Changing Labour Relations in China

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Abstract

China is transforming in the last thirty years in an unknown speed, however, the social tissue and labour relations suffer a lot. Affected are not only some 250 million migrant workers but most others as well. The Chinese trade unions are not autonomous, no right to strike and very weak in defending workers’ rights. There are some 130,000 revolts every year for lost income, non-respect of workers’ rights, going as far as killing managers and entrepreneurs on the one hand, and oppression and killings of workers on the other. Some enlightened scientists and union leaders call for action to create real trade unions with full rights. The Guangzhou Trade Union Confederation helped in 2007 establish the first trade union of migrant workers for construction workers. And the same confederation organised the first International Scientific Symposium on “Labour Relations & Labour Rights under Global Recession” in November 2009.

Background

China’s economy is transforming itself within the last thirty years in an unknown speed, however, the social tissue and labour relations suffer a lot (ICFTU 2005, Philipp 1993). Not only some 250 million migrant workers are severely affected, but most other workers as well. Also the rest of the world is looking anxiously to China, the “yellow danger” as it has been named by the German Emperor William II one hundred years ago. Apparently China is the winner of globalisation (Fichter & Sydow 2002, Garibaldo, Morvannou & Tholen 2008, Haak & Hilpert 2003, Széll 2000, Széll, Bösling & Hartkemeyer 2005).

The year 1978 has been a watershed for the future of China by Deng Xia Ping’s four economic reforms, leading to the so-called “socialist market economy”. This transformation process resembles more to, what Karl Marx described as “primitive accumulation” (PROKLA 2000, Flörsheimer 2009). Even Chinese officials describe the situation as similar to England in the 1870s, and insist, therefore, that China today is still largely a developing country. The effects on labour relations have been described well recently (Branine 1997, Chan 2008, Leung 1997, Taylor, Chang & Li 2003, Warner 2000, Zhu 1995). This article will concentrate on the most recent changes within the last couple of years, namely before and after the Great Economic Crisis of September 2008.

Already during the years before, economically China was catching up quickly with the increasing economic power. Its impact on international relations grew as well (Ma et al. 2005). In 2009 China overtook Germany as the country with the third biggest GDP, and became also the number one in export surplus. It seems only a question of time, when it will leave behind Japan as well as the U.S. Its political impact cannot only be felt as the leading member of the
BRIC- i.e. Brazil, Russia, India and China. The Pittsburgh Summit in 2009 changed again the world co-ordinates, as de facto the G 20 replaced the G7/8. And during the Copenhagen climate summit in December 2009, when a follow-up agreement after the Kyoto Protocol to save the world climate should have been agreed on, at the end there were only China and the U.S., which negotiated between them directly the outcome, ending – as we know – with a no-decision. Neither the UN nor the European Union played a role any more in this setting. Even after the recent worldwide crisis, its economic growth rates continue more than 8 % p.a. – although certainly partly due to the huge government financial packages. The enormous trade surplus, which leads eventually to the largest currency reserves in the world, is closely linked to the biggest Foreign Direct Investments worldwide (Zou 2009). Actually, a large part of the Chinese production, with it its trade surplus, is a product of a de-localised production, exported to the so called industrialised countries. So far, China – as quite some other developing countries – is the factory of the world. The former German Chancellor Helmut Schmidt used to say that the future of Germany lies in the export of blue prints and not the production of goods itself – although Germany remains still largely an industrial country. The most well known example of outsourcing and de-localisation is WalMart, the biggest single trading company in the world (Geffken 2006). The US or EU deficits have to be regarded with caution. With de-localisation the pollution has been exported too. China has some of the most polluted cities and regions in the world, and is number two in overall pollution after the USA, causing apparently serious impacts on the health and well-being of the population.

Although the economic reforms broke the monopoly of the State Owned Enterprises (SOE), they still have a large influence, and in many sectors they still dominate. And not to forget, the biggest army in the world is also the biggest entrepreneur in China. With the opening up of the economy started the era of joint ventures, as China wanted to keep control of the process of liberalisation (Lang 1998, Széll 2002). Only after a couple of years fully owned foreign companies were allowed. China has still a one-party system with no democratic elections at the national level. Its command affects directly the economy and each and every organisation via the party secretary, who sometimes serves even as the director (Laaksonen 1988). The military serves as the backbone of the authoritarian rule of the Communist Party of China (CPC). As in every system – within the CPC at all levels and regions between the two lines struggle – as Mao Dze Dong named it (Pei 2009, Du et al. 2007). The anxiety to hold this huge empire together – especially after the break-down of the Soviet Union – and the movement for autonomy or even independence in some provinces gives the hard-liners the upper hand. Also the Taiwan question – even or because the Republic of China is the biggest investor – is an important issue, indirectly also for labour relations (Chang & Bain 2006). By the way the Chinese way of modernisation and industrialisation – after the failure of the big jump forward in the 1950s – is more inspired by the four Asian Tigers South Korea, Singapore, Hong Kong and Taiwan than by the U.S. All these countries had military dictatorships or at least authoritarian regimes during their catch-up processes. The same holds true for Bismarck Germany and Japan, and even in England. So, definitely modernisation and industrialisation do not necessarily go hand in hand with human and social rights, the contrary seems even to be true (Széll & Cella 2002).

Social Inequality

When China created the Special Economic Zones 30 years ago, the existing regional disparities increased. We may speak of two Chinas – the coastal regions including Beijing, with formally about 40 % of the population, and the rural areas. In the well-off regions we
have growth rates far above the national average, e.g. 14-15 % in the Pearl River Delta. And in the real estate or the car-industry we have sometimes growth rates of 40-60 % p.a.

For sure over the last two decades there had been an alleviation of living standards in the countryside, as poverty reduction has been one of the main promises for economic reforms. The quality of life should be improved by a trickle-down-effect (Széll & Széll 2009). But the data of the percentage of people now living above the poverty line of 1 or 1.25 US$ income per day, has to be considered in relation to the following two:

1. The inflation rate is one of the highest within comparable countries
2. The income transfer by migrant workers from the cities.

The situation of migrant workers is the most problematic in the whole process of modernisation and industrialisation. The estimates go up to 250-300 million people, coming from rural areas and looking for jobs. Most of the booming industries cannot survive without them (fig. 1). These workers, though moving within their own country, are illegal. This is due to the *hukou*-system, i.e. the registration system. And therefore these workers are easily exploited, and do not have any social protection. During the crisis 2008-2009 about 20-25 million of them were made redundant. Although the *hukou*-system has been made less strict in recent years, namely in regions where there was labour shortage, it is still largely in place with its negative effects. Definitely the situation for women – as in most parts of the world – is particularly embarrassing and difficult (Chang 2008). This situation and a very unfair tax system (Yang & Széll 2009) result in one of the most unequal Gini coefficients in the world with approximately 0.49, this in a country, which calls itself socialist with a Communist Party at its helm.

**Labour & Social Rights**

Table 1 presents an overview of the regulations, which were introduced or changed over the last two decades.

**Table 1: Main issues in lawmaking and related policies on social policy**

<table>
<thead>
<tr>
<th>Year</th>
<th>Main issues</th>
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<tr>
<td>1987</td>
<td>The Provisional Regulations on Labour Disputes in State-owned Enterprises in July were issued, which resumed the labour dispute Arbitration system.</td>
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<td>1991</td>
<td>The Law of the PRC on the Protection of Disabled Persons was put in force in May. Beginning of experiments for the old-age insurance system in some rural areas.</td>
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<td>1993</td>
<td>The regulations on Unemployment Insurance for Staff and Workers of State-owned Enterprises were put in force in May, those of the PRC on Settlement of Labour Disputes in Enterprises in August, and the regulations on the Organization of Labour Dispute Arbitration Commission were promulgated in November.</td>
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<td>1994</td>
<td>Start of pilot reforms for employees in the Medical System. Issuance of the Circular on the implementation of Ensuring a Minimum Wage.</td>
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<td>1995</td>
<td>The Labour Act was put in force in January. The circular of the State Council on Deepening the Reform of the Old-Age Insurance System for Employees of Enterprises was issued in March, which set the aim of the reform of the old-age insurance system for employees of enterprises, to establish basically an old-age insurance system – by the end of the 20th century. It also emphasized that premiums for the basic old-age insurance shall be paid by enterprises and individuals together, and an overall collection of insurance funds from society shall be combined with individual accounts.</td>
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<tr>
<td>1996</td>
<td>The circular on creating a consummate Tripartite Mechanism of Arbitration in Labour Disputes was issued in March. Law of the PRC on the Protection of Rights and Interests of the Elderly was put in force in October. Issuance of the Trial Procedures for Industrial Injury Insurance for Enterprise Employees.</td>
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1997 The decision on establishing a Uniform Basic Old-Age Insurance System for Enterprise Employees was issued in July, which aimed at covering all the enterprise employees in urban areas nationwide.

1998 The Chinese central government put forward a ‘Two Guarantees’-policy: guarantee of the basic livelihood for the laid-off personnel from State-owned enterprises, and guarantee of the basic livelihood for all retirees. The decision on establishing the Basic Medical Insurance System for Urban Employees was made in December, which asked for enforcing a basic medical insurance system for urban employees throughout the country.

1999 Issuance of the Regulations on Unemployment Insurance in January and putting in force the Regulations on Guaranteeing Urban Residents’ Minimum Standard of Living.

2000 The Circular on Quickening Implementation of Delivering Old-age Pensions through Social Service Institutions was issued in April, and in 2001, 98% of these pensions were delivered in this way.

2001 A pilot programme began in Liaoning Province, which aimed at improving the existing social security system in towns and cities. In August 2001, the Ministry of Labour and Social Security, the All-China Federation of Trade Unions and the China Enterprise Association jointly established the State Tripartite Conference System of Labour Relations Co-ordination, and convened the first national tripartite conference of labour relations co-ordination, which set a standard and stable operating mechanism for China's labour relations co-ordination.

2002 Various ministries issued jointly the “Suggestion on Quickening Development of the Health Services in the Community” in August.

2003 The “Suggestion on Setting up a New Type of Cooperative Medical Care System in rural areas” was issued in January by the central government, which aimed to establish such a system, covering basically all rural areas in 2010. The “Guiding Suggestion on the Unfixed Employees Participation in the Basic Medical Insurance” was issued.

2004 The regulations on Industrial Injury Insurance were put in force. The State Council issued the guiding suggestion in January on making efforts, trying out the new type of cooperative medical care system in rural areas. “Regulations on Minimum Wages” were put in force in March. The Trial Procedures for Annuity in Enterprises were issued, which encouraged enterprises and employees to participate voluntarily in the annuity programmes as a supplement to the basic old-age pensions. The “Suggestion on the Employees in non State-owned and Mixed Ownership Enterprises Participating in the Medical Insurance” was issued by the Ministry of Labour and Social Security in May. The Central government asked the local government to improve the implementation of the “Five Guarantees” (wu bao hu in Chinese) for the livelihood of people without working abilities and dependence in rural areas. The related working regulation was issued in 2006.

2005 The regulations on Labour Security Supervision were put in force. Decision of the State Council on Improving the Basic Old-Age Insurance System for Employees of Enterprises was issued in December 2005, which emphasized to make the personal account effective, to improve the system combining base pensions with personal accounts, and to extend the basic old age pensions covering employees in all areas, especially those in non State-owned enterprises.

2006 Agricultural tax, livestock tax and taxes on special agricultural products were rescinded. Eight provinces were selected as pilots to make experiments in the personal account of the old age pension. The Central government promised to subsidize part of premiums. A special programme started to extend the coverage of farm workers into medical insurance programmes, especially in those industries and cities with concentrated farm workers. The aim is to cover basically all urban farm workers who have contracted with enterprises at the end of 2008. The decision of the
6th plenary meeting of the 16th National Congress of the CPC put forward the aim to establish basically a social security system, which would cover all citizens in China in 2020.

2007

The Central government put forward in January the standard of mutual assistance for the old-age insurance of employees in enterprises at the provincial level. The regulations on the Employment of the Disabled were put in force in May. The circular on Improving the Minimum Wages System issued in June asked local governments at different levels to regulate the minimum wages in time, and based on the tripartite mechanism, to regulate the paying behaviour of the enterprises. The Labour Contract Law of the PRC was issued in June, and put in force in 2008. Guiding suggestion of the State Council on the pilot-reform for basic medical insurance issued in July put forward a plan to extend the pilot-reform of medical insurance for people in towns and cities, which will push up nation-wide, and cover, step by step, all residents, including the unemployed; “Circular of the State Council on Setting up a Basic Subsistence Allowances System in Rural Areas”, issued in July 2007, put forward with the aim to cover all qualified poor in rural; Law of Promoting Employment, issued in August, put in force in 2008.

2008 ff.


Source: Lin (2009: 172-75)

Apparently the implementation of the regulations and laws is – as always – quite heterogeneous, not only between different companies, small and big, depending on the ownership, if either national or multinational corporations (Shen 2007, Zou & Lansbury 2009), on the provinces, towns and cities. China has ratified in the meantime four of the eight main ILO Conventions – much more than the U.S.A. with only two, but much less than the EU. Member States have to ratify in principle all the eight. China’s entry into WTO had also quite an impact on employment (Holbig & Ash 2002, Széll 2004, An 2005, Chang WTO, undated, ICFTU 2006).

An issue, which is hotly debated in many developed countries, is the minimum wage. In China minimum wage exists in the more developed areas, however, it is so small that workers are obliged to work supplementary hours, quite often another 40-50 hours. Apparently the smaller a company is in the supplier chain, the worse the social protection and working conditions are (Lüthje 2006, Li & Edwards 2008).

In the old system the social security was guaranteed by the employer through the danwei (unit) workplace organization (Yang & Széll 2009). As already mentioned above, migrant workers as well as the rural population do not enjoy any social security (Wang 2004). In regard to health protection, China ranks 191st among the 193 members of the World Health Organisation. Only the urban active population is covered so far – although insufficiently –, however, recently some improvements have been realised. The lack of unemployment benefits is another deficiency (He 2004). Hire and fire-principles are widespread (Yi 2009). Finally, regarding the old age pensions, after the break-down or dismantling of the danwei workplace organization a huge insurance market developed.

Trade Unions

The All China Federation of Trade Unions (ACFTU) with more than 160 million members is the biggest trade union in the world – more than all other unions together (Geffken 2006, White 1996). However, the ACFTU is not a member of the International Federation of Trade Unions (IFTU), as the ACFTU is not an independent organisation from the government and
the State. It is still a kind of Leninist-type ‘transmission belt’-organisation (Metcalf & Li 2006, Shen & Leggett 2007). Table 2 sketches the different roles of government and trade unions between a socialist type and a mixed economy type of relationship.

### Table 2: State/government’s and trade unions’ impact on income generation and distribution

<table>
<thead>
<tr>
<th>Socialist society, planned economy</th>
<th>State/government</th>
<th>Trade unions</th>
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<tbody>
<tr>
<td>Central wage planning</td>
<td>Transmission belt</td>
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<tr>
<td>Welfare society, mixed economy</td>
<td>Equalizing taxation with progression</td>
<td>Collective bargaining on wage issues and others</td>
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Collective agreements are not properly negotiated (Clarke et al. 2004). There is no right to strike (one of the not-ratified ILO principles, Chang undated), however some authors argue “it is just a step away” (Communicating Labour Rights 2008). The main task of trade unions within the enterprises is the management of welfare, health and safety – as in the former socialist countries –, with the same poor results (Clarke 2005). That is certainly the reason why there are some 130,000 revolts every year for lost income, non-respect of workers’ rights, going as far as killing managers and entrepreneurs on the one hand, and oppression and killings of workers on the other hand. So far, some non-governmental organisations, labour activists and lawyers fill in the void – sometimes under severe repression by the authorities (Quan 2005). Students of labour law have opened shops to counsel workers free of charge. Under these conditions some enlightened scientists and union leaders call for action to create real trade unions with full labour rights (Chang, Lüthje & Luo 2008). In Guangdong, the economically most developed province, the Guangzhou Trade Union Confederation helped to establish the first trade union for migrant workers in 2007, in this case for construction workers. And the same confederation organised the first international scientific symposium ever held by a trade union on “Labour Relations and Labour Rights under Global Recession” in November 2009. This is definitely part of a movement for more autonomy, which may end in complete independence. Because there is a scenario that, if one day the 2% automatically deducted membership fee by the employer will be abolished, there will be a deep crisis and 500,000 union officials will lose their jobs. So, the survival of the Chinese trade unions will be at stake. That is certainly the reason, why some enlightened unionists look abroad, start cooperation and exchange programmes. The big issue is which foreign model will be followed: the U.S. or the EU-model with all its varieties (Chan 2008, Széll 2007). For sure most employers in China prefer the U.S. model with weak trade unions.

### Conclusion

We may compare the success story of the Chinese economy over the last three decades with the “Trente glorieuses” (the thirty glorious years) as the French called the period after the Second World War. The Hungarian economist Ferenc Janossy wrote a remarkable book about the end of the German and Japanese ‘economic miracles’ (1971). It may be of interest to have a look back to this phenomenon. Janossy argued that there were three reasons for the German and Japanese success stories, bringing the losers of the Second World War to the forefront and overtaking most of the winners:

1. No military expenses
2. Best education
3. Participation in decision-making by the workers (co-determination, *ringi*).

From the three reasons there is only one, which is valid for China so far: education. The investment into education – following Confucian principles – by the families and the State is enormous. This may also explain the paradox that China has with over 40% the highest savings rate in the world. In regard to military spending China increases it even more than its GDP growth rate – naming the Taiwan and other neighbouring hot spots – as the main reason. And on the last point: Participation in decision-making by the workers is practically non-existent.

In the meantime the Chinese labour force has become so expensive, that foreign investors and even Chinese companies start to de-localise their production to Vietnam, Bangladesh, Malaysia, Indonesia, etc. (Zou 2009). Besides, a huge bubble grows in the real estate and banking sector – similar to the ones in Japan or the Gulf States. And not to forget the environmental problems mentioned above. Is this by now the end of the Chinese economic miracle? It is too early to say, however, its limits are already visible. For sure, in China not only the future of our climate will be decided – as the recent Copenhagen Earth Summit demonstrated –, but also the future of the world economy including its labour relations – for good or for worse. To create a world of social justice and sustainable development we need social innovation by all people concerned (Harrisson, Széll & Bourque 2009).

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Figure 1: China’s rural migrant laborers (distribution according to sectors, 2005)

- Industry: 28.3%
- Construction: 20%
- Catering service: 18.3%
- Trade: 6.9%
- Transport: 5.5%
- Agriculture: 4.9%
- Family service: 1.8%
- Others: 13.9%

1 At the first half of the 19th century even the right of association was prohibited, and strikes also afterwards were quite restricted.

2 Although the right to strike has only been abolished in 1982, i.e. during the reform period.