

Transforming Employment Relations in China:
Market Reform and the Choice of Labor Policies

A Working Paper

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Introduction

After more than twenty years of struggle, Deng Xiaoping's determination to build a "market economy with socialist character" has resulted in China's current status as the "global factory". Market reforms have gained momentum and it appears that there is no way to return back to the old days, characterized by a strict, rigid, state-dominated planned economy. The process of market reform, however, does not travel on a silky road; bumpy parts still lie ahead. With the old state-interventionist model under scrutiny, China's employment relations system faces serious challenges. Should China's employment relations system continue unchanged, its booming economy may be jeopardized and eventually fall far short of expectations. This essay reviews problems in China's employment relations system and looks for proposals for labor policy compatible with market reform.

It is argued that China's market reform will not succeed unless serious consideration is placed on institutional reform in the employment relations system in favor of a more choice-oriented system. This argument is based on the analysis of China's labor policy and institutions relative to the purpose of political stability rather than economic development. As market reform has moved toward a more liberal, choice-oriented economy, the old model of employment relations system has become obsolete and now is incapable of tackling problems raised through the process of market liberalization. Even though the PRC government has made an effort to restructure the traditional employment relations system, the process of employment relations is still under a principle of state-guidance. In China, the employment relations problem is not only an economic issue but also a sensitive political issue. In the following sections, I first present an illustration of China's employment relations system, followed by a status report on China's employment relations that will create a platform for our analysis. In the third part of this essay I will take labor disputes as examples with which to analyze serious challenges facing China's employment relations system. I conclude with an attempt to propose some policy options for institutional reform.

China's Employment Relations System

China has a long feudal history. The government of this feudal state had a generally centralized structure through different dynasties. The mindset of the Chinese people and society and their expectations regarding the model of government is deeply affected by this common historical memory. The 1911 revolution, an effort by Dr.

Sun Yat-sen to create a democratic country, did not change this embedded mindset. This Chinese perspective, valuing centralized government, was intensified during the period of Western imperial invasion after the fall of the Ching dynasty. Hence, the foundation of state governance, even under a democratic structure, has included the idea of state intervention to provide citizens with optimal welfare, regardless of whether individuals with the society are able to deal with social issues by themselves.

The founding of the People's Republic of China (PRC) by the Chinese Communist Party (CCP) in 1949 strengthened this embedded mindset. The institutional basis of this employment relations system therefore follows this tradition and is reinforced by this cultural background. Market reform has not changed the mindset yet, even though some institutional change does provide hope for a more liberal system in the future.

On July 5th, 1994, the PRC government passed its labor law stating that the purpose is to protect workers' legal rights, to adjust employment relations, to maintain the labor institutions in a socialist market economy, and to promote economic development and social progress.¹ Including in the coverage to apply this law are enterprises, individual economic organization, and workers employed in these organizations, government agencies, state-owned enterprises and workers employed in these agencies and enterprises².

According to the labor law, workers have the right to join or organize their trade union. The trade union should be independent to initiate its activities in order to protect workers' legal rights³. Workers are also entitled to participate in democratic management and to negotiate with business organizations to defend workers' legal rights through the workers' assembly⁴. There are also other contents stipulated in this law such as employment enhancement; labor contracts and collective agreements; working time, break time and leaves; wages; worker safety and sanitation; female and child worker protection; vocational training; social insurance and benefits; labor dispute resolution; supervision and inspection; legal responsibility; and other features. In fact, the 107 article labor law is one of the most important legal provisions covering most of the labor regulations that would be stipulated by different labor related laws. The PRC government uses many executive orders and legal explanations to enforce the law.

¹ Art. 1, The Labor Law

² Art. 2, The Labor Law

³ Art. 7, The Labor Law

⁴ Art. 8, The Labor Law

The trade union law is another important reference to understand the employment relations system in China. The trade union law was revised on October 28th, 2001. Some observers saw the chance that trade unions, especially the official ACFTU⁵, would be committed to enlarging the space in which the union can reform itself and get such reforms into statute. But still some observers saw further evidence that neither the party nor the government is willing to relax its hold over the ACFTU, and even less willing to allow legislative reform to move in directions that would enable the union to represent workers' interests. For instance, "Trade unions shall take economic construction as the center, adhere to the socialist road, uphold the people's democratic dictatorship, abide by the leadership of the Chinese Communist Party; adhere to Marxist-Leninism Mao Zedong Thought and Deng Xiaoping Theory, preserve in reform and opening...."⁶

The revised law reiterates that trade union "shall assist the people's government in their work and safeguard ... the socialist state power of the people's democratic dictatorship led by the working class."⁷ And in the event of any work stoppages, the primary goal is to "...assist the enterprise or institution in making proper preparations for resuming work and restoring work order as soon as possible."⁸

These contents reaffirm that the ACFTU remains subordinate to both the government and the party at three levels: the union must abide by the party's guiding principles; the union must subordinate its organization to the party machinery; and the union must perform the function of carrying out the wishes of the party in its intervention in labor disputes at local or enterprise level.

The ACFTU's monopoly on trade union activities and organizing is also further consolidated by the revised law that there is no space to organize independent trade unions if workers are not satisfied with their incumbent union organization. The law maintains that "The All China Federation of Trade Unions shall be established as the unified national organization."⁹ Art. 11 of the trade union law also states that "the establishment of basic level trade union organizations, local trade union federations, and national or local industrial trade union organizations shall be submitted to higher

⁵ ACFTU—All China Federation of Trade Unions, the only official trade union national center in China. Its status is guaranteed by law. The head of the federation is actually appointed by the party, currently the president of the ACFTU Mr. Wang Zhou Kuo is also the vice president of the National People's Assembly, as the status of the parliament.

⁶ Art. 4, Trade Union Law

⁷ Art. 5, Trade Union Law

⁸ Art. 27, Trade Union Law

⁹ Art. 10, Trade Union Law

organizations for approval.” These articles not only shore up ACFTU’s monopoly on organizing but also technically and procedurally block the road to workers organizing independent unions.

At the firm level, the mechanism of workers’ participation is substantiated through the implementation of the Employees’ Assembly. According to the Employee Assembly Act (1986)¹⁰, all enterprises are required to set up an employee assembly. It’s a democratic management system designed to protect and promote the power and function of trade union and employee representatives in the process of overseeing important business decision making and supervising administrative leadership. The operating organ of the employee assembly is an enterprise-based trade union committee, responsible for its daily work. The employee assembly, however, has to follow the command of the Communist Party’s basic-level committee (the committee within the firm) in political ideology to enforce thoroughly the party state’s principles and policies, and accurately handle the relationships between the state, firm and workers’ interests within the boundary of the law¹¹. The employee assembly is also required to positively support the management’s privilege in business decision making and universal power of commanding production activity¹² (what American labor law and union contracts call “management rights”).

We can see here that China’s employment relations system is indeed a labor administration system. The party-state still dominates the relationship between management and labor. Unlike most of the advanced industrial countries, the relationship among management, labor and the state generally is balanced such that the government normally acts as a neutral party between labor and management. In contrast, in many countries the power of the state implicitly governs the relations between labor and management.

It appears, therefore, that the transition of the employment relations system in China is facing tremendous pressure from market reform. On the one hand, the traditional guarantees of employment, wages and welfare have been eroded as state-owned enterprises have been progressively freed from state control and subjected to increasingly competitive market pressures and as economic growth has seen the rapid expansion of new forms of non-state enterprises in which none of the traditional guarantees exist. The responsibility for economic management and financial

¹⁰ The full name of the law is literally as “People’s Total Ownership Industrial Enterprise Employee Representative Assembly Law”

¹¹ Art. 4, Employee Assembly Act

¹² Art. 5, Employee Assembly Act

solvency has been passed to the enterprises. On the other hand, even though the dismantling of the detailed management of labor relations by the party-state has been accompanied by the gradual development of a new institutional framework for the regulation of employment relations, drawing on the experience of developed market economies, the mindset and institutions of state control remain.

Obviously, political stability and the power of the Communist regime is still the biggest concern of the CCP policy makers. Yet, it is not to say that the Chinese leaders don't know how to build up its institutions along with the road to a real market economy. The question is whether China should build a corporatist or a pluralist model of employment relations?

The debate of the choice of the employment relations system has been going on among scholars within China. Proponents of the corporatist system see the German and Nordic countries' system as their model and argue that in order to transform to a market economy with a socialist character, it is easier to convert a corporatist structure of employment relations from the current state-dominated structure. The proponents of the pluralistic model, however, argue that China is too big in its geographic boundary and too diverse in ethnic and culture as well as among different development stages of the economy in different regions. My observation would support the pluralistic model in the future of employment relations' institutional arrangement in China.

The Status Report of China's Employment Relations

Economic globalization and market reform has resulted in severe challenges to China's employment relations. Although the market reform has triggered the development of a new framework of employment relations system centered on the legal and contractual regulations of labor relations, workplace "collective consultation" between trade union and employer are increasingly divided, and interests between employer and workers have diverged as well. Industrial conflicts and confrontation has evolved as one of the most important issues in Chinese society. Even more important is the fact that these disputes are not only limited to individual workers. A large fraction of the industrial disputes are actually collective in nature and the numbers are increasing (see Table I.). For example, there were 515,000 workers involved in collective disputes in 2003, which is 61.6% of the total number of the workers in labor disputes.

Table I. Industrial Dispute in China (1994-2003)

Year	Number of Case	Number of Worker Involved
1994	19,098	77,794
1995	33,030	122,512
1996	47,951	189,120
1997	71,524	221,115
1998	93,649	358,531
1999	120,194	473,957
2000	135,206	422,617
2001	155,000	467,000
2002	184,000	608,396
2003	226,000	800,000

Source: 1995-2004, Zhong Guo Lao Dong Tong Ji Nian Jian (1995-2004, Annual Bulletin of China Labor Statistics)

Table II. Collective Labor Disputes in China (1994-2003)

Year	Number of collective disputes	Growth rate	Number of workers involved in collective disputes	Number of workers involved in industrial disputes (individual + collective)	Number of workers involved in collective disputes / number of workers involved in industrial disputes (%)
1994	1,482	---	52,637	77,794	67.66%
1995	2,588	74.63%	77,340	122,512	63.13%
1996	3,150	21.72%	92,203	189,120	48.75%
1997	4,109	30.44%	132,647	221,115	59.99%
1998	6,767	64.69%	251,268	358,531	70.08%
1999	9,043	33.63%	319,241	473,957	67.36%
2000	8,247	-8.80%	259,445	422,617	61.39%
2001	9,847	19.4%	287,000	467,000	61.46%
2002	11,024	12%	374,956	608,396	61.6%
2003	1,000	-1.8%	515,000	800,000	61.6%

Source: 1995-2004, Zhong Guo Lao Dong Tong Ji Nian Jian (1995-2004, Annual Bulletin of China Labor Statistics)

Over the last decade, causes of labor disputes have increasingly centered on issues such as compensation, economic remedies, labor insurance, and welfare schemes (fringe benefits). In 2003, the number of these cases has reached 121,000, which is more than half of all disputes (see Table III). A legitimate question generated is whether the kind of universal legal and contractual regulations is working? In particular, is the government functionally capable of enforcing these regulations?

Table III. Causes of Labor Disputes in China 1997-2003

Year	No. of Cases	Labor compensation, insurance, welfare		Labor Protection		Labor Contract		Others	
		No.	%	No.	%	No.	%	No.	%
1997	71,524	41,145	57.53	2,256	3.2	18,673	26.1	9,450	13.2
1998	93,649	51,602	55.1	6,931	7.4	20,661	22.1	14,455	15.4
1999	120,191	73,522	61.17	7,820	6.5	29,608	24.63	9,241	7.7
2000	135,206	73,201	54.01	13,008	9.6	35,794	26.47	13,383	9.9
2001	155,000	76,330	49.2	18,171	11.7	43,590	28.1	15,276	9.9
2002	184,000	91,766	49.9	23,936	13	47,613	25.9	17,562	9.5
2003	226,000	121,000	53.3	32,000	14	58,000	25.4	16,046	7.1

Source: 1998-2003 Zhong Guo Lao Dong Tong Ji Nian Jian (1995-2004, Annual Bulletin of China Labor Statistics)

The position of the parties in labor disputes has been intensified. The evidence is that increasingly the disputes were settled through arbitration rather than mediation. In 1997, for instance, the percentage of disputes settled by mediation was 46.3%, arbitration 21.3%, other methods 32.4%. The percentage of mediation cases has decreased and the percentage of arbitration cases has steadily increased over the last couple of years. In 2002, the percentage of mediation cases dropped to 28.5%, and the percentage of arbitration cases increased to 43.3%. The year of 2003 generally followed a similar trend.

Increasingly, the type of settlements of the disputes shows that enterprises and employers increasingly infringe on the legal and contractual rights of the employee. Both the numbers of disputes initiated by labor and dispute settlements in favor of labor's demands have been increasing, showing that many disputes result from the non-compliance of the employer in the face of legal and contractual obligations. In 1997, arbitration disputes initiated by the employer only took 3.8% of the total cases, while 96.2% of the cases were initiated by labor. The 16.2% of cases were decided in favor of the employers' demands while 56.6% were decided in favor of labor's demand, and 27.2% of the cases favored both parties demand, constituting partial

victories by both sides. In 2002, however, the disputes appealed by the employer dropped to 6.4%, and labor appealed cases increased to 93.6%; 15.1% of the settlements supported the employer's demand and 47.2% supported labor's demand. The percentage of settlements in favor of both parties' (partial) demand was 37.7%.

The general situation of labor disputes shows that economic transition and market reform has triggered more problems between labor and management. In particular, many disputes are collective in nature. It indicates that the nature of labor disputes would be increasingly complex and the settlement of the disputes would be more difficult if China still follows the current model of employment relations system.

In China, the other phenomenon seen in employment relations is the increase of workers' mass protests and campaigns. Different from the labor disputes we described above, the mass protest and campaign do not follow official channels to solve laborers' problems. They took the street and rally to the state agencies or even to the central government in Beijing. In China, scholar call this "labors' collective incident (Lao Gong Qun Ti Xing Shi Jian). These collective actions, according to scholars, are initiated by workers who are not able to acquire their economic interests through legal channel. It is highly related to the stages of market reform and the adjustment of the economic and industrial structure.

The first stage was before 1997, and the collective incident was a result of the institutional change in state-owned enterprises. Ownership change, employment restructure and social security were three important institutional changes that occurred in state-owned enterprises before 1997. Workers' interests were damaged by these institutional reforms. In addition, some workers' interests were also damaged as a result of the rapid increase of foreign and private enterprises. On the other hand, the enforcement of new labor laws triggered the sense of workers' rights in the society and for the laborers in particular, which in turn temporarily stemmed the increase in these collective incidents.

The second stage has been from 1997 until today. After the 15th CCP National Convention, the state-owned enterprises were ordered to take human resource management measures to reduce its workforce and increase the efficiency. The outcome has been a wave of mass layoff in state-owned enterprises. In addition, farm laborers (workers were peasants originally, and came from remote villages), of whom private and foreign firms have taken advantage, also are unable to acquire their interests and rights prescribed by the new labor laws. Workers of the state-owned

enterprises took mass petition, rally and protest as the means of collective action. Workers of the private and foreign enterprises struck as their means of collective action.

So far, however, the Chinese government has yet to establish a public statistical system to show the causes and outcomes of workers' collective incidents, partially because these incidents are still seen by the authority as threatening the political and social stability. Some scholars, however, have managed to study these incidents at a certain period and certain region to evaluate the nature, scale, and the quantity of these collective actions. For example, some reports show that in the first half of the year of 2002, there were more than 280 cases of collective incidents which involved firms employing more than 100 employees; a total of 162,000 workers participated – 2.6 times as many workers as in the same period in 2001. Among these cases, 39 were identified to involved more than 1,000 workers; a total of 102,000 workers participated in collective actions. In 2003, a total of 1.4 million workers/sequence participated in collective incidents.

Major causes of these collective actions are the following:

1. Retiring workers request to raise the amount of pension; consumer price rapidly increased as a result of speeding economic expansion. This kind of incident is normally seen in state-owned enterprises as a result of restructuring and reorganizing the ownership.
2. Mass layoffs by firms to disengage employment relations; some workers requested to increase severance pay and some asked to continue keeping social insurance through the employer. This is also seen in state-owned enterprises as a result of change ownership from state to private or foreign investors.
3. Delaying wage payment or receiving lower than standard wages and poor working conditions; employers in private and foreign owned firms (most of these cases are Korean, Taiwanese and Hong Kong firms) intentionally holdup the paycheck or workers were not satisfied with the poor wages and working conditions in these firms.
4. Employee settlement as a result of firm's bankruptcy; this is in general occurring on the level of severance pay which is not satisfied by employees. In some cases, new employers do not fulfill the contractual obligation to pay agreeable severance pay or to authorize workers to entitle retirement pension.

The collective incidents were taken through many forms of actions. First, collective actions may take the form of primitive ways of protesting such as committing suicide,

having hunger strikes, detaining or killing the employer. Workers on this stage have not organized a collective consciousness and don't know how to take advantage of legal methods to enforce their own rights. These kinds of behaviors, however, may be supported by the public including media but their expectations are generally difficult to achieve.

The second way of protesting is to take the forms of work stoppage and strike, even though the labor union law stipulated in Art. 27 that the trade union should consult in advance with the enterprise and retrospective government authorities to reflect opinions and requests of the employees and to bring forward the suggestion of resolutions. The fact is that strikes or work stoppages organized by trade unions are very rare¹³. Therefore, strikes or work stoppages in China today are likely to be voluntary (wildcat) in nature. Work stoppages and strikes are occurring more frequently and easier in foreign firms than state-owned firms nowadays. For instance, 5,000 workers in a Hong Kong-based firm in Shenzhen engaged a strike in June 2004 protesting for wages owed by the company, and in October 2004, a hundred workers in Beijing protested to a private firm to ask for deferred wage. There were also cases of strikes by taxi drivers in cities to protest to local authorities' transportation policy and even engaged with violent actions toward drivers who were not compliant with the strike in order to achieve the expected outcome.

Third, workers in state-owned enterprises take actions such as protest, rally, petition, and sit-in as well as visiting competent authority in central government to demonstrate their angers and dissatisfaction. The state-owned enterprises generally are incapable of solving labor relations problems when it's ownership and management team are considering a restructuring. Also because of its state-owned nature, the competent authority or local justice system may not involve itself in resolving problems through arbitration or legal action and may just take a wait-and-see attitude to deal with the labor relations problem. Hence, workers in state-owned enterprises take collective actions mentioned above to demonstrate their demand. In general, workers have kept a low profile when taking such actions because it may be politically sensitive; most of these actions are unorganized and even without public attention.

Fourth, workers may also take the forms such as "floor jumping", "stoppage of rail transportation", "stoppage of highway transportation", and "blockage of bridges" to boost up their dissent to the labor relations problem in order to get public attentions to

¹³ Interestingly, trade unions in foreign firms may take non-compliance of overtime work to protest to the management.

put pressures to the authority. In July 2004, for instance, 3,000 workers in upper northeastern China – Heilongjiang province – took action to block railroad transportation in order to ask for payback of their wages. They use the disruptive power to struggle for their own rights and interests. The action of transportation blockage may result in social instability and hence to force the authority to engage positive action to solve problems that workers encountered. A way of collective bargaining by riots is in effect to make the authority to give up their original stance that workers may obtain some requested demand to some extent.

Fifth, workers may call up the employee assembly and engage in “firm protection” actions to avoid being isolated from the decision-making process of the management during the procedure of restructuring. Management of some state-owned firms may take secret operations in decision-making during the process of restructuring that are destructive to the interests of workers and the public. Through the actions of employee assembly, workers declare the illegality of the merger or other business decisions and take over the management of the firm. They even organize workers’ “company protection team” to infringe management’s merger or restructuring effort in order to acquire the maximum of workers’ interests. Although such kind of actions does not occur very often, it has developed as one of the important measures to express workers collective demand.

The sixth form of collective actions is alliance and united (sympathy) strikes. It’s getting noticed that some strike actions today took the form of united actions among workers in the same region or industry. One example was the case in Zhuhai city, Canton province. In 1994, a strike engaged initially by 1,700 workers then intensified as more than 4,500 workers in nearby firms joined the strike. In recent years, there are also indications that workers in petro-chemical industry have engaged organized undercover alliance or united actions.

Apparently, collective incidents in China have intensified in recent years. The growth rate of strikes and other collective actions in employment relations is increasing rapidly. Even though Chinese workers may not have a legal right to strike, the reality has demonstrated that strike and other industrial actions have been taken by Chinese workers in various ways. It is argued by many scholars that in China, obviously rapid market reform process have deprived workers of their immediate economic interests and therefore they have to engage in collective actions because they are not able to find suitable solutions via incumbent institutions.

Problems of China's Employment Relations System

China's problem in industrial relations is not only as a result of the process of market reform but also from the state-interventionist (corporatist) institutional arrangements. Problems of institutions in China's employment relations system are analyzed through the following issue.

First, the state dominated trade union system is incapable of representing workers' interests in the employment relations system. Second, a real workers' participation system in the restructuring process is lacking. Third, Chinese workers lack a labor protection policy and mechanism in dealing with the results of rapid market reform. Fourth, industrial policy based on low wages and poor working conditions has induced a worsening situation of employment relations. Fifth, management practices may induce different outcomes of employment relations if a strategic concern is placed in the first place.

Trade unions in China are still recognized as the administrative arm of the party-state. Workers do not believe that the trade union is the representative and defender of the workers' interest. As described in previous section, trade unions first must fulfill their obligation to the party-state, to the enterprise, and to the worker, in a descending order. Trade union leaders at the workplace play multiple roles. Most of them have a role in personnel management, and they also act as secretary of the CCP committee and then as the leader of the union. At upper levels, trade union leaders are appointed by the party¹⁴ and very often their positions are exchangeable between local government and the management of the state-owned enterprises. They take orders directly from the party, not from the union members.

The socialist legacy has yet to transform the mindset of the trade union leaders. Their self-concept as trade union leaders is far away from the concept of trade union leaders in industrialized countries. Therefore, the concept of collective bargaining in China is not similar to that of industrialized economies. Collective bargaining is seen by trade union leaders to fulfill the orders of the party-state. It is not a voluntary process between labor and management. All negotiated collective contracts have to be approved by the government. Collective bargaining in state-owned enterprises is particularly difficult in terms of wage-negotiation because the state may still control the budget of the firm. In private and foreign firms, trade

¹⁴ For instance, Mr. Wang Zhaoguo, President of the ACFTU, was appointed by the CCP and his major position in the government is the vice president of the National People's Assembly

union organizations are still under representation. Generally trade union is not welcomed by these kinds of firms, even though they play rather a cooperative role compared to trade unions in industrialized countries.

A real workers' participation mechanism in management decision making processes has yet to be established, even though the employee assembly is recognized as the most important participatory scheme at the workplace. The problem stems from the fact that the employee assembly still has to comply with the orders of the party committee within the firm. Workers are suspicious of the independence of the assembly, as that of the trade union. It is not surprising, therefore, to see that the employee assembly could not resolve problems induced by economic restructuring.

A lack of understanding of the modern employment relations system in labor protection also undermines the effort made by the government to set up new policies to deal with problems that arise from market reform. Admittedly, the government is struggling to establish modern labor protection legislations as the guideline for labor and management. This set of new labor policies includes such developments as the individual labor contract, a market-based wage system, the trade union and collective bargaining system, a labor inspection system, and labor dispute settlement system.

Compared to the era of the planned economy, the new policies differ from the old one in many ways. First, the objective of the policy is different. The old policy is to reflect the ideological preference that the working class is the leading class in the society and to demonstrate the superiority of the socialist model. The objective of the new policy, however, is to be a mechanism in a market economy to balance the efficiency and social justice in the society. The aims to protect workers' interests and to develop the economy are equivalently reiterated.

The decision maker of the policy also differs. The old policy relies on only the state as the major decision maker and guardian to enforce and implement the policy. The enforcement and implementation of the new policy, however, not only relies on the role played by the government but also the role played by the trade union, the worker, and management, as well as retrospective organizations.

The third difference is the method of policy implementation. The implementation of the old policy takes advantage of the administrative process while the new policy may still need to follow the same route. It also is vital to use legal and economic means to implement the policy. The problem is that an "institutional residual effect" still

exists and the idea of the new policy is hence retarded. Government officials, labor leaders and management representatives may not be quite sure about the differences between the new and old policies. Most of them may still keep the old behavior which has been socialized from the old policy but detrimental to the implementation of the new policy.

Industrial policy also makes it difficult to carry out the new policy. As a late developing economy, and with plentiful inexpensive human resource and a huge potential product market, the Chinese economy aims at the labor-intensive, low skill sectors of the production market. In order to keep the momentum of economic development, the labor policy therefore is subordinated to the industrial policy. The objective of the labor policy hence focuses more on the need of the free labor market and management autonomy in employment decision-making. The conflict is obvious because the labor policy initiated by the government is imbalanced such that the objective of social justice normally is obscured. The situation has worsened further following China's entrance to the World Trade Organization (WTO) in 2002. The international division of labor has even strengthened with China at the end of the spectrum of the supply chain, making cheap products by utilizing its inexpensive workforce. Many provincial and local governments, under the banner of developing the economy, waved their hands to welcome investors from all over the world to make low-end products. They have further consolidated the relationship between wage and production cost in order to welcome more investors into their territory. Trade union rights are restricted, and low wage and poor working conditions are promoted as the savior of farm workers from the inland areas¹⁵.

Not all firms throw the same egg to the same basket, however. Some firms, in particular multinational firms from Japan, Europe and the United States, take different strategies in production and human resource management. These firms see a strategic choice in cultivating the Chinese market. These firms take a high road to provide comparatively higher wages and skill training for the workforce. They recruit the best talent in the labor market and give them opportunities with which to exploit their potential. These firms aim at the high-end product market. In fact, the Chinese production market has been developing on two parallel platforms. One is the low-end product market, based on inexpensive labor and the other is the high-end product market, based on knowledge and skill intensive workforce. Figuring out from the Chinese population structure, the Ford Motor company was able to successfully sell the model of Mondeo to the Chinese consumers on a price of a

¹⁵ This is because these peasant workers receive even lower wages in their home town.

BMW in the US market¹⁶. It's secret was that only two percent of the Chinese population¹⁷ is enough to build up the high-end product market. On the other hand, cheap labor production policy has under severe challenge because of the expansion of the economy. More highways and country roads were built up that facilitate the need of the investors to invest further inland provinces. As a result, farm workers no longer wish to stay in coastal provinces both as a result of sweat-shop wages and poor working conditions, and the possibility of getting employment in nearby neighborhood which is easier for them to take care of their children and families.

Conclusion

During the process of market reform and economic globalization, labor institutions in China are in transition. The state corporatist control is losing its control while new institutions and policies have yet to begin functioning well. There are choices to adopt, however, among the labor, management, and the state. One is based on a voluntary relationship insofar as the state plays the neutral role to facilitate employment relations in a competitive production market. The other is to keep a traditionally state-centered employment relations policy in which a universal guideline is drawn to fit all industries and firms regardless their market circumstances. China, with the largest population in the world and its vast land and resources, has the potential to become any kind of production market. A pluralistic model of the labor policy and institutions may be appropriate to suit the need of the Chinese society. This kind of labor policy and institutions is initiated and implemented by both labor and management. The state provides necessary institutional arrangements to safeguard the process and outcome of the employment relationship built up by the labor and management. The aim is to obtain both the economic performance and social justice. As the Chinese economy is moving ahead toward a new frontier, a serious effort to transform labor policy and institutions should begin.

¹⁶ Author's interview with the Vice President (human resource) of the Ford Lio Ho Motor Company in Taiwan

¹⁷ China has 1.3 billion populations, and 2% is equivalent to 26 millions.