	8,319	8,336	8,443	295	11,349	291	14,353
2000	11,259	9,333	7,878	9,441	299	12,210	314	15,692
2001	10,792	10,834	7,409	11,045	315	12,959	328	17,553
2002	10,558	12,373	6,924	12,701	353	14,197	368	19,409
2003	10,492	13,969	6,621	14,358	394	15,155	426	21,016
2004	10,576	15,920	6,438	16,445	453	16,237	526	22,250
2005	10,850	18,200	6,232	18,978	539	17,833	649	23,625
2006	11,161	20,856	6,170	21,706	593	19,678	747	26,552
2007	11,427	24,721	6,148	26,100	660	22,593	847	29,594

Source: National Bureau of Statistics of China ([www.stats.gov.cn](http://www.stats.gov.cn)).

dominated by Asian Newly Industrialized Economies (NIE) – Hong Kong, Taiwan, Singapore and South Korea – not by Western developed economies. Between 2003 and 2007, investments from Western mature economies, such as the USA, Germany, UK, and Japan, have declined (see Table 10.3). In contrast, investment from NIEs of Chinese culture (Hong Kong and Singapore) and South Korea have increased by more than 35 per cent. Investment from Taiwan appears to be an exception as its volume dropped significantly during this period. The official records indicate that Taiwanese FDI fell by 50 per cent between 2003 and 2007. However, the Taiwanese FDI data should not be taken literally because Taiwanese investment into mainland China tends to travel through third-party countries, such as the Virgin Islands and the Cayman Islands (Tung 2005). Between 2003 and 2007, when Taiwanese FDI significantly dropped on the record, the registered investments from the Virgin Islands and Cayman Islands have been more than doubled, implying that Taiwanese capital travelled through these economies. This growing regionalization of FDI origin suggests that we should reconsider the general relevance of the traditional characterization of HRM in FIEs as ‘Western practice’ and pay serious research attention to the HRM practices of FIEs originating from Asian economies.

A second, emerging pattern is that China’s inland regions are increasingly emerging as target destinations for FDI. As Table 10.1 shows, several inland provinces – such as Jiangxi, Hunan, Tibet, and Anhui – have above-average annual growth rates in the number of FIEs between 2003 and 2007. A crucial trigger for this has been central government initiatives, such as the Western Development Strategy in 2000 and the Central China Rising Strategy in 2004 (Luo *et al.* 2008). Luo, Liu and Luo confirm the role of the central government in FDI growth in the inland provinces, finding that FIEs were attracted to inland locations by policy incentives rather than by natural resources or cheap labour.

*Table 10.3* Major sources of foreign direct investment

<i>FDI origins</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>5-year total (2003–2007)</i>	<i>Growth rate (2003–2007)</i>
<b>Total FDI Inflow</b>	<b>52,74,286</b>	<b>60,62,998</b>	<b>60,32,459</b>	<b>63,02,053</b>	<b>74,76,789</b>	<b>3,11,48,585</b>	<b>41.8%</b>
Hong Kong, China	17,86,093	18,99,830	17,94,879	20,23,292	27,70,342	1,02,74,436	55.1%
Virgin Islands	6,11,739	6,73,030	9,02,167	11,24,758	16,55,244	49,66,938	170.6%
Japan	4,19,009	5,45,157	6,52,977	4,59,806	3,58,922	24,35,871	–14.3%
Republic of Korea	2,72,073	6,24,786	5,16,834	3,89,487	3,67,831	21,71,011	35.2%
United States	5,42,392	3,94,095	3,06,123	2,86,509	2,61,623	17,90,742	–51.8%
Taiwan, China	3,97,064	3,11,749	2,15,171	2,13,583	1,77,437	13,15,004	–55.3%
Singapore	2,33,720	2,00,814	2,20,432	2,26,046	3,18,457	11,99,469	36.3%
Cayman Islands	1,17,954	2,04,258	1,94,754	2,09,546	2,57,078	9,83,590	117.9%
Samoa	87,947	1,12,885	1,35,187	1,53,754	2,16,988	7,06,761	146.7%
Germany	92,796	1,05,848	1,53,004	1,97,871	73,397	6,22,916	–20.9%
United Kingdom	89,576	79,282	96,475	72,610	83,094	4,21,037	–7.2%

*Source:* National Bureau of Statistics of China ([www.stats.gov.cn](http://www.stats.gov.cn)).

*Note:* One unit = USD10,000.

Finally, the traditional distinctiveness of FIEs as high-paying and market-oriented employers appears to be dwindling as domestically-owned firms actively imitate FIE business practices and FIEs seek to enhance their local embeddedness. In the next section we will discuss this further.

### **The dwindling distinctiveness of FIE HRM**

The traditional conception of FIEs is that they differ significantly from domestic firms in their HRM practices, such as competitive compensation packages, use of individualized pay systems, adoption of commitment-based HRM, and emphasis on a strategic role for HRM (Bjorkman and Fan 2002; Ding *et al.* 2006). However, emerging evidence questions this conventional wisdom. Recent studies often fail to find statistically meaningful differences across ownership types in various HR practices, including performance management systems (Wang *et al.* 2007; Wang and Zang 2005), recruitment (Han and Han 2009; Wang *et al.* 2007; Woodhams *et al.* 2009), and participatory management (Wang and Zang 2005). In a longitudinal study, Zhu, Cooper, De Cieri, and Dowling (2005) found that the distinctiveness of FIE HRM practice has become less visible over time. They came to this conclusion by comparing datasets collected at two different points of time, 1994/5 and 2001/2. According to their analyses, the impact of foreign ownership on the perceived importance of HRM – observable in 1994/5 data – does not exist in the 2001/2 data. Furthermore, in surveys at both points in time, the researchers could not identify meaningful ‘ownership effects’ on the participation of the HRM function in strategic decision-making, suggesting that domestically-owned firms have been no less strategic than FIEs in their approach to HRM, even in the mid 1990s.

This dwindling difference between FIEs and domestically-owned firms is most noticeable in changes to wage levels. According to a large household income survey conducted in 1988, FIEs paid double the wages of SOEs (Liu 1998). A decade later, government statistics in 1998 indicated that the average wage in FIEs was 70 per cent higher than the average wage in SOEs (see Table 10.2). In 2007, the same source of data suggests that, on average, FIEs paid more only 13 per cent than SOEs.

This pattern of convergence in average pay appears consistent regardless of region. As Figure 10.1 shows, in 2003 FIEs across China paid at least the regional average wage. However, in 2007 FIEs no longer paid higher wages in almost all regions. In some regions, such as Zhejiang and Fujian, FIEs were paying their employees even less than the regional average. As of 2007, employees were not guaranteed better compensation by joining FIEs, except in Beijing. According to a more recent report, highly qualified job seekers are now beginning to choose SOEs over FIEs because SOEs offer competitive compensation packages in conjunction with better benefits and employment security (Wang 2009; and see Chapter 9 in this volume).

Multiple factors appear to contribute to this decreasing distinctiveness of FIEs. First, regulatory environments no longer clearly differentiate FIEs from

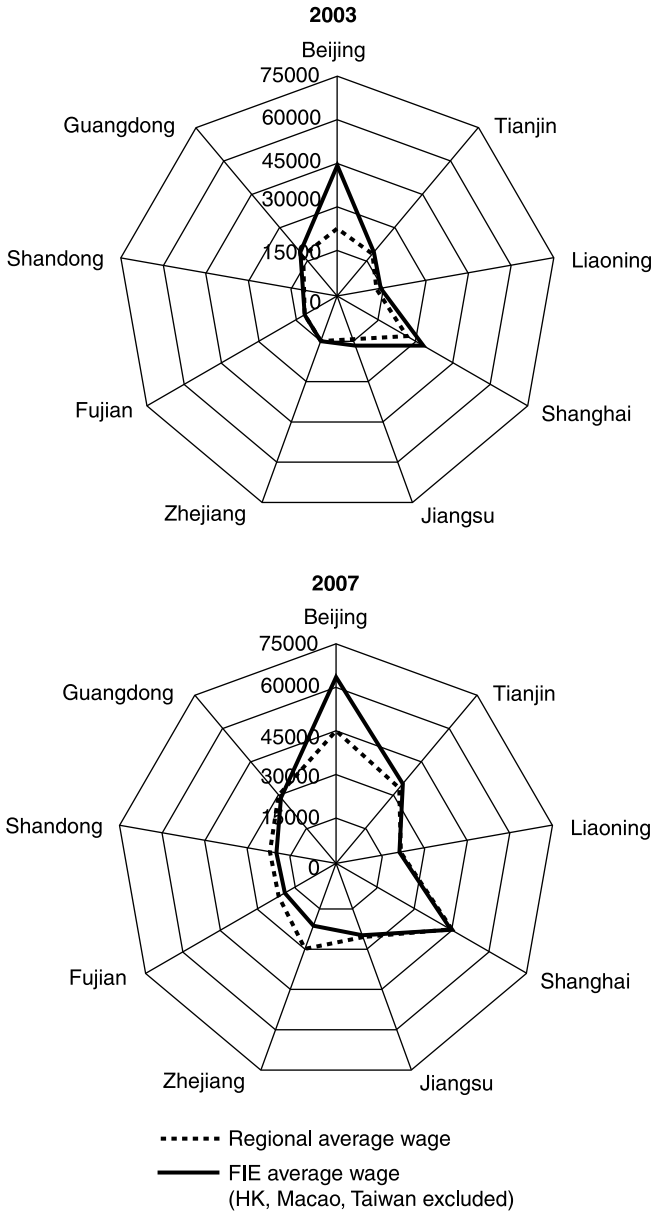


Figure 10.1 Wage levels across regions.

Source: National Bureau of Statistics of China, Yearbook.

domestically owned firms. On the one hand, the Chinese government has been gradually eliminating special regulatory incentives for FIEs. For example, the Company Law, 2006 does not differentiate the nationality of an investor as much as previous company laws. On the other hand, the government allowed domestically-owned firms to have managerial autonomy and follow market-oriented human resource management practices.

Second, supported by government policies that encourage Chinese enterprises to abandon communist-style personnel management, SOEs and domestically owned private firms actively imitated FIEs and adopted market-oriented HRM practices (Warner 2004, 2009; and see Chapter 11). As a consequence, ‘individualized performance management practice’ is no longer a novel term to most Chinese domestic firms. Some companies, such as Lenovo, have implemented more drastic HRM practices than western companies, such as extreme ‘stick and carrot’ measures contingent upon competency and performance (interview with Lenovo HR manager, Summer 2008). A major Chinese electronics company, Haier, is another relevant case. In this company, individual workers’ compensation is determined by individuals’ performance and the results are posted on the factory wall (Everatt 2004; Wang and Zang 2005).

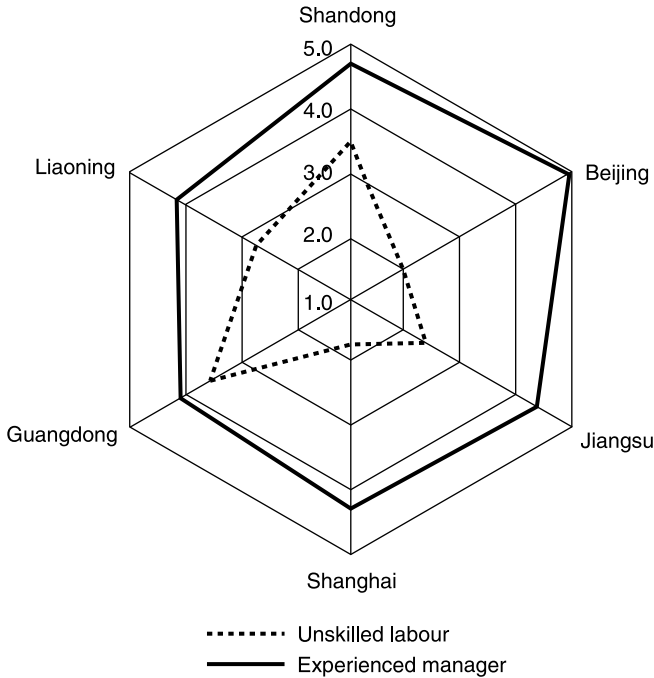
Third, the declining uniqueness of FIE HRM may also be a result of FIEs’ own efforts towards localization. To overcome the disadvantages of being outsiders, FIEs have put much effort into employing local managers and enhancing the cultural adaptability of their expatriate managers (Luo 2007). Large numbers of mainland Chinese workers who have received Western education return to their home land to join FIEs (Chen 2008). FIEs also attract foreign citizens who inherited Chinese culture or acquired Chinese language skills through education, who work as expatriates (Hutchings 2005). Through localizing their staff, FIEs can enhance capabilities to align their managerial practices, including HRM, with the norms and expectations of local stakeholders and local labour markets.

## **Emerging regional disparity of FIEs’ HRM**

An important feature of the current business environment in China is the growing disparity across regional labour markets (see Chapter 5). Shortages of skilled workers are one of the more critical aspects of this regional disparity, and, in some regions, are recognized as among the biggest business challenges for FIEs (see Chapter 7). For instance, the association of American investors in China laments the increasing skill shortages in FIE-dense regions, announcing that ‘management-level HR constraints were the number one challenge for member companies doing business in China’ (AmCham 2009: 79).

Figure 10.2 shows the pattern of perceived labour shortage drawn from our survey of Korean FIEs. Two facts are noteworthy in this data. First, significant skilled labour shortages are apparent, regardless of region. This confirms the nationwide seriousness of China’s skill shortages. Second, the pattern of labour shortages varies across regions. For instance, FIEs find it more difficult to fill managerial positions in Beijing than in Guangdong. In some regions, FIEs find it





*Figure 10.2* Regional variations in perceived difficulty in filling vacant positions.

*Source:* 2007 survey data.

difficult to fill both unskilled and skilled positions while in other regions FIEs experience labour shortages only for skilled managers.

Perceived skill shortages are worse in regions where competition among FIEs is high for qualified managers. Over the years, certain regions, such as Beijing and Shanghai, have attracted larger numbers of FIEs than other regions (see Table 10.1). When a new FIE is established, the company usually seeks to hire experienced Chinese managers who have substantial experience working for FIEs. For the new FIEs, poaching experienced managers from other FIEs may be an effective way to acquire human resources who know how to deal with local problems for the perspective of global firms. Burgeoning head-hunting agency firms contribute to reducing the cost of inter-organizational job change for skilled workers (Zheng and Cui 2008). Workers in FIEs often take external job opportunities as a way to increase their earnings. As a consequence, in regions where the number of FIEs grows rapidly, FIEs tend to have a hard time in attracting and retaining skilled workers (see Chapter 7).

Regional labour shortages inevitably affect the HRM approaches of FIEs. When a company faces a limited labour supply, the firm is forced to adjust HR systems in a way that stabilizes the supply of human resources (Davis and Cobb

2010; Pfeffer and Salancik 1978; Wright and McMahan 1992). A company can achieve this by enhancing inducement measures, such as competitive pay (Bloom and Michel 2002; Rynes and Barber 1990), and/or by developing alternative labour supply measures, such as extra working hours arrangements (Henkens *et al.* 2008). In the following sections, we will therefore examine more specifically how regional labour market conditions affect FIEs' HRM, focusing on two issues: compensation and overtime practice.

### ***Regional variations in managerial staff compensation***

Increasing pay levels have become a particular concern for FIEs over the last decade. Rising labour costs provoke especially critical distress for those FIEs that employ labour-intensive manufacturing systems and target price-conscious markets. These companies, extremely conscious of their decreasing profitability, are either considering relocation or have already moved their production facilities to low-cost areas, such as inland China and neighbouring countries (Bowerman and Bachmann 2008).

Official government statistics indicate a notable degree of regional variation in the average pay of FIEs. As is seen in Figure 10.1, FIEs in some regions, such as Beijing, pay substantially more than FIEs in other regions, such as Shandong. These government statistics, however, may mask the real nature of regional pay variation because they do not differentiate the pay given to skilled managers from the pay given to unskilled manual workers. To take this factor into account and better understand the nature of regional variation in FIE pay, we employed our Korean firm survey data and broke down the pay level information into four broad job classifications: unskilled shopfloor workers, skilled shopfloor workers, entry-level managerial workers, and seasoned managers. Table 10.4 shows the regional variations in average pay level drawn from our data. Each cell lists the mean and standard deviation of the monthly take-home pay in Yuan for the corresponding group.

On the surface and consistent with government statistics, FIEs in Beijing and Shanghai paid their workers more than other regions. However, a closer look at the data reveals that the pattern of regional variation differs across different groups of employees. Specifically, regional variations are much more apparent for skilled managers than unskilled shopfloor workers. For instance, FIEs in Beijing were paying their skilled managers about 6,800 Yuan, more than double what FIEs in Liaoning were paying their seasoned managers. When it comes to shopfloor workers, however, FIEs in Beijing and Liaoning were paying almost the same wage rates to unskilled shopfloor workers. Although there is some indication of cross-regional difference in the pay levels for unskilled shopfloor workers, the variation appears to be negligible compared to the cross-regional difference in skilled managers' pay.

To examine whether or not the observed cross-regional variation in FIE's pay levels is statistically meaningful, we employed the ANOVA method with a post hoc procedure of Tamhane's T2 to address the violation of equal variance assumption. ANOVA is a useful statistical technique to test whether there is a statistically

Table 10.4 Average monthly pay in FIEs by region and job classification

Dependent variable (Pay level)		Jiangsu	Guangdong	Beijing	Shandong	Shanghai	Liaoning	F-test
Shopfloor workers	Unskilled	mean	1,154.44	1,157.73	1,250	1,044.55	2,028.57	$F = 1.037$
		s.d.	270.82	476.27	666.85	1,389.12	906.85	$P = 0.397$
	Skilled	mean	1,662.96	1,845.45	1,822.06	1,361.94	2,900.00	$F = 1.629$
		s.d.	587.14	1,609.71	1,118.11	1,471.27	984.89	$P = 0.155$
Managers (Chinese)	Entry level	mean	1,725.00	1,721.74	3,211.9	1,338.41	2,188.89	$F = 2.523$
		s.d.	439.38	689.50	5,917.20	1,115.93	738.99	$P = 0.031$
	Skilled	mean	4,140.74	3,954.55	6,765.00	3,604.62	5,218.18	$F = 6.336$
		s.d.	1,165.29	1,243.16	5,776.46	2,509.70	2,272.36	$P = 0.000$

Source: 2007 survey data.

Note: Amounts are take-home pay per month in Yuan.

significant difference in mean values across different groups. In our analysis, the mean values are the average compensation for each job category, and the groups are geographical regions.

As the final column of Table 10.4 indicates, *F*-tests are significant for both entry level ( $p < 0.05$ ) and experienced managers ( $p < 0.001$ ), indicating that FIEs pay their managers significantly different amounts of money depending on location. However, *F*-tests for both unskilled and skilled shopfloor workers do not show a significant result, confirming that regional location does not engender among FIEs statistically different pay levels to shopfloor workers. In summary, statistical tests confirm that employee pay is only meaningfully different across regions for managers, not for shopfloor workers.

Regional variations in managers' pay occur not only in terms of pay level, but also in terms of pay dispersion. Pay dispersion refers to the degree to which different employees of a firm are rewarded with different amounts of pay. In a firm with a high level of pay dispersion, some employees receive significantly greater rewards than the rest of the organization. Pay dispersion may have a significant impact on employee collaborative behaviours (Pfeffer and Langton 1993) and the performance of individuals (Becker and Huselid 1992), teams (Bloom 1999), and firms (Cowherd and Levine 1992). Due to the profound individual and organizational consequences, researchers of HRM have considered pay dispersion to be one of the most critical aspects of compensation practice (Bloom and Michel 2002; Lazear 1995; Mahoney 1979).

Table 10.5 shows regional variations in pay dispersion observable in our Korean FIE survey data. On average, FIEs located in the Liaoning area show the lowest degree of pay dispersion (RMB 1637), approximately one-third of the average pay dispersion employed by FIEs in Beijing (RMB 4502). The *F*-test proves clearly significant ( $p < 0.01$ ), meaning that there is a statistically meaningful regional difference in pay dispersion tendencies.

With separate examinations of pay dispersion according to job classifications, the regional variations become clearly noticeable in management jobs ( $p = 0.000$ ), while it is not so in blue-collar jobs. This suggests that high regional variations of pay dispersion of managers rather than shopfloor workers are primarily responsible for overall regional differences in pay dispersion.

A case study will further illustrate regional variations in managerial workers' pay. 'Asian Steel' is a large steel manufacturing company originating in an Asian country. The company began its sales operations in China in the early 1990s and then established manufacturing facilities in the late 1990s. As of 2006, the company was operating six manufacturing facilities across coastal cities. Chinese subsidiaries of this firm do not develop new products, although their product lines are adjusted to meet the needs of Chinese domestic industrial customers. The company transfers manufacturing technologies from the home country and expatriate engineers play significant roles in maintaining the standardized operational procedures.

At the time we collected the data (2006), Chinese subsidiaries of the company were employing about 4,000 local workers in total plus about 150 expatriates.

Table 10.5 Regional disparity of FIEs' pay dispersion practices

Pay dispersion within a firm		Jiangsu	Guangdong	Beijing	Shandong	Shanghai	Liaoning	F-test
Among all employees (between skilled managers and unskilled shopfloor workers)	mean	2,916.54	2,796.82	4,501.67	2,560.65	3,171.43	1,637.14	$F = 3.275$
	s.d.	1,035.18	1,027.54	5,543.10	1,592.19	2,397.72	1,442.14	$P = 0.008$
Among shopfloor workers	mean	508.52	687.73	566.67	322.88	871.43	403.64	$F = 0.496$
	s.d.	521.13	1,580.59	669.15	194.67	390.36	3,096.87	$P = 0.779$
Among managerial workers	mean	2,433.33	2,245.45	4,467.50	2,256.15	2,966.67	1,741.67	$F = 4.667$
	s.d.	1,051.74	910.64	5,112.20	1,689.57	1,885.47	874.23	$P = 0.000$

Source: 2007 survey data.

Note: Amounts are take-home pay per month in Yuan.

Company policy is to stay in the top 30 per cent of the pay range compared to similarly situated foreign-invested firms. The company does not employ seasonal workers and all employees are hired on a full-time basis. However, peripheral jobs, such as drivers, janitors and security personnel are outsourced to external service providers.

As Figure 10.3 shows, there is a significant degree of regional difference in the managerial staff compensation practices in this company. In general, Asian Steel's managerial staff compensation is consistent with the patterns shown in the survey data. Compared to similarly positioned workers in the Guangdong subsidiary, managerial staff in the Beijing subsidiary were paid much more money. In the Beijing subsidiary, there is a clear, large status gap between managerial staff levels reflected in the wide pay dispersion. The skilled manager in Beijing is paid more than three times the pay for entry level administrative staff. And in Beijing, the payment gap between pay grades is highly visible, such that higher-level managerial staff always receive distinctively higher salaries than lower-level staff. On the other hand, in Guangdong pay grades have some overlaps so that the difference across pay grades is not always very clear. Overall, the Asian Steel case illustrates that the regional difference of managerial staff compensation is strong enough to create visible cross-subsidiary differences within a FIE.

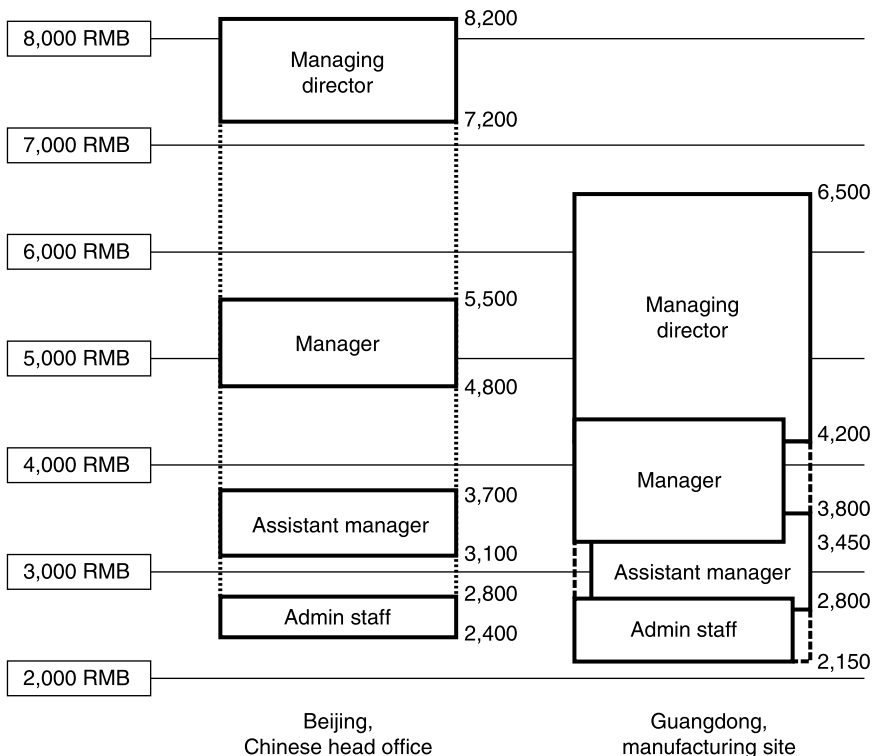


Figure 10.3 Managerial staff monthly salary in 'Asian Steel'.

If the cross-regional difference in FIE managerial staff compensation is so clear, then what might have driven this phenomenon? One plausible explanation is cross-regional differences in shortages in managerial staff. In a market-based economy, shortages of skills puts pressure on enterprises to stabilize human resource acquisition by offering better employment inducements such as higher pay (Rynes and Barber 1990). Employment inducements can also take the form of high pay dispersion. Bloom and Michel (2002) suggested that companies are more likely to have high pay dispersion when they need to attract the most competent managers from the external labour market. When pay dispersion within a firm is high, companies can offer highly competitive compensation to attract top talent without considering internal pay equity. Competent workers from the external labour market are also more easily attracted because high pay dispersion produces higher social status in the company. As a consequence, regional disparities in labour shortages may lead to regional differences in pay levels and pay structures for market-oriented organizations.

The relationship between skill shortages and managerial pay can be observed in our survey data. For instance, experienced managers are paid a much higher salary when working for FIEs located in areas such as Beijing and Shanghai, where perceived shortages of skilled workers are relatively higher than for FIEs in other regions such as Liaoning. The high managerial pay regions also show large managerial pay gaps. Through interviews, we found strong indications that compensation for Chinese managers is actually affected by regional labour shortages. FIEs, especially in the regions of high-skilled labour shortage, closely follow the changes in regional labour markets, trying to discourage voluntary turnover among their managerial staffs by offering higher pay and opportunities for special monetary and non-monetary benefits. Future studies may further systematically examine relationships between labour shortages and FIEs' managerial pay by taking into account contextual factors, such as micro locations or business strategies of the firm.

The relative market insensitivity of unskilled workers' pay also requires further examination. Although shopfloor workers in some regions are paid more than those in other regions, neither our interviews nor survey data offer strong evidence for a positive association between perceived regional labour shortages and compensation for shopfloor workers. Perhaps this weak association can be explained by FIEs addressing shortages of unskilled labour by extracting more labour through HRM arrangements, such as extended overtime hours, rather than by attracting and retaining workers through enhanced reward systems, as they do for managerial staff.

### ***Regional variations in FIE overtime practices***

Excessive overtime work is an enduring critical HR concern for FIEs (Fair Labor Association 2009; Verité 2004). Although the official limitation of overtime has been set at 36 hours per month since the Labour Law came into effect in 1995, its enforcement on the local level has been very weak. Overtime work hours that

exceed the 36-hour limit are a common practice among FIEs. However, FIEs have recently become more aware of the potential financial and reputational costs of excessive overtime practice as the new Labour Contract Law has confirmed the legitimacy of the 36-hour rule and has introduced additional enforcement measures.

In the Western academic literature, excessive overtime is often associated with low productivity, endangered occupational health and safety, and unbalanced work–family life (Shepard and Clifton 2000; Golden and Wiens-Tuers 2005; Johnson and Lipscomb 2006). However, in China there is a public perception that overtime arrangements benefit employers, employees and the government, and that excessive overtime is not necessarily a socially irresponsible business practice. During fieldwork, we found this positive view towards overtime work to be widely shared by FIE managers, Chinese workers and government authorities.

From the employers' point of view, overtime is a convenient and effective remedy for labour shortages in today's China. Although a firm has to pay higher wages for overtime work, it is still cost-effective because the company saves the search and training costs associated with recruiting new employees. In addition, companies can reduce employees' turnover intentions by increasing their take-home pay. Furthermore, a CEO of an FIE in Guangdong testified that weekend and holiday overtime work arrangements helped the firm undermine employee mobility by reducing opportunities for migrant workers to acquire information about better job offers while hanging around with home town friends (Interview, 14 July 2006).

For Chinese workers, especially unskilled migrant workers, overtime arrangements are an opportunity to make decent additional income. Many migrant workers prefer to join a company where they can make the maximum amount of money regardless of the weekly working hours. For government officials, excessive overtime work has some positive value because it increases the economic output within their jurisdiction. Therefore, local law enforcement institutions have been generally permissive towards excessive overtime as long as companies pay their workers the overtime wages. Furthermore, local authorities are usually quite cooperative when FIEs request a written approval for overtime arrangements in excess of 36 hours. Referring to these situational factors, managers of FIEs claim that eliminating excessive working hours – as it is defined by national law – is an expectation that cannot be achieved any time soon (FIAS 2007: 36).

According to our survey data, overall average overtime hours per person were 35.8 hours (standard deviation was 27). Among respondent firms, 48 per cent reported that their average per person overtime hours exceeded the legally mandated 36 hours and 25 per cent reported 60 hours and more of average overtime hours. The maximum number of overtime hours was 150. Table 10.6 shows the regional variation of overtime hours reported. In Guangdong and Shandong provinces, more than 36 hours of overtime-arrangement was prevalent. In Guangdong, in fact, the average overtime hours was 69. Considering the high standard deviation (63 hours), we can see that even more than 70 hours of overtime is not rare in that region. In contrast, Shanghai-based firms reported the lowest number of overtime work hours, followed by Beijing.



*Table 10.6* Regional disparity of overtime practices

<i>Overtime practice</i>		<i>Jiangsu</i>	<i>Guangdong</i>	<i>Beijing</i>	<i>Shandong</i>	<i>Shanghai</i>	<i>Liaoning</i>	<i>F-test</i>
Overtime hours (per person, per month)	mean	34.26	69.16	26.15	49.41	17	25.92	$F = 3.839$
	s.d.	26.39	62.94	21.44	59.65	17.85	34.77	$P = 0.002$
	n	27	19	39	68	9	24	

*Source:* 2007 survey data.

A case study we conducted shows that the regional variation of overtime hours is strong enough to be evident between subsidiaries of the same MNC. 'KCom' is a large company originating in South Korea. It manufactures technology-intensive electronics products, including audio-visual devices and home appliances. The company began their Chinese operations in the early 1990s. As of 2007, the company was operating more than ten manufacturing facilities across coastal cities of China. The parent company in South Korea has a long tradition of cooperative labour relations and in many ways the HR systems of the home country units resemble those of typical Japanese companies that emphasize long-term mutual investment between employer and employees.

Expatriates in KCom's Chinese subsidiaries believe that the working conditions of their manufacturing facilities are far better than those of Chinese domestic or Taiwanese-owned firms. Although their compensation and benefits are lower than those of high-profile Western MNCs, they believe that their Chinese subsidiaries maintain labour-market competitiveness by offering better job security and more training opportunities. Further, union officials in the firm suggest that KCom's approach to unions is more positive than other neighbouring FIEs. The Chinese managers interviewed largely expressed satisfaction with their work environment and the effectiveness of their HRM practices. The dormitory environments for shop-floor workers are also well equipped, with various amenities and leisure facilities.

In response to tightening labour regulations, KCom managers claim that they completely respect Chinese authorities and do their best to protect the legitimate rights of their employees. Their official policy, however, does not necessarily mean that KCom strictly abides by labour regulations. Overtime is one of the most noticeable factors that show the gap between labour regulation and actual practice. As is seen in Figure 10.4, a clear majority of workers in KCom's manufacturing subsidiaries are working more than 40 hours overtime every month. Interviews with an HR executive of KCom emphasized that, to his knowledge, no FIEs in that region observe the 36 hours per month overtime regulation. According to him, as long as a company obtains a written consent form from workers, the local government acquiesces to over-36-hour overtime practices.

As for regional variations, the number of overtime hours is substantially higher in a subsidiary located at Guangdong than other regional subsidiaries. This pattern of regional difference is consistent with the pattern shown in the survey data (see

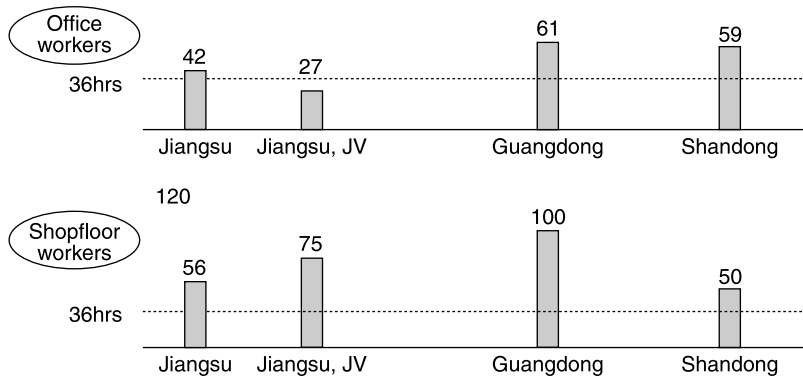


Figure 10.4 Overtime hours (per person per month) in subsidiaries of KCom.

Table 10.6) and largely consistent with patterns of perceived shortages of unskilled labour (see Figure 10.2).

## Conclusion

In this chapter, we reported the recent changes in the characteristics of FIEs and their HRM. As for general changes in FIEs, we presented evidence for the regionalization of foreign investors' country of origin and the increasing importance of inland provinces for FIEs' location. As for the emerging trends in FIEs' HRM, we reported indicators of a lessening divergence between FIEs and domestically owned firms, and emerging regional divergence of FIEs' HRM.

These findings call for a more systematic, thorough examination of FIEs and their HRM in the context of the post-transition period of the Chinese economy. First, future research needs to pay more attention to HRM practices in FIEs with Asian head offices. This is because a significant number of these FIEs in China defy popular notions in current literature that FIEs are messengers transferring western HRM practices.

Second, the nature of the decreasing uniqueness of FIE HRM deserves further research. Although we could see clear signs of overall HRM convergence across different ownership types, recent evidence suggests that FIEs are still distinctive from SOEs with respect to some aspects of HRM, such as managerial pay (Ding *et al.* 2006) and employment security (Gong and Chang 2008). In addition, evidence indicates that the observed degree of FIE distinctiveness may depend significantly on whether FIEs are compared to SOEs or privately owned domestic firms (Ding *et al.* 2006; Gong and Chang 2008).

Finally, further research on regional disparities in HRM among FIEs would be a valuable addition to the literature, given that an increasing number of MNCs are operating multiple subsidiaries in China across different regions. As of 2010, for example, Wal-Mart China has 146 stores across 89 cities; Dell is operating

multiple subsidiaries in different regions, including Dalian, Xiamen and Shanghai; and Toyota manufacturing operations are scattered across diverse regions, such as Tianjin, Changchun, Sichuan and Guangzhou. For these and other MNCs, the notion of one unified model of Chinese HRM would not make much sense. Thus, future research on FIEs' HRM needs to examine the implications of within-country variations in the host environment in China.

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# 11 People management practices in family firms

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## Introduction

The last three decades have witnessed a significant development of China's private sector. The sector, which was banned as the 'tails of capitalism' (*Zibenzhuyi weiba*) in the 1950s (Young 1989), has become not only a lawful new business component since 1978 but also an irreplaceable sector, contributing approximately 65 per cent of national GDP (Huang 2008; Zhang 2007: 69). Nevertheless, Chinese private enterprises have faced several institutional challenges, including unfavourable institutional treatment in the form of resource allocation and hyper-competition (Redding and Witt 2009). Family businesses, defined as 'owner-managed enterprises with family members exercising considerable financial and managerial controls' (Ward and Aronoff 1990: 63), are a particularly important but still under-researched contributor to this private sector growth. Family businesses in China, accounting for approximately 90 per cent of the country's private sector by the number of firms (Ma *et al.* 2002), arguably present the most typically Chinese form of China's workplace. Central to this tradition is Confucianism, which espouses conformity, submission and respect for parents and elders, obedience to supervisors, and duties to family, loyalty, humility and diligence (Kahal 2001). That has obvious implications for human resource management.

One increasingly critical challenge facing Chinese private firms is their people management. As Chapter 1 points out, 'personnel management' (*Renshi guanli*) and, more recently 'human resource management' (HRM: *Renli ziyuan guanli*) have become widely known. Chinese private firms, however, still exhibit a variety of people management practices (in our study, we use people management (PM) to encompass personnel management and HRM). For example, the traditional *guanxi*-based recruitment practices can coexist with market-based formal recruitment (Warner and Zhu 2002; Warner 2008). This 'cross-vergence' of people management practices has resulted from a wide array of drivers and barriers to modern HRM facing private firms.

Scholarly attention to, and understanding of, the sector, however, has lagged behind actual practices (Tsui *et al.* 2004; Zhu *et al.* 2008). In particular, there is little documentation of actual practices (China Tourism Press 2008) of family firms. To address the people management of Chinese family firms, we adopt a

contingency approach (Jackson and Schuler 1995), which posits that a firm's adoption of certain practices is contingent on a group of internal and external factors. In the following sections, drawing on the literature, both in Chinese and English, we first provide an overview of historical, external and internal contingencies pertaining to Chinese family firms. Next, we discuss our empirical study of people management practices of 205 family firms collected from seven cities in China. The chapter then concludes by discussing results, their implications, and suggestions for future research.

## HRM in family firms: drivers and barriers

### *A historical view*

Table 11.1 presents crucial historical events from the late Qing dynasty to contemporary China shaping the business environment of the private sector. As shown, we broadly divide the period into five phases. Family firms in the late Qing period (1840–1912) displayed two key features: equal distribution of agricultural outputs; and Confucianism as a dominant ideology as noted earlier.

Second, during the Republic of China (1912–49), there was the emergence of central planning and slow growth of the private sector mainly due to domestic wars. Another important development was the New Culture Movement (*Xinwenhua yundong*) that encouraged young intellectuals' pursuit of freedom as an alternative to Confucianism (Yeh 1994).

During the third period (1949–78), Mao's leadership made the private economy incompatible with a socialist society (Ou 2003). The state therefore put almost all private-owned enterprises under state or collective ownership and banned new private enterprises as the 'tails of capitalism' (Young 1989; Yang 1990). Maoism (*Maozedong sixiang*), which promotes 'the mind of collectivity, not individual; . . . the mind of others, not self; . . . the mind of loyalty to the party, not self-benefits' (Yang 2000: 2), became the dominant ideology of the society as a whole and reinforced the importance of central planning.

In contrast, the fourth period (1978–97), under Deng's leadership, had significant relevance to the private business sector given Deng's efforts to switch the country from Maoism to a pragmatic and market-oriented regime. Specifically, Deng stated that private enterprises are complementary to the national economy and can co-exist with state- and collectively-owned organizations in the long run. As Chapter 2 also explains, these ideas were then formally institutionalized in an emerging legal system (Wang 2001). In the early 1980s, family businesses began to adopt a 'red-hat' strategy. This involved family businesses disguising their private ownership by registering as collectively-owned organizations (see Chen, W. 2007) to avoid the political risks and ideological bias against private ownership. It also allowed them to qualify for favourable regulatory treatment (Garnaut and Song 2004; Poutziouris *et al.* 2002; Cunningham and Rowley 2008). This early emergence of family firms grew mainly in the form of self-employment (*Getihu*). During the early 1990s, the Chinese government privatized a great

Table 11.1 Key historical developments for the private sector in China

Period	Historical events
1840–1912	In the late <i>Qing</i> dynasty, the country adopted a closed-door policy but was increasingly threatened by western powers. Family businesses (FBs) faced distinction.
1912–49	The Republic of China was in enormous political and military turmoil. New Culture Movement (or May Fourth Movement) introduced Liberalism and Marxism. A central production system was introduced. Private business developed gradually.
1949–78	<p>In 1949, The People's Republic of China was founded.</p> <p>In 1953, 'Three-Anti Campaign' and 'Five-Anti Campaign' classified 40 per cent of FBs as 'law-breaking enterprises' forcing their closures.</p> <p>In 1956, 'Socialist Transformation' was completed. Almost all private businesses were transformed into state- or collectively-owned firms.</p> <p>During 1966–76, Cultural Revolution took place. Maoism prevailed and contributed to a central planned economy. All private business was banned. Family business was only allowed to operate in 'specialized households' such as carpentry and embroidery.</p>
1978–97	<p>In 1978, in the Third Plenary Session of the eleventh Central Committee, Deng proposed re-focus on national economy development and reconsidered the role of private business in a socialist economy. Private business had its <i>First Spring</i>.</p> <p>In 1982, the Third Plenary Session of the twelfth Central Committee stated that private business is a necessary and irreplaceable complement to the socialist economy.</p> <p>In 1988, the first Session of the Standing Committee of the seventh National People's Congress of the People's Republic of China approved the adjustment of national constitution and legally stated that private business is a necessary and irreplaceable complement part to the socialist economy.</p> <p>In 1992, <i>Deng's</i> Southern Talk and reports from the fourteenth National Congress reconfirmed that private business would co-exist with state-owned business. Private business had its <i>Second Spring</i>.</p> <p>In 1993, the Third Plenary Session of the fourteenth Central Committee and the following new policies and regulations (e.g. Corporate Law and Labour Law) further legally recognized private business and attempted to create a fair business environment for private enterprises.</p>
1997–2008	<p>In 1997, the fifteenth National Congress, <i>Jiang</i> advocated that stated-owned economy should be developed with other types of ownership in the early stage of socialist path, and that private business should be an integral component for national economy.</p> <p>In 1999, the Second Session of the Standing Committee of the ninth National People's Congress of the People's Republic of China approved the adjustment of national constitution and legally stated that private business is an integral component to socialist economy.</p> <p>In 2002, the sixteenth National Congress stipulated that all legal income and property should be protected.</p> <p>In 2005, '36 points of non-state owned economy' was implemented and stated that non-state owned economy should be treated as equally as other types of economy and should receive equal policy treatment. Private business had its <i>Third Spring</i>.</p>

Sources: Jiang 1973; Young 1989; Yeh 1994; Ollman 1997; Richard 1999: 36; Yang 2000; Jiang 2001; Poutziouris *et al.* 2002; Liu 2005; Ma 2006; Bai 2009



number of state-owned enterprises (SOEs) into privately-owned firms. These measures, coupled with advanced technologies and managerial know-how transferred from overseas, have significantly boosted the private sector. During the seven-year period from 1991 to 1997, there was an annual growth rate of 11 per cent in the number of private enterprises and a 14 per cent growth in the total number of private sector employees (Jiang 2001: 10).

The current period, starting with Jiang's leadership in 1997, has seen even further enhancement of the formal status of the private sector to 'an integral component of the national economy' rather than just 'a complement to the public sector' (Liu 2005). Furthermore, the Chinese government implemented the policy of '36 points for the non-state owned sectors' in 2005, thus promoting equal treatment for all types of organizations, including private businesses (Ma 2006).

To sum up, this historical overview provides useful insights into the dynamic emergence of the private sector in response to its dramatically changing regulatory environment. Chinese private firms, in turn, have been adopting flexible arrangements such as informal people management practices not only to reduce costs but to respond to this environmental volatility. Their leaning toward informal practices has been particularly manifest in traditional relationship-based recruitment and the favouritism in family firms toward family members (Lockett 1997; Zhang and Ma 2009). Moreover, Chinese family owners influenced by Confucian values such as paternalism and hierarchical loyalty are more likely to adopt informal practices that may allow them to maintain control as well as to take care of their subordinates and family members at will (Kim and Gao 2010; Redding 1997; Warner 1997).

### ***External factors***

In addition to the political turbulence addressed above, there have been other significant institutional changes affecting China's employment relations regime and labour markets that have affected family business operations. We highlight four external contingencies below. They are: (1) contrasting labour market impulses; (2) external regulatory frameworks; (3) cultural changes; and (4) the one-child policy.

#### *Contrasting labour market impulses*

As Chapters 1 and 7 explain, China's increasing engagement with the international economy has facilitated the interaction of Chinese firms with outsiders including foreign firms (Chen, C. 2007). Meanwhile, those SOEs that have been privatized have introduced new ways of managing and organizing (Ralston *et al.* 2006). Many of the remaining SOEs themselves have also become more market-focused and competitive (see Chapter 9). The influx of foreign firms and increasingly market-oriented former and remaining SOEs have intensified the competition facing family business owners. This is prompting them to introduce HR practices to develop, motivate and retain their workforce in an increasingly dynamic and

ever-competitive business environment. In the absence of a completely free labour market, however, the leap from socialist job allocation to market-based job-hunting processes has fostered a substantial reliance on family and social ties to seek employment, especially in family firms (Guthrie 1998; Wang and Li 2008). As Chapters 5, 6 and 7 explore too, there are discernible imbalances across regions in terms of labour supply and education level. The influx of rural migrant workers to urban areas, discussed in Chapters 8 and 14, has heightened employment tensions and other social problems in eastern urban areas. Furthermore, because rural workers receive lower-quality education than urban labour (Hu 2004), business owners agree that there are localized skill shortages (see Chapter 7) despite a large labour supply surplus available. Those places facing intensive competition tend to adopt more explicit HR practices not only to attract but to retain talent.

### *External regulatory frameworks*

Labour protection has been highlighted in recent changes within the labour regulation regime. One example is the experimental nationwide social insurance system (Ng *et al.* 2007), which has stipulated that three parties – employers, government and employees – are responsible for employees' social insurance. The local government has been empowered to decide the specific portion for each actor (see Chapter 3 for details). Another example is the 2008 Labour Contract Law, which protects labour in a variety of aspects such as ensuring union presence at the workplace and limiting the use of temporary workers (see Chapter 15 for details). Although the law enforcement is largely subject to local agencies' discretion (Cooke 2005; Xiao 2005: 59), experience with these systems encourages formalization of people management to adhere to external requirements.

### *Cultural changes*

As noted earlier, Chinese management philosophies have been influenced by a number of salient forces, such as Confucianism, Maoism, economic reforms and globalization (Stening and Zhang 2007). Recently, these forces begin to manifest their contradictions at workplaces. On the one hand, the Confucian ideology remains strongly ingrained in the society, with new trends in Chinese family businesses (Warner 2008; Kim and Gao 2010). For instance, Li and Zhong (2006) identify four Confucian orientations among family business owners. The first is family-orientation with firms managed as a family, orders maintained by seniority and work roles subordinated to social roles. Then there is relationship-orientation. This emphasizes social connections, reciprocity in social exchanges, harmony in interpersonal relationships and differentiated treatment based on social connections. Third, authority-orientation indicates high centralization in terms of economy and thoughts, strict rules and large power-distance based on seniority. Finally, there is an others-orientation, meaning a heavy reliance on others' views and comments. These orientations imply managing people in an informal and

unequal manner. On the other hand, as argued earlier, the intensive competition and formalized regulatory frameworks make a plea for formalization and fairness in people management.

The cultural tensions tend to have regional disparities (Gao *et al.* 2009). One main reason is the fact that marketization proceeds at varying paces across regions (Stening and Zhang 2007). There is research indicating value differences across regions. For instance, Gao and Yuan (2004) and Ni (2003) demonstrated that people in eastern coastal regions are likely to be more innovative and entrepreneurial, with a stronger work ethic than those in inland regions. However, little is documented with regard to HRM adoption.

### *One-child policy (Jihua shengyu zhengce)*

Particularly relevant to family business is the one-child policy implemented since 1979, which officially stipulates that married urban couples should not have more than one child, with some exemptions allowed for ethnic minorities and parents without any siblings themselves. The implications for family business are that there will be only one likely successor for each family firm. It also constrains family capacity to incorporate their family clans, especially their offspring, into the business. This has become a serious concern for family business owners and scholars (Dou and Jia 2008) as second-generation owners are expected to take over businesses from their first-generation business founder owners in the foreseeable future.

In short, the external environment has generated increasing but heterogeneous and even conflicting pressures for family business owners. They need to be more attentive to an array of factors that foster more explicit and formal HR policy and practice such as intense market competition, a formalized and market-based social welfare system, and a more detailed and employee-oriented legal framework. On the other hand, regional diversity in local labour markets and disparities in education levels tend to encourage localized people management responses. Other factors include macro-cultural shifts and the one-child policy, the impact of which on HR practices will become more discernible in the years to come.

### *Internal factors*

Internally, Chinese family businesses display several key features pertaining to people management. These internal factors may drive or constrain business growth and HRM adoption.

#### *Firm size*

Consistent with Fu, Tsui, and Dess (2006), it is our conjecture that the effectiveness of relationship-based organizational structures and systems is related to a firm's size. Specifically, when firms are small and young, the owner-manager's control through highly centralized structures and differential information sharing

between family and non-family members reinforces 'highly effective' relationship-based structures largely built on family-based connections and networks. Such organizational structures also facilitate knowledge acquisition and much-needed flexibility to respond to a rapidly changing market. However, when a firm becomes larger and more complex, explicit and consistent practices of information acquisition, generation and sharing become ever more important. The need for information generation and dissemination makes it imperative for non-family members to be involved in decision-making processes. The effectiveness of highly centralized structures and preferential treatment of family members over non-family members thus comes under increasing pressure (Redding 1997; Zhang and Ma 2009).

Firm size also has implications for the organizational structure and decision-making processes of firms. Liu and Li (2006) argued that Chinese family firms are structured in four circles: the core circle composed of core family members; the second circle of close relatives; the third circle of remote relatives and friends; and the last circle of staff hired through external recruitment channels. Organizational authority is largely derived from how 'close' an employee is to the owner. The research literature suggests that, in small firms (with fewer than 100 employees), 60 per cent of managerial decisions are made by owners alone (Xie and Yang 2004: 4; Farh *et al.* 2006). However, the effectiveness of such highly centralized decision-making is increasingly questionable given the increased complexity of larger firms (Liu and Li 2006).

#### *Owner-managers' education and age*

As previously noted, traditional Confucian values are strongly embedded in Chinese family firms. Compared to the current younger-generation owner-managers, the older owner-managers had very limited access to Western management ideas and practices in their formative years of development under China's closed-door policy. This restriction became even more serious during the Cultural Revolution period as the national education system largely collapsed (Deng and Treiman 1997). Lacking experience in modern management training and education, the older-generation owner-managers rely on traditional family management values and techniques in order to retain control over their companies. For instance, in firms managed by older-generation owner-managers, staffing decisions and development opportunities are commonly based on the closeness of the personal connections (*Renrenweiqin*) rather than on objective criteria. Then there is the preferential treatment of family members over non-family staff (Cheng 2004). Non-family members tend to experience unfavourable treatment in the form of stricter rules, limited training and promotion opportunities, and little empowerment (Zhou 2007). Yet, as mentioned above, employee retention has become a serious concern for family firms competing for skilled employees against foreign firms and larger and more efficient SOEs (Ralston *et al.* 2006).

The question facing family firms is when to introduce HRM and to what extent?

Both the external and internal environments facing family firms produce effects that encourage family business owners to reconsider the way they organize and

manage their employees. On the one hand, they are under increasing pressure to introduce HRM covering employee recruitment, development, participation, rewards and retention (Boxall and Purcell 2003). The idea here is that the adoption of HRM may rectify people management issues and increase a firm's competitiveness in the market. On the other hand, however, formal HRM means higher costs not easily assumed by resource-constrained family firms. Equally important, formal HRM implies loss of the owner's control over his/her operation and workforce. This is because HR practices promoting equal treatment and employee engagement largely run against the long-held idea of centralized control and familism of traditional Chinese family firms. They thus also threaten the shared identity of founder-owner and firm – with the former as unique source of personalized organizational values for the latter.

All in all, it appears that the issue of 'how much' and 'when' is contingent on the interplay of various internal and external factors at individual, firm, regional and country levels. The next section introduces our empirical study, which examines factors affecting people management practices of 205 family firms.

## **An empirical study**

### ***Sample and data collection***

Between November 2006 and February 2007, we collected useable survey responses from 205 family businesses located in seven cities of China through a snowball sampling method. This non-probability sampling method addresses the difficulties of accessing information that are particularly acute in China (Shi 2001; Krug 2004; Sun *et al.* 2007). Table 11.2 reports the distribution of the response sample along the key dimensions.

As shown in Table 11.2, approximately 40 per cent of respondent firms are located in the eastern coastal regions, while about 60 per cent operate in inland regions. Consistent with the country's short history of the private ownership regime, the majority of our sample (90 per cent) are 15 years old or less, with an average age of 8.6 years. In respect of size, family firms tend to be small, with approximately 73 per cent having fewer than 100 employees. As also indicated in Table 11.2, our sample shows a largely even distribution across three sectors: services (38 per cent); manufacturing (31 per cent); and trade (31 per cent). In addition, most owners (and founders) seem to have experienced the country's Cultural Revolution in their formative years of development. Finally, the majority of the firms in our sample do not have labour unions (77 per cent).

We used owner-managers as the key respondents, asking them to indicate their people management orientation, policies and practices. The questions ask about: owner's orientation toward employees ('employees' as assets); presence of a separate HR department; recruitment; standardized selection tools; training and development; performance appraisal and feedback; and remuneration. Recruitment channels include the informal – close family, 'relatives', close friends, referrals – and the formal, such as employment agency, campus recruitment, advertising

Table 11.2 Distribution of response sample

Cities	Frequency	Firm age	Frequency	Firm size	Frequency	Industry	Frequency	Owner age	Frequency	Union	Frequency
East-Coastal:		1–5 yrs	60 (29.3%)	<100	149 (72.7%)	Trade	63 (30.7%)	<40	68 (33.1%)	Yes	47 (22.9%)
Beijing	26 (12.7%)	6–10 yrs	84 (41%)	≥100	56 (27.3%)	Mfg	64 (31.2%)	≥40	137 (66.9%)	No	158 (77.1%)
Shanghai	29 (14.1%)	11–15 yrs	40 (19.5%)			Service	78 (38.1%)				
Guangzhou	26 (12.7%)	16–20 yrs	15 (7.3%)								
Subtotal	81 (39.5%)	Over 20 yrs	6 (2.9%)								
Inland:											
Harbin	32 (15.6%)										
Wuhan	24 (11.7%)										
Chengdu	31 (15.1%)										
Lanzhou	37 (18%)										
Subtotal	124 (60.5%)										

Source: Adapted from Kim and Gao (2010)

N = 205

Mfg = Manufacturing

and company recruitment sessions. Seven selection tools are included: application form; interview; personality test; skills test; simulation; reference check; and medical examination. Training and development focuses on the amount of training and development provided to family members vs. non-family members. In respect of performance appraisal (PA), we included the presence of formal PA, regularity of PA implementation, and regularity of feedback provision. Remuneration is measured by the extent to which fixed pay or performance-based pay is used.

We examined these people management practices along the five key contingencies: region; firm size; owner's education level; owner's age group; the presence of a labour union. We did not examine the effect of the country's 'one-child' policy, given data unavailability partly due to the fact that Chinese family firms are still run by founder-owners. Univariate analysis was undertaken to identify the effect of each of the contingency variables on the people management dimensions. The statistical tests employed in our study are cross-tabulation, two-sample T-test and ANOVA. These methods allow us to explore the relationship between the factors and people management practices.

## ***Empirical results***

### *Region as a contingency*

Following broadly accepted assumptions (Fan *et al.* 2007; Redfern and Crawford 2008; see also Chapter 5), we divided the country into two regions: inland vs. eastern coastal, treating region as a binary variable. As shown in Figure 11.1, a firm's location – inland vs. eastern coastal – does not seem to have a significant bearing on people management practices, as reflected in the mean scores. Our further tests (two-sample T-tests) largely support this finding. However, inland firms adopted significantly more informal recruitment channels ( $t = 4.60$ ,  $p < 0.01$ ) but marginally fewer

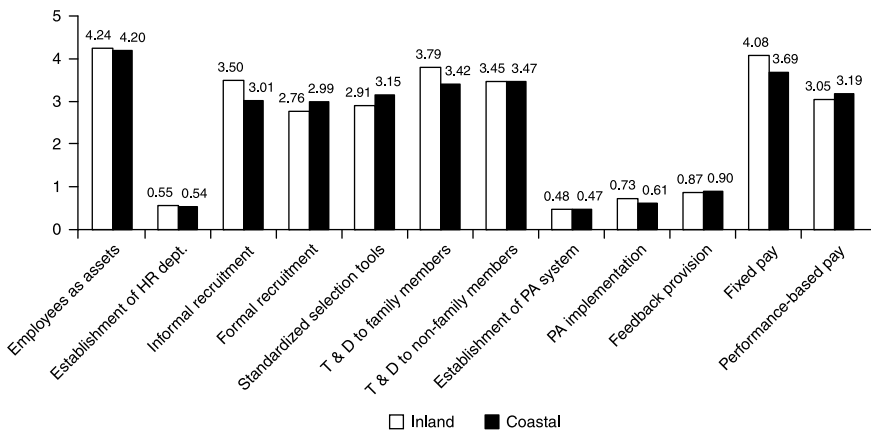


Figure 11.1 Differences in people management across region.

formal ones ( $t = -1.7$ ,  $p < 0.10$ ) than their coastal counterparts. Substantial differences were also found for the amount of training and development provided to family members. Preferential treatment of family members was more apparent in inland firms than in coastal firms ( $t = 2.96$ ,  $p < 0.01$ ). In addition, inland firms relied more on traditional fixed pay practices than their coastal counterparts ( $t = 2.44$ ,  $p < 0.05$ ).

These results demonstrate that using the region as a proxy for regional disparities in industrialization, marketization and the influences from the international economy has implications for three areas of people management practices. First, there is the introduction of formal recruitment sources and therefore the decline of informal recruitment ones. Then there is the decline of favourable treatment for family members. Finally, it implies the greater adoption of performance-based pay and thus the decline of fixed-pay arrangements. The results seem to suggest that growing market pressures contribute to an increasing adoption of some HR practices and a decrease in family firms' reliance on personal relationships based on kinship.

### *Firm size as a contingency*

For firm size, we distinguished between those firms with up to 99 employees and those with more than 99 employees. According to Figure 11.2, firm size is significantly related to some areas, including the presence of a separate HR department, formal PA and regular feedback as well as the owner's perception of employees as an asset. This result is further supported by Chi-square statistics obtained from cross-tabulation and by t-statistics of two-sample T-tests: HR department (Chi-square = 20.57,  $p < 0.01$ ); formal PA (Chi-square = 10.87,  $p < 0.01$ ); feedback (Chi-square = 3.01,  $p < 0.10$ ); and owner's perception of employees as an asset ( $t = 0.20$ ,  $p < 0.05$ ). Overall, firm size is a positive driver of some formalization of people management (or HR) practices, including a separate HR department, a formal PA system and regular feedback as well as owners' perception of employees

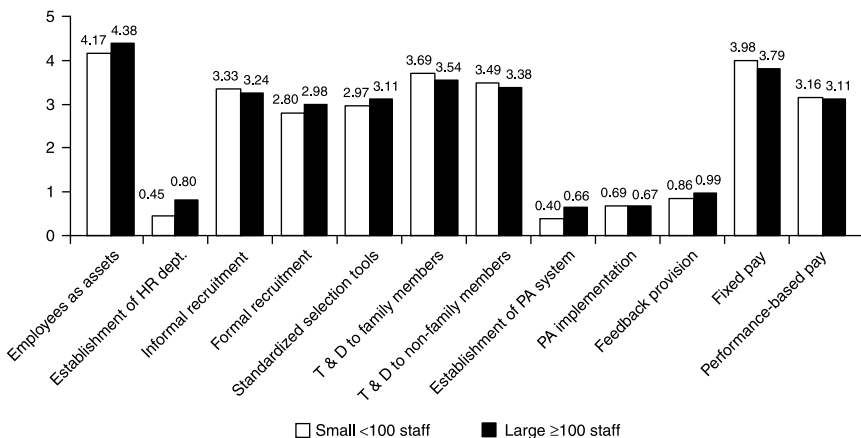


Figure 11.2 Differences in people management across firm size.



as assets. Given the complexities and varying objectives and demands facing growing firms, they can no longer rely only on their limited family pool, who are often recruited based on their kinship relationships rather than their qualifications, experience and capabilities. Owners in growing/large firms seem to be increasingly aware of the importance of their employees, including non-family members, and thus feel the need to introduce a formal system that allows them to manage their expanding workforce effectively while still retaining some level of control.

*Owner's education level as a contingency*

Figure 11.3 shows that the owner's education level (university-educated/above vs. non-university educated) in general contributes to differences in people management. In particular, owners with university or higher degrees tend to introduce more standardized selection tools ( $t = 1.92, p < 0.05$ ). Surprisingly, however, they also rely on informal recruitment channels significantly more than owners who do not have university qualifications ( $t = 1.20, p < 0.05$ ). A possible explanation for these somewhat inconsistent results is that university education opens up additional networks of the more qualified. The results suggest that highly-educated owners can selectively introduce HR, potentially in an attempt to retain their control over their operation.

*Owner's age group as a contingency*

The owner's age was broken into two groups, those up to 40 years of age and those older than 40. As shown in Figure 11.4, the owner's age seems to contribute to

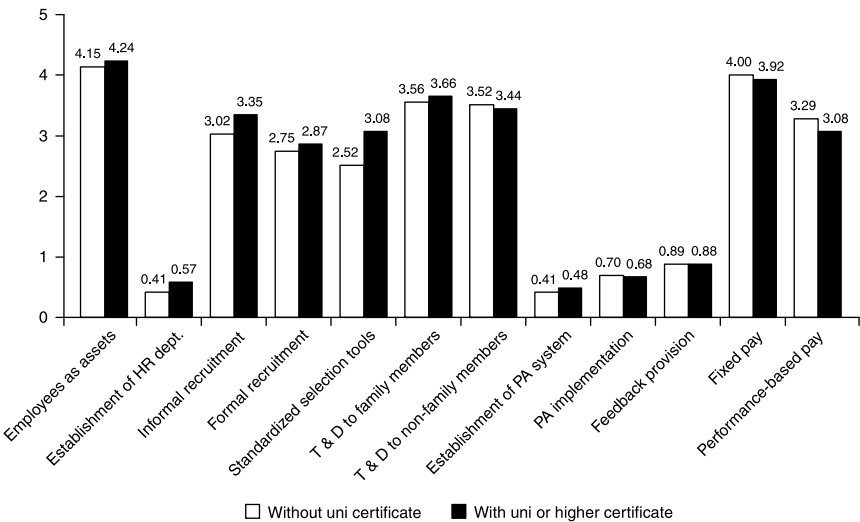


Figure 11.3 Differences in people management across owner's education level.

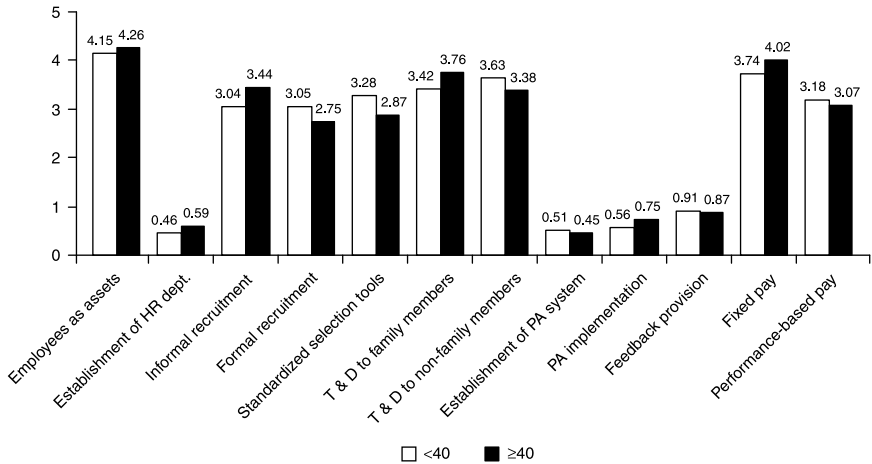


Figure 11.4 Differences in people management across owner's age.

substantial differences in many people management dimensions overall. Our further statistical tests also support the significant effect of the owner's age on various dimensions. More experienced, senior owners introduce an HR department (Chi-square = 3.36,  $p < 0.10$ ) and implement PA more regularly (Chi-square = 6.48,  $p < 0.01$ ). At the same time, however, these experienced owners employ more relationship-based practices than their younger counterparts, as demonstrated in their use of more informal recruitment ( $t = 3.34$ ,  $p < 0.01$ ), less formal recruitment ( $t = -2.04$ ,  $p < 0.05$ ), favourable treatment of family members through significantly more training and development for family members ( $t = 2.65$ ,  $p < 0.01$ ) but significantly less training and development for non-family members ( $t = -2.16$ ,  $p < 0.05$ ). They also display a greater use of fixed pay ( $t = 1.72$ ;  $p < 0.10$ ).

The overall heavy dependence of older owners on informal people management practices can be explained by China's unique recent institutional characteristics such as the Cultural Revolution and economic reforms. Influenced by the doctrines of the Cultural Revolution during their formative years, senior family owner-managers may have developed a deeper appreciation of the importance of personalized and kinship-oriented trust (Fukuyama 1995; Kim and Wright in press). In contrast, relatively younger owners, albeit still somewhat influenced by the communist ideologies, have been more exposed to foreign, Western influences brought about by the country's economic reforms. For these reasons, they seem to have become more receptive to western-style management and HRM practices.

#### *Labour union establishment as a contingency*

As shown in Figure 11.5, the establishment of a labour union was important in influencing the people management practices of family firms. First, it strongly

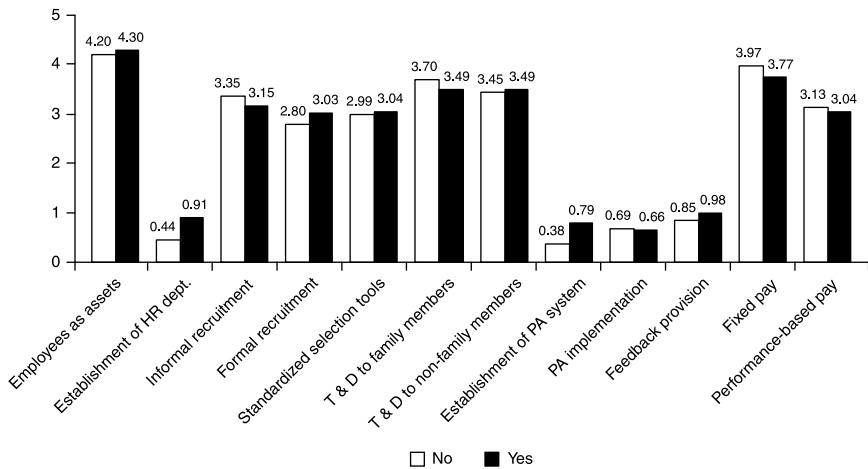


Figure 11.5 Relationships between labour union and people management.

supports HRM formalization through encouraging the establishment of an HR department (Chi-square = 33.42,  $p < 0.01$ ), formal PA system (Chi-square = 24.13,  $p < 0.01$ ) and regular feedback (Chi-square = 5.41,  $p < 0.05$ ). Second, the presence of a union decreased management's reliance on personal ties as unionized firms used more formal recruitment sources ( $t = 1.66$ ,  $p < 0.10$ ). These results are contrary to our expectations and may be explained by family firms' intention to comply with laws and regulations rather than as an indication of an active and instrumental role of labour unions in introducing formal HR. In particular, it seems a bit far-fetched to link union establishment to the introduction of a formal PA system in collectivist countries like China where individual-based PA is often considered to violate the group mentality and engender disharmony among workers. However, the observed positive relationship may also demonstrate that the dissatisfaction with PA has led to the formation of unions in family firms.

Discussion and conclusion

While there has been significant research on overseas Chinese family firms, SOEs and foreign firms in China, there is very little study on the HRM of family firms. In this chapter, we have attempted to document the current people management practices of Chinese family firms that have evolved since the country's economic reform in 1978. Taking a contingency approach, we drew drivers and barriers relating to family firms from the literature. The historical overview has identified two major barriers to adopting HRM. The first is a dynamic business environment that engenders some organizational inertia among family firms and leads them to retain informal personnel practices. They do this not only to reduce costs but also to increase their adaptability and flexibility. The second relates to traditional

Confucian values entrenched in family owner-managers, which promote informal arrangements allowing senior family members to retain control over resource allocation. In addition, other important external factors contributing to HRM adoption include strengthened legal frameworks, flexible labour market, increased competition and cultural changes. While these factors place pressures on the private sector to enhance their people management effectiveness, their influence on people management, including HRM, has been disparate across China's regions. Furthermore, some internal firm-specific factors have been found to be relevant to family firms: the owner-manager's education and age; and firm size.

Our empirical study provides evidence of the influence of different contingencies on different dimensions of HRM in Chinese family firms. More specifically, size has a significant bearing on owners' perceptions of their employees. Large family firms are more likely to treat their employees as assets than their smaller counterparts. Firm size and the presence of a labour union are also positively related to the establishment of a separate HR department. Broadly speaking, the owner's education and age are positively associated with informal, relationship-based practices, whereas the absence of labour unions and location (inland) are significantly related to informal practices.

Among the factors affecting people management practices, the following two factors have been found to consistently influence family firms' practices and warrant closer examination. First, firm size has been found to be a critical driver of HRM. With growth and expansion, a firm may not be able to rely heavily on its limited family pool for talent and expertise. In growing firms, the imperatives of knowledge acquisition from, and information sharing with, non-family members undermine the effectiveness of a relationship-based structure. Owners thus begin to recognize the value of employees – including non-family employees – and increasingly feel the need to establish a formal HR department that facilitates the adoption of more formal HR practices. Formal HRM systems allow growing family firms to manage their increasing complexity as well as to process information more effectively. These findings pose an important question for family business owners as to how to effectively transform a relationship-based people management system to a more formal HR system, while, at the same time, retaining family control. Some level of delegation of decision-making authority to professional managers seems inevitable with growth.

Second, owner-managers' own biographical characteristics – educational level and age – significantly affected people management practices. The tendency to adopt relationship-based practices among older owners may be explained by their cultural norms and orientations, heavily shaped by the external environment during their own formative years. Nevertheless, even highly-educated owners tend to be very selective and pragmatic in their approaches, using a combination of traditional, informal and more formal, modern people management practices.

The particular importance of owners' individual characteristics as well as firm size suggests that internal factors, as opposed to external and institutional variables, are more influential in determining people management practices of family firms. This finding seems to support Wright *et al.*'s (2005) argument that institutions are

typically less important in transition economies like China. However, our empirical study suggests that we should not disregard institutional effects altogether. While institution, as proxied by regional location, is not as significant as some internal factors, we find regional divergences in selective people management dimensions such as recruitment channels, training and development for family members. Inland firms tend to use significantly more informal sources of recruitment, including family members and relatives, and also provide more training and development opportunities for family members. We would explain this by the lower levels of marketization and industrialization of the inland regions. In other words, the pressures to adopt more formal HRM are greater for family firms in more industrialized eastern coastal regions given the intensifying competition they face from foreign firms and increasingly efficient SOEs.

This chapter thus makes important contributions to the literature. First, we provide a contextualized understanding of the people management practices of family firms. This involves consideration of particular internal characteristics of family firms as well as China's dynamic historical, cultural and institutional environment. Second, it closes the empirical gap in the literature by examining the current practices of family firms, exploring patterns of diversity in their policies and practices.

However, our study is not without limitations. First, the measurement of some variables needs further sophistication. For instance, we used region as an overarching proxy for several external factors, like local labour market, market competition, employment, legalization and culture. While dichotomization of the country into inland and coastal regions is well documented in the literature, use of a better proxy for institutional disparity may generate more robust results. Another methodological weakness lies in the univariate analysis adopted in the study. Future studies involving multivariate analysis will enable us to identify particular contributions of each of the external and internal variables relating to people management of family firms. Nevertheless, given the paucity of research in the area, the findings of this study are available for future studies in order to enhance our understanding of developments in China's changing workplace.

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## 12 HRM and employment in the service industry

*Bing Bai and Jian-Min Sun*

### Introduction

Within the dramatic growth of China's economy over the last decade, the service industry has been increasing its share in overall GDP. In 2008, the value of service industry output had reached RMB 12,048.66 billion, or 40.1 per cent of GDP. As Table 12.1 shows, service industry employment levels have also been gradually increasing, both on aggregate and as a share of total employment. Thus, in 2008, total employment in the service industry was 257.17 million, which represented 33.2 per cent of China's total employment (National Bureau of Statistics of China 2009). Further, more fragmentary evidence (below) suggests that, while business activity and employment in the service industry suffered, during 2009, from the effects of the global financial crisis, recovery from the end of that year has been rapid and strong.

The service industry, also known as the 'tertiary industry' in China, produces services rather than the physical products of the secondary sector (manufacturing). *The China Statistical Yearbook of the Tertiary Industry* (National Bureau of Statistics of China 2008) divides the service industry into 15 categories. They are: transportation, warehousing and postal; information transmission, computer services and software; wholesale and retail trade; accommodation and catering (restaurants and food); finance; real estate; leasing and business services; scientific research, technical services and geological prospecting; water, environment and public facilities management; resident services and other; education; health, social security and social welfare; culture, sports and entertainment; public administration and social organizations; and international organizations.

While this is an expanding industry with an increasing workforce, there are disparities in these trends across regions. This reflects geographic imbalances in economic development in China as well as some continuing weaknesses in the internal structure of the service industry. As the economy emerges from a traditionally labour-intensive economy to a knowledge-intensive one, the service industry confronts difficulties in attracting skilled employees. Advanced management policies, systems and technologies are needed in order to further develop the industry's knowledge base and keep up with economic development.

The current literature on the service industry in China focuses on a variety of sectors within the tertiary industry and emphasizes different aspects of HRM and employment but, overall, has received only fragmentary attention in the literatures

Table 12.1 The service industry: number of employees and percentage of total employment

<i>Year</i>	<i>China's total employed workforce (10,000 persons)</i>	<i>Tertiary industry employment (10,000 persons)</i>	<i>Service industry as proportion of total employment (%)</i>
2000	72,085	19,823	27.5
2001	73,025	20,228	27.7
2002	73,740	21,090	28.6
2003	74,432	21,809	29.3
2004	75,200	23,011	30.6
2005	75,825	23,771	31.3
2006	76,400	24,614	32.2
2007	76,990	24,917	32.4
2008	77,480	25,717	33.8

*Source:* National Bureau of Statistics of China, *China Statistical Yearbook 2009*.

on HRM, employment and work in China. We lack a general, contemporary overview of the industry's workforce characteristics and trends. The purpose of this chapter is to provide that overview as well as some insight into some of the sectoral dynamics within the service industry. We begin by briefly examining the labour market profiles of four major service sectors we have selected as representative. This allows an opportunity to explore recent and emerging developments in China's service industry which we develop later in the chapter. The four sectors are accommodation and catering; health, social security and social welfare; finance; and, finally, information transmission, computer services and software. In later sections we look at the ways in which employer choices appear to contribute to local labour market dynamics for the service sector, including patterns of economic dynamism, diversity, disparity and change. Our sources are largely the official annual and quarterly statistical series as well as our own research into patterns of recruitment advertising by employers appearing in print and online media.

Through a service industry focus, the chapter addresses themes that appear elsewhere throughout this book, like local labour markets, education and training, shortages of skilled and professional labour, and labour market inequality (see for example, Chapters 4, 5, 6, 7 and 14). In these ways, the chapter offers a more comprehensive and dynamic picture of the service industry in China as work, employment and management undergo further transition. Its focus on service industry HRM and employment complements many of the other chapters in this book that predominantly focus on manufacturing. We pay particular attention, within HRM, to questions of recruitment, turnover and retention as these appear most important in linking employer-level policy with broader labour market trends.

#### **Four major service sectors**

The four major service sectors we have chosen are quite diverse amongst themselves for types of activity, types of ownership, types of workforce and levels of

technological sophistication. For example, accommodation and catering together with the health, social security and social welfare sector have workforces where the majority of employees are at the lower-skilled levels. On the other hand, finance and the information transmission, computer services and software sector have much greater proportions of jobs that require higher levels of formal education and skills. Notwithstanding these differences, the four sectors chosen share not dissimilar-sized workforces that together contribute about 7.6 per cent of China's total workforce.

As illustrated by an official, periodical, national economic census bulletin, there are: 5.858 million employees – or 2.1 per cent of China's total employment – in the accommodation and catering sector; 6.804 million employees – 2.5 per cent of total employment – in the health and social security and social welfare service sector; 4.87 million employees – 1.8 per cent of total employment – in the financial sector, and 3.207 million employees – 1.2 per cent of total employment – in the information transmission, computer services and software sector. (National Bureau of Statistics of China and Special Leading Office of the Second National Economic Census 2008). We will now examine each in turn.

### *Accommodation and catering*

The accommodation and catering sector includes hotels and catering as well as travel agencies. Overall, the sector and its employment levels have undergone rapid growth in the past few years. Thus, except for the effects of the 2004 SARS pandemic, the number of employees in the sector has increased every year, as well as the number of hotels. As Table 12.2 shows, there has been particularly rapid growth in numbers of travel agencies and employment in that sub-sector. Indeed, between 2001 and 2006, there were about 1,000 travel new travel agencies opening each year (National

*Table 12.2* The number of travel agencies (TAs), employees and tourist hotels

	2001	2002	2003	2004	2005	2006	2007
<b>No. of TAs</b>	<b>10,532</b>	<b>11,552</b>	<b>13,361</b>	<b>14,927</b>	<b>16,245</b>	<b>17,957</b>	<b>18,943</b>
International TAs	1,310	1,349	1,364	1,460	1,556	1,654	1,797
Domestic TAs	9,222	10,203	11,997	13,467	14,689	16,303	17,146
<b>No. of TA employees</b>	<b>192,408</b>	<b>229,147</b>	<b>249,802</b>	<b>246,219</b>	<b>248,919</b>	<b>285,917</b>	<b>307,977</b>
International TAs	72,801	89,128	100,742	89,342	89,250	98,727	122,229
Domestic TAs	119,607	140,019	149,060	156,877	159,669	187,190	185,748
<b>No. of tourist hotels</b>	<b>7,358</b>	<b>8,880</b>	<b>9,751</b>	<b>10,888</b>	<b>11,828</b>	<b>12,751</b>	<b>13,583</b>

*Source:* National Bureau of Statistics of China, *China Statistical Yearbook 2009*.

*Note:* Units are persons.

Bureau of Statistics of China 2009). Table 12.2 also shows that, between 2001 and 2007, the number of tourist hotels increased by about 85 per cent.

Three main features mark the sector's workforce. First, there is its very young profile. Then there are the relatively low educational levels of its workforce. Finally, the sector's workforce is overwhelmingly female. These three characteristics interact to produce particular outcomes for both employees and the sector, which we will briefly discuss in terms of priorities for broader labour market policies and firm-level HRM.

Since accommodation and catering is a quite labour-intensive sector, the average age of its workforce is relatively young compared to other industries. For example, according to a survey conducted by the China Travel Bureau in 2002, about 70 per cent of tour guides in China were under 30 years old (Zhang 2004). Some local survey data also show similar characteristics. For instance, a survey of tourist star hotels in the six major cities in Gansu province shows that employees between 21 and 30 years old represent 36 per cent of total employees and thus form the largest age grouping (Tuo 2005).

In addition, the average education level of the sector's employees is relatively low. Overall, about 60 per cent of employees across the sector hold no more than a junior high school diploma. Only 0.8 per cent hold more than a bachelor's degree (Li 2008). However, within these broad sectoral aggregates, there is substantial diversity by sub-sector when it comes to qualification profile. For example, some 27 per cent of those employed in travel agencies hold a bachelor's degree (Zhang 2004). On the other hand, only 9 per cent of those employees working in the hotels in Gansu province have a bachelor's degree while about 28 per cent hold a high school or equivalent diploma. Very few there hold a master's degree and above (Tuo 2005).

It is worth noting the characteristics of the sector's *frontline* employees. They are mostly female and, at the same time, mostly people with a high school diploma or with lower educational qualifications. People with entry or middle-level certificates fill the sector's managerial positions (Diao 2008). These are qualification certificates in the field offered by the former Ministry of Labour, like an HR certificate, which are required under labour law or China's employment policies in certain fields or job markets. Yet the competency of employees plays a significant role in shaping the level of quality of performance – in this case of service. Given the above workforce characteristics, the accommodation and catering sector faces intense challenges to provide high-quality services so as to meet customers' increasing expectations and personalized needs.

These workforce characteristics, together with aspects of the sector's product market, mean that average salaries in this sector are relatively low compared to those, for example, in a service sector more dependent on and attuned to professional development, like the finance sector (examined below). Thus, the average annual salary in the accommodation and catering sector was RMB13,857 in 2005, RMB15,206 in 2006, and RMB17,041 in 2007, whereas the average annual salaries in the finance sector in those years were more than double: RMB 32,228, RMB39,280 and RMB49,435 respectively (Li 2008).

Low salaries further impact on service quality and this, in turn, influences the reputation, sustainability and competitive standing of the whole sector. Therefore, we would argue that the future focus of this industry should be on providing strict training and certification programmes to improve employees' professional skills, offering on-the-job training to current employees, and attracting to the sector more higher-level employees with the necessary education and skills.

### ***Health and social security and social welfare***

The number of health service organizations ('institutes') has increased dramatically in recent years. In 1978, there were 169,732 in total with 3,105,572 employees. In 2008, there were 278,337 health service organizations – an increase of some 64 per cent. Their total of 6,169,050 employees was almost double the 1978 workforce (National Bureau of Statistics of China 2009). Nevertheless, as Table 12.3 shows, the rate of employment growth has been negligible in recent years, apart from spikes in 2007 and 2008. Moreover, patterns of employment by level, profession or occupation have been very variable. Thus some categories – the very large registered nurse category and, in particular, the smaller 'other technician' category – have been growing rapidly. The number of pharmacists and those in management positions have been declining (at least until 2007 or 2008) and a number of other categories have more or less remained stable.

The profile of this sector's workforce once again suggests that gender segmentation follows hierarchical position. However, it would seem that the sector differs from accommodation and catering in that some of the major patterns of diversity and disparity within the sector reflect regional rather than sub-sectoral factors.

A major characteristic of the health industry workforce too is that female employees greatly outnumber male employees. This predominance is heavily linked to the level of positions. For example, female employees make up 64.3 per cent of employees in lower-level positions whereas for those in management positions there is approximate gender parity, with 50.9 per cent female employees (National Bureau of Statistics of China 2009).

Once again, the profile for employee educational level in this sector is relatively low. Among lower-level employees, most only hold a technical secondary school diploma (43.3 per cent). Very few hold degrees above the bachelor's level, with only 1.6 per cent having masters and PhDs. Perhaps more surprisingly, around 84 per cent of management-level employees do not even have a bachelor's degree (Ministry of Health of the People's Republic of China 2009).

In addition, there exists the matter of regional imbalance of health service resources. For example, in Shanghai there are seven hospital beds for every thousand people while in Guizhou there are only 2.06 beds (Ministry of Health of the People's Republic of China 2009). Overall, the number of health service organizations is much higher in the eastern area than in the middle and western areas. This disparity is even worse when it comes to rural areas (China Economic Information Network 2010).

Table 12.3 Number of employees in the health sector by position

Year	Total	Medical professionals	Certified assistant physician	Certified physician	Registered nurse	Pharmacist	Inspector	Other technician	Management	Craftsman
2001	5,583,932	4,507,700	2,099,658	1,637,337	1,286,938	404,087	203,378	157,961	412,757	505,514
2002	5,238,079	4,269,779	1,843,995	1,463,573	1,246,545	357,659	209,144	179,962	332,628	455,710
2003	5,274,786	4,306,471	1,867,957	1,486,029	1,265,959	357,378	209,616	199,331	318,692	450,292
2004	5,356,589	4,392,908	1,906,382	1,522,378	1,308,433	355,451	211,553	209,422	315,595	438,664
2005	5,426,851	4,460,187	1,938,272	1,555,658	1,349,589	349,533	211,495	225,697	312,826	428,141
2006	5,619,515	4,624,140	1,994,854	1,610,781	1,426,339	353,565	218,771	235,466	323,705	436,204
2007	5,907,052	4,787,610	2,012,914	1,644,467	1,543,257	325,212	206,487	243,460	356,569	519,413
2008	6,169,050	5,030,038	2,082,258	1,714,670	1,653,297	330,525	212,618	255,149	356,854	527,009

Source: National Bureau of Statistics of China, *China Statistical Yearbook 2009*.

Note: Units are persons.

### **Finance**

The finance sector includes sub-sectors like finance, banks, security, insurance and 'others'. According to annual data from the National Bureau of Statistics of China (2004 to 2009), between 2003 and 2008, the total number of employees in the finance sector increased only gradually until the rate of growth accelerated in 2007 (6.06 per cent) and 2008 (7.1 per cent).

In 2008, 36.6 per cent of finance sector employees had an associate degree – equivalent to the first two/three years of a four-year college or university degree – as their highest qualification, making them the largest section of the sector's workforce. With almost 29 per cent, high school graduates were the second largest group. Employees with a bachelor's degree were the third largest, accounting for about 19 per cent. As is clear, this is a very different – and much higher – profile of formal qualifications among employees than in the two sectors examined above. As well, unlike those sectors, there do not appear to be any distinctions in the finance sector relating qualifications to gender difference.

### **Information transmission, computer services and software**

As Table 12.5 indicates, this sector has been growing rapidly too as part of global trends in information and communications technology, a share of which China is increasingly capturing. Beijing is the seedbed of China's software activity and most software companies are still located there. In 2006, the added value of the information transmission, computer services and software sector in Beijing reached RMB68.85 billion, representing 8.7 per cent of the total value of the city's output. The added value from information transmission sub-sector is RMB37.73 billion and that from combining computer services and the software industry subsectors is RMB31.12 billion (Han 2008). Although the sector is a knowledge and technology intensive one, it plays an important role in generating rising

*Table 12.4* Number of employees in the finance sector and its sub-sectors

<i>Year</i>	<i>Total sector employment</i>	<i>Levels of employment in sub-sectors</i>				
		<i>finance</i>	<i>banking</i>	<i>security</i>	<i>Insurance</i>	<i>others</i>
2003	353.3	286.2	244.1	6.3	32.0	3.7
2004	356.0	286.9	237.5	6.7	38.5	4.2
2005	359.3	295.0	240.5	6.2	44.1	4.2
2006	367.4	299.9	241.6	6.8	47.0	4.4
2007	389.7	311.1	245.7	7.6	53.0	4.8
2008	417.6	326.4	251.7	9.0	60.1	5.6

*Source:* National Bureau of Statistics of China, *China Statistical Yearbooks 2004–2009*.

*Notes:* Units are in 10,000 persons.

Table 12.5 Number of employees in the information transmission, computer services and software sector

Year	Number of employees	Number of employees in sub-sectors		
		Information transmission	Computer services	Software
2003	116.8	—	—	—
2004	123.7	—	—	—
2005	130.1	—	—	—
2006	138.2	106.9	10.9	20.5
2007	150.2	108.9	14.3	27.0

Source: National Bureau of Statistics of China, *China Statistical Yearbook 2006-2008*.

Note: Units are in 10,000 persons.

employment in Beijing. For instance, from 2004 to 2006, the annual increase rate of the sector's employment was 6.43 per cent (Han 2008).

Another northern city, Dalian, is well known for its software outsourcing services which have gained international market recognition. The number of software companies in Dalian has increased dramatically from 100 companies in 1998 to 700 companies in 2008. This rapid rate of business development has generated the need for a corresponding greater supply of human resources with IT and software backgrounds. However, Dalian's local labour supply cannot meet these requirements. The major reason is a 'brain drain' across regions. Each year, higher education institutions in Dalian produce about 10,000 graduates in the field of software, including bachelors, masters and PhDs. However, for all kinds of reasons, only 10 per cent of these graduates are hired in Dalian. In addition, there are around 7,000 graduates from Dalian technical high schools and technical secondary schools each year and more than 10,000 graduates from local community colleges. There are also countless trainees who come through on the job training (Qin *et al.* 2005). There is no apparently available evidence indicating the dimensions of any brain drain among those categories. As in local labour markets in other areas of advanced development (see Chapters 5 and 7), it is obvious that the major concern here is how to attract and keep the local highly educated and skilled employees so as to reduce the imbalance between demand and supply.

Our brief introduction to these four major service sectors provides some sense of the variable levels of dynamism across and within sectors as well as patterns of diversity and disparity within the services industry, and we have seen the trend of development in China's service industry. In the next section, we further explore the characteristics of HRM and labour markets in the service industry.

## HRM and labour markets in the service industry

The development of the service industry over the past two decades has gradually increased demand for people with management and technological skills. While



the supply of labour in this industry has increased correspondingly, consistent gaps between demand and supply still prevail. Figure 12.1, which we developed from the China's Labour Market Information Network Monitoring Centre's *National Occupational Quarterly Supply and Demand Report* (first quarter of 2004 to third quarter of 2009), shows that labour demand consistently outstrips supply in the services sector. This seems to be the case despite the existence of a large informal labour market segment, as discussed in Chapter 14. The only recent exceptions occurred in early–mid-2009 as the recessionary effects of the global financial crisis flowed into China's services sector. However, by late 2009, employment demand had rebounded strongly along with the overall Chinese economy so that there was substantial unmet demand.

Given the persistence of labour shortages, how are service industry employers responding through their recruitment strategies? Our investigation of job advertisements in the service industry job market suggests that several interesting characteristics are emerging. First of all, online job advertisements and recruitment are widely used. For instance, the Zhaopin website ([www.zhaopin.com](http://www.zhaopin.com)), which has been ranked among the top three professional recruitment websites in China (China Internet Week 2009) has, on average, over 2.2 million job announcements (Zhaopin 2009). The other two major professional recruitment websites are China HR ([www.ChinaHR.com](http://www.ChinaHR.com)) and 51Job.com ([www.51job.com](http://www.51job.com)). China HR is the first professional website to provide online HR services in China, while 51Job is the first Chinese-owned website listed on the US Nasdaq (Nasdaq: JOBS) and the largest professional human resource service institution in China.

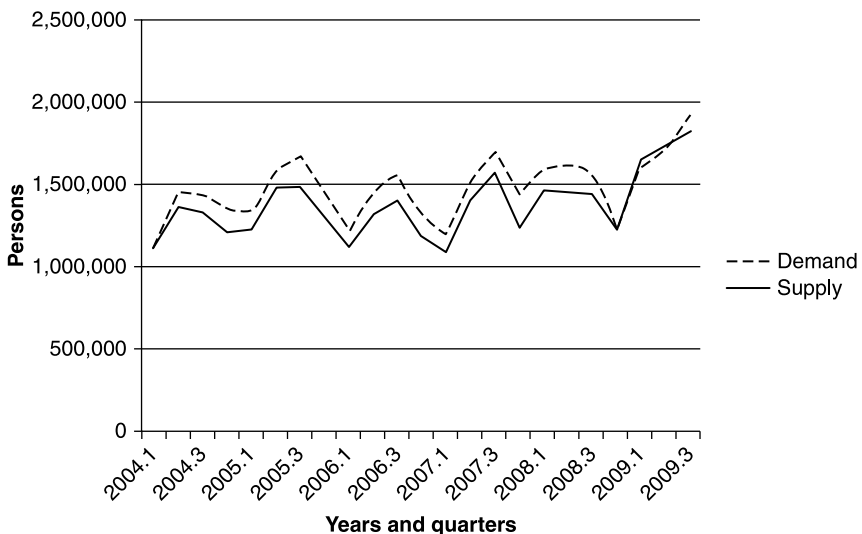


Figure 12.1 Labour demand and supply in the service industry, 2004–2009.

Source: China's Labor Market Information Network Monitoring Center, *National Occupational Quarterly Supply and Demand Report* (first quarter, 2004 to third quarter, 2009), on 10 January 2010.

Table 12.6 summarizes the number of job announcements for positions in several service important sectors, by major cities, appearing on these three major recruitment websites at the end of 2009. This is useful for understanding the degree of diversity and disparity both across and within regions. In particular, they suggest a variety of local labour market effects in the services industry that complement the local labour market focus (see Chapter 5) on advanced manufacturing. The data here clearly show that Beijing, as the capital city, dominates the job market in the service industry across all of the listed service sectors. At the same time, service industry employers in the major cities on the east coast, such as Shanghai, Guangzhou and Shenzhen, consistently appear to need large numbers of employees, especially in the finance and consulting sectors, when compared with employers in other cities. Further, there are huge gaps among different regions such as the sharp contrast between the eastern regions and the western

*Table 12.6* Number of job announcements in the service industry in major cities from the three major online recruitment websites

*Unit: person*

		<i>Finance</i>	<i>Tourism &amp; hotel</i>	<i>Education</i>	<i>Health</i>	<i>Consulting</i>
North-east	Beijing	39,635	15,435	23,027	11,517	31,420
	Tianjin	3,700	3,675	2,964	1,303	3,414
	Dalian	2,235	1,488	1,380	723	2,274
	Shenyang	2,377	2,716	2,676	1,226	1,336
	Changchun	747	747	815	744	628
	Harbin	1,511	1,544	770	815	834
East	Shanghai	23,361	12,242	9,338	7,054	28,792
	Nanjing	3,221	2,667	1,851	1,729	2,491
	Suzhou	1,106	1,360	953	584	1,750
	Hangzhou	3,338	2,172	1,580	1,834	2,633
	Ningbo	555	1,012	333	400	740
	Hefei	330	629	318	388	458
	Fuzhou	942	947	460	535	546
	Jinan	5,038	1,994	1,960	1,398	2,548
	Qingdao	3,143	2,457	1,640	849	2,129
	Guangzhou	10,338	4,949	3,701	3,993	5,714
South-east	Shenzhen	10,795	5,116	2,425	2,899	5,277
	Dongguan	777	692	333	406	625
	Wuhan	4,311	3,249	1,720	1,445	2,039
	Changsha	1,166	2,023	702	631	1,059
	Zhengzhou	1,648	1,434	1,267	941	1,576
South-west	Xi'an	1,692	2,427	1,467	1,134	1,659
North-west	Chengdu	3,381	3,705	1,570	1,505	2,613
	Chongqing	1,483	2,627	809	902	1,540
	Kunming	582	1,789	296	459	768

*Sources:* www.ChinaHR.com, www.zhaopin.com and www.51job.com, retrieved on 20 December 2009.

regions. There are also obvious differences between big cities and small and medium cities.

An investigation of the print media is another way to show some of the characteristics of the interaction of firm-level HRM recruitment with labour market dynamics in the service industry. Therefore, we investigated 54 national and local newspapers, including *People's Daily*, *China Business Beijing Daily*, *Guangzhou Daily*, *Beijing News* and *Beijing Talent Market News* to identify where and how job advertisements are published. It turns out that employers and professional recruitment firms are generally choosing to publish job advertisements in the HR special issues or in the large local newspapers, such as *Beijing Talent Market News* and *Beijing Times*, rather than in the national newspapers. After further investigating job advertisements in these newspapers, we found that job advertisements for positions in the service industry dominate the whole advertising space from 2006 to 2009. For instance, *Beijing Times* used a half page on average for publishing job advertisements on a daily basis from 2006 to 2009. This is equivalent to 1/120 of the total layout, as well as 1/56 of total advertising space. Within those half pages of job advertisements, 80 per cent were job announcements for the service industry. Most of them were for positions such as KTV (Karaoke TV) club waiters, insurance sales, service staff, drivers and tour guides. However, with the rise of online recruitment advertising, the volume of job advertising through the print media has been declining in very recent years although job positions in the service industry still dominate.

We now turn to our analysis of the quarterly data, on the content of job advertisements for China's largest 100 or so cities, published in the *National Occupational Quarterly Supply and Demand Report* by China's Labour Market Information Network Monitoring Centre. They suggest some interesting findings regarding the hiring preferences of employers in the service industry and how these affect the industry's labour market. Questions of gender, age and education level of potential job applicants are the characteristics most often specified in advertisements. These factors help account for the particular gender, age and educational profiles we discussed earlier in relation to the workforces of the four service industry sectors.

Most employers have specific requirements based on these three characteristics. Male job candidates are slightly preferred over their female counterparts. On average, 65 to 70 per cent of job advertisements require that job candidates should be younger than 35. More than 60 per cent of job advertisements do not require college or above college degree qualifications. Figures 12.2, 12.3 and 12.4 depict these broad findings as well as emerging phenomena.

Indeed, these employer preferences appear to be undergoing some change. Gender is declining as an explicit hiring criterion. In late 2009, there was a much higher proportion of advertisements in which employers did *not* specify gender – 36.9 per cent – than in early 2004 (25.2 per cent). Among those that still do specify gender, male candidates remain preferred (see Figure 12.2). The trend lines regarding age are a little less marked but, overall, the small proportion of advertisements that did *not* specify age seems to be an uneven but very mildly

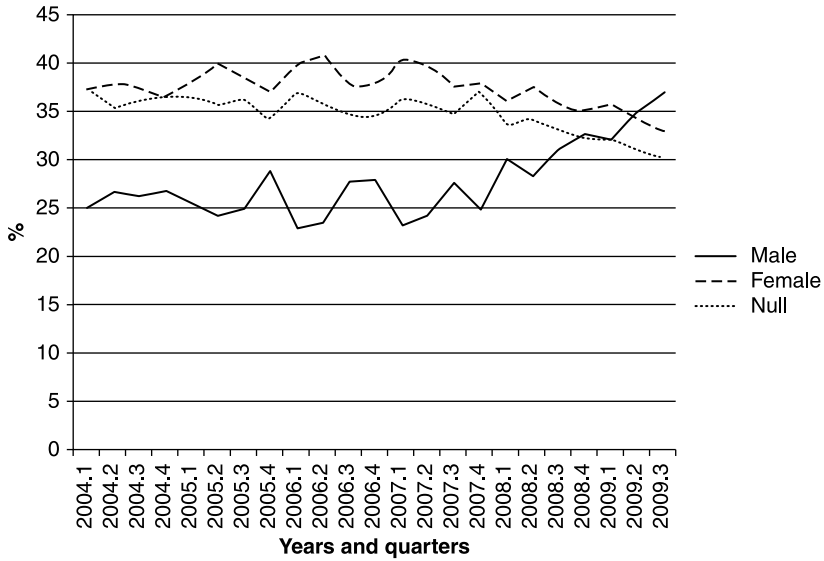


Figure 12.2 Job postings specifying gender.

Source: China's Labor Market Information Network Monitoring Center, *National Occupational Quarterly Supply and Demand Report* (first quarter, 2004 to third quarter, 2009), on 10 January 2010.

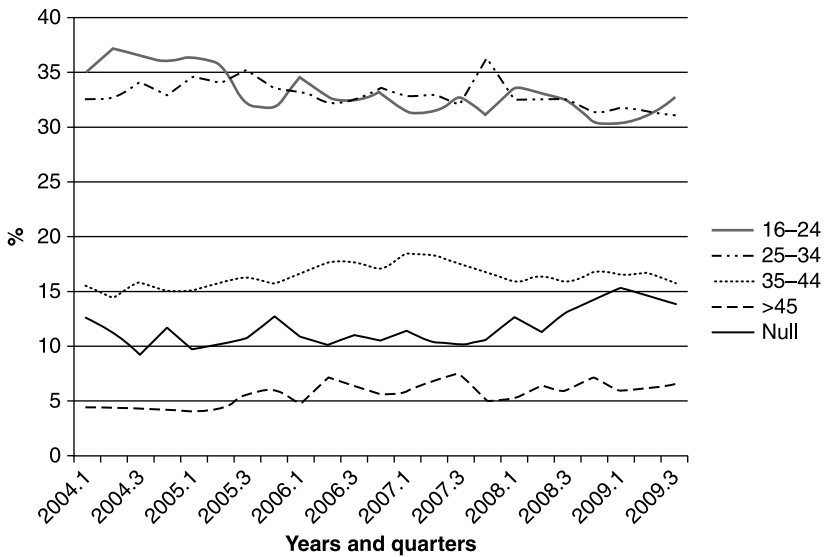


Figure 12.3 Job postings specifying age.

Source: China's Labor Market Information Network Monitoring Center, *National Occupational Quarterly Supply and Demand Report* (first quarter, 2004 to third quarter, 2009), on 10 January 2010.

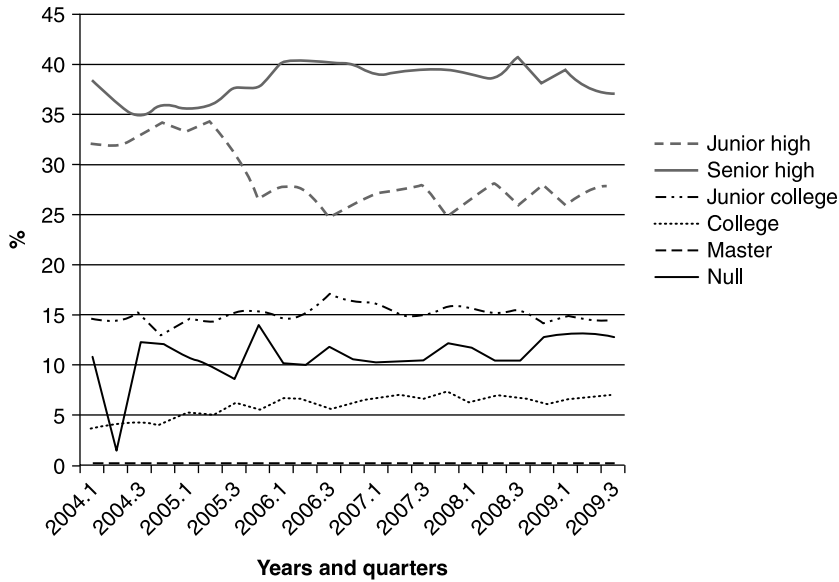


Figure 12.4 Job postings specifying educational level.

Source: China's Labor Market Information Network Monitoring Center, *National Occupational Quarterly Supply and Demand Report* (first quarter, 2004 to third quarter, 2009), on 10 January 2010.

upward trend, to 15.1 per cent in the first quarter and 13.8 per cent in the third quarter of 2009. Furthermore, the requirement that applicants be younger than 35 years old is declining slightly and more employers appear to be accepting applicants who are older than 45 (see Figure 12.3). On the other hand, there are rising employer expectations regarding levels of education for new hires and this change is especially obvious between 2004 and 2006. On average, the requirement for college or above education has slightly increased in recent years (see Figure 12.4).

As we have seen, the service industry job market includes various forms of discrimination. As Chapter 14 argues, discrimination is endemic to labour markets everywhere. In this case, existing studies already document widespread gender and age discrimination in China's service industry (see Woodhams *et al.* 2009). Other types of discrimination also exist. To examine this further, we have analysed content data from a sample of 250 advertisements in the finance, tourism and hotel, health, education and training sectors, which we collected between 13 and 17 January 2010. These advertisements were for jobs in 25 major cities which we selected from the 51Job website ([www.51job.com](http://www.51job.com)), China's most popular recruitment website. We collected two different advertisements from each sector and, at the same time, ten from each city. The results show that all 250 job advertisements included requirements for gender, age, education, work experience and even physical appearance, even though some jobs apparently do not need higher education and extensive work

experience. For example, 82.8 per cent of help-wanted advertisements required a college education, and 62.8 per cent of them required one to three years of work experience. More extreme, about 11.2 per cent of the 250 job advertisements declared their preference for a good-looking candidate.

As Chapter 3 explains, China is still in the early stages of the development of labour laws and regulations. The increasing number of labour disputes in recent years, including during mid 2010 (the time of writing), also indicates growing awareness of the new labour laws and the rights that may attach to them (see also Chapters 3, 8, 14 and 15). With the dramatic development of the service industry in China, the persistence of discrimination issues and the introduction of corresponding laws and regulations should require more informed attention from society. While collective labour disputes appear to be a rising phenomenon, job-hopping remains a much more common employee response to dissatisfaction with work and employment in China's changing workplace. It is to this individualized phenomenon that we now turn.

### **Employment mobility in the service industry**

As Chapters 1, 2 and 7 point out, workforce mobility and turnover have become prevalent with the restructuring of China's employment systems. Based on a report from the 51Job website, which collects 2,000,000 samples every year to compile a national report on turnover, we can identify a number of trends in (voluntary) turnover in the service industry. Compared with the general (all-industry) turnover rates during the 1980s and 1990s, those in recent years have increased dramatically. Thus, during the 1980s and the 1990s, the average general turnover rates, per decade, were 2.8 per cent and 3.3 per cent respectively. Compare those figures to the annual averages reached during 2007, 2008 and 2009: 22.3 per cent, 23.1 per cent and 15.9 per cent (during a short recessionary period) respectively (51job.com 2008; Dahe.com 2010).

Notwithstanding some possible data comparability flaws that derive from differences in sampling and measurement, it appears that the turnover rate in the service industry is even higher than that in other industries. The results of a survey conducted by *China Hotel Magazine* (2008), for example, show that the average annual turnover rates of the hotel sub-sector for 2004, 2005, 2006 and 2007 were some 26 per cent, 27 per cent, 30 per cent and 31 per cent respectively. The tourism and travel agency sub-sector struggles with the same challenge. For instance, the turnover rate among tourist guides with qualification certificates was some 45 per cent in 2006 (Deng 2007). Compared with traditional service sectors, the emerging service sectors face a similar situation. According to a national report on employee turnover released by 51job (PR Newswire Asia 2007), the turnover rates in the finance sector were above 20 per cent in both 2006 and 2007. The turnover rate of middle managers in large cities was some 28 per cent, much higher than that of top managers (about 13 per cent) and staff (21 per cent). The 51job report also reveals that the turnover rate of sales staff and website designers in the internet and IT sub-sectors was above 25 per cent in 2007.

A review of the relevant literature and the above statistics of turnover in the service industry suggests several themes that we can group under the following two questions. First, which categories of employees are most likely to engage in turnover? Second, where do those employees go? We explore these questions below.

Employees with two to three years of work experience have the highest turnover rate. One reason is that most of these employees are at entry level positions, and are most likely still in their first job. Without having had previous work experience and the chance to develop a realistic preview of their first job, it is much more unlikely that they will find themselves in a situation with the necessary person–job and person–organization fit to keep them attached to their current status. To the extent that the situation is negative, it increases their intention to leave. Another reason is that most people in that cohort believe that it is time for them to be promoted after two to three years in an organization. If this expected promotion does not happen, the assumption is often that it will not happen in the future either. In this situation, employees are more likely to leave the organization to pursue more promising opportunities elsewhere. Employees with five to eight years' work experience also have high turnover rates. People in this cohort have high intentions to leave because of either family reasons or career considerations. Work–family issues may make employees reconsider their job and career. At the same time, people want to break through bottlenecks in their career or overcome burnout they are experiencing in their current jobs.

As to destinations for job-hoppers, there appears to be a one way 'brain drain' from state-owned service industry companies to multinational corporations, especially in the finance sector. For example, it has been reported that a total of 41,300 employees in the four major state-owned banks resigned in the two years prior to China joining the WTO in 2001. Most of them took up jobs in foreign-owned financial institutions (Jrj.com 2002). Among the 4,403 Bank of China employees who resigned in the three years from 1998 to 2000, around 62 per cent found new positions in foreign financial institutions. A survey also illustrates that, in 2004, 85 per cent of senior managers and core employees in Chinese-funded public commercial banks used to work in the state-owned commercial banks, and 60 per cent of senior managers and core employees in foreign commercial banks used to work in the state-owned commercial banks (Bu 2007). As is true in manufacturing (see Chapter 7), service industry turnover rates are comparatively high among professionals and technical employees due to the chronic shortages of those types of employees.

## **Conclusions and suggestions**

The flourishing service industry is an important indication that China's economy is stepping into the stage of advanced development. This is particularly true for those sectors that increasingly include elements of the knowledge economy, technological innovation and active engagement with the global economy. At the same time, the service industry has become a trigger for further technological

development. This entails ongoing qualitative development of the industry's workforce. Given the nature of much service industry work, highly skilled and knowledgeable employees become the most important resource for firms seeking to gain and keep a competitive advantage. A more diverse service industry workplace is emerging as a result of China's increasing dynamism. However, there still exist limitations that require further exploration.

In the last decade, China's service industry has developed considerably, generating growing workforce demand and supply. However, as the data we provide above show, broad imbalances in economic development also produce regional diversity and disparity of outcomes in the service industry that mirror those in other areas examined in this book. There are also diverse patterns by service industry sector and sub-sector – for example, the hotel, health, finance and IT sectors – and ownership form. For instance, large cities such as Beijing, Shanghai and Guangzhou dominate the labour market in the service industry across all the above-listed service sectors. On the other hand, small to medium cities still consistently experience structural shortages in labour supply, especially for those employees with special skills and more work experience. A typical case is that, with more and more college students swarming into large cities, organizations located in small towns increasingly experience 'talent shortages'. In general, chronic skills shortages in the service industry manifest in terms of both quantity and quality of skilled employees available.

We find that China's more open and flexible regulatory regime nurtures more diversified HRM policies and these, in turn, help generate more diverse local labour market dynamics for the service industry. Recruitment channels are more flexible and systematic and employer preferences are starting to show evidence of greater professionalism. While discrimination in hiring continues, it appears to be weakening. The new, more globally-oriented and high-tech service sectors appear much less likely to depend on large numbers of poorly educated, low-paid women workers. While we have had no space to discuss these questions, selection methods are becoming more rigorous and compensation and benefit practices in the service industry are also experiencing radical change. A more diverse workplace in the service industry has emerged with its increasing dynamism.

As China's economy emerges from being overwhelmingly labour-intensive to becoming more knowledge-intensive, we predict a continuing increase in demand for the growth and qualitative development of the service industry's workforce. Already, however, service industry employers are confronting difficulties in attracting and retaining human resources with sufficient skills, knowledge and experience. To understand better these developments and the disparities they give rise to, we need more empirical studies of work, employment and HRM in the service industry. There is a particular need for more inter-sectoral comparative studies within the industry as well as comparative studies with other industries. We also need studies that allow us to explore the motivations and choices of employers and employees and so enrich our understanding of this vitally important industry and its contribution to shaping China's changing workplace.



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## **Part IV**

# **Change, divergence and disparity**

Some consequences



# 13 Institutional conditions for organizing decent work in global production networks

*Stephen Frenkel and Jörg Sydow*

## Introduction

China's growth rate (GDP at constant prices) has been impressive in recent years, averaging close to 11 per cent annually between 1991 and 1999 and reducing only slightly to 10 per cent between 1999 and 2008 (IMF 2010). Even in 2009, the year immediately following the global financial crisis, China posted 8.7 per cent growth. Over the past 20 years poverty has been significantly alleviated (World Bank 2010) and urban unemployment has averaged less than 5 per cent; although this figure excludes redundant workers from state enterprises and migrant workers.

China has benefited significantly from globalization. Having opened up to foreign trade and investment, including joining the World Trade Organization in 2001, the government has strongly promoted exports supported by a relatively stable exchange rate and a cautious monetary policy. Recently there has been a push to increase outward foreign investment by Chinese firms (UNCTAD 2009) and the government's stimulus package in response to the global financial crisis seems to have succeeded. Industry reform has included the rationalization of state enterprises and support for large companies in strategic sectors. An important component of the stimulus package was a revitalisation scheme for ten major industries, including steel, car making, textiles and machinery, and preferential policies to encourage sales of home appliances, cars and motorbikes in rural areas (*The Economic Times* 2010). In the context of these recent developments a new hybrid economic system is emerging combining one-party control with decentralized administration through local government, a variety of ownership and enterprise forms, increasingly supporting a strategy of industry upgrading and balanced development. As we shall note later, there is also a growing role of the law and the courts in regulating the behaviour of firms towards their customers, employees and the environment (Redding and Witt 2009).

This bright picture needs to be tempered by noting some darker tendencies, many of which reflect China's particular historical experience and culture. Three in particular concern us from the viewpoint of exploring the institutional conditions for organizing decent work in global production chains in China. First, self-interest and market forces have been legitimated in a cultural context where communism had been discredited by the excesses of the Cultural Revolution and

allegations of official corruption and limitations on religious worship have contributed to anomie. Meanwhile, the Communist Party has been attempting to appropriate and revitalize Confucianism as a moral compass amid significant foreign influences that reinforce individualism but may also pose a challenge to the regime by questioning Party control, for example, over access to information freely available to citizens of advanced countries. Second, in contrast to universalism, particularism – which is based on rule-making that accords preference to members of specific groups – eschews enforcement of general rules. Despite the introduction of laws aimed at institutionalizing general business and employment norms, enforcement remains haphazard and selective, influenced by *guanxi* and politics, and an absence of independent interest groups and a free press that might contribute to social cohesion based on generalized social norms. Although the central government has attempted to contain capitalist excess, the anomic business environment has permitted significant intellectual property violations and resulted in widely publicized consumer product recalls, and scandals involving contaminated products (Beamish and Bapuji 2008; Midler 2009; Pagnattaro 2008; Tu and Sullivan 2009).<sup>1</sup> Against the background of a booming economy, anomie and particularism have fuelled a third feature: the growing inequality between rich and poor. The richest 10 per cent of Chinese households now account for over 40 per cent of the country's wealth compared to the poorest 10 per cent which account for only 2 per cent (see Chapter 1).<sup>2</sup> Related to this is the growth of indecent work, i.e. jobs that are low paid, insecure, strenuous, often hazardous and involving little intrinsic rewards and no career opportunities. These jobs are typically undertaken by migrant workers whose health, welfare and insurance rights are severely limited and who suffer social discrimination in urban labour markets (Knight and Yueh 2009; see also Chapter 14). Consequently, labour disputes and illegal protests have increased significantly since the mid-1990s. Firms have reacted by adopting Western human resources and work organization practices 'with Chinese characteristics' (Warner 2008) and the central government has responded by reforming the labour relations framework, including establishing mediation and arbitration arrangements to resolve these conflicts, but paradoxically this may have encouraged workers to be more forthright in bringing their grievances to the notice of the authorities.

### **Promoting decent work globally and at the national level**

These developments contrast sharply with the concern of many societal groups throughout the world to improve work and labour relations. 'Decent work' has become a key element in the International Labour Organization's strategy for sharing the benefits of globalization between various stakeholders (ILO 2008). This notion refers to both substantive and procedural aspects of employment. In essence it refers to work that is relatively secure, based on a living wage with prospects for employee development and intrinsic satisfaction. The immediate work context should be non-discriminatory and provide safe and healthy working conditions. Procedures should enable consultation and negotiation over work-related

problems between employers and workers' representatives and the state (at levels beyond the workplace) in a wider context of state support for income security and health maintenance.<sup>3</sup> The unanimously adopted *ILO Declaration on Social Justice for a Fair Globalization* is based on the decent work agenda, and '... expresses the contemporary vision of the ILO's mandate in the era of globalization' (ILO 2008: 1). In essence, the declaration, supported by China, recognizes that globalization has adverse effects on some sectors and countries and that social justice can be better served by countries adopting decent work as an objective and supporting the role of the ILO in attempting to realize this objective universally. Also relevant is the United Nations' *Global Compact* which, like many other multinational corporate codes of conduct, is a statement of intent that supports the ILO's *Declaration*. Some 5,200 companies from 130 countries – including 200 from China – have endorsed the *Compact*, which asks companies to embrace and enact a set of core values in the areas of human rights, labour standards, the environment and anti-corruption. Of particular relevance for our purposes are the ILO labour standards principles, i.e. the principle of freedom of association and the effective recognition of the right to collective bargaining; prohibition of all forms of forced and compulsory labour; abolition of child labour; and elimination of discrimination in employment and in regard to occupations. Also relevant is that labour relations in Chinese subsidiaries of more than 50 multinational corporations – and many more of their suppliers – are regulated by International Framework Agreements (IFAs), concluded by senior management of their parent companies and global labour union federations. Despite significant organizational and inter-organizational barriers to implementation, particularly in China, these agreements often go beyond unilateral codes of conduct based on the ILO's core labour standards by including conflict resolution procedures (see Fichter *et al.*, 2011).

The Chinese government is reported to favour the *Global Compact* (Ip 2009) and is pursuing policies aimed at moving Chinese manufacturing up the value chain (Wang *et al.* 2009) while encouraging labour-intensive firms to relocate to poorer central and western provinces. By increasing the cost of labour relative to capital, mainly by promoting greater employment protection based on formal contracts, the recently introduced Labour Contract Law (see Chapter 3 for details) can be interpreted as part of the government's strategy to promote investment in new technology that will enable firms to compete successfully in global high-end manufacturing markets.

The concept of decent work encompasses micro and macro level institutions and practices. The prospect for widespread institutionalization of decent work in China is a larger question than is possible to address in this chapter. Accordingly, we focus on possibilities at the firm level, where progress towards a decent workplace is most likely to be seen. In other words, our concern is whether, and under what kinds of conditions, management is likely to offer work that provides intrinsic as well as extrinsic satisfaction, including development prospects for employees and within a context where the avoidance and resolution of disputes is undertaken through consultation and negotiation with employee representatives. We will argue that China's integration in the world economy via Global Production



Networks (GPNs) and opportunities to upgrade manufacturing provide significant opportunities for developing more collaborative, trust-based ties between firms, and between management and employees within contracting enterprises. These obligational and quasi-obligational contracting modes that lie at the heart of GPNs constitute a foundation for developing advanced human resource policies for realizing the goal of decent work at the level of the firm. However, this pattern of relations is unlikely to be sustained without further economic growth and, more importantly, considerable encouragement and resourcing by the state and emerging labour market institutions. Despite such attempts, institutional uncertainty is likely to prevail as provincial, district and city officials interpret and execute policy in the context of local priorities and interests (Redding and Witt 2009; see also Chapter 2). In response to this decentralized decision-making system, contracting modes and inter-firm relations as well as work organization and labour relations in GPNs are likely to diverge, with some firms at the best practice end of decent work while other firms lag considerably behind.

### **Global production networks: theory and practice**

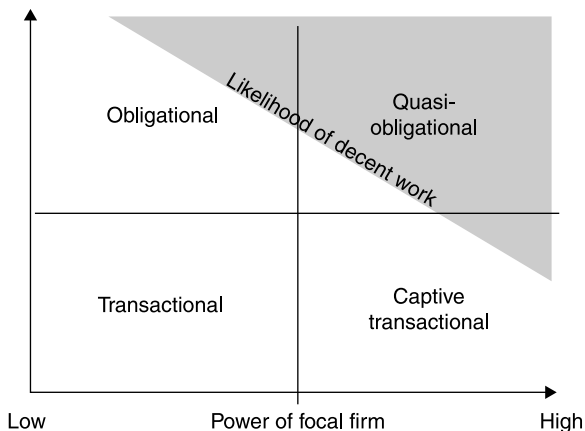
As the ‘workshop of the world’, China exports around one-third of its GDP, mainly to the advanced countries, but increasingly to emerging market countries, particularly in Asia.<sup>4</sup> China is the largest source of world production of many consumer and intermediate products including athletic sports shoes, toys, household appliances, steel and pharmaceuticals. In recent years (2006 to 2008), over three-quarters of the value of exports have been sourced from privately-owned companies with foreign-funded firms accounting for nearly 57 per cent of total exports (Ministry of Commerce 2010). These foreign and local firms form GPN nodes where GPN refers to an inter-firm network (often including local subcontractors) in which internationally distributed but locally embedded labour, coordinated by management, produces part or whole of a product or service, mainly for export (Coe *et al.* 2008; Bair 2009). As manufacturers or assemblers, contractor firms typically supply products or services to a larger producer/assembler, retailer, or, less commonly, a wholesaler. We refer to this GPN node as the focal firm. These are often well-known brand firms such as Apple, Nokia and Siemens in electronics, Nike and Adidas in athletic shoes, the Gap, Guess and Banana Republic in apparel, and Wal-Mart and Carrefour in retailing.

A key GPN attribute is that relationships between firms are based on contracts. These inter-firm contracts have implications for the characteristics of intra-firm contracts, particularly those between employers and employees. We refer to this as the *inter-firm/labour-relations nexus*. For example, short-term, market or transactional contracts emphasizing cost and delivery time in a labour-intensive industry such as apparel or electronics assembly will limit what the employer can offer to employees regarding job tenure, pay and working conditions. The emphasis is likely to be on numerical and pay flexibility with labour relations characterized by low trust and related behaviour including a high incidence of labour turnover and occasional strike action.

By contrast, longer-term, relationship-based or obligational contracts emphasizing product quality and brand reputation permit more generous terms and conditions of employment and a different type of labour relations, a point we return to later. Here we wish to explore two possible sources of the distinction between transactional and obligational contracting as outlined in Figure 13.1. These are product differentiation and the power of the focal firm, typically the organization buying the product or service, which, in the case of GPNs, is often a multinational corporation located outside the country where manufacturing is undertaken.

### *Transactional and captive transactional relations*

By and large, simple consumer products such as toys, apparel, shoes and household goods (mainly electronic) are not highly differentiated from a manufacturing point of view. Product standardization enables mass customization or mass production at a specified price and quality standard. The manufacturer's power may vary according to the size and capacity of the buyer but low differentiation will encourage a focus on cost, bearing in mind that these simple goods cannot easily be elaborated (a spade is a spade) through design innovation and are likely to be bought mainly by price-sensitive, lower-income consumers. Consequently, contracts are likely to be transactional because both the supplier and the buyer are usually able to switch to alternative business partners, and buyers would prefer not to be locked into longer-term contracts which limit their capacity to respond to market changes. Insights into low-end contracting in China are provided by Midler (2009), who argues that Chinese contractors invariably pursue low cost as the key goal and where quality problems arise they use various means to shift the cost of rework back on to the focal firm. A strategy of having multiple customers



*Figure 13.1* Types of contracting between firms and the likelihood of decent work.

with different expectations also assists the contractor to transfer lower-quality items produced originally for one focal firm to other customers who supply different markets (in China or developing countries) where consumers have lower quality expectations (see Midler 2009: Chapter 22).

The firms making standardized products usually do not need sophisticated technology and are therefore likely to employ low-skilled workers on low pay in order to satisfy their commercial contracts. It is not surprising that in China there is evidence of sweatshop conditions in factories producing this type of product for unknown brand firms (Chan 2001; Lee 1995, 2007). On the other hand, China-based manufacturers supplying large Western or Japanese firms are less likely to exploit their employees – however, when workers strike or protest this is often headline news. An example was the rash of wildcat strikes that occurred in mid-2010 at auto components suppliers to Toyota and Honda in southern China. Demands centring on higher pay and improved working conditions led to concessions by management, who faced final assembly shortages as lean production inventories soon approached critical levels. In addition, such firms cannot afford the adverse publicity, possible litigation and high costs associated with ineffective production, whether in relation to delivery delays, product recalls or inadequate labour standards. Consequently, the focal firms are more likely to select and retain contractors that meet world standards in production processes including treatment of labour and product quality, as evidenced by international standards, e.g. SA8000, which includes supplier requirements.<sup>5</sup> In addition to transforming transactional into captive transactional relations, these firms undertake, or organize third-party experts (trading or consulting companies) to regularly monitor factories in order to ensure that standards are maintained and, over time, improved. This, however, does not mean that the manufacturers provide decent work for employees. Rather, it is more likely that pay and employment conditions will vary from the minimum required by the focal firms to superior arrangements consistent with expectations regarding future market conditions and firm performance.<sup>6</sup>

### ***Obligational and quasi-obligational relations***

China's rapid growth and rising incomes has been accompanied by a strong internal demand for more sophisticated consumer durable products including cars, washing machines, dishwashers, television and telecommunication devices and health products. The complexity of these products and the changing market demand means that local manufacturers are beginning to pursue quality and not simply cost as a means of generating profit. Managers of local firms realize that contracting with a multinational willing and able to assist in technology transfer and in adopting modern management techniques means that Chinese firms are better able to compete in the Chinese and Asian markets while earning revenue through their contracting relationship.<sup>7</sup> Thus, striking up a longer-term, trust-based relationship that promotes integrative problem-solving is a desirable attribute. This is the essence of obligational contracting (Sako 1992), a concept

not dissimilar to *guanxi* except that the latter is based on interpersonal relations that exist without any basis in a formal contract.

A more likely relationship, however, is what Frenkel (2001) refers to as quasi-obligational contracting.<sup>8</sup> This assumes that the focal firm, often a multinational, has more power relative to the contractor, which might be a small or medium-sized local company. Under these conditions the focal firm is often concerned to maintain its reputation, and uphold global standards, with regard to product quality as well as working conditions. Therefore there is an incentive to continue a relationship based on trust and an openness to innovate, so long as both sides meet competitive requirements. In order to do this the focal firm will contract with a relatively small number of suppliers and will invest in technology and/or knowledge transfer to its contractors, who may specialize in different products or processes. By working collaboratively over time, the firms in the network are able to clarify their responsibilities, improve their systems and hence contribute to superior network performance with positive implications for competitiveness and profitability (Powell 1990; Fichter and Sydow 2002).

As suggested earlier, quasi-obligational contracting encourages the development of collaborative ties between management and labour in supplier firms.<sup>9</sup> This is so for three main reasons. First, compared to transactional relations, this form of contracting involves more intensive interaction and coordination among fewer firms. This encourages mutual learning regarding work organization and labour relations, including adoption of a long-term view of employment relations that emphasizes learning, skill enhancement and experimentation with new production ideas. This mutual investment perspective (Tsui *et al.* 1997) supports key elements of decent work, including increased employment security, better pay and working conditions, employee development and work that brings intrinsic satisfaction. Second, the production of differentiated and typically more complex goods is likely to boost the demand for skilled workers, who have been in short supply in many coastal areas of China (see Chapter 7).<sup>10</sup> Management will be sensitive to comparisons with competitor firms in regard to pay, employee development, working conditions and benefits. Third, the longer these employees remain with the company the more firm-specific skills and attitudes they will possess. This capacity will enhance their value to management, who are likely to respond by providing stronger incentives – i.e. higher pay and better working conditions – to secure their continuing employment.

Table 13.1 summarizes the main features of the quasi-obligational-labour relations nexus in three supply chains from the perspective of a significant local supplier.<sup>11</sup>

Table 13.1 shows both similarities and differences in supplier labour relations. Similarities include expectations by the focal firm regarding manufacturing efficiency. Local suppliers see advantages in inter-firm collaboration, particularly through enhancing their reputation as world-class suppliers and being able to learn how to improve their manufacturing capability. Regarding labour practices, all three suppliers are monitored against labour standards set by the focal firms. Key differences can be summarized by the idea that the three firms represent

*Table 13.1 Local supplier labour relations associated with quasi-obligational contracting in three focal firms*

<i>Focal Firm/industry</i>	<i>Expectations of focal firm</i>	<i>Mechanisms for aligning practices</i>	<i>Local supplier challenges</i>	<i>Local supplier advantages</i>
General Motors (vehicles)	On-time supply, quality, and cost	International quality standard assessments; on-site inspections; skills training; detailed reporting	Cost of meeting high technical standards and contravening detailed contract requirements; labour poaching	Reputation enhancement; capacity building
Apple (advanced consumer electronics)	As above including code of conduct covering labour and other workplace aspects	Annual monitoring of final assembly factories including verification of corrective action; Train the trainer programme.	Maintaining standards where these conflict with delivery time and cost goals e.g. working hours. Maintaining lower level management commitment e.g. calculation of overtime pay; anti-discrimination; health and safety	As above, particularly improving management systems and meeting employee aspirations
Nike (footwear & apparel)	Develop sustainable lean production including worker empowerment to meet supply, quality and cost goals	Evolving monitoring of factory systems producing 80% of volume; strong remediation programme; HRM systems development and collaboration with other focal firms	Meeting high technical expectations for continuous improvement; cost increases associated with programmes; lack of systems and insufficient knowledge absorption	As above particularly access to most innovative thinking and tools in the industry

*Source:* Interviews; Apple (2010); Nike (2010).

different stages in the evolution of the labour relations nexus. For the General Motors supplier, labour relations is less important than ensuring manufacturing efficiency through adherence to standards such as ISO 9000/TS 16949 and six sigma. Labour standards, and particularly skill enhancement, are means towards that end. A major problem is that training employees leads to poaching by other employers, including General Motors. Efforts to contain this through restructuring of pay systems have only limited the turnover rate of skilled manual employees to between 25 and 30 per cent a year, which, nevertheless, remains high given the investment in employee development.

Apple pays more attention to labour practices, monitoring all of its final assembly plants annually and inspecting components plants on a selective basis against labour, health and safety, environmental impact standards, and management commitment and values. In order to qualify as an Apple supplier, producers of key extractive materials, such as tungsten, are also required to be certified against these standards which are based on industry and international codes of conduct but are more stringent in some areas. Apple has developed a train-the-trainer programme and requires final assembly contractors to train all their supervisors and production employees. The number of workers trained is a required key performance indicator for final assembly manufacturers. Apple also works with suppliers to improve their management systems for attaining health and safety and other factory goals.

Nike is at the most advanced stage of the labour relations nexus. Having developed detailed tools to monitor and assist suppliers in improving labour and environmental practices, Nike is motivated by three key ideas. First, understand the root causes of problems in supplier firms rather than deal with symptoms (manifested in problems). Second, help build systems (not simply specific practices) to eliminate problems and create the basis for sustainable improvement. And third, assist in integrating labour and environmental system improvements via HR management system capacity building into an integrated, lean manufacturing system. Following regular audits, Nike uses advanced tools to identify and rectify management system deficiencies, which have proved effective (Locke *et al.* 2007). The company emphasizes worker empowerment through training assistance so that supplier employees can consistently produce high-quality products, contribute to continuous improvements, and remain highly satisfied at work. Nike encourages suppliers to learn from one another through the use of a common intranet that requires uploading of quarterly audits. The company is encouraging other focal firms and their suppliers to join the intranet. More generally, Nike is pursuing a strategy aimed at including competitor focal firms in standard-setting, compliance and improvement processes so that costs can be reduced through sharing of audit and training costs. Supplier firms that produce for more than one focal firm (which is frequently the case) are also likely to benefit from reduced audit costs (through less frequent monitoring) and standardized system requirements.

In sum, the supply chain labour regulation systems associated with quasi-obligational relations, as described above, support decent work, albeit to a varying extent between focal firms, and with greater effect regarding first-tier suppliers

compared to suppliers further down the chain. If, as we have argued, quasi-obligational relations is a critical antecedent to a decent work labour relations nexus, we need to examine whether the current Chinese economic and institutional context is likely to encourage firms to pursue and realize the objective of decent work. Arguably, this is less likely in regard to firms producing relatively simple, standardized products whose prime motive will be cost containment. However, the growing demand for differentiated and more complex products (and services), coupled with the preference of focal firms for working with quality producers and the incentives for the latter to adopt new, more efficient and effective practices, is likely to lead to more obligational-type contracts between foreign and local firms. This is consistent with government policy aimed at ‘upgrading’ industry (Schmitz 2004) and developing a more globally competitive economy. With media publicity these networks of firms have the potential to act as standard bearers for less advanced manufacturers, a subject we return to later after exploring how current institutional tendencies might encourage quasi-obligational contracting among local GPN partners.

### **Labour market reforms and possibilities for creating and sustaining decent work**

Over the past 30 years the national government has transformed the Chinese economy from a governance system based on centralized planning towards a state-guided market model. Factor markets have been constructed and a legal framework introduced for their regulation. Although the Communist Party retains control, administration has been largely delegated to provincial and local governments. While many laws have been passed seeking to establish norms that support legitimate economic exchange, in this chapter we focus on the regulation of employer–employee exchanges in the labour market. One law regulating management behaviour more generally is, however, worth mentioning. This is the amended Company Law (2005) which ‘requires companies, among other things, to abide by social ethics, business ethics, honesty and trustworthiness, as well as fulfilling social responsibilities’ (Ip 2009: 215).

In the case of labour markets, the government has permitted firms to hire and reward labour, subject to various conditions first detailed in the 1994 Labour Law and supported by the 1992 Trade Union Law. It also created a dual labour market that regulated the flow of rural workers into urban centres. This continues to be achieved mainly through the household registration system (*hukou*), which limits the rights of rural workers employed in urban centres (see Chapter 5). Nevertheless, low-cost mass production led to continuing demand for Chinese exports and expanding domestic demand, resulting in labour shortages that have increased migrant worker wages, although at a rate lower than productivity growth (Lee 2009). However, as noted earlier, rising industrial conflict and recognition that China needs to upgrade its manufacturing capability have persuaded the government of the need for major labour market reforms. We shall argue that, while these changes encourage greater fairness in employment relationships, their impact will

be limited by the restricted scope of legal provisions and institutional barriers that militate against effective enforcement. Nevertheless, we suggest that the new institutional framework does provide a foundation for creating more decent work in GPNs where obligational and quasi-obligational contracting is practiced.

Recent institutional changes in labour markets fall into five main, albeit related categories. First, the promulgation of laws and policies designed to encourage the negotiation of fair contracts between management and employees. Second, changes in trade union law and government policy aimed at enabling the All China Federation of Trade Unions (ACFTU), whose membership has been increasing lately as they have diversified their approaches to mobilizing and organizing at the lower echelons, but whose status not only as an independent union but as a union *per se* continues to be doubted (Taylor and Li 2007; see also Chapter 15), to better represent its members. Third, the creation of tripartite bodies at several levels to identify and pre-empt emerging conflicts. Fourth, the development of conciliation and arbitration machinery to resolve individual and collective industrial disputes (Lee 2009). In essence, the government has been attempting to create a conventional collective bargaining framework under particular Chinese conditions – to paraphrase Warner (2008) – as a framework ‘with Chinese characteristics’. The challenge is to ensure that these conditions do not undermine its effectiveness.<sup>12</sup> Fifth and finally, vocational training is becoming available to migrant workers and is becoming more popular with employers as a source of skilled labour. This stronger emphasis on qualifications is likely to encourage employees to seek and be offered more interesting and satisfying work. Theoretically, the first category (fair labour contracts) is the most important and for reasons of space we shall limit our discussion to the 2007 Labour Contract Law (LCL), which was enacted the following year at the same time as new laws regulating employment promotion and resolution of labour disputes.

The controversial LCL (see Chapter 3) has four key provisions. First, it requires written contracts between management and individual employees. Second, it encourages longer-term contracts by stipulating the conditions under which shorter-term contracts can be implemented. Third, it fosters collective bargaining at enterprise level by referring to collective contracts arising from management–union interaction. Fourth, it limits part-time work, outsourcing, overtime and the use of bonds and fines by employers (Lee 2009; Cooney 2007). In effect, the law does establish norms that make explicit the basis of management–worker relations through written contracts, and requires minimum standards, for example, in relation to the regulation of employment on short-term contracts and payment of wages. In addition, there is legal support for procedural justice in that the law upholds the principle of consulting employees through their union and resolving disputes by discussion and agreement rather than by unilateral management imposition. Tripartite councils established at national, regional and local levels are expected to reinforce these norms. However, there is evidence of employer evasion and avoidance (Wang *et al.* 2009), indicating that it may take a significant upsurge in industrial conflict, as occurred in South Korea in the late 1970s, to persuade employers to accept this pluralist framework (Deyo 1989).<sup>13</sup> Other structural impediments to



implementation remain, making it likely that the law's influence will be severely diluted or distorted. These barriers include different interpretations of parts of the law that are not clearly defined; insufficient commitment and resourcing by provincial and local governments responsible for administering the law; lack of integration with focal firm initiatives based on codes of conduct or IFAs for regulating workplace relations in contractor and subcontractor companies; and, notwithstanding recent developments contributing to a less monolithic ACFTU, including new approaches to organizing and bargaining by some of its constituent units (Liu *in press*), union influence within companies will remain very limited. This is because the Trade Union Law of 2001 permits managers to occupy union leader positions within firms and does not allow workers to withhold their labour (Cooney 2007).

A more fundamental problem, which China shares with many other countries, is that the current labour relations framework is too limited in scope to encourage decent work at network, firm or workplace level. After nearly 20 years of research there is robust evidence that high-performance work systems, or what we prefer to call 'decent work systems', can contribute to both organizational performance (Combs *et al.* 2005; Subramony 2009) and employee well-being (Macky and Boxall 2007).<sup>14</sup> Facing a legal and government policy vacuum regarding support for decent work systems, management are unlikely to reform their HR policy and practices, particularly if these add to short-term costs. However, government at central and local levels have the capacity and resources to support the principle of systematically designed human resource/work systems that include elements such as selection, rewards and recognition, employee development, promotion, organizational learning, job design and working conditions to achieve alignment with the business unit's strategy and internal consistency between the elements in order to take advantage of the synergies created by their complementarities (Boxall and Purcell 2007).

While more comprehensive laws and implementation at the local level might encourage the introduction of such systems, publicity and dissemination about decent work systems should be a matter for professional human resource and labour relations associations. For example, governments at provincial level should be provided with resources and encouraged to liaise with the China Association of HR Development (CAHRD), a national body charged by the central government with developing China's human resources and assisting with the implementation of effective human resource systems to deliver decent work. District and provincial competitions for best HR/work systems – not least those implemented in GPNs – should be considered, leading to national awards which, with appropriate publicity, could generate interest among managers and employees and confer significant prestige on organizations who succeed in winning prizes or receive honourable mentions. This kind of activity could also be supported by academic research and knowledge dissemination as so-called best practice organizations receive attention through multi-media case studies that might be offered by CAHRD online. Meanwhile, GPNs, often led by well-known Western or Japanese focal firms who are particularly sensitive to adverse publicity, are more inclined

to comply with the new labour law than local Chinese firms. These firms are the most likely nodes in the creation and maintenance of institutional micro environments that are less dependent on central and local governments and industry associations.

## **Conclusion**

What then can we conclude about the opportunities for developing more decent work in general and more specifically the likely impact of current labour market institutions on supplier firms in GPNs in China? In particular, can we anticipate rapid progress towards decent work systems? Arguably, suppliers that maintain quasi-obligational relations with focal firms are likely to benefit from multinational codes of practice and/or IFAs providing a normative underpinning to HR and labour relations practice. These codes or agreements are broadly compatible with the norms promoted by present Chinese labour market arrangements, although in some respects they superior, e.g. in the area of gender discrimination.

It is likely that the experience of obligational or quasi-obligational contracting between firms will more readily engender management acceptance of a pluralist ideology and a more long-term orientation in their relations with employees compared with other firms whose growth has been predicated on owner-manager paternalism. These firms will learn advanced HR techniques and be introduced to decent work systems by focal firms. In other words, we would expect GPN contractor firms to be leaders in HR management and hence in the vanguard of providing decent work in China. However, as argued above, labour law implementation problems and restriction in the scope of labour market institutions mean that there is a considerable way to go in providing decent work at the firm level. Nevertheless, with more effective implementation of the law, including trade union and training system reform, and extension of efficiency and equity principles to what might be called 'the decent workplace,' then there is a brighter future for firm-level labour relations in China. With more government and professional association support for disseminating knowledge about capacity building and organization of 'the decent workplace' (Seidman 2009), we anticipate that GPN contractor companies in China, together with the subsidiaries of multinationals, will be among the leaders. Followers will include local firms that produce more standardized products and smaller firms that tend to neglect human resources and labour relations. Managers of these firms will in time recognize the benefits that come from adopting a longer-term, investment-oriented approach to managing people.

Finally, more research is needed to demonstrate the validity of our argument in general and concerning the inter-firm/labour relations nexus in particular. A wider sample of focal firms and their suppliers from different industries should be studied and we need to know more about the types of Chinese firms participating in GPNs (state-owned vs. privately-owned firms) as ownership, corporate governance and history present different challenges and opportunities for developing inter- and intra-firm relationships.

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## Notes

- 1 The Danone case involving intellectual property theft is a recent example of the hazards of doing business in China (see Mitchell and Dyer 2009. Mattel was adversely affected in 2007 by toy recalls. Blame was placed on Chinese manufacturers, but an industry analysis of toy recalls by Beamish and Bapuji (2008) suggests that the majority arose from design rather than production defects. Design is typically under the control of the focal firm. Some defects were attributable to production units in China. Lyles *et al.* (2008) note that this is more likely to occur when supply chains are 'deep', i.e. include many links with subcontractors who may be more inclined to resist higher quality standards which add to their costs. Recent accounts of labour standards violations can be found on the websites of several campaign groups, some focusing on China (e.g. China Labour Watch).
- 2 Two further indicators of inequality are noteworthy. The urban–rural per capita income ratio increased from 2.6 to 1 in 1978 to 3.3 to 1 in 2007 and the wages share of GDP declined from 52 per cent in 1999 to 40 per cent in 2007 with adverse effects on aggregate demand and hence continuing dependence on foreign investment and exports in order to sustain economic growth (Lee 2009).
- 3 The concept of decent work is very broad, encompassing workers' rights and labour standards established by the ILO over many years (see the ILO website, <[www.ilo.org](http://www.ilo.org)>).
- 4 For the period 2002–06, the estimated average annual exports to GDP figure is 34.2% (World Bank 2009). In 2008 Chinese exports destinations included advanced countries, the EU (20.5%), the US (17.7%) and Japan (8.0%); Asian developed societies Hong Kong (13.4%); South Korea (5.3%) and Taiwan (1.9%); and emerging markets ASEAN 8%; India 2.2%; Russia 2.2%; and UAE 1.6% (Ministry of Commerce of PRC 2010).
- 5 According to Ip (2008: 216), in recent years around 8,000 companies in China's coastal provinces have accepted auditing based on the code; however, only 52 of these were certified.
- 6 Some well-known Western firms might risk turning a blind eye to labour law violations or may have inadequate systems to detect and rectify contractor transgressions (Kortelainen 2008). There are also cases such as Foxconn, the largest supplier of electronic components to leading brands such Apple, Cisco, Dell, HP and Nokia, who seek to comply with agreed labour standards but whose normal operations are nonetheless alienating. The scale (300,000 employees in the Longhua factory in Shenzhen), mode of operation (labour-intensive, mass production using dormitory-based, young migrant workers) and pay levels (base rates slightly above the legal minimum) mean that regular overtime working is necessary in order to earn acceptable levels of pay. Not surprisingly, migrant workers, with higher expectations than their predecessors, report dissatisfaction. Suicides have been increasing though the connection between work and suicide has not been proven (Chung 2010).
- 7 Not only single firms but regional clusters of companies can learn through international trade or foreign direct investment (Zheng and Sheng 2006). This will depend on the

general quality of relationships between firms, the extent of knowledge sharing, and the capacity of firms to absorb knowledge (Cohen and Levinthal 1990).

- 8 Gereffi *et al.* (2005) have noted three different types of inter-firm contract which are arguably variants of the quasi-obligational type, although the first variant shades into the captive transactional type. *Modular value chains* are characterized by the outsourcing of complex modules from manufacturers to suppliers where standardized interfaces allow for codified transactions, thereby requiring less inter-firm interaction than the second and third types. *Relational value chains* demand much closer inter-firm collaboration because, compared to so-called black box designs, the exact specification of products or services requires frequent communication and mutual adaptation. Finally, *captive value chains* come somewhat close to organizational hierarchies that characterize multinational corporations or corporate groups. This mode of inter-firm governance, however, is often based on the organizational dependence of the supplier.
- 9 In their study of the Adidas GPN in China, Frenkel and Scott (2002) identified two patterns: a compliance pattern where the contractor merely complied with Adidas' code of labour practice; and a collaborative pattern where the contractor worked enthusiastically with Adidas, providing superior pay and conditions to workers. While the collaborative pattern will be favoured and encouraged by focal firms, the compliance pattern may prevail among new suppliers who are in the process of learning, and among some established contractors who, for various reasons relating to cost containment, fail to believe wholeheartedly in a mutual investment HR model. It is likely that over time longer-term contractors will migrate from the compliance to the commitment pattern as trust is built up and the advantages of collaboration become clearer.
- 10 Skill enhancement is not *necessarily* associated with the manufacture of more differentiated, complex products. Amiti and Freund (2010) note that despite producing more complex export goods, between 1997 and 2005 Chinese skill content remained constant. This was achieved mainly by importing more complex duty-free components and assembling these in China. In the longer term, however, it is likely that the know-how for producing such components will be transferred or developed in China so allowing Chinese firms to capture the profit from this part of the value chain. The incentive to do so will arise from increasing competition in low-complexity product markets from firms in inland China and possibly in Africa, where Chinese investment has been increasing.
- 11 Several studies corroborate the existence of this type of relationship in China. Nokia, for instance, is said to sustain quasi-obligational relations with suppliers in Xingwang Park, a purpose-built manufacturing cluster in mobile telecommunication equipment near Beijing (Yeung *et al.* 2005).
- 12 Effective collective bargaining requires unions and employers to be autonomous and unions having the right to strike. Chinese unions are controlled by the state and employer bodies have significant Party representation, thereby compromising their autonomy. Workers are not permitted to strike or use other forms of industrial pressure on employers. This, however, may be changing. In the large and significant municipality of Shenzhen, an official procedure for resolving disputes was introduced in 2008, apparently recognizing the reality of strikes. The evidence on collective bargaining in China can be read in different ways. On the positive side of the ledger there has been a significant growth in collective contracts but on the negative side the contents of most of these contracts are so minimal as to suggest 'agreement' by administrative fiat rather than by negotiation (see Lee 2009).
- 13 However, international experience suggests that management's acceptance of employees and unions as partners is difficult to institutionalize in societies without a history of industrial cooperation as in the guild systems of Japan and some Western European societies.
- 14 Decent work systems prioritize workers' interests while also seeking to benefit management. This reverses the assumptions of the High Performance Work System paradigm, which privileges management's interests while claiming to benefit employees.

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# 14 Labour market disparities and inequalities

*Fang Lee Cooke*

## Introduction

Inequality is a universal characteristic in labour markets, albeit the forms of and reasons for inequality may differ across nations and in times within a nation. Variations may further occur across administrative regions within the same country due to diverse economic opportunities and local policy regulations. The operation of the labour market involves a number of institutional actors, including the state, employers, workers, employment agencies and trade unions. Labour market institutions interact with each other and shape each other's relative position and labour market outcomes for individual workers. To understand labour market inequality in a given country, it is important to investigate what labour market institutions are in place, how they function and interact, what impact they may have on groups of workers and, importantly, what choices, if any, individual workers may have in response to labour market opportunities and constraints.

In China, where labour organization is weak and the bargaining power of the majority of workers is minimal due to their limited human capital and the lack of market-differentiation advantages, regulations provide the only potential source of protection to workers against the monolithic power of employers. However, regulatory failure, in both a legislative and administrative sense, has been one of the enduring features in the labour market reform following the Open Door policy in 1978. Consequently, the shift from an internal labour market under the state planned economy towards an external labour market in the process of the marketization of the economy has led to widening inequality in the labour market (Cooke 2010a). In this chapter, we identify the major groups of disadvantaged workers and the ways in which they may be disadvantaged. The starting point is labour market dynamics as they have developed in recent years as the result of government developmental policy. We also examine the role of the state, trade unions and employer strategy in relation to what appears to be growing labour market inequality.



## Characteristics of the labour market and institutions

### *Development of labour market dynamics producing greater inequality*

The development of the labour market of socialist China can be divided into three periods (Cooke 2010a). The first, under a state planned economy, was a labour market highly regulated, or more precisely controlled, through administrative policy. Labour mobility was highly restricted through the *hukou* system – a residential registration system requiring individuals to be registered with the local authority where they were born and live. The system divided China's population into one of two residential statuses: urban or rural residents. Rural residents were not allowed to enter urban areas for employment.

This restriction was gradually removed during the subsequent deregulating period between the 1980s and early 2000s. During those years, millions of farmers migrated to urban areas for employment while millions of state-owned and collectively-owned enterprise employees were laid off and forced to seek re-employment in the external labour market for the first time. Some of the implications of these two trends that have created a secondary labour market are explored further in Chapter 8. Nevertheless, it is important to indicate the scale of those trends here as they represent the main contributors to the inequality through the effects of informal employment that this chapter examines. Thus, according to *China Labour Bulletin* (2007), between 1998 and 2004, over 30 million workers had been laid off from those enterprises. Meanwhile, by the mid-2000s there were over 100 million rural migrant workers working in urban areas, according to official reports. These made up 58 per cent of the workers in manufacturing and 52 per cent in the service sector (The State Council 2006).

The introduction of three major employment-related laws in 2008 marked the beginning of the third period in which the government has sought to re-regulate the labour market through legislative interventions. The government's aim is to provide greater employment protection to workers, particularly those outside the state sector, through a basic, in principle, regulatory framework for the labour market (Cooke 2011). As Chapter 3 discusses in greater detail, these three laws, all enacted in 2007, are the *Labour Contract Law* (LCL), *Employment Promotion Law* (EML) and *Labour Disputes Mediation and Arbitration Law*. The LCL and EML, in particular, contain a number of articles against discrimination on grounds of age, gender, ethnicity, disability and other health status. However, the impact of these regulations on protecting workers' rights and interests has been limited, largely due to implementation flexibility at the local level (Cooke 2011). The growth of informal employment and employment agencies – discussed in the next sections – is evidence of implementation 'slippage'.

Labour organizations like trade unions may also provide employees with certain protective or supportive labour market functions including brokering employment, representing workers in labour disputes and organizing workers to advance collective interests. The only trade unions that the government recognizes are those in the All-China Federation of Trade Unions (ACFTU), which operates

under the leadership of the Chinese Communist Party. The general ineffectiveness of China's trade unions in representing workers' rights and interests has been widely observed (e.g. Taylor *et al.* 2003; Clarke 2005; also see Chapter 15). Local branches of the ACFTU encounter persistent resistance to union recognition from employers in the informal parts of the private sector, where the majority of migrant workers are employed, and where the level of labour disputes is relatively high compared with the state sector. Paradoxically, demands from these workers to establish a trade union are low, partly because workers are unfamiliar with the concept of workplace representation but more so because of the perceived inefficacy of the trade union in advancing workers' interests (Cooke 2010a and see also Chapter 8).

Nevertheless, ACFTU branches provide a number of labour market functions. These include: organizing and providing training for unemployed workers; disseminating employment information; promoting legal awareness; providing legal aid to workers; monitoring labour standards; and participating in labour disputes mediation and arbitration. It must be noted that, due to resource constraints discussed further in Chapter 15, these activities focus primarily on the urban workers and have limited effect. The inefficacy of trade unions has left the majority of workers in the informal end of the private sector unorganized, unprotected and further disadvantaged vis-à-vis management prerogatives.

### ***The growth of informal employment***

The displacement of millions of state sector workers and the inflow of rural migrant workers to urban areas has led to the rapid expansion of the informal employment sector – a growing form of employment that employment legislation is yet to cover systematically and effectively (Cooke 2008b). Workers engaging in informal employment can be found in three types of organizations: organizations operating in the formal sector; those operating in the informal sector; and informal employment agencies providing workers to other organizations on a labour hire basis. Generally speaking, informal employment classification in China incorporates part-time, temporary, seasonal and casual work in the informal sector. It also includes full-time temporary work in formal organizations, self-employment and those who are self-employed (Wang and Tan 2003). It is 'informal' in the sense that the workers often do not have a formal employment contract and have little, if any, social security provision in reality, despite what the labour laws specify. According to Hu and Yang (2001), the proportion of workers in informal employment is relatively low in state-monopolized industries and monopoly service industries such as telecommunications and finance, but is much higher in competitive industries that are labour intensive such as retail, catering and in community services, where informal employment has become the main mode of employment.

It is estimated that at least 150 million workers are engaged in informal employment in urban areas, where they represent over 20 per cent of total employment (Cooke 2008b). This growth of the informal employment sector has resulted from

government policies whose primary objective has been employment creation. Employers, particularly those in the labour-intensive private sector, then actively take advantage of this employment strategy to maximize their staffing flexibility on the one hand and to gain labour cost-saving solutions on the other. Consequently, since the mid-1990s, the urban labour market in China have been experiencing a sharp swing from a once rigid internal labour market dominated by the state sector to an increasingly informal and unprotected series of external local labour markets. One outcome of this process of labour market transformation and dynamism is the rising inequality that manifests as disparities in earnings, employment security and working conditions.

Accompanying the growth of informal employment is the rising number of employment agencies. The majority of these have been set up by, or under the auspices of, local governments over the last decade to provide services at the lower end of the labour market (Cooke 2011). In 2001, there were a total of 26,793 employment agencies, 70 per cent of them funded by local governments at various levels as part of the multi-level employment services network. By 2007, the number of employment agencies had increased to 37,897, two-thirds of which were funded by local governments (*China Labour Statistical Yearbook 2002 and 2008*).

It was anticipated, by the state, that the 2007 Labour Contract Law – discussed in more detail in Chapter 3 – would lead to a reduction in the number of workers hired by employment agencies. This in turn would promote a more direct and stable employment relationship between worker and firm. The reality, so far, has been starkly contrary to that expectation.

To pre-empt the negative impact of the new law on employment costs, many employers dismissed their workers with long tenure and rehired them under new, temporary contracts. Others dismissed their employees and rehired them as agency workers through employment agencies. As a result, employment agencies have prospered and the number of workers registered with employment agencies is growing. Agency workers often receive lower wages and much less social security protection than employees of the user firms. Some employment agency firms appear to have informal agreements with the local labour authority and the social security insurance company which allow them to provide only partial social security coverage to a certain number of workers. By only partially complying with the labour laws and offering inferior terms and conditions, employment agency firms have been able to drive down labour costs and make a profit (Cooke 2011). Apart from these disparities in employment opportunities and outcomes deriving from broader labour market dynamics, labour markets in China produce other forms of inequality also evident in other countries. We discuss these in the following sections.

### **Forms of inequality and labour market outcomes**

Labour market inequality is often an outcome of legislative loopholes and employer discrimination. This is particularly the case in developing countries

like China, where political, economic and cognitive factors may compromise state legislative capability and where industrial norms for employer self-regulation are virtually absent. Existing evidence suggests that residential status – urban versus rural and local versus non-local, gender and age are the three most significant sources of discrimination and disparity in China's labour markets (e.g. Cooke 2005; Lee 2007). Women, non-local residents and older workers are amongst the most disadvantaged groups of workers who may be subject to various forms of discrimination throughout the labour market process. In some cases, age, gender and residential status intersect with each other, further disadvantaging certain groups of workers, notably women with non-residential status (see Table 14.1).

Table 14.1 Forms of inequality and types of workers affected

<i>Types of workers affected</i>	<i>Forms of inequality</i>
<b>Gender</b>	
<ul style="list-style-type: none"> <li>• Women</li> </ul>	<ul style="list-style-type: none"> <li>• Laid off in disproportionate numbers by SOEs</li> <li>• Lack of access to certain professional groups and career progression</li> <li>• Wage discrimination</li> </ul>
<b>Age</b>	
<ul style="list-style-type: none"> <li>• Young workers</li> <li>• Older workers</li> </ul>	<ul style="list-style-type: none"> <li>• Recruitment discrimination due to lack of experience</li> <li>• Laid off in disproportionate numbers</li> <li>• Age bar in recruitment</li> <li>• More likely to be forced into informal employment</li> </ul>
<b>Residential status</b>	
<ul style="list-style-type: none"> <li>• Rural migrant workers</li> </ul>	<ul style="list-style-type: none"> <li>• Confined to informal employment and to certain industrial sectors and occupations (e.g. construction, manufacturing, catering, community services)</li> <li>• Poor employment terms and conditions</li> <li>• Lack of access to social security</li> <li>• Job and hence income insecurity</li> </ul>
<b>Gender combined with age</b>	
<ul style="list-style-type: none"> <li>• Women in the state-owned sector</li> <li>• Women in privately-owned/foreign-funded manufacturing plants</li> </ul>	<ul style="list-style-type: none"> <li>• Earlier retirement age</li> <li>• Older women less likely to be promoted</li> <li>• Age bar in recruitment</li> </ul>
<b>Gender combined with residential status</b>	
<ul style="list-style-type: none"> <li>• Rural female migrant workers</li> <li>• Female university graduates with non-local residential status</li> </ul>	<ul style="list-style-type: none"> <li>• Secondary wage earner of the migrant family</li> <li>• Recruitment discrimination</li> </ul>

***Gender segregation and discrimination***

One distinctive feature of the labour market in China is women's high participation rate, in spite of a small but steady decline in the proportion of women in the workforce since the 1990s. Thus, in 1995, women made up 38.6 per cent of the workforce, but only 37.6 per cent in 2008 (see Table 14.2). In fact, both men and women experienced a considerable decline in their employment rate, from 97 per cent for both genders in 1988 to 89 per cent for men and 81 per cent for women in 2004 (Zhang *et al.* 2008). This decline is mainly attributed to ongoing, large-scale downsizing in state-owned enterprises (SOEs) and collectively-owned enterprises (COEs) since the mid-1990s.

Despite the relatively high rates of female labour market participation throughout their working life, gender inequality exists at various stages of the labour market process and is exhibited to different degree across sectors (see Tables 14.1 and 14.2). For example, in the state sector, women suffered disproportionate selection for retrenchment (Zhang and Zhao 1999; Appleton *et al.* 2002; Cooke 2005). A large proportion of displaced women workers end up taking up informal employment as the last resort and women are lower paid than men in general (Cooke 2005). For example, 45 per cent of the workers employed in community services and self-relieved bases (similar to self-help groups) in 2004 were women (*China Labour Statistical Yearbook 2005*: 180). These sectors were created primarily to absorb displaced workers and rural migrant workers through informal employment. Payment in these sectors is often in the form of an hourly rate with no provision of social security or written employment contract. Both policy-makers and officials in organizations charged with facilitating the re-employment of laid-off workers appear to focus on getting laid-off women re-employed rather than creating opportunities for them to find decent jobs. Some officials even criticize laid-off women for being too picky and ambitious in what (quality of) jobs they can hope to get instead of being 'more realistic' and accepting any jobs (Cooke 2008a).

According to national-level data, a higher proportion of women than men work in the informal sector. For example, according to a report issued by the Chinese State Council in 2003, over half of those in informal employment in the urban sector were women (cited in Zhao and Ma 2007). Other studies (e.g. Xu 2000; Jin 2006; Liu and Li 2007) also point to the gendered pattern of informal employment in which women are more likely to be employed in this sector, concentrated in the manufacturing and service industries, and receive a lower wage than men, on average. The majority of workers in informal employment do not have an employment contract with their employer and some employers take advantage of policy loopholes and hire and fire workers at will. Since most informally-employed workers find their jobs through personal networks, they are more likely to tolerate mistreatment by an employer due to personal ties (Zhang 2008).

Nevertheless, gender segregation across industrial sectors is arguably less prominent in the Chinese labour market than in some other countries. While women tend to be over-represented in certain industrial sectors such as education,

Table 14.2 Proportion (%) of female employees by selected ownership and sector and annual average wages for all employees in urban units (end of 1995 and 2008)

Item	Proportion (%) of female employment by ownership and sector in urban units						Annual average wage for all employees in urban units (yuan)	
	Total		State ownership		Collective ownership		Other ownership	
	1995	2008	1995	2008	1995	2008	1995	2008
National Total	38.6	37.6	36.1	37.3	44.6	35.4	48.3	38.2
Farming, Forestry, Animal Husbandry, Fishery	37.6	36.3	37.8	36.5	31.9	28.3	37.2	33.4
Mining and Quarrying	25.9	19.4	24.4	21.5	42.1	21.7	22.8	17.4
Manufacturing	45.2	42.1	40.9	32.8	53.1	43.4	49.7	43.7
Electricity, Gas and Water Production and Supply	31.4	29.4	31.5	29.6	32.1	31.6	28.8	28.8
Construction	19.4	13.9	20.7	16.3	17.8	15.2	14.2	12.6
Traffic, Transport, Storage and Post	26.5	27.3	25.9	26.9	29.4	31.6	24.2	27.8
Wholesale and Retail and Hotel and Catering*	46.3	46.1	44.9	38.4	47.5	41.7	56.4	51.2
Finance		54.4		54.0		58.1		54.3
Real Estate	40.0	50.1	39.3	47.2	41.9	43.3	46.0	54.3
Resident (community) services and other services	33.7	33.9	34.1	35.5	33.2	33.7	31.9	33.3
Social Welfare**	—	43.6		37.8		44.1		52.3
Health care**	44.1	50.4	43.0	49.6	55.1	56.6	59.0	62.4
Education**	56.9	60.3	58.1	60.8	49.7	55.1	57.8	62.5
Culture and Art**	41.9	49.5	41.8	49.4	48.9	51.7	42.5	53.1
Governmental and Party Agencies, Social Organisations	40.1	45.9	40.2	46.2	39.2	40.3	42.6	44.0
	22.6	27.7	22.5	27.7	35.0	40.8	30.0	45.2
							5,526	32,296

Sources: compiled from *China Statistical Yearbook 1996*: 101–2; *China Labour Statistical Yearbook 2009*: 20–23; *China Statistical Yearbook 2009*: 177–80.

\* Figures in 1995 were combined as one entry 'Wholesale, Retail and Catering', but separated in 2007 as entries under 'Wholesale and Retail' and 'Hotel and Catering'.

\*\* Wage figures for the social welfare and health care sectors were in the same combined category in 1995 but separated in 2007. Wage figures for the education and culture and art sectors were in the same combined category in 1995 but separated in 2008.

Note:

- Figures contained in this table include only urban workers and not rural migrant workers working in the urban units. Gender statistics on rural migrant workers working in urban industries are not available. However, it is known that the majority of workers in the construction industry are male rural migrant workers, whereas the majority of workers in the catering industry tend to be female rural migrant workers.
- Women are specified by law to retire five years earlier than men of the same occupation. This partly accounts for their lower proportion in the total workforce in employment.

health care, finance, wholesale, retail and catering – in part because these jobs are traditionally seen to be more suitable for women – they are present in all sectors and occupations in a relatively even pattern (see Table 14.2). However, women tend to be significantly under-represented in certain industrial sectors and types of organizations for very different reasons. For example, women are under-represented in mining and construction due to the high risks and physically demanding nature of those jobs and because legislation bans women from working in mines or in deep water. Similarly, women are under-represented in government and Party organizations, where men continue to monopolize power and control, as is the case in most countries. Indeed, government organizations have the third lowest proportion of women employees, after mining and construction. The majority of women who are employed in government organizations are in administrative roles or work as lower-rank officials. This is despite the average female education level being very close to the male one in that sector. In fact, many jobs advertised by government or civil service organizations explicitly state a preferred gender. This overt and unlawful discrimination disadvantages women from accessing good-quality jobs with career prospects and better earning potential (Cooke 2005).

In some countries, it is the concentration of women in low-paying jobs, rather than unequal pay for equal work, that produces large gender wage gaps (e.g. Rubery *et al.* 2005). This is not quite the case in China. Those industries where women have a higher presence than men are not necessarily lower paid than those dominated by men. In fact, both men and women are found in the lowest-paying industries like construction, manufacturing and catering. Similarly, in industries where wage levels are relatively high, women also make up a relatively high proportion of the workforce as in finance and insurance, social welfare, health, culture and arts. However, this *prima facie* evidence of equality disguises the fact that women in these industries tend to occupy the lower levels in the organizational hierarchy with resultant lower levels of pay. For example, all nurses are women and they are most likely to be earning less than doctors in general. In the education sector, women tend to be over-represented in junior and senior schools and are under-represented in universities, where they also tend to occupy lower positions. Overall too, women continue to be under-represented in organizational leadership positions in China. Despite their significant advancement in educational attainments and a respectable inroad into professional and technical positions, only 1 per cent of women were working as heads of organizations in 2008, compared with 3 per cent of men who did so (*China Labour Statistical Yearbook 2009*: 107).

### ***Patterns of gender pay disparity***

The closing gender gap in educational attainments and the continuous full-time employment of women have not been fully reflected in a simultaneous narrowing of gender pay relativities. For example, Appleton *et al.*'s (2005) study shows that while men earned 12 per cent more than women in 1988, this gap had

risen to 15 per cent in 1995 and then to 22 per cent in 1999. This, they argue, is an indication of the erosion of gender equality that was achieved during the state planned economy period. However, Appleton *et al.* (2005) observe that the 2002 gap – at 19 per cent – suggests that this trend towards greater gender inequality might have halted and perhaps even gone into reverse. Increased wage discrimination against women in this period (1999 to 2002) is seen as the cause for the gap. In comparison, Wang's (2005) analysis of a national survey conducted in 1996 reveals a wider earlier gender wage gap than suggested by Appleton *et al.* (2005). Wang's (2005: 28) analysis shows that women only made 73 per cent of men's earnings 'after holding constant the effects of human capital, political capital, family structure and work unit as well as occupational characteristics' and that little of this gender wage gap 'can be explained by gender differences in endowments'. From Wang, we can infer that the shift from state control to market has generated greater gender-based wage inequality.

There are two opposing arguments explaining the likely impact of China's economic transformation on gender pay relativities. The Mercerian school of thought argues that marketization should, in principle, diminish gender wage relativities because of the greater emphasis on human capital endowments as competitive imperative. Here economics – as returns to investment – trumps societal-based prejudices, thus reducing gender discrimination (Liu *et al.* 2000; Shu and Bian 2003). Some authors (e.g. Zhang *et al.* 2008) also argue that the higher returns to education have been the major cause of a widened gender pay gap at the lower skill levels, although discrimination also plays a role.

The other school argues that the level of gender discrimination may actually increase with marketization due to market imperfections and the erosion of state power to enforce the socialist ideal of gender equality (Nee 1989, 1991; Kidd and Meng 2001; Wang 2005). For example, Li and Gustafsson's (1999) study reveals larger gender-based wage disparity and a higher level of unexplained residual gap in economically more developed geographical areas where market forces were more prevalent. Similarly, Maurer-Fazio *et al.* (1999) and Liu *et al.* (2000) found that both the gender wage gap and the size of the unexplained residual gap were greater in those areas of the private sector more exposed to market competition. Two more recent studies by Zhang *et al.* (2008) and Chi and Li (2008) that cover the period from 1987 to 2004 suggest that the gender earnings gap in urban China increased substantially in this period, with the mean female/male earnings ratio declining from 86.3 per cent to 76.2 per cent (Zhang *et al.* 2008). In particular, women at the lower skill levels have been more adversely affected, indicating a stronger 'sticky floor' effect (Chi and Li 2008). Zhang *et al.*'s (2008) study further reveals that the gender pay gap at the upper end also widened greatly in the period from 2001 to 2004.

A particular feature of gender segregation in Chinese labour markets is the over-representation of women in certain types of less well-paid business ownership. Historically, a relatively high proportion of women have been working in the collectively-owned sector, where wage levels have been the lowest compared with SOEs and the private sector – a matter explored further in Chapter 4. For



example, in 2002, the average monetary wage in the state-owned units and units of other types of ownership was 12,701 and 13,486 yuan respectively, compared to 7,636 yuan in the collectively-owned units (*China Statistical Yearbook 2003*). Workers were allocated to their workplaces by the state until the last decade or so. The disproportionate placement of women workers in the collectively-owned sector has been a significant source of that gender pay disparity (Bian and Logan 1996; Zhou *et al.* 1997; Shu and Bian 2003).

Since the mid-1990s, the proportion of the female workforce working in the collectively-owned sector has been decreasing due to the rapid shrinkage of the sector through downsizing and privatization. However, we cannot be over-optimistic as to the likely effect this may have on reducing gender pay disparities. In fact, there are increasing disparities in wage levels across different types of ownership forms and industries that may work to the disadvantage of women employees. While women are over-represented in some high-paying industries (e.g. finance and health care), they are even more over-represented in low-paying industries (e.g. manufacturing, hotel and catering, and resident services) (see Table 14.2).

Research on gender wage differentials in rural China further reveals that there is a greater gap in rural than in urban areas (e.g. Peng 1992; Meng and Miller 1995; Rozelle *et al.* 2002). For example, Yao's (1999) study of industrial wages in rural eastern China reveals that experience and education levels have no impact on wage levels. Instead, gender (to the disadvantage of women) and local government interventions do.

### **Residential status: discrimination against rural migrant workers**

Residential status has been an enduring source of discrimination and social inequality. The *hukou* system has privileged urban citizens against rural citizens and local residents against non-local residents in the enjoyment of education, health care, social security and employment opportunities as well as other rights. Rural migrant workers are by far the largest and most disadvantaged group of workers of this rigid system, albeit one whose constraints are being relaxed. Initially mainly concentrated in manufacturing plants, on construction sites and as domestic helpers, rural migrants are now working in a wider spread of industries and occupations. However, their employment continues to cluster primarily in private firms, foreign-invested sweatshop plants and the informal sector where labour standards are low and employment regulations are often violated. The vast majority of rural migrant workers have no written employment contract, little training, few rest days, no social security and little health and safety protection. They work extensively long hours, live in poor conditions and are largely unorganized and unrepresented (Chan 2001; Gallagher 2005; Lee 2007; Pun and Smith 2007). Despite high-profile government interventions in the mid-2000s, wage arrears remain common, especially in the construction industry (Cooke 2008b), a topic that Chapter 8 also explores in more detail.

In dangerous jobs, the near absence of social security and health and safety protection has had damaging consequences to workers and their families. Over 70 per cent of major health and safety accidents take place in non-state-owned small enterprises as a result of the lack of training, employers' negligence in health and safety protection and the dilapidated technology and equipment deployed for production (*Renmin Daily*, 2 December 2004). Many minor accidents and workplace-related health problems go unreported or are not dealt with, despite the constant media exposure of workplace health and safety hazards.

The adversarial employment conditions endured by rural migrant workers is a legacy of the central government's highly *non-egalitarian* socialist development strategy, in which urban development has been achieved at the expense of the rural population (Solinger 1999; Meng 2000; Shue and Wong 2007). Institutionalized discriminatory practices continue when rural migrant workers enter urban employment. Although the government has made efforts since the 1990s, through regulatory and policy intervention, to eliminate discriminatory practices, the lack of comprehensive legislative coverage and effective enforcement in the private, informal sectors means that these workers remain largely unprotected (Cooke 2008b). The introduction of the Labour Contract Law in 2008 has not brought real protection through employment security and social security to the majority of the migrant workers. This is because employers have found ways to bypass the law effectively, as noted earlier. Furthermore, eager to attract business investment to generate tax revenues and achieve their performance targets, local governments often turn a blind eye to employers' malpractices. Some local governments even introduce administrative policy regulations to dilute the impact of the Labour Contract Law. For example, the municipal government of an inner city in Guangdong Province has an unpublicized policy concession in which firms registered in Hong Kong have the discretion to decide whether they wish to contribute or not to social security premiums for their employees in their first five years (see Cooke 2011 for more detailed discussion).

Adversarial labour standards, the absence of labour protection and organization, and social discrimination and exclusion have resulted in rural migrant workers voting with their feet *en masse* during 2004 and 2008, causing severe labour shortages (known as *mingong huang*) in developed economic areas where factories cluster (see also Chapter 7). Although the wage levels of some factories are not low in a relative sense, the poor working and living conditions and aggressive management style cause retention problems. As Chapter 8 suggests, but with a slightly different interpretation, there are also emerging signs that rural migrant workers are now organizing themselves for collective bargaining with their employers, requesting better working terms and conditions including improved living conditions. This is an important signal that the pendulum of bargaining power is now slowly swinging towards those workers (Cooke 2008b). However, there should be no illusions that, without support from other institutions in power, any form of self-organizing among rural migrant workers can lead to any meaningful and sustainable improvement of job quality.

### **Age-based discrimination**

Age disadvantage manifests itself in two ways in Chinese labour markets. Discrimination against older workers is widespread across sectors and ownership forms. For instance, it is common practice for job advertisements to specify age limits for job candidates, in addition to the gender preferences noted above. In the state-led redundancy programme in SOEs and COEs in the late 1990s, age was a common criterion for selection for dismissal. Women over 40 and men above the age of 50 were mostly likely to be laid off or forced to take early retirement. These displaced workers then encounter significant barriers to regaining employment due to their skills appearing obsolete and their age disadvantages compared with younger rural migrant workers and young school leavers, a picture explored through a local case study in Chapter 8.

It is important to note that labour market discrimination is not confined to older workers and those who are relatively low-skilled and with little formal education. It also affects some younger people. As Chapter 6 points out, the rapid expansion of the Chinese higher education sector since the early 2000s has led to a rising level of unemployment of university graduates, particularly for those who have no work experience. Increasingly, employers only hire job candidates who have at least two years' work experience. Costs of training and retention problems are the main reasons for employers' unwillingness to employ inexperienced university graduates. The highly controversial Labour Contract Law further deters employers from hiring graduates to try them out, as the Law imposes a number of restrictions on employers regarding wage payment and termination of contract (Fu 2008). Gender, age and residential status factors may intersect, further disadvantaging certain groups of workers in different segments of the labour market, as we shall see below.

### **Double disadvantages: gender and age**

Since 1951, China has followed a retirement policy in which female workers, in general, retire five years earlier than their male colleagues in the same occupation. Manual female workers thus retire at the age of 50 and at 55 for female professionals. This policy was introduced initially as a preferential treatment to women who have to bear the strain of childbearing and caring. The enforcement of the one-child policy since the mid 1980s, the increased affordability of childcare and domestic help, and technological advancement mean that work is less strenuous and the burden of family care is significantly reduced for women. Dramatic increases in educational levels also help many women develop a successful career (Cooke 2005). However, despite repeated campaigns by women's pressure groups for the government to change the differentiated retirement policy on economic and equality grounds, there is still no formal change to the policy. Nevertheless, industrial/occupational-based policy documents have been issued in recent years which request employing organizations to extend women's employment age where conditions permit. In government organizations, older women cadres are

less likely to be promoted than men of a similar age band and are often allocated to positions/departments with fewer resources (Cooke 2009).

For migrant women workers, the age bar comes much earlier in their working life, particularly for those who work in privately-owned or foreign-funded manufacturing plants with high-intensity production. In the interest of maintaining productivity premiums and avoiding responsibilities imposed by local governments to monitor the birth control of their women workers, employers target women between the age of 16 and 23 for recruitment. Once they are married and become pregnant, they will be dismissed. Some employers even compel women workers to sign an unlawful agreement that they will not get pregnant during their employment with the firm, on pain of dismissal. When labour shortages appear, employers may be willing to consider recruiting older women who have passed most of their active reproductive years, for example those in their late thirties or forties. However, employers may choose to recruit these workers via employment agencies in order to pass on the birth control monitoring responsibility; employment agencies simply dismiss those workers when they are found violating the birth control policy.

The transient nature of rural migrant workers' employment, as perceived by factory managers, further deprives these 'maiden' workers of any career progression prospects. As Lee's (1995: 385) study reveals, 'management only groomed male recruits to acquire firm-specific technical skills. The promotion track from repair worker to technician, assistant foreman, and supervisor was denied to women workers'.

### **Double disadvantages: gender and residential status**

Gender and residential status undoubtedly have a compound negative effect on women's opportunities to seek quality employment and better wages. This affects women at both the lower and upper end of the labour market. For example, a report released by the All-China Women's Federation (ACWF) in 2006 showed that over 50 per cent of female rural migrant workers were engaged in informal employment compared with 40 per cent of men (cited in Wei 2007). Gao's (2006) survey of 1,916 migrant workers in five major cities in 2003 revealed that men, on average, earned a much higher hourly wage (4.8 yuan) than women (3.4 yuan). In particular, the industrial sector plays a more important role in accounting for wage differentials than the small differences in age and educational level between the genders.

Liu and Li's (2007) study revealed an M-shaped pattern in the age of women rural migrant workers, indicating the need for them to remain in the rural family home during the child caring period. In addition, a much higher proportion of women (45 per cent) than men (23 per cent) migrate with their spouse. Wang (2006) observed an increasing trend for family migration instead of single migration among rural migrant workers. As trailing spouses, wives in migrant families with child caring responsibilities are more constrained than single female migrants in their mobility and job opportunities. They tend to play the home-carer role,

often taking some casual and short-time jobs to supplement family income instead of being a main income provider. This primary–secondary earner family model breaks away from the modern Chinese dual-earner family model established in urban areas, where husband and wife are co-earners with shared, albeit not always equally divided, family responsibilities. This migration model in which the wife moves as a ‘tied migrant’ conforms to international migration patterns identified in other countries (Spitze 1984; Boyle *et al.* 2001). In this sense, the allocation of work–home responsibilities among Chinese rural migrant families living in urban areas converges to that in other countries such as the UK, USA and Japan (O’Reilly and Fagan 1998; Kreimer 2004; Broadbent and Ford 2008) rather than to that of urban Chinese families. In other words, married female rural migrant workers enjoy less equality than their urban counterparts in general (Cooke 2008b).

In the graduate job market, while discrimination against women graduates in recruitment has long existed (Cooke 2005), this problem is exacerbated by the dramatic increase of university graduates in recent years. The compounded disadvantages of gender and residential status have put women university graduates with non-local residential status and no work experience in the least marketable category of graduates seeking employment in large cities such as Beijing, Shanghai and Guangzhou. The ranking order for groups of graduates is therefore: local male, non-local male, local female and non-local female graduates.

## Conclusions

It is clear from the discussion in this chapter that labour market inequality in urban China has grown in the process of its economic reform. Inequality exists in access to employment, employment security, training and career advancement, social security and pay equity across different groups of workers. This arises mainly from gender discrimination and the growing presence of the secondary labour market populated by laid-off ex-SOE and COE workers and rural migrant workers. While they are often not competing for the same jobs, competition is nonetheless increasing between these two groups of workers (Cooke 2005; Knight and Yueh, 2009; and see Chapter 8 in this volume). The existing and growing labour market segmentation – intersecting through gender, age and residential status at both the upper and lower ends of the labour market – means that human capital factors have a limited impact on job allocation and reward distribution in the secondary labour market. In particular, gender and residential status impede women’s labour market prospects and financial returns.

Women are more represented than men in this secondary labour market, notably in informal employment. The same is true of rural migrant workers compared to urban residents. Gender-based wage disparities may result from a number of interacting factors, such as level of educational attainment, political capital, experience/seniority, organizational status, marital status and labour force placement (by occupation, industry and sector). Nevertheless, research evidence suggests that discrimination against women contributes, directly and indirectly, to a growing proportion of the pay gap. If the dominance of the state sector and the direct

intervention from the state during the planned economy period had led to significant achievements in gender equality at urban workplaces (Stockman *et al.* 1995; Liu *et al.* 2000), then these achievements have arguably eroded since then. As a result of marketization, employers are granted greater autonomy in operating their businesses and human resource practices. This monopsony power in a particularly slack labour market translates partially into the more explicit expression of gender discrimination that was previously suppressed by the state with some effect.

It is true that the opening up of the labour market has provided opportunities to millions of rural migrant workers to improve their earning and living standards. But these opportunities are confined to certain sectors and occupations, materializing only if workers are prepared to endure poor labour standards, various forms of discrimination and inequality, and long periods of separation from their family. As such, this persistent urban–rural divide, manifested in the labour market, contributes to entrenched inequalities between workers of urban and rural origins. The latter continue to face insurmountable barriers to integration into the urban society as a social class, as Chapter 8 also explains. In the domestic services area, the availability of rural migrant workers, who are often single young women, has actually helped create a new social hierarchy between urban residents and (women) migrant workers, and the latter the ‘new servants’ (Yan 2008), with little prospect of being integrated into the employing family and being isolated from society.

Employers’ ruthless employment strategies have undoubtedly played a significant role as one of the ‘most important institutional forces structuring the labour market’ (Rubery and Wilkinson 1994: 33). The success of these strategies, however, has been aided by other labour market institutions such as the local government and employment agencies. Whereas the former offer sloppy law enforcement and policy concessions that compromise the likely impact of labour laws, the latter effectively act as a dumping site for employers in the primary labour market. The interactions of these institutional forces eclipse any prospect of employment quality enhancement and entrench labour market inequality.

Ultimately, workers in the informal parts of the private sector remain largely unorganized and unprotected. The ineffectiveness of the trade unions and law enforcement has led to the growing incidences of self-organizing among migrant workers. These collective actions are often spontaneous, organized at the factory level, and aimed at resolving conflicts between labour and management (Gallagher 2005; Lee 2007; Chan and Pun 2009; Chapters 8 and 15 in this volume). However, it is highly questionable whether these forces will lead to a more sustainable collective power base in the foreseeable future to counterbalance that of the employers.

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# 15 Chinese trade unions in transition: a three-level analysis

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## Introduction

Contemporary Chinese trade unions can be understood through the theoretic lens of state corporatism (Chan 2008; Chen 2004, 2010; Howell 2008), which is a form of institutional arrangement wherein employers and employees are organized into corporate entities that serve as organs of the state (Schmitter 1979). As China's single official trade union federation, the All-China Federation of Trade Unions (ACFTU) is a state corporatist institution which is utilized by the Party-State to control workers. Under state corporatism, the ACFTU performs the dual role of mobilizing workers to serve the collective good of the nation while helping them protect their rights and interests. This conforms to the Leninist model of trade unionism, in which trade unions function as a 'transmission belt' linking the Party-State with rank-and-file workers (Chan 2008; Chen 2003; Harper 1969; Howell 2008; Ng and Warner 1998). In principle, there is no inherent conflict between the dual functions of the ACFTU because the Party-State is purportedly the ultimate representative of the workers' interests. However, the reality is that there has always been tension between the ACFTU's dual functions (Chan 2008; Chen 2003; Harper 1969; Howell 2008; Lee 1986), and this tension has escalated continuously since the economic reform of 1978 (Chen 2003).

In recent years, growing attention has been devoted to the question of whether and how Chinese unions are making progress in their employee representative role. Regarding this concern, the public media has recently painted two different pictures of Chinese trade unions. On the one hand, Chinese unions are described as making substantial progress in strengthening their ability to protect workers' interests (Chan 2000; Chen 2003, 2004, 2009, 2010; Qiao 2010; Tong 2005). Some illustrative examples include the recent unionization of Wal-Mart stores in China and union changes in Guangzhou and Shenzhen as reported by the *China Labour Bulletin* (2008). On the other hand, Chinese trade unions are portrayed as pro-management entities, especially when workers' interests are not aligned with those of the Party-State (Chen 2003, 2010; Liu 2009). A recent strike at a Honda parts factory in Foshan and a series of worker suicides at Foxconn in Shenzhen confirm this picture by exposing the incompetency of enterprise unions in protecting workers' rights (Barboza 2010; Bradsher and Barboza 2010). The

question, then, is how should we understand these rather confusing pictures of the changing nature of Chinese unions?

The purpose of this chapter is to uncover the underlying mechanisms that drive or undermine Chinese unions' progress in terms of building capability to serve the workers' interests. We argue that to better understand the changing nature of Chinese trade unions, it is critical to differentiate union strategies and activities at the national, regional and workplace levels, rather than treating the ACFTU as a monolithic institution with a unified strategy. Further, we argue that the innovative strategies of unions at the three different levels have led to recent progress in terms of the efficacy of Chinese trade unions in protecting workers' rights, while political, institutional and organizational constraints at each level have significantly determined the extent to which these changes could occur.

This chapter is based on our fieldwork conducted in China between 2005 and 2008. This fieldwork comprises over 400 interviews with union officials, managers and workers in 18 geographically dispersed Chinese cities. We gained access to these individuals via the personal networks and some officials and researchers within the ACFTU. Most of these interviews were conducted independently; however, during a few of them, local ACFTU officials and/or enterprise union cadres were present.

The focus of this chapter is on the progress that unions have made in increasing their capability to protect workers' interests. Therefore, we will label Chinese trade unions as progressive if they are capable of benefitting workers. Furthermore, this chapter centres on government-endorsed trade unions rather than the general labour union movement. There are two reasons for this choice. First, there is virtually no recognizable independent employee organization in China that can be analysed in conjunction with government-endorsed trade unions. The state corporatism that exists in China does not allow the formation of independent unions, and efforts to form such organizations have immediately been thwarted. Second, given the stability of the Chinese communist regime, state corporatism is expected to remain a key institutional parameter for the development of labour unions in the coming years (Chan 2008; Chen 2003, 2010; Liu 2009). Therefore, the future of labour unions in China can hardly be understood without examining the current changes in government-endorsed unions.

The next section provides a brief overview of the challenges and opportunities that Chinese trade unions have confronted since 1992. The subsequent sections examine new union strategies, activities and outcomes at the national, regional and workplace levels, and we conclude by making some predictions on the future of trade unionism in China.

### **Chinese trade unions after 1992: challenges and opportunities**

The ACFTU is a pyramidal, top-down organization that consists of three levels, namely the national, regional and primary levels. Figure 15.1 depicts a simplified version of the structure of the ACFTU (see also Lee 1986; Ng and Warner 1998; Taylor *et al.* 2003). At the bottom level, primary unions are organized according

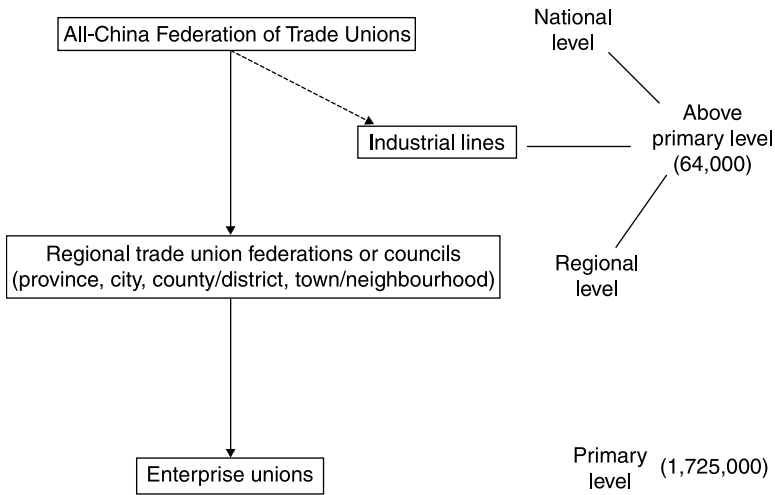


Figure 15.1 The simplified structure of ACFTU.

*Note:* The figures in the parentheses are the number of unions, based on the Statistics Report on the Development of Trade Organization and Work in 2008 (ACFTU 2009).

to the principle of enterprise unionism. Moreover, regional-level unions are organized according to geographic boundaries that parallel those of the government administration. There are ten industrial unions in China that are organized according to governmental policies. In reality, the roles and functions of industrial unions are very weak or ambiguous, as most industrial unions are strongly controlled by regional and national union federations. Furthermore, trade unions at all levels are under the leadership of the Chinese Communist Party, and this structure has largely remained unchanged since the 1950s.

At the national level, the ACFTU is viewed as an important social pillar of state power. At the regional level, similar to a government department, union federations assist local governments in consolidating political control and economic order by giving directives to lower-level unions. At the workplace level, primary unions have two major functions: mobilizing workers through labour emulation to harness economic production and dealing with welfare issues such as consoling sick and bereaved workers or staff and organizing entertainment and sports events aimed at boosting labour morale (Ding *et al.* 2002; Ng and Warner 1998). In recent years, the task of mediating labour disputes has been added to the functions of primary and regional unions. However, Western-style collective bargaining still does not exist in China, although the largely formalistic collective contract system has been introduced in many workplaces (Clarke *et al.* 2004).

China's market reform, which was initiated in 1978 and intensified after Deng Xiaoping's South Inspection Tour in 1992, has greatly challenged the ACFTU. Supporting evidence is provided by the indicators presented in Table 15.1. First,

Table 15.1 Selected indicators of the ACFTU: 1992–2008

Year	Union density (%)	Collective bargaining coverage (%)	Collection of membership fees (%)	Primary unions			Unions above primary level		
				Number	Avg. no. of full-time staff	Avg. no. of part-time staff/activists	Number	Avg. no. of full-time staff	Avg. no. of part-time staff
1992	39.83	n.a.	n.a.	616,852	n.a.	n.a.	n.a.	n.a.	n.a.
1993	37.19	n.a.	64.13	626,666	0.63	n.a.	n.a.	n.a.	n.a.
1994	39.9	n.a.	46.28	581,427	0.78	n.a.	n.a.	n.a.	n.a.
1995	34.66	n.a.	51.05	593,113	0.79	15.51	18,383	4.58	4.85
1996	32.5	12.09	52.67	585,965	0.89	22.74	18,723	4.58	5.15
1997	28.42	14	60.43	510,276	0.96	19.49	24,081	3.64	1.9
1998	27.56	20.59	54.3	503,532	0.8	n.a.	27,217	2.91	n.a.
1999	26.77	14.12	51.02	508,592	0.83	17.63	26,366	2.88	n.a.
2000	30.96	17.91	40.47	858,592	0.47	n.a.	n.a.	n.a.	n.a.
2001	35.66	20.54	35.5	1,537,970	n.a.	n.a.	n.a.	n.a.	n.a.
2002	38.84	17.88	31.37	1,712,528	0.23	1.65	46,251	1.69	3.42
2003	34.73	18.87	33.07	905,516	0.42	3.32	45,140	1.82	4.27
2004	36.44	18.36	34.95	1,020,045	0.36	3.14	47,324	1.82	4.07
2005	38.15	25.91	31.49	1,174,421	0.32	3.05	56,814	1.87	4.35
2006	41.21	27.29	n.a.	1,323,965	0.33	3.27	59,971	1.66	3.95
2007	45.16	29.96	n.a.	1,508,000	0.33	2.93	62,000	1.77	4.74
2008	48.32	34.06	n.a.	1,725,000	0.34	2.85	64,000	1.83	4.44

Sources: *Chinese Trade Unions Yearbook* (1994–2006), *Chinese Trade Unions Statistic Yearbook* (1997–2007), *Statistical Report on the Development of Trade Union Organization and Work* (2007–2008), *China Statistic Yearbook* (2009), and the author's calculation.

Notes:

- Union densities are calculated as ratios of the number of union members to the total number of non-agriculture employment (i.e. total employment–agriculture labour–self-employed individuals).
- Collective bargaining coverage is calculated as a ratio of staff and workers covered by the collective contract system to the total number of non-agriculture employment.
- Collection of membership fees is calculated as a percentage of actual to total union dues at the national level of the ACFTU.

membership of the ACFTU reduced dramatically. Due to the large-scale restructuring and lay-offs of state-owned enterprises (SOEs) and collective-owned enterprises (COEs), the ACFTU lost 16.3 million members between 1992 and 1999, leading to a decline in union density from 39.83 per cent to 26.77 per cent. Although a reversal occurred after 2000 due to the ACFTU's organizing campaign in the private sector, the lack of significant input from workers and strong formalism in the process of unionization often rendered the numbers meaningless (Clarke *et al.* 2004; Warner and Ng 1999).

Second, the ACFTU has suffered from a severe human resource crisis since the 1990s. The enterprise reform launched in the 1980s granted management the power to reduce union staff. The civil service reform in the late 1990s resulted in the downsizing of mass organizations. As a consequence, the ACFTU began experiencing extreme shortages of high-quality union staff. Table 15.1 indicates that the average numbers of both full-time and part-time union staff have significantly decreased since 1995, especially at the workplace level, where more work tasks have been assigned but fewer staff have been available. In 2008, while the average numbers of the full-time and part-time staff of upper-level unions (including regional and national-level unions) were 1.83 and 4.44, respectively, the corresponding numbers of workplace unions were merely 0.34 and 2.85, respectively. Even worse, the already low quality of union staff has further declined since the reform. While workplace-level union positions are usually occupied by incompetent people who are appointed by employers, upper-level posts are often viewed as temporary, that is, a stepping stone into government positions or a safe refuge for retirement (Seung 2000). The introduction of new union roles involving collective consultation and dispute resolution has further challenged union staff, since most of them lack the knowledge and skills required to negotiate with management and protect workers' legal rights. In a survey conducted by the ACFTU in 2004, only 7.39 per cent of the 16,517 county-level union officials had labour-related expertise (ACFTU 2005).

Third, the ACFTU has also faced a financial crisis since the 1990s. Its income comes primarily from enterprises through a 2 per cent deduction of the total payroll which is transferred directly into the accounts of the enterprise unions, and then 40 per cent of the money goes to the upper-level unions (35 per cent to regional unions and 5 per cent to the ACFTU headquarters). In the past, when virtually all firms were publicly owned, the payment and distribution of union dues were automatically processed through budget allocation systems. However, the decline of the public sector and the growing number of union-free private-owned enterprises (POEs) and foreign-invested enterprises (FIEs) has undermined the financial stability of the ACFTU. Despite efforts made by regional unions to collect union dues in recent years (e.g. many regional unions began consigning the local tax bureaus to collect union dues), the collection rate at the national level still fell from 64.13 per cent in 1993 to 31.49 per cent in 2005 (see Table 15.1). The situation at the workplace level is often more dismal. According to our interviews with union officials, many enterprise unions, especially those in POEs, do not have funds at their disposal because management either does not give out any

money or makes the money inaccessible to union officials. When there is pressure from regional/national unions regarding union due payments, management in many companies prefers to bypass workplace unions and directly negotiate with region/national unions about their share of union fees. A more fundamental issue behind the financial crisis is the fact that unions' financial source is management, not workers. Since unions' funds mainly come from enterprises (employers), it is thus very difficult for unions, especially enterprise unions, to be genuinely independent from employers and effectively protect workers' interests.

The final, perhaps most serious challenge of the ACFTU comes from its declining relevance to workers. Various surveys have consistently shown that the majority of Chinese workers are dissatisfied with or indifferent to trade unions (ACFTU 1993, 1999, 2005; Seung 2000). This dissatisfaction and indifference are apparent in the sharply increasing number of 'wildcat' worker protests and the continuing formation of informal worker organizations such as 'associations of fellow provincials or townsmen' and 'labourer associations' which have challenged the legitimacy of the ACFTU (Bai 2000). Even in the eyes of government officials, the relevance of trade unions has been declining because the dominant logic constraining Chinese industrial relations has shifted from maintaining industrial peace to economic development, that is, local government officials are more concerned with attracting foreign investment than with protecting labour rights (Frenkel and Kuruvilla 2002).

Despite these challenges, opportunities for trade union reform have also arisen. First and most importantly, the increasing labour unrest since the 1990s has made the Party-State realize the complexity of labour issues. Therefore, it has gradually granted the ACFTU more institutional space and operational autonomy to counter the possible development of an independent labour movement and thereby maintain social stability (Chen 2003, 2004, 2009, 2010; Zhang 1997). In particular, the Party has strongly advocated and supported the ACFTU's organizing campaign with the hope of strengthening the Party's influence in the workplace. Moreover, the ACFTU's role in 'harmonizing labour relations' has been strengthened even further under the current Hu-Wen administration, which, as Chapter 1 of this volume points out, advocates a 'harmonious society'. Although it is still not possible for unions to be independent of the Party in China, there has been a loosening of political constraints on union activities, especially those aiming to protect workers' legitimate rights and avoid labour conflicts.

Second, China's labour laws, including the 1994 Labour Law, 2001 Trade Union Law and 2007 Labour Contract Law, introduced some favourable regulations regarding unionization and the role of unions. For example, the 2001 Trade Union Law stipulated that enterprises with over 25 employees should establish unions, and the law made it explicit that the primary function of Chinese unions is to protect workers' legitimate rights. The 2007 Labour Contract Law further strengthened the role of unions in workplace management and collective bargaining. While, currently, these regulations are extremely weakly enforced, they may become powerful weapons for unions in the future, as China's gradual

integration into the global economy has made the rule of law increasingly necessary (see Chapter 3 of this volume and Gallagher 2005b).

Third, the gradual retreat of the Party-State from workplace management and into the position of a third party allows unions to directly confront management (Qiao 2010). Moreover, since unions have shifted their focus from the Party-State and are now targeting employers, the nature of labour conflicts has shifted from political to economic. This enables official unions to play their worker representative role without challenging the Party-State.

Finally, while the logic of economic development still dominates in China, the logic of labour protection is emerging, especially in some coastal areas which are experiencing serious labour shortages. Increasing concerns for labour protection may make it easier for the official unions to gain support from the government, which is critical if the unions are to strengthen their worker representative role (Liu 2009). It is against this backdrop of challenges and opportunities that the Chinese trade unions began a new round of self-reform after 1992.

### **Recent changes in Chinese trade unions: a three-level analysis**

While all trade unions in China are officially parts of one unified organization, namely the ACFTU, and the ACFTU was formerly conceived as a monolithic institution, our field research finds increasing variations within this institution. In particular, unions at the different levels of the ACFTU's organizational hierarchy have adopted different organizing strategies, engaged in different activities and experienced different degrees of change. We will now examine recent union changes at the national, regional and workplace levels, as well as the key factors that facilitate or constrain these changes.

#### ***Recent Changes in the National ACFTU***

There is no doubt that the Party-State still controls the ACFTU and constrains its capacity to take action against the Party's policy. However, the ACFTU can still strategically undertake certain initiatives to increase its influence within the framework defined by the Party-State and pursue both its own interests as well as the interests of the workers. Chen (2009) argues that it is precisely the ACFTU's institutional status within the Party-State that gives the ACFTU the authority and influence in the areas in which it is allowed to perform. Moreover, the current chairman of the ACFTU, Wang Zhaoguo, is a member of the Politburo and a vice secretary of the National People's Congress; furthermore, the former chairman, Wei Jianxing, was among the seven top political leaders in China. The national ACFTU currently enjoys a higher political status than the Ministry of Human Resources and Social Security (former Ministry of Labour) and China Enterprise Confederation/China Enterprise Directors Association (the employers' association in China). This high political status grants the ACFTU a larger space in which to manoeuvre in the arena of labour relations.



The reform of the national ACFTU began in the 1980s and resumed in 1992 after the 1989 Tiananmen Square crackdown. The recent reform efforts of the ACFTU have been focused on three major strategic areas: building institutions, organizing workers and revitalizing the function of welfare provision.

### *Institution building*

Since the 1980s, the top leaders of the ACFTU have consistently emphasized the principle of 'protection from the origin' (*yuantou weihi*), urging unions at various levels to protect workers' interests by participating in the process of drafting laws and regulations. Moreover, the post-Tiananmen pact between the Party and the ACFTU granted the latter right of access to the policy process in exchange for its continued support for the Party leadership (White 1996). Taking advantage of the political support of the Party-State, over the last two decades, the national ACFTU has played an active role in inserting many pro-labour clauses and articles into various policies and regulations such as the Labour Law (1994), the Trade Union Law (1992, 2001), the Labour Contract Law (2007) and the Labour Dispute Mediation and Arbitration Law (2007), all of which provide an institutional framework for the regulation of industrial relations. The formal results are clearly visible. Between 2003 and 2008, the national ACFTU was involved in drafting more than 60 labour-related national laws and regulations (ACFTU 2008). In particular, it played a critical role in the enactment of the Labour Contract Law, ensuring the passage of many regulations that were favourable to workers. Shortly after the drafting of the Labour Contract Law in 2005, the national ACFTU established a special group in charge of its participation in the legislative process. Later, during a one-month period of public commentary on the first draft of this law, the national union required that the lower-level unions widely disseminate the draft law and encourage workers to submit their comments. As a result, over 70 per cent of the total received comments came from workers (Wang 2007). According to Gallagher and Dong (forthcoming), the national ACFTU had far more influence and voice in the legislative process of the Labour Contract Law than any other non-governmental organization and organization representing employers or businesses.

Although there is still no freedom to organize independent unions, official unions are now allowed to represent workers in the event of collective action in order to 'talk things out' (*xieshang*) with management (see the Labour Law, the Trade Union Law and the Labour Contract Law). Work stoppages and slowdowns are recognized as legal so that the collective voice of the workers reaches management. Moreover, labour dispute procedures have been established, allowing individual workers to protect their rights and interests through the legal systems (see the 2007 Labour Dispute Mediation and Arbitration Law).

In addition to pushing forward pro-labour legislation, the national ACFTU has made great efforts to establish the collective contract system since the early 1990s. The right of collective consultation and collective contract is guaranteed by the 1994 Labour Law, Provisions on Collective Contracts (1994, 2004) and Interim Measures

of Collective Wage Consultation (2000). Building on these prior regulations, the 2007 Labour Contract Law introduced two new types of collective contracts, namely regional collective contracts and local trade-based collective contracts. By 2008, 149,535,000 workers and staff were covered by collective contracts and 51,101,000 were covered by wage agreements. However, an examination of the process of collective consultation and the content of collective contracts in the workplace reveals that enterprise-level unions are too weak to take the side of workers and the collective contracts are characterized by strong formalism (Clarke *et al.* 2004; Liu 2010a; Taylor *et al.* 2003; Zhu *et al.* 2009). In 2008, the national ACFTU pushed all of the Wal-Mart stores in China to conclude collective contracts with unions. Nonetheless, the top-down campaign-like working method of the national ACFTU failed to change the formalistic nature of workplace collective contracts.

Another of the national ACFTU's noticeable institution-building efforts was the introduction of the tripartite consultation system between representatives of government, employers and employees. The tripartite system was officially introduced at the national level in 2001 and has been very successfully diffused throughout the country since then. By 2009, 95.5 per cent of the prefectural level cities and 76.8 per cent of the counties/districts had adopted the system (according to the data from the Chinese Enterprise Confederation). However, given the non-independence of trade unions and employer organizations, such a tripartite system obviously differs from genuine social dialogue (Clarke and Lee 2002). In practice, like many other pro-labour institutions, this system is subject to strong formalism (that is, the three parties do have regular meetings, but these meetings have achieved few meaningful results), especially at the national level.

### *Organizing*

Due to sharply declining membership during the 1990s, in the early 2000s the ACFTU launched a nationwide organizing campaign that focused on the private sector. To a certain extent, this reversed the declining trend. By the end of 2009, membership in the ACFTU had increased from 87 million in 1999 to 226 million, and the number of primary unions had increased from 509,000 in 1999 to 1,845,000 (*Workers' Daily*, 24 February 2010). Additionally, many anti-union multinational companies, including Wal-Mart, have been unionized. However, the ACFTU largely follows a traditional, top-down organizing method; that is, the national union assigns organizing quotas throughout its organizational hierarchy, and local union officials visit enterprises to promote the establishment of unions. During this process, unions often sacrifice many union rights, guaranteeing that there will be no collective action, allowing the employer to appoint workplace union leaders and reduce union dues in exchange for the employer's recognition. On the one hand, this compromising approach has limited membership increase due to strong resistance from employers, and, on the other hand, it has created weak newly established unions that employers can dominate, and in some cases has even relegated them to 'paper' unions (Liu 2010b).

*Welfare and service provision*

Since the 1990s, the ACFTU has revitalized its welfare function by developing ‘three big brands’: the ‘Warmth Project’, ‘Help Centres for Workers in Difficulty’ and the ‘Golden Fall Education Assistantship’ programme. After 1992, to reduce the protests of laid-off workers and maintain social stability, the ACFTU launched the national ‘Warmth Project’, which involves paying visits to workers and helping them solve difficulties, typically through granting a small amount of money from trade unions and relevant government departments during the period of New Year’s Day and the Spring Festival. ‘Help Centres for Workers in Difficulty’ have also been established by the ACFTU in cities since 2002 to provide free skills training, re-employment services and legal and medical aid to workers, especially laid-off and migrant workers. In addition, in 2006, the ACFTU introduced the ‘Golden Fall Education Assistantship’ to help the children of workers in financial hardship. However, the limited resources of the ACFTU mean that the effect of such welfare activities, if any, is negligible. For example, during the 2006 ‘Warmth Project’, the ACFTU raised ¥2,816 million (US\$ 352 million) nationally and granted assistance to 5,690,000 workers’ families in financial difficulty (ACFTU 2006). However, on average, each family received only ¥495 (US\$ 62) for the whole year.

In sum, owing to its high political status, the national ACFTU has actively engaged in some reforms since the 1990s. In particular, its institution-building efforts have provided more legal protection to workers. Nonetheless, the ACFTU is still tightly controlled by the Party-State, especially at the national level, which has severely limited its representative role. Even in the law and policy-making processes, the ACFTU’s dual functions prevent it from speaking for workers when there is a conflict between the interests of the workers and the Party-State. In addition, the effects of the national ACFTU’s reforms are often significantly undermined by its bureaucratic organizational culture and limited resources. As a result, many of the national union’s activities are characterized by strong formalism and minimal concrete help for workers.

***Recent changes in regional trade union federations***

In recent years, regional trade union federations (regional unions hereafter) – especially those at the city, county/district and town levels – have become increasingly important in the organizational hierarchy of the ACFTU. This development reflects their direct connection with primary unions and workers, relative independence from employers and more operational flexibility and autonomy. All regional unions have been reforming themselves since the 1990s, although they differ significantly with respect to their degree, focus and method of implementing the national union’s three reform strategies of building institutions, organizing workers and providing welfare services. More importantly, some regional unions have even taken a few locally-initiated approaches or strategies including legal mobilization and network building. The following section will examine the reform strategies of regional unions in detail.

*Institution building*

Following the call of the national ACFTU, regional unions have actively participated in local policy-making to protect workers' interests. According to the ACFTU statistics, regional unions were involved in enacting 992 local laws and regulations between 2004 and 2007 (ACFTU 2008). While many local labour market institutions such as the tripartite consultation and minimum wages have the feature of strong formalism (that is, these institutions do not bring substantive improvement to the labour and employment system), some may offer certain assistance to workers if it is strictly enforced. For example, in 2008, the Shenzhen City Federation of Trade Unions (SZCFTU) played a very important role in producing two local labour market regulations that may benefit workers.

The first is the 'Regulations on the Promotion of Harmonious Labour Relations in the Shenzhen Special Economic Zone', which borrows many of its ideas from labour regulations issued in other countries. In particular, it contains at least five innovative provisions on protecting workers and regulating employers. First, given the excess overtime in the Chinese workplace (Liu 2010a), Article 22 stipulates that 'Employers must guarantee workers at least one uninterrupted rest period of 24 hours per work week.' This is stricter than the regulation in the national labour law that requires enterprises to give workers at least one day off per week (in reality, many enterprises subdivide a rest day into two half rest days or other discrete rest arrangements). Second, because workers' interests are often jeopardized during the process of enterprise bankruptcy, Article 51 regulates that work injury, medical expenses and unpaid wages of low-wage workers should be paid off first. Although this provision is in conflict with the Enterprise Bankruptcy Law, it is valid under the support of the legal work committee of the National People's Congress. Third, to restrict employers' use of economic punishment, Article 16 states that economic penalties for violations of company rules within a one-month period cannot exceed 30 per cent of the worker's monthly wages. Fourth, to strengthen employers' compliance with China's labour laws, Article 35 proposes the establishment of a 'labour relations credit rating system'. This requires that within seven working days of an employer committing a serious violation of a labour law or regulation, the local labour bureau must enter that information into a credit rating database. Once registered in the database, enterprises will become ineligible for government investment or procurement, they will not be eligible for government preferential policies, or if they currently benefit from such policies, those policies will be discontinued. Finally, to promote stable labour relations in essential public services, for the first time in China, Article 53 introduces the concepts of a 'cooling-off period' and 'return to work order'.

The second local labour market institution that the regional union of Shenzhen introduced is the 'Implementing Regulations for the Trade Union Law' that took effect in 2008. The most important among its many progressive elements is the historic replacement of the previously-used, much weaker concept of 'collective consultation' with the term 'collective bargaining' for the first time in China's labour laws and regulations. The provisions also include clear guidelines on how the collective bargaining process should work, which, if strictly enforced, may

‘effectively transform collective bargaining in China from a vague concept into, potentially, a genuine right that can be utilized by ordinary workers to improve their terms and conditions of employment’ (China Labour Bulletin 2008). In addition, for the first time in China, Article 36 stipulates that primary union officials should receive a small monthly subsidy from the municipal federation. This is important because it may assist workplace union officials in reducing their financial dependence on employers. For more examples of the efforts of the regional unions to advance progressive local labour legislation, see Liu (2009).

### *Organizing*

Regional unions have actively engaged in organizing since 2000. While the primary pattern of organizing is still the traditional top-down pattern examined earlier, some regional unions have developed innovative organizing methods which have the potential to change the current situation where employers control workplace unions.

The first innovation involves organizing ‘union associations’. In recent years, in those areas with high concentrations of small businesses, regional unions have started to organize union associations to cover multiple workplaces, such as community unions, village union associations, market unions, office building unions, union associations of FIEs or POEs and regional industry-based union associations. These union associations are an innovative response of regional unions to the changing labour market conditions, especially with regard to trying to organize small privately-owned firms. Most POEs in China are very small; for example, in 2004, each POE had an average of only 13.7 employees (Research Group of Chinese Private-Owned Enterprises 2005). In 2008, 54.97 million workers were reported to work for privately owned firms with fewer than ten employees (which are called Individually Owned Enterprises). The workers in these small firms are largely unorganized because companies with less than 25 employees are not legally required to establish workplace unions, and bottom-up organizing by such a small number of workers is practically impossible. Therefore, the only way to organize workers in small firms into official unions is to establish union organizations that cover multiple employers. Essentially, union associations are branches of regional unions. However, as of now, their function has no clear definition (since they are very new). In some cases, union associations perform some of the functions of regional unions, and primary unions report to them, while in other cases, they function as primary unions, directly organizing and representing workers (see also Taylor *et al.* 2003: 104–5 for this new form of union organization).

Union associations tend to be more independent from employers than enterprise unions are; yet they are highly dependent on regional unions and, therefore, the Party-State. In the union association model, union associations are directly established by regional unions. Therefore, employers cannot effectively resist the establishment of unions. Since regional unions appoint union leaders from among their own staff, employers cannot control who these union leaders are. Moreover,

since union associations are under the direct leadership of regional unions, employers have limited power to intervene in union activities. Hence, independence from employers and their strong connections to authorities enable union associations to confront employers during the processes of organizing workers and negotiating working conditions. Nevertheless, while union associations are often able to persuade employers to recognize unions, most of them are unable to lead collective bargaining in a substantive way due to the lack of motivated and competent union leaders and the deficiency of effective governmental support. However, these union associations are often active in other functions such as extending union membership, providing welfare services and mediating in labour disputes. Therefore, they maintain their relevance to workers, however minor it may be. More importantly, the relative independence of union associations from employers and the greater potential for enforcing union administrative power in the workplace make them significantly different from employer-dominated enterprise unions. As such, they suggest some potential for a more independent labour representation role in the future. On the other hand, their high dependence on the Party-State may also impose limitations on the development of such possibilities.

Thus far, only a few regional industry-based union associations have begun meaningful wage negotiations with employer associations under favourable conditions (we discuss this further in the next section). Certainly, union associations are still not so much representatives for workers as the State's tool for maintaining social stability. Nevertheless, these union associations display more of the standard elements of the trade unions in the West, and their activities can be viewed as rather 'radical' given the institutional and organizational constraints. For more detailed case studies regarding the union association pattern of organizing, see Liu (2010b).

The central Party-State's commitment to support union organizing has allowed union associations to easily obtain the necessary government support to persuade employers to recognize unions. As a consequence, union associations have been established in most Chinese cities, counties and towns. Though the data on the number of union associations and their membership are not readily available, we could observe the successful and stable development of union associations during our fieldwork in 2008 across major Chinese cities including Beijing, Shanghai, Changchun, Hangzhou, Ningbo and Shenzhen. In particular, in the Luwan District of Shanghai, members of union associations accounted for roughly 90 per cent of the district union federation's membership.

The second innovative organizing strategy is the use of professional union organizers in organizing workers in small private companies. These professional union organizers are hired by regional unions as contingent workers for a particular job of union organizing, rather than as regular permanent staff. The first 'Professional Union Chairman and Organizer Programme', established in Huangshi City, Hubei Province, in 2002, was a response to the extremely weak primary unions in the private sector. By the end of 2007, this programme had recruited 2,750 professional union chairmen, 16,004 union organizers and 4,396 union coordinators across the nation (Wen 2009:3). In 2009, the national ACFTU

called for the expansion of this programme to all regions of China (Guo 2009). The basic mode of operation of this programme is that regional unions directly recruit professional union chairmen or organizers and send them to organize workers in small private companies (often into union associations as discussed above) and to represent workers in collective consultation/bargaining as well as other union activities such as welfare services and labour dispute mediation. In some cities, professional union officials must even stand for election by the workers to remain in office after the expiration of their 'probation period' (for example, the probation period is two months in Changchun's programme and three months in Huangshi's programme).

Since these professional union organizers and chairmen are under the direct leadership of regional unions and receive their salaries from the regional unions rather than employers, they are very much independent from employers and, therefore, have the potential to change the situation of the employer dominance of enterprise unions. Moreover, professional union officials are often selected from a large candidate pool on a competitive basis. For example, in 2007, the Shenyang City Federation of Trade Unions recruited 100 professional union officials from over 3,700 applicants on the basis of a strict written test and on-site interviews (Wen 2009). Therefore, these professional union officials may be better prepared to lead unions for the benefit of workers than traditional union bureaucrats or employer-appointed union leaders (see Belzer *et al.* 2008 for the case of the Changchun programme).

Despite the potential of this programme, it is still at the experimental stage and is confronted by at least two immediate challenges. First, since regional unions have limited financial resources, the wages of the professional union officials are far below the local average wages. According to Zhang's (2009) survey, 23 per cent of the surveyed professional union officials had monthly wages below ¥800, 70 per cent had monthly wages in the range of ¥800–1,200 and none of them had a monthly wage above ¥2,000. These low wages make it difficult to attract and retain highly qualified people to this profession. Moreover, some professional union officials have begun to put their independence from management at risk by taking up part-time jobs or, in some cases, accepting bribes from employers, which may result in the failure of this programme. The challenge of financial constraint leads to the second challenge confronting the programme, that is, the low quality of the professional union officials. The majority of the current professional union officials are over 50 years old and many of them are laid-off employees or internal retirees of SOEs. Worse still, most of them are lacking a sufficient amount of labour-related expertise (Zhang 2009). This may significantly undermine the effectiveness of union activities and negatively influence the long-term development and sustainability of this programme.

Another innovation of the regional unions' organizing strategy is the grassroots approach exemplified in the organization of the first batch of Wal-Mart stores in China. Initially, the regional unions tried to organize Wal-Mart stores by precisely following the traditional top-down organizing method. However, Wal-Mart resisted the pressure applied by the ACFTU and attempted to maintain a union-

free policy as it did in other parts of the world. Some innovative regional unions, with the support of local governments, directly approached Wal-Mart workers and encouraged them to mobilize unionization efforts. During our visit to the Bao'an District Federation of Trade Unions (located in Shenzhen City, Guangdong Province), a union official testified to having approached local Wal-Mart store workers after hours, put up union posters outside company premises and distributed leaflets to workers that outlined the benefits of joining trade unions. The regional union even attempted to an infiltration of its staff into the store as employees to drive unionization. According to Chinese newspapers, the establishment of the first five store unions (including the abovementioned one) all came about in a similar manner. This was the first time since the 1950s that China's trade unions had engaged in grassroots mobilization and organization, which has the potential to revitalize workplace unions.

However, regional unions immediately abandoned this organizing method after Wal-Mart changed its strategy from union avoidance to co-optation (due to the power of bottom-up organizing) and reached an agreement with the national ACFTU. According to this agreement, regional unions cooperate with Wal-Mart's management in establishing store unions, and this represents the traditional top-down organizing pattern. Later, an official of the SZCFTU told us, 'Grassroots organizing is a very special method. When to use it depends on many factors, especially whether permission from the government has been granted' (interview, Shenzhen, 25 June 2008). Therefore, thus far, the grassroots organizing method has rarely been used in China. Nevertheless, it presents significant potential for regional unions to revitalize the labour movement in China.

### *Welfare and service provision*

Regional unions have strengthened their welfare and service function since the 1990s, following the national ACFTU's directive. However, given the limited financial resources of regional unions, the effect of their welfare activities has been negligible. For example, from 1999 to 2004, the Dalian City Federation of Trade Unions could spend ¥48.71 million (US\$ 6.09 million) on its 'Warmth Project' intended to assist households experiencing financial hardship. Although the total amount appears to be substantial, this project had to cover 192,000 households; therefore, on average, each household only received ¥254 (about US\$32) in a five-year period, which meant almost nothing for the recipient families (according to the data from the Dalian City Federation of Trade Unions).

### *Legal mobilization*

Legal mobilization is a strategy initiated by regional unions under the guidance of the national ACFTU. In 1997, the Shanghai City Federation of Trade Unions established the first Trade Union Legal Aid Centre (TULAC), and by April 2008, 6,178 TULACs had been established nationwide (ACFTU 2008). The main duty of TULACs is to provide workers in labour disputes with free legal services,



including consultation, mediation and representation in labour arbitration committees and courts. However, regional unions have insufficient human and financial resources and legal expertise to adequately operate TULACs. Therefore, to overcome resource constraints and reach out to more workers, regional unions have to find creative solutions to improve the services offered by TULACs and augment human resources by recruiting volunteers such as law school students, law professors and practising lawyers. For example, the TULAC of the Yiwu City Federation of Trade Unions (YCFTU) received active collaboration from the students and professors of the law school at Zhejiang Normal University and local law firms. The YCFTU also set up a telephone hotline to assist workers in easily filing charges and obtaining legal consultation. Furthermore, the YCFTU established direct communication channels between TULAC and relevant government offices to improve administrative efficiency. In addition, the YCFTU increased the authority and effectiveness of the programme by inviting the leaders of the local governments and regional court to serve as special consultants for the TULAC. By September 2005, this TULAC had dealt with 3,434 labour dispute cases, 91 per cent of which were successfully resolved; provided legal consultation for 2,582 workers through the hotline; represented workers in the labour arbitration committee or in court in 239 cases; and helped workers regain ¥10.65 million (US\$1.33 million) of wage arrears or economic losses (interview with a YCFTU official, Yiwu, 25 July 2005). While visiting this TULAC, we met several workers who came to thank the centre for helping them obtain unpaid wages. Two workers who were seeking legal consultation told us that they gained awareness of this centre through their fellow workers and found the consultation service very useful. According to Chen (2004), such legal mobilization is the most effective and probably the only viable strategy for contemporary Chinese trade unions in confronting employers' encroachment on workers' rights.

The growth of TULACs has provided regional unions with a means to handle labour disputes as well as increase their public visibility (Chen 2009). However, the effect of these TULACs in helping workers is still very limited. First, the TULACs do not have sufficient capacity to help a large number of workers. In 2008, on average, each TULAC had less than three staff (ACFTU 2008). This greatly limits the service coverage. Second, legal mobilization by regional unions is essentially reactive; it involves correcting the infringements of rights already stipulated by laws rather than pursuing new rights claims. Third, when workers' interests conflict with those of the government, the TULACs are often unable to represent the workers, given the regional unions' status as government agencies.

### *Network building*

Network building is a new strategy initiated by some regional unions. It focuses on mobilizing social resources to promote unions' core activities such as organizing and legal aid, often as a complementary strategy to legal mobilization. In many areas, regional unions have created legal aid networks to provide free legal service to workers. As mentioned above, the YCFTU cooperates with law firms

and university students and professors to provide free legal aid to workers. In addition, to better serve migrant workers, the YCFTU cooperates extensively with regional unions in Middle and West China, where most of the migrant workers in Yiwu city come from. Moreover, the YCFTU cooperates with Yiwu's local newspapers and radio channels to direct public attention towards workers' rights and trade union activities. Thus, this cooperation among various social actors contributes to the development of a properly functioning legal aid network for workers in Yiwu.

Another notable network-building effort by a regional union is the so-called 'network unionism' initiated by the Xinyang City Federation of Trade Unions (XCFTU). Xinyang is a large agricultural city in Middle China from which nearly two million workers emigrate to other cities each year. Under China's household registration system (*hukou*), these migrant workers continue to be identified as 'peasants in Xinyang' despite the fact that they no longer work on farmlands in their hometown. Even worse, migrant workers in China are regarded as 'secondary citizens' in the cities where they reside, are unfairly treated in the workplace and are often excluded from trade unions. Although these workers emerged as major constituents of the Chinese industrial workforce, they were not even officially recognized as 'working-class' people until the 14th Congress of Chinese Trade Unions in 2003. To better protect the interests of these migrant workers, the XCFTU has developed a new mode of unionization with the support of the local government and regional unions of other areas. Specifically, the XCFTU organizes Xinyang's peasant migrant workers into trade unions before they emigrate for work and transfer their membership to union in their host city. Then, the XCFTU works together with host city unions to protect migrant workers' rights, allowing the host city unions to take the major responsibility while the XCFTU plays a communication and supervision role. In addition, the XCFTU has developed active collaboration with legal aid volunteers from the society at large. To some extent, such a networked union model can resolve the jurisdiction problems caused by the territorial principles governing China's trade union recruitment and thus offer a way to represent migrant workers. However, many migrant workers are still not organized into any union arrangement due to the limited resources of regional unions and formalism in the top-down organizing process (see Liu 2009).

In sum, due to their operational autonomy and direct connection with workplace unions and workers, regional unions have become increasingly active in recent years and are currently playing a greater role in promoting workers' rights. Some regional unions have even developed their own methods and strategies, which differ from those of the national ACFTU, showing an emerging bottom-up pattern of union reform in China. However, although the representative role of regional unions is improving, significant limitations that undermine the effectiveness of recent changes should be noted. First, as a local Party-State agency, regional unions' strategies and activities are heavily influenced by local governments. Given that local governments prioritize economic development using a business-friendly approach, being an agency of local governments constrains regional unions from providing fully fledged labour protection. Even with regard

to institution building, it is still impossible for regional unions to advocate very basic labour rights such as freedom of association and genuine collective bargaining. Second, their role as a governmental organ has greatly limited the regional unions' ability to protect workers' rights. For instance, regional unions may be of little use in helping workers to win labour disputes cases if government policies are responsible for the violation of the workers' rights. Third, limitations with respect to human resources have undermined the efficacy of regional unions' innovative activities. For instance, a lack of legal expertise has prevented regional unions from engaging in large-scale legal mobilization. Moreover, the low quality of union officials means that it is almost impossible for the majority of union associations to engage in meaningful collective bargaining. In short, the reform of Chinese trade unions towards genuine workers' representatives will be a gradual and prolonged process rather than a radical and swift transformation due to the political, institutional and organizational constraints faced by regional unions.

### ***Recent changes in workplace trade unions***

There are two forms of workplace unions: enterprise union branches and union associations which cover multiple workplaces. The economic reform since 1978 has opened more space for escalating managerial despotism in the Chinese workplace. One result of this is that enterprise unions have become increasingly marginalized (Gallagher 2005a; Liu 2009). The strength of workplace unions ultimately lies in their strong connections with workers who are willing to fight for their rights. However, contemporary Chinese trade unions almost never rely on grassroots mobilization as a source of power. Rather, trade unions in China tend to seek legitimacy and power by being incorporated into Communist Party organizations (of relevant national, regional and workplace levels). The limitation of this approach is especially visible in the case of enterprise unions. Although unions at the regional and national levels may have substantial authority due to their administrative status, such administrative power cannot be readily available to enterprise unions (Chen 2009). While enterprise unions largely remain inefficacious, some union associations, especially those based on local trades, have successfully assured support from regional unions and local governments in order to display notable progress in representing workers' interests. The following section will examine in detail two recent strategies/activities of workplace unions.

### ***Direct election of grassroots union cadres***

The direct election of grassroots union cadres refers to the process whereby workers nominate candidates for trade union positions, such as committee members, vice-chair and chair (Howell 2008: 846). This practice was first experimented with in the mid-1980s in the Shekou Special Economic Zone, and has been officially promoted by the ACFTU since 1997. In the 2000s, the direct election of grassroots union cadres has diffused more widely, especially in Zhejiang, Shandong and Fujian provinces, albeit in a piecemeal and slow fashion. While the major driving

force of the diffusion is the intention of reform-minded regional unions to make grassroots union cadres more accountable to workers, the adoption of direct election is also influenced by other factors such as pressure from transnational corporations to comply with corporate codes of conduct (Chan 2009; Yu 2008; and see Chapter 13 of this volume), the business philosophy of employers (Liu 2010b) or the demand from workers (Ren and Xu 2008).

Although the practice of direct election has the potential to transform grassroots unions into more representative workers' organizations, various political, structural and institutional constraints significantly limit its effectiveness (for details, see Howell 2008). For instance, current direct elections processes allow many opportunities for management or the Communist Party to influence the outcomes (Chan 2009, Qiao 2010; Ren and Xu 2008; Yu 2008). First, nominations are made not only by the workers themselves or fellow workers (i.e. so-called 'sea election') but also by enterprise Party committees, regional unions, former union committees or even employers. Second, there is no one way to elect an enterprise union chair; a chair can be elected by all of the workers, by workers' representatives or by an elected union committee, which creates possibilities for management or the Party to intervene in the process. Third, secret ballots may not be used in the election process; therefore, workers are virtually prohibited from making a choice that goes against the intentions of management or the Party.

Initial evidence on the positive impacts of the direct election of grassroots union cadres on workers and unions is mixed. Field research by Chen *et al.* (2004) found that the direct election of union cadres had made these unions leaders more active advocates of workers' rights in order for unions to engage in meaningful collective consultations. However, other studies (Chan 2009; Yu 2008) reported that democratically elected enterprise unions in Reebok's suppliers in South China failed to attain independence from management; therefore, they failed to improve working conditions through collective consultation. Our field research found that the genuine democratic election of grassroots union chairs is still uncommon and that employers find it easy to co-opt elected union chairs. This observation is consistent with Howell (2008), who showed how quickly elected union cadres can be incorporated into existing trade union structures and traditional operational modes, in part, through the training programmes offered by higher-level unions. Therefore, although the direct election of grassroots union cadres may improve the unions' worker representative role to some degree, this practice is not expected to make enterprise unions genuinely independent from employers in the near term.

### *Collective consultation*

It has been 15 years since the formal introduction of the equal consultation and collective contract system into the Chinese workplace. This system differs from Western-style collective bargaining in that it emphasizes the non-adversarial and non-confrontational nature of the consultation process (Warner and Ng 1999). Early research found that the process of collective consultation was formalistic

and collective contracts were largely reproductions of obligations already stipulated in the existing labour regulations (Clark *et al.* 2004; Taylor *et al.* 2003; Warner and Ng 1999). Our analysis of over 80 collective contracts in Shanghai, Shenzhen, Hangzhou and Changchun (collected in the summer of 2008) indicates that the system did not make significant progress over the past decade and collective contracts are still largely formalistic rather than substantial. For instance, the majority of the collective contracts, following the templates designed by the regional unions, mention an annual wage increase, but they do not specify a rate of increase. However, our field research also found some signs of change that were reported in some earlier studies (Chan 2000; Tong 2005). Although the number is still very small, in some profitable SOEs and international joint ventures, enterprise unions, with the support of Party branches or even local governments, are able to speak for workers to a certain extent in the collective consultation process and, therefore, conclude some meaningful collective contracts.

In addition to the enterprise-level collective consultation, two new forms of collective contracts have emerged: region-based collective contracts and local industry-based collective contracts. These forms of contracts were officially institutionalized by the 2007 Labour Contract Law. Liu (2009) examined whether these new forms of collective contracts are making a difference in advancing workers' interests. According to his study on a case in Guanlan, collective contracts between the owners of small individual-owned businesses (IOBs) and the Guanlan Union Association of POEs and IOBs were largely formalistic, suggesting that region-based collective contracts do not offer notable benefits to workers. However, his case studies on wage agreements made in the wool sweater industry in Xinhe town and in the water pump industry in Zeguo town indicate that local industry-based collective bargaining is approaching the genuine collective bargaining example set by the West and, therefore, may actually contribute to increasing real wages and improving working conditions. Local industry-based wage negotiation is now being diffused to many other regions, especially Zhejiang and Jiangsu provinces. However, the near-term development of this form of collective consultation may be significantly limited because it requires favourable preconditions such as a high concentration of small and medium-sized POEs in local industry, a tight local labour market, capable union leaders and strong government support (Liu 2009).

In sum, the employer dominance of enterprise unions makes it extremely difficult for enterprise unions to take strategic initiatives to reform or engage in independent, meaningful activities. In fact, the enterprise-based union organizing principle may easily lead to employer dominance in the contemporary Chinese context, and, therefore, may greatly weaken rather than strengthen grassroots unions. Recent labour unrest in Honda and Toyota factories confirms how incompetent enterprise unions are in representing workers' interests (Bradsher and Barboza 2010; Jacobs 2010). Union associations, especially those based on local industries, may represent some hope for the revitalization of Chinese workplace unions, though it may be a long process.

## **Conclusion**

Chinese trade unions at all levels have started to improve their representative role within the framework of state corporatism. However, the space and institutional means available to unions vary across the three levels, leading to variations in union strategies and activities. At the national level, although the high political status of the ACFTU has helped it achieve certain success in the arena of institution building, the tight control of the Party-State has greatly limited its representative role and ability to independently and effectively make strategic choices and engage in substantive activities. At the workplace level, while some newly-formed union associations have made some progress towards more genuine collective bargaining, employer dominance has undermined the ability of enterprise unions to represent the interests of workers. Furthermore, regional unions, due to their relative operational autonomy and direct connection with the workplace, have become the most effective focus for change in the organizational hierarchy of the ACFTU. Some regional unions have even developed innovative strategies such as legal mobilization, network building and new organizing initiatives to continue to improve their representative roles. However, heavy governmental intervention, the dual functions of Chinese trade unions and their limited human and financial resources have significantly impacted the effectiveness of regional unions' initiatives.

A factor that further undermines unions' efforts to strengthen the worker representative role is employers' tactical responses to initiatives of change. In order to effectively counter national and regional unions' efforts to effect change, employers have mobilized themselves and taken collective action. For instance, chambers of commerce that represent American investors in China have attempted to influence the legislation process of the Labour Contract Law in order to check the national ACFTU's efforts to strengthen unions. In their comments on the draft of the Labour Contract Law, the association asserted that some proposed provisions such as one that forces employers to obtain the approval of employee organizations prior to the introduction of company policies (Article 5, Clause 2 of the Draft Labour Contract Law) would 'weaken the competitiveness of Chinese enterprises' (AmCham 2006: 32). The American Chamber of Commerce in China also publicly criticized the organizing strategies of regional unions, arguing that workplace unions 'initiated by outsiders could harm' the cooperative relationship between employees and management (AmCham 2007: 36). Individual employers also actively seek to undermine unions' efforts to become active employee representatives. For instance, a non-unionized Dutch firm located in Beijing actively supports employee social clubs which perform all of the major traditional functions of workplace unions. Such alternative employee associations reduce employees' perceived need to initiate workplace unions, and therefore deter employees' voluntary participation in union organizing campaigns. When workplace unions must be recognized, employers attempt to gain control over the unions by placing cooperative figures in union leadership positions (Kim 2008).

The political, institutional and organizational constraints faced by Chinese trade unions – Party-State control, the functions and structure of trade unions,

limited union resources and employer control – may not disappear in the near term. The extent to which Chinese trade unions can overcome these constraints will determine their success in transforming themselves into genuine workers' organizations. A possible avenue as well as a great challenge is to engage in grass-roots mobilization. A more genuine trade union movement may emerge in China when Chinese trade unions gain their power and legitimacy from organized workers rather than from their official administrative status.

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# 16 Employer coordination and employer associations

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## Introduction

The study of employer associations receives less scholarly attention, across the world, than trade unions, industrial conflict or enterprise-level HRM. This is even more obvious for contemporary China, where employer associations have largely escaped notice until very recently. Indeed, recent literature surveys of HRM and industrial relations in China do not mention them or even seek them out (Clarke, Lee and Li 2004; Poon and Rowley 2007; Cooke 2009; Warner 2009). Only a very few researchers have mentioned them in passing, usually in the context of much broader projects (Zhang 2007; Wang 2008). In reality, again until recently, there have been few very signs of genuine employer association behaviour to study, reflecting state policy discouraging such associations and other factors deriving from China's transition.

This chapter therefore provides a broad overview of the still highly fragmented and very incomplete knowledge on this theme. In doing this, we develop a classificatory model to assist in analysis and for future research. As well, we provide evidence from our own recent research to illustrate our broader arguments. That research has involved – and continues to involve – the use of questionnaires and semi-structured interviews with employers, examination of internal and external association documents, and some degree of participant observation. Furthermore, our research sites include the national level as well as some of China's most advanced areas.

Given the novelty of this topic, a few obvious questions arise. First, what is happening? Second, to what extent is the employer association story in China *sui generis* as against being a variant of international trends, albeit with some Chinese characteristics? Third, is the recent emergence of more genuine employer association behaviour a reflection of particular changes under way within China's political economy and, if so, which ones and why? Finally, what might be the future trajectory of employer associations in China?

To help answer these questions, we begin with a brief survey of those aspects of the broader employer association literature that can help us make sense of and compare the Chinese experience. In, turning to the Chinese case, we survey those state-based institutional aspects of China's transition experience contributing to

the employer association story as well as those elements that derive from the expansion of market relations and civil society. Thus we have successive sections that discuss employer associations in terms of developments ‘from above’ as well as those that chart influences ‘from below’.

### **Employer association formation and behaviour**

The ‘western’ employer association literature – covering also Japan – assumes that they are one type of membership-based, *voluntary* business association. Most business associations focus on the ‘trade’ or product market concerns of their member firms. An example of this in China is the China National Adhesives Industry Association (CNAIA 2010). A much smaller number of associations may focus their activities purely on member companies’ labour market concerns. More often though, those with a labour market – or industrial relations – vocation also engage in some ‘trade’ areas as well (Windmuller and Gladstone 1984; Traxler and Huemer 2007). They are ‘mixed’ associations. Both these latter categories attract the title ‘employer association’ and it is to the exploration of those forms in contemporary China that we address this chapter.

The western literature suggests that employers combine and form employer associations to confront challenges from organized labour and from state interventions in labour markets inimical to employer interests. As well, associations may form as a mechanism through which some employers attempt to control damaging labour market competition from others. This competition might take the form of wage cutting or, in the context of tight labour markets, wage rises and poaching of employees from other employers (see Chapter 7). Sometimes, existing trade associations broaden their brief to meet the expressed labour market needs of member companies, becoming (mixed) employer associations in the process. This pattern is particularly pertinent for the Chinese situation, as we discuss below, as the state granted official legitimacy to various forms of trade association well in advance of granting employer association autonomy.

Employer association formation and activity thus come about because individual employers lack the resources they need to confront these ‘communal’ challenges by themselves. These motivations subsequently become an association’s principal sources of organizational purpose (Tolliday and Zeitlin 1991; Traxler 1993; Behrens and Traxler 2004; Windmuller and Gladstone 1984). Where associations are genuinely voluntary and largely autonomous of state control, these organizational purposes, in turn, generate strategic choices regarding which activities employers will collectively embrace through their associations. Over time too, original purpose and consequent activities generate core roles for associations and contribute to developing their organizational identities (Schmitter and Streeck 1999).

Given the reasons why employers form associations, those activities tend to prioritize supporting employers in multi-employer collective bargaining, lobbying governments and public policy campaigns. They may also involve enforcing a wage ‘floor’ or ‘ceiling’ in the locality or industry. In recent decades – in the West

as well as in some East Asian countries – employer associations have also developed an important role as the representative policy voice of employers in tripartite, corporatist institutional arrangements (Gan, Morgan and Sheldon 2010; Windmuller and Gladstone 1984; Sheldon and Thornthwaite 1999). In a corporatist framework, the state seeks to transform conflicting class interests into a collaborative or even harmonious environment. Mostly, this requires the structured, formal involvement of centralized, peak unions and employers' associations in tripartite collective political bargaining. However, in larger societies, like China, there may also be lower – for example regional or sectoral – levels of tripartism (Schmitter 1974; Lijphart and Crepaz 1991). These sorts of motivations and methods are a priority for the Chinese party-state in its quest for a harmonious society consistent with its maintenance of political legitimacy and control.

Employers' choices to share labour market representation, coordination and solidarity manifest through their associations providing 'collective goods' (Olson 1971), non-exclusive, non-market solutions to the 'class' needs of employers. Mostly, core collective goods concern collective bargaining, lobbying, policy development, representation and public relations. Yet, if associations only provide collective goods, they become vulnerable to 'free-riding' by employers who can benefit from these types of activity without joining the association and contributing financially to its maintenance. If widespread, free-riding undermines a voluntary association's resources and representativeness. Where the felt need to join an association for collective representation or coordination is weak, it challenges that association's ability to recruit and maintain membership and manage its internal cohesion. Traxler (1993, 1999) refers to these as challenges of 'associability' and 'governability'. By associability, he means (1993: 677) 'an association's capacity to recruit members within its domain'. By governability, he refers to maintaining sufficient internal cohesion, in particular, by unifying diverging interests among members.

Many employer associations therefore provide 'selective goods' (Olson 1971): free and mostly standardized services directly to and solely for members. Selective goods are an inducement to and reward for membership. In content, they are mostly very near core areas of an association's collective goods expertise. Examples include: collection and dissemination of survey information on industry trends; printed advice and seminars on regulatory compliance and guidelines for bargaining; member-only electronic notices and advice; call centre advice facilities; and networking opportunities. Finally, in some western countries recently, associations are increasingly choosing to also provide 'elective goods': customized, commercial fee-based services to members and non-members alike (Sheldon and Thornthwaite 2004).

Employer associations exhibit a range of recruitment domains. 'Territorial' associations act for firms located in a given geographical area. 'Sectoral' (or industry) associations recruit within one or a few related industries. These two types of association may then be direct members (or affiliates) of peak, economy-wide associations. An association's profile reflects its domain but also particular demographic characteristics of its members – for example, large versus small

companies. We now turn to see how these aspects are emerging in the Chinese context.

### **Employer associations in China: the ‘big picture’ unfolds**

Until recently, China’s party-state made no provision for autonomous employer associations. As with unionism (see Chapters 3 and 15), the state mandated a single formal association that was, in every sense, a government authority, rather than a membership-based voluntary association. Given the way the state constrained independent genuine union activity and fostered a pro-employer regulatory environment, employers did not feel any strong need for employer association collective goods related to collective bargaining, lobbying or public relations. If anything, they may have been interested in association provision of selective goods such as technical, economic and legal services – or even elective goods of a consultancy nature.

Since the early 2000s, the environment facing employers in China has been changing in ways that favour more autonomous employer association activity. From within China, employers face skills shortages, challenges from the 2007 labour laws, and greater labour and social unrest. There have also been pressures from without. International pressures from the International Labour Organization (ILO) and various labour-oriented non-government organizations, including the International Trade Unions Confederation (ITUC), and the proliferation of Corporate Social Responsibility initiatives through global production chains, have been urging employers and state to ensure the spread of ‘decent work’, ‘social dialogue’ and basic human rights in the workplace (ASRIA 2002; ILO 2008; Wang 2008).

All these developments have had important implications for employers, potentially restricting their managerial prerogatives and increasing their labour costs. To the extent that employers see these class challenges as requiring a communal response, they are providing fertile soil for employer associations to form, to recruit and to represent employers by offering relevant collective goods. In the process, these processes are encouraging the unfolding of a great diversity of employer association trajectories, some of which are very particular to China.

For its part, the ILO’s preferred solution for achieving its suggested improvements, in China as elsewhere, has been the diffusion of tripartite structures and consultation processes that give organized labour – as well as employers – jurisdictional autonomy, legitimacy and voice alongside representatives of the state. The tripartite form is very amenable to China’s political leadership, but the suggested content has been less so (Shen and Benson 2008). Indeed, the suggested form encourages reliance on a top-down approach to industrial relations and employer associations consistent with the government’s view of social harmony. On the other hand, the ILO’s suggested content has the potential, as mentioned earlier, to engender quite different patterns of industrial relations and therefore employer association structures and activity.

As Zhang (2007) suggests for business associations more broadly, a first question relates to association autonomy. The more autonomous an association, the more it identifies its purpose with meeting its members' sometimes conflicting needs, the more dependent it is on self-funding and the greater its need to recruit and retain members. In short, greater autonomy brings challenges of associability and governability to associations in China as elsewhere.

Zhang (2007: 211) argues that the criteria for deciding on associations' autonomy should be that they 'are founded, funded and governed mainly by societal actors, and represent the interests of their constituents'. This suggests two categories. Using a more dynamic perspective, however, it is clear that we can identify at least three. The first are associations which remain largely controlled by state authorities and others which, previously state-controlled, are now more autonomous and, perhaps, increasingly so. Both reflect China's transition processes, albeit at different stages. That is, associations can develop towards autonomy despite their origins. What is important for our analysis is their profile and activity now, not their origins. Finally, there are those associations that have been autonomous from the start. They are signs of shifts beyond China's transitional processes.

Zhang (2007) suggests that local variations in association autonomy reflect diverse paths in local economic development, themselves the result of uneven patterns of transition as well as modernization. He compares two localities. In Wuxi, where local government bodies continue to play a leading role in the local political economy, Zhang finds most associations are controlled, staffed and financed by local authorities. Their operations are 'top-down' because their main purpose is to meet the development objectives of the local state authorities. They do little to engage with local private business owners, for example through recruitment, or to focus on those entrepreneurs' needs, for example through policy debate and development. In Wenzhou, on the other hand, a tradition of leading private entrepreneurial activity has generated patterns of sociability among employers aimed at addressing common business needs. One outcome is their 'bottom-up' formation of a variety of associations, some with a greater sectoral identity and mission, others with less.

Table 16.1 presents our broad classificatory model of employer associations in China today. One crucial element is the *impulse for organization*. We discriminate here as to whether an association's purpose and activities result from state initiative ('top-down') or from the initiative of employers themselves ('bottom-up'). This variable then intersects with the *organizing principle*: whether the association is primarily organized on a territorial, a sectoral or some other basis, such as size of firms or ownership type. As associations can meet more than one such principle – for example small firms in a particular locality – this suggests complexity and imprecision. So too do patterns of adaptation and strategic shift by associations. However, given China's size, dynamism and diversity, it is important to try and capture a sense of these different patterns.

With China's transition well embedded and along numerous, diverse paths, we can expect the formation of new autonomous associations and for existing

Table 16.1 Typology of employer associations in China

		<i>Impulse for organization</i>	
		<i>State-driven (top-down)</i>	<i>Voluntary (bottom-up)</i>
Organizing principle	Based on sector	Former sectoral ministries become national associations: links between individual firms and government <i>Examples:</i> China National Textile and Apparel Council China Electronics Enterprises Association	Emerge spontaneously to meet collective needs of firms in the same sector at lower level of economy Scope of sector tends to be quite narrow Operates at decentralized level of economy (such as city and county) Some affiliated to ACFIC Some under supervision of state agencies
	Based on territory	Local authorities dominate local associations eg Wuxi (Zhang 2007)	Some affiliated to higher level, state-driven sectoral associations Industrial park FIE employers e.g. HR Club, SIP
	Based on firm types	Ownership Size of enterprises Organized by the State in line with corporatist principle of having one organization for each ownership type of firms <i>Examples:</i> Individually Owned Enterprise Association Private Enterprise Association Foreign Invested Enterprise Association	Domestic private employers e.g. Wenzhou (Zhang 2007) FIE associations by host country <i>Examples:</i> AMCHAM Taiwanese Investors Association, Korean Investors Association (see also Wang 2008) [At local level, also informal groupings of FIEs from same country of origin]

associations to shift towards greater autonomy. Furthermore, as the central government now provides employees with more legislative employment rights and allows more political space for assertive (ACFTU) union activity and autonomous employer associations, we can also expect to see more trade associations adopt a labour market focus. These will include those associations of FIEs defined by their home country, like AmCham (see Chapter 15), for whom the 2007 legislation was also a defining moment. All these types of associations are more likely to be voluntary and membership-focused. As such, China's transition has been creating a market for employer association goods and services that in turn engenders complex patterns of market competition and collaboration

among associations at different levels and in different sectors of the economy (Wang 2008).

On the other hand, tripartite state corporatist institutions and processes remain a central government priority and one designed around authoritative collective employer representation. For the moment, the state rather than employers remains the crucial source of that legitimation but that too is open to challenge. To the extent that tripartism may spread practices of collective bargaining, this too will create pressures on top-down associations to meet the class needs of employers, a process Shen and Benson (2008) have already noticed. We now turn first to looking at top-down employer associations through the prism of the state's promotion of tripartite corporatism. The subsequent section explains some of our research findings on localized bottom-up associations.

### **Tripartism and the fragmentation of employer representation**

The concept of tripartism began to gain recognition by the Chinese state as it resumed its ILO membership in early 1980s. Accordingly, there were some elementary forms of tripartite interactions as pilot experiments in some localities in the mid 1990s. These are examples of the types of local experimentation that have marked the transition – as discussed in chapters 1 and 2 – and the importance of local diversity, often supported by the centre, that is evident in other chapters. Nevertheless, a general scholarly consensus is that, at the national level, these were formulaic discussions between three parties who as officials were all tied to, employed or controlled by the state. At lower levels, there was greater variation but, once again, unions were in a subordinated position to local state agencies and, also to employers. Employer bodies were similarly beholden to and peopled by local administrative and Party organizations (Chapter 15; Zhang 2007; Shen and Benson 2008; Wang 2008).

The party-state embraced tripartite corporatism more strongly in response to an explosion of labour conflict and widening income gaps in the late 1990s and early 2000s. Under the overarching goal of 'building a harmonious society', the party-state introduced a series of measures designed to provide better legal protection of workers' rights – culminating in the adoption of the Labour Contract Law (see Chapter 3) – to improve social security, and to gradually integrate urban and rural labour markets. At the same time, the party-state was keen to build institutions of tripartism and collective bargaining as key instruments to 'harmonize' labour relations and therefore pre-empt social conflicts.

In 2001, the central government established a National Tripartite Consultation Committee (NTCC) for national coordination of industrial relations. The NTCC immediately campaigned to foster the establishment of tripartite consultation committees (TCCs), initially at the provincial level and then in municipalities and townships. In 2002, an official set of 'Guiding Opinions' supporting this tripartite system raised the institutional profile of employer associations by specifying that each provincial-level TCC should involve a representative employer organization alongside trade unions and state agencies (Shen and Benson 2008).



Due to the representational deficiencies of China's industrial relations system, the newly born tripartite institutions at various levels looked like a multi-headed monologue, at least in the first few years. But a series of events in the early 2000s have given more prominence to the institutions and therefore created institutional pressures for employers to respond collectively. The state's decision to institutionally 'clone' the tripartite institutions down to the lowest level of administration – such as the district – made it imperative for employers to create employers' bodies at those decentralized levels able to engage with local governments and ACFTU local branches.

At the same time, the ACFTU's campaign for collective bargaining has begun to focus on regional/sectoral bargaining, since the mid 2000s, in localities where there exist a cluster of domestic, private, small and medium-sized enterprises. ACFTU successfully persuaded the government and employer representatives at the national level to issue a joint communiqué promoting regional and sectoral bargaining. This move has prompted local employers to explore ways to achieve better representation and coordination among themselves in order to respond to these new challenges.

In addition, as discussed at more length in Chapter 7, China has been experiencing labour shortages since 2003. These started as localized shortages in the Pearl River Delta in 2003 and then spread to other regions such as the Yangtze River Delta by the mid-2000s. To attract migrant workers, local governments began to make upward adjustments to local minimum wages, which had changed little for many years. Until then, local employers had paid little attention to minimum wage fixing processes, which were exclusively in the hands of the local government. But the changing labour market situation has stimulated local employers to seek to increase their influence in minimum wage fixing and other policy processes affecting their labour costs.

Because of the above-mentioned developments, tripartite institutions have come to display much more complexity and diversity than the original design intended: that tripartite interactions would be confined to the top-down associations – and particularly for employers – which enjoy a representational monopoly in China. In many ways, the emerging local-level tripartite developments, because they depend heavily on an organized employer voice, also reflect patterns of substantial diversity in government–business relations at the local level (Wang 2007; Liu 2008; Zhang 2008). We now turn to examine these interactions between state and associations.

### ***China Enterprise Confederation (CEC)***

Until recently, the China Enterprise Confederation (CEC) was the sole employer association that the party-state designated and permitted to cover the whole economy. The state created CEC in 1979 as a link between cadres in state-owned industries (SOEs) and the government. As the government started SOE reform by decentralizing its control over SOEs and gave more autonomy to SOE cadres (see Chapter 9), the government wanted to create an institutional link through the

CEC. CEC thus, in reality, started as an association of SOE cadres, organized and supervised by the state agency, the State Economic and Trade Commission (SETC). Its 1999 merger with the China Enterprise Directors' Association (CEDA) brought it more a diverse membership,<sup>p</sup> which now includes 'enterprises, companies, entrepreneurs, provincial and municipal associations, industry associations and trade associations' (Shen and Benson 2008: 237; CEC-CEDA 2010). According to the ILO (2010: 12) in 2010, CEC had '545,000 members, including state-owned enterprises and individual employers representing 30 industry sectors in 30 provinces, 28 industrial cities and 118 regions'.

From a 'western' perspective its membership size and complex composition – part association, part federation, part confederation – presents an unwieldy scenario for decision-making and governability. However, these are problems for associations which are truly voluntary, self-managing and self-funding. This is not the case with CEC. Despite having a formal mission that combines providing employers with a few collective goods – particularly related to tripartism – and also selective and elective goods, CEC still appears heavily dependent on government and the roles provided for it (CEC-CEDA 2010).

Though the government designated CEC to represent China's employers in the ILO's tripartite structures, it was only in 1999 that CEC received a formal mandate to represent employers domestically (when it also took its current name). The 1999 decision formally granted it a monopoly over that role as the party-state sought to keep tight control over industrial relations and related institutions (Shen and Benson 2008).

Then, with the creation of NTCC in 2001, CEC became a formal member of the new NTCC, supposedly representing all types of employers in China. Its NTCC membership enhanced CEC's status, as it gained political influence at the national level in the labour and social policy arenas, sitting with the ACFTU, whose political status within China's official political system remains very high. But at the same time, it posed serious representational challenges vertically and horizontally (Lee 2006).

As the state decided to set up the tripartite structure vertically, from national down to district level, the CEC has faced a serious challenge in filling the employers' seat within the tripartite institutions at decentralized levels where CEC does not have branches. In the early 2000s, CEC's branch presence reached down to only to provinces and major cities, leaving employers' seats in tripartite bodies in many smaller cities and most districts to be filled by other actors.

The state founded CEC for SOE cadres, then later renamed it and redefined it as an organization to represent all types of employers, regardless of size, ownership and sector. This is an enormous remit in a nation, society and economy as vast as China's. In reality, CEC affiliates at decentralized levels are predominantly local general bodies without organizational arrangements defined by industry or sector. As we explain below, this is a source of its representational weakness. As well, because of its origins and its ongoing dependence on the state for legitimacy, purpose and role, the CEC has still to develop a vocation for recruiting member employers directly, and explicitly representing them.

The CEC's origin in the state-owned enterprise sector also creates a horizontal representational challenge. While the state has given it an official mandate to represent all types and ownerships of enterprises, its actual influence remains confined to the state sector, where the party-state's influence is overwhelming. At present, CEC is trying to find a formula to work with other business associations, including the All China Federation of Industry and Commerce (ACFIC), to overcome these vertical and horizontal challenges.

### ***All China Federation of Industry and Commerce (ACFIC)***

Created in 1953 to mobilize national capitalists in 'socialist construction', ACFIC received equivalent political status to the eight 'democratic' parties within China's political system. As with all associations in China, ACFIC was dependent on the party-state to which its governance structure and policy orientation were necessarily closely aligned. But its particular formal status within China's political system allowed it to remain relatively independent from any individual ministry, permitting it to articulate the voice of domestic private entrepreneurs. Since Deng's economic reforms, ACFIC has gradually become an economy-wide organization of domestic private business in counterpoint to foreign-invested enterprises (FIEs) and SOEs. In fact if we follow Chapter 2, we might say that it operates within a different business system than CEC. ACFIC has local affiliates or branches in all the provinces, autonomous regions, cities and counties (ACFIC 2010).

Though ACFIC itself is, like other associations in China, a top-down association deeply integrated within the party-state structure, its mandate of representing domestic, private businesses has created different institutional orientations and structures vis-à-vis CEC. As Chapter 2 points out, China's domestic, private businesses suffer from an unfair business environment relative to SOEs, particularly in relation to access to bank lending and other financing, but also taxes and other areas. This spurs ACFIC and its affiliates to speak more forcefully on behalf of private employers, if not openly. Second, ACFIC's membership base of domestic, private businesses allows it to create institutional links with bottom-up type territorial and/or sectoral business associations of domestic, private business at decentralized levels. These more autonomous, bottom-up local business associations, for their part, seek to increase their influence by affiliating with ACFIC.

Until 2008, ACFIC functioned as a trade association concerned with product market and general economic issues, rather than social and labour market ones. However, the 2007 adoption of the Labour Contract Law, despite its many highly controversial aspects, alarmed many employers – particularly domestic private sector employers – typically represented by ACFIC (Wang 2008; Shen and Benson 2008). It was clear to many of them that, if the party-state moved to offer legal protection to employees while undermining what employers and others commonly perceived to be managerial prerogatives, those employers needed a more robust and autonomous representative voice; they cannot stay outside the formal legislative and policy formulation processes. In 2008 therefore, ACFIC changed its charter to

add an industrial relations mission, becoming a (mixed) employer association. That year too, ACFIC made a formal proposal to be included, as an employer representative, in NTCC. As well, ACFIC affiliates now sit, together with CEC, in two-thirds of all provincial TCCs – a matter we return to below.

According to its website, ACFIC (2010) also provides collective, selective and (perhaps) elective goods. Nevertheless, collective goods dominate and they explicitly include lobbying and representation to government on behalf of the ‘non-public economy’. This includes ‘political consultation of national policies and strategies in politics, economics and social affairs’. Moreover, it has an explicit membership focus in its publications, speaking in fact for the ‘legitimate rights of its members’. The selective goods it provides seem targeted at members’ modernization, innovation and growth. These broad offerings capture its original and still principal vocation in trade matters and appear attractive inducements to join and remain a member. What seems apparent is that ACFIC is likely to expand its influence within China’s industrial relations system, challenging the representational monopoly of CEC, as long as labour market regimes and regulations turn towards favouring employees. What then might be the implications of this for matters of employer association authority and influence?

### ***Multiple employer voices and the corporatist project***

The notion of a monopoly over employer representation in national tripartite labour politics is likely to come to an end. Until now, CEC has been the only officially designated representative organization of employers and it holds that monopoly at domestic and international levels (ILO 2008, 2010). However, CEC has already lost its monopoly in many provinces and lower levels and, since 2008, ACFIC has been mounting a challenge to CEC’s monopoly within *national* tripartite arenas. Why is this happening, and what are the likely implications for future industrial relations in China?

Since the creation of NTCC in 2001, 10,702 tripartite bodies have emerged across national, provincial, municipal, county, district and even street levels. The mandates for the lower-level TCCs include coordination of industrial relations through joint study, joint promotion of labour contracts and collective contracts, and the preparation of local regulations. A crucial factor for an association’s legitimacy and representativeness is its actual presence.

In the early 2000s, in the absence of a CEC presence and before ACFIC widened its brief to include industrial relations, state agencies promoted a variety of localized initiatives to provide employer representation. One was for the SETC to represent employers. At other times, a prominent local businessman was ‘elected’ to represent employers. Nonetheless, these proved unsatisfactory solutions as far as the other two tripartite actors – trade unions and government – were concerned. They wanted stable, reliable interlocutors on the employers’ side.

To participate in TCCs at decentralized levels, CEC has made tremendous efforts to establish branches at the lower levels wherever TCCs have been created. As a result, CEC now has 269 branches at the municipal level and higher as well

as branches in 814 counties and districts. Nevertheless, while this represents 80.2 per cent coverage for municipalities and above, the lower-level CEC branches are present in only 28.4 per cent of total counties and districts. Clearly, the lower the level, the weaker CEC is. This contrasts with ACFIC, which boasts 3,130 organizations at county, district and municipality levels and above. ACFIC even has 23,993 branches at the lowest levels, such as street, community and township (Cheng 2009).

Other associations have been stepping into the organizational and representational vacuums that the CEC has left. Increasingly too, other associations, mostly ACFIC affiliates, sit together with CEC on TCCs, even where CEC does have a branch organization to 'represent' employers. This model, which is known as the 'three plus X model', emerged for the first time in Fujian and has spread to two-thirds of China's 32 provinces.

### **The challenge from unions for regional/sectoral bargaining**

ACFTU has been campaigning for regional/sectoral collective bargaining in localities where domestic private SMEs are clustered around a single sector of economic activity. Here again, it is not the CEC but mostly ACFIC local affiliates that have become bargaining partners for local unions. There are clear reasons why ACFIC has been better positioned to capture this role.

At decentralized levels, numerous sectoral *trade associations* have been emerging, in an autonomous (bottom-up) way since the early 1990s. As Zhang (2007) points out, these associations represent responses to the collective needs of employers, for example to achieve some degree of self-regulation of underbidding on prices in contexts of fierce competition among thousands of small, mostly domestic private enterprises; to ensure minimum product quality and safety standards; to safeguard the brand reputation of a particular sector or locality; and to share information.

It was in the Yangtze River Delta provinces such as Zhejiang and Jiangsu that these kinds of autonomous, local sectoral associations first emerged after economic reform. The explanation, once again, is that it was locally embedded private entrepreneurs who were mostly driving economic development and industrialization in this region. This marked it as different to Guangdong, where foreign capital has been the main driver, or the north-eastern provinces where SOEs have dominated economic activities. These local private entrepreneurs needed to find ways to protect their interests themselves and they formed local trade associations for that purpose. Gradually, these associations have become involved in industrial relations, as they are the natural local partners for an ACFTU which started its campaign for regional/sectoral bargaining in the early 2000s.

One well-publicized case of such localized collective bargaining activity began in 2003 in the wool industry in Wenling city in Zhejiang province. With 113 firms employing around 12,000 workers, this labour-intensive industry is very important to this township. Most firms are small-scale, two-thirds employing between 10 and 20 workers, the rest up to 200 except for three companies employing more

than 400 workers. Chronic shortages of skilled and better-educated workers fostered high levels of turnover and employer poaching from neighbouring firms. Not only did these conditions engender high levels of conflict between employers, but the most skilled workers were also involved in strikes for higher wages.

As is common at the firm level (see Chapter 15), union leaders at the township level had close links with either the local Party or employers. Nevertheless, the township trade union federation and township wool industry association started wage negotiations in 2003 as a way of trying to manage both individual and collective displays of employee dissatisfaction. Their negotiations centred on wage rates for 59 work process. The successful conclusion of this local, sectoral bargaining, according to the evaluation by one local researcher, is that it reduced transaction costs, reduced opportunistic behaviour by employers (through non-payment of wages) and workers (through turnover), and reduced conflicts overall (Xu 2005). In the process, this demonstrated to local employers that membership of and collective action through an employer association can help them meet diverse class challenges to their businesses that call for a collective goods response.

More broadly, employers have felt pushed to seek better coordination among themselves and greater external influence through forming their own territorial and/or sectoral business associations and through affiliating with ACFIC. As we have mentioned, there have been a host of contributing factors, arising from labour market changes, that have been influencing these choices. These include legislation such as the Labour Contract Law – often perceived by employers as being pro-employee – and an expansion of industrial relations institutions such as TCCs and regional/sectoral bargaining, which requires better coordination among employers. This new associational dynamism at local levels, propelled ACFIC – at various levels – into the industrial relations and social policy arenas, effectively dismantled CEC's representational monopoly at those decentralized levels, and began to undermine it at the national level.

The trajectory of local employer associations and new ACFIC orientations broadly parallel the experiences of employer association formation, roles and activities captured in the 'western' literature and discussed at the start of this chapter. Nevertheless, the organizational configuration of ACFIC and its affiliates at decentralized levels strongly display particular 'Chinese characteristics'. In particular, these are the reality that ACFIC continues to be bound by the parameters of the party-state while, at the same time, it strives to represent the voices of domestic, private employers who are the majority of China's emerging business class and who, to date, lacked an independent voice of their own.

We now introduce some broader, yet still localized research on bottom-up associations that our two other co-authors have been carrying out recently. These are in an advanced sector – electronics – and highly developed and modernized localities more consonant with arguments about post-transition China discussed elsewhere in this book. Moreover, in contrast to earlier discussion of association activity among domestic private employers and SOEs, this research focuses on localized employer association behaviour among FIEs. This is still a little-known phenomenon in the literature and we address it through statistical as well as qualitative methods.

### **Employer association activity among FIEs**

In perhaps the first research-based discussion of bottom-up employer association in today's China, Sheldon and Ruan (2004) explain the decision by eight larger, early-entrant electronics FIEs in Souzhou Industrial Park (SIP) to form the SIP HR Club in March 1998. Despite its name, this was clearly an employer association. Of the six purposes specified in its founding Agreement, four deal with the main problems that the firms, through their new association, sought to control: pre-term employee turnover and employer poaching of skilled employees in its local labour market (see also Chapter 7).

These problems particularly undermined the employment management philosophies of Japanese and Korean FIEs. Their senior managers wanted the Club to use sanctions against miscreant employees, as well as against member employers who breached norms by poaching. However, the Club's majority, FIEs from Europe and North America, preferred the Club to have less power and looser organization. North American FIEs were less concerned about high levels of turnover of poaching *per se*. They prioritized inter-firm collusion against the rising wages of skilled process workers that were a consequence of that turnover (Sheldon and Ruan 2004).

The Club acted to assist employers against rising entry level wages for skilled workers. To discourage employee job-shopping, it was able, for some time, to regulate average starting wages and benefits. By fostering diffusion of seniority-based wages, the Club discouraged job-hopping. To these ends, it twice yearly collected survey data on pay and benefits within SIP and then disseminated its findings to members who provided data. The collective expectation was that existing and new members would only recruit outside SIP, a process the Club facilitated through a collective recruitment service and training function for members.

Sheldon and Ruan (2004) suggest that the Club was successful in the years to 2002. Our evidence, collected subsequently from officials of the SIP's administrative body in charge of labour market matters (SIPHRD), as well as company managers active in the Club, suggests that, after a short period of success, the Club's effectiveness became hostage to its inability to control poaching by new-entrant FIEs. In short, challenges of associability and governability proved unmanageable in a situation where the local authority's development imperatives encouraged the arrival of ever more FIEs, ahead of the capacity of the local labour market to supply sufficient skilled labour. According to one HR manager who had worked for companies on both 'sides', new entrant companies only joined the HR Club once they had reached a stage where they no longer needed to poach but were beginning to suffer the poaching of others. The HR Club has been more successful as a 'club' of HR managers, providing a forum for the diffusion of new ideas in their field and for the exchange of their own experiences, a phenomenon that Sumelius (2009) explores in relation to FIEs from Nordic countries.

As Sheldon and Ruan (2004) suggest that interactions of poaching, FIE size and FIE duration in an industrial park can explain employer association formation by FIEs from the bottom up, we decided to test those assumptions systematically. During 2008 and 2009, we conducted both survey and interview-based research at

three leading industrial parks in the Yangtze River Delta: SIP; Shanghai Jinqiao Export Processing Zone (JEPZ); and Wuxi New District (WND).

Some 72 per cent of the 218 electronics FIEs surveyed ( $n=157$ ) are indeed members of an employer association, including the HR Club in SIP. In exploring membership patterns by FIE country of origin and locality, we find that Taiwan- and Hong Kong- based FIEs have higher levels of association membership (75 per cent) compared to those from the USA and Europe (69 per cent) or other Asian countries (71 per cent). Further, FIEs located in Wuxi and Suzhou display higher levels of membership than those in Shanghai JEPZ: 74, 72 and 66 per cent respectively, high levels for voluntary associations in a country with no voluntary employer association traditions.

For further precision, we statistically explored four factors that may influence an FIE's decision to join a local employer association: country of origin; subsidiary location; subsidiary duration; and subsidiary size. Our logistic regression results show that subsidiary size and subsidiary duration exercise significant influences. Longer-standing FIEs and smaller FIEs – this contrary to Sheldon and Ruan (2004) – are more likely to be members. However, our results show that the other two independent variables – country of origin and subsidiary location – do not significantly contribute to a decision to join.

Smaller FIEs generally have a less comprehensive local HRM capacity than their larger counterparts. Their managers' greater involvement in employer associations as an external social and professional network implies a certain dependence on that association and its other members for accessing information on the local environment and advice on HRM practices (see also Sumelius 2009). Longer-standing FIEs are more likely to be members for reasons of shared, communal norms as well as their experience-based recognition of the importance of these associations for operating in China. This is in line with the discussion, in Chapter 10, of many FIEs now choosing to 'localize' their HRM practices to gain a better cultural fit with the local environment by employing local managers or improving the cultural adaptability of expatriates.

The other two factors – country of origin and subsidiary location – are proxies for dual pressures facing FIEs from the parent company and local institutions. The failure of these two factors to explain membership choice might just reflect that the choice to join an association is a prevailing tendency among FIEs anyway, regardless of location and country of origin. Internal factors – for example, the attitudes of key managers towards employer associations – may better explain decisions to join. In addition, although the two factors do not explain whether a firm is a member or not, with better data, they have the potential to explain why FIEs choose to join and remain members.

For example, interviews with 14 HR managers across the three parks suggest that member FIEs in Suzhou and Wuxi tend to use their associations to collectively express their dissatisfaction with local institutional arrangements, while those in Shanghai tend to utilize theirs as a platform for knowledge sharing. Apparently, too, FIEs from Taiwan, Japan and Korea tend to prefer to join associations of FIEs from their own home country.



Our interviews also focused on the role of employer associations in restricting poaching in these three parks. We found that, although some associations have taken measures to restrict employee poaching by local competitors – for example, through a ‘gentlemen’s agreement’ – the effectiveness of these measures is not evident. Just as Sheldon and Ruan (2004) found for SIP a few years earlier, tight local labour markets and the constant inflow of new FIEs undermine expectations of collectively constraining opportunism.

These HR managers see their association’s major function as providing a venue and structure for sharing experiences in adapting HRM practices to the Chinese context. This occurs through seminars, lectures and meetings. Some HR managers also mentioned that they see their association’s role as providing a collective voice regarding local institutional arrangements, including minimum wages and the implementation of laws and regulations. These perspectives reflect the absence, to date, of any challenges from an active local union presence or the prospect of multi-employer collective bargaining in the FDI sector. This is because ACFTU’s current multi-employer bargaining campaign targets domestic, private small and medium-sized enterprises.

Given that these are bottom-up initiatives, we also examined, statistically, some potential consequences of membership for four firm-level HRM practices: the firm having a collaborative training engagement with VET schools; use of extensive recruitment methods; having a structured training system; and having performance-based reward and promotion system. Our regression results show that, across the three parks, association membership is a significant predictor for ‘using extensive recruitment methods’. This may reflect their association’s important role, for member companies, in sharing recruitment experiences in a tight local labour market. However, we do not find that membership has a significant impact on the other three HRM practices across all three parks.

Interestingly, though, our results do show that association membership is a significant predictor of employer decisions to develop collaborative arrangements with VET schools in SIP and Wuxi but not in Shanghai JEPZ. Nevertheless, that membership influence on employer choices to collaborate with VET schools may be understandable. The association is a forum for information-sharing and companies may imitate other member companies that have positive experiences through such collaborations. Also, there may be an expectation that FIEs engage with local institutions like VET schools as part of shared localization strategies. In this case, the association can be a forum for both communicating that expectation and reinforcing it. Furthermore, membership may also facilitate learning, from other member companies, how to build collaborations with local Chinese institutions and the association itself may facilitate the negotiation processes to set up those programmes.

## **Conclusions and discussion**

At the start of this chapter, we posed the following questions. First, what is happening? Second, to what extent is the employer association story in China *sui generis* as against being a variant of international trends, albeit with some Chinese

characteristics? Third, is the recent emergence of more genuine employer association behaviour a reflection of particular changes underway within China's political economy and, if so, which ones and why? Finally, what might be the future trajectory of employer associations in China?

We can now provide only very provisional answers given how much we still do not know about this phenomenon. In fact, the field is still so young that we do not know what we do not know. In answering, we combine elements of those questions rather than answering separately.

What we can say is that employer association activity is growing in strength and diffusion as well as complexity and diversity. There are top-down as well as bottom-up dynamics, a few of which are fusing. The top-down pattern, embedded in the state corporatist NTCC, is starting to unravel. Representative pluralism, even at the central national level, is now very plausible as CEC loses *de facto* legitimacy for its monopolization of employer representation. This is the result of how ACFIC has flowered as it has adapted much more effectively to the new institutional and market circumstances, outcompeting CEC at all levels except perhaps the national.

Yet even this explanation is not that simple. One of the main advantages ACFIC has come to enjoy is its first-mover advantage – at decentralized levels – in responding to the NTCC's promotion of TCC formation across China's provinces, municipalities and the levels below. It has thus harvested its greater capacity to respond from below to 'cloned' corporatist tripartite initiatives that come from above. New dynamism within local labour markets, together with the emergence of multi-employer bargaining – whether sectorally or territorially focused – is facilitating employer coordination to the particular benefit of voluntary, local but sectoral employer associations, many of which are affiliates of ACFIC.

ACFIC thus represents one very important example of bottom-up tendencies but there are many others, particularly in areas of high FIE density, like the three industrial parks we examined. Indeed, FIEs have their own patterns of engagement with employer associations. This suggests that ownership – and business system location – are important but so too are geographic locality and sector.

At times, associations are autonomous by birth; at others they achieve greater autonomy through strategic adaptation in the institutional spaces that localized transition processes have been opening up. Indeed, somehow mirroring the dominance that individual employers exercise over 'their' enterprise unions, local employers and their associations appear to have gained control over labour market processes at the local level, through regional/sectoral bargaining, as our Wenling wool manufacturing example of sectoral bargaining shows.

Some employer associations formed as such, but many appear to have been trade associations that have only recently widened their mission. This seems likely to continue to be the dominant pattern due to first-mover advantages and organizational capacities already available. As well, some employer associations appear to have mobilized around challenges that labour legislation posed to domestic private employers as well as the appearance of more autonomous and active unionism and of multi-employer bargaining. This explains the choice

to use ACFIC as their own representative voice in China's national tripartite structure.

Yet other firms appear still largely untouched by these challenges but form and join associations in response to their problems with skills shortages, turnover and poaching. The shapes that these associations assume combine territory and sector in ways that reflect local diversity, as do choices to join, for example, associations of FIEs organized around country of origin.

Overall then, we can see that employers' spontaneous desire for coordination and organization came into contact with institutionalized processes when the party-state's corporatist project started diffusing tripartite consultation mechanisms and, more recently, 'regional/sectoral bargaining'. It would appear that these diverse processes will make the ACFIC larger, more influential and central to firms as well as to industrial relations at all levels. This scenario also responds to the needs of the ACFTU's apparatus to have a reliable partner on the employer side able to deliver in the non-state sector. The early, top-down story of employer associations in China is one that seems *sui generis*. However, the longer the transition has gone on, the more pervasive, diverse and dynamic it proves to be, and the more the employer association picture will resemble broad experiences in other countries, albeit with strongly Chinese characteristics.

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# Appendix

Timeline of major political and economic events since the proclamation of the People's Republic of China (PRC)

<i>Year</i>	<i>Event</i>
1949	Mao Zedong proclaims People's Republic of China
1950	Korean War starts
1951	United Nations initiates arms embargo
1953–57	Soviet-style 'Five Year Plan' launched
1956–57	'Hundred Flowers' campaign opens
1956	Sino-Soviet accord on technical aid
1957–58	'Anti-Rightist' Campaign starts
1958	Communes: land ownership is collectivized
1958–61	Mao's programme of rural industrialization
1959	Deterioration of Sino-Soviet relations deepens
1959–61	'Great Leap Forward': largest famine in history
1960	Khrushchev recalls Soviet advisors and experts
1961–65	Increase in production and importation of agricultural inputs
1962–72	China's population growth peaks
1966–76	'Cultural Revolution' unfolds
1971	Henry Kissinger's (US National Security Advisor) secret visit to China
1971	PRC replaces Republic of China (Taiwan) in UN Security Council
1972	US President Richard Nixon goes to China to meet Mao
1976	Birth control policy implemented
1976	Death of Premier Zhou Enlai
1976	Death of Mao, aged 82
	'Gang of Four', led by Mao's widow, seeks power
1978	'Open Door' policy inaugurated
1978–79	Deng Xiaoping introduces 'The Four Modernizations'
1979	Carter Administration sets up diplomatic relations between USA and China
	Introduction of 'Household Responsibility' system
	One-child policy introduced
1980	Special Economic Zones set up
1982	China's population exceeds 1 billion people
1984	14 coastal cities now open to foreign direct investment
1985	Free higher education abolished: entry via academic ability, with scholarship provision
1986	Labour Contract experiment starts

<i>Year</i>	<i>Event</i>
1987	Hu Yaobang forced to resign
1988	Excessive economic growth: rampant inflation
1989	Jiang Zemin replaces Zhao Ziyang as Party General Secretary, after Hu dies Tiananmen Square demonstrations Stock markets opened in Shanghai and Shenzhen
1990–2004	Restructuring of state-owned enterprises in train
1991	First McDonald's in China opens in Beijing
1992	'Socialist market economy' introduced 'Three-systems' personnel reform unfolds
1995	Labour law, passed in 1994, becomes operative
1995	'Overheating' of economy
1997	Death of Deng, aged 93
1997	Hong Kong incorporated into PRC as a 'Special Administrative Region'
1998	Zhu Rongji replaces Li Peng as China's Premier
1998–99	Asian Financial Crisis: economic slowdown
2000	Intensified anti-corruption activities
2001	Beijing awarded 2008 Olympic Games China becomes a member of World Trade Organization
2002	Hu Jintao replaces Jiang Zeming First cases of SARS virus in Southern China
2003	Spring SARS outbreak in Hong Kong and Guangdong Hu Jintao elected President
2004	Between 1978 and 2004, China said to have cut the numbers in poverty from 250 million to some 25 million
2005	Two astronauts sent into space in <i>Shenzhou VI</i> space capsule
2006	'Harmonious Society' policy comes to the fore
2007	Landmark property law
2008	Riots in Tibet Beijing 2008 Olympics opens New Labour Contract Law, passed in 2008, becomes operative
2008	Massive earthquake in Sichuan Province Central government brings in US\$586 billion economic stimulus package in autumn in response to global financial crisis
2009	20 million migrant workers lose their jobs Disorders in Xinjiang Province

*Source:* Authors, adapted from miscellaneous sources

# Glossary

<i>danwei</i>	Work unit
<i>dang'an</i>	Personnel file
<i>dibao</i>	Minimum livelihood guarantee system
<i>gaige</i>	Reform
<i>ganbu</i>	Cadre
<i>gongren</i>	Worker
<i>guanli jiaoyu</i>	Management education
<i>guanli peixun he fazhan</i>	Management training and development
<i>guanxi</i>	Connections
<i>hukou</i>	Residence registration system
<i>jingji guanli</i>	Economic management
<i>juyou Zhongguo tese de shehuizhuyi</i>	Socialism 'with Chinese characteristics'
<i>kaifang</i>	Open Door
<i>Kungfuzi</i>	Confucius
<i>lingdao jieji</i>	Leading class
<i>mo zhe shitou guohe</i>	'Feeling for the stones'
<i>nongmingong</i>	Peasant workers
<i>renli ziyuan guanli</i>	Human Resource Management (HRM)
<i>Renshi guanli</i>	Personnel management
<i>shangxueyuan</i>	Business schools
<i>shiye</i>	Unemployment
<i>shequ jianshe</i>	Community Building
<i>sige xiandaihua</i>	Four Modernizations
<i>tie fan wan</i>	Iron rice bowl
<i>tizhinei</i>	Within the system
<i>Zhonghua renmin gongheguo</i>	People's Republic of China
<i>zou zibenzhuyi daolu</i>	'Taking the capitalist road'



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