ECONSTOR
Make Your Publications Visible.

A Service of

ZBW Leibniz-Informationszentrum Wirtschaft
Leibniz Information Centre for Economics

Zenglein, Max J.

Working Paper

Marketization of the Chinese labor market and the role of unions

Global Labour University Working Paper, No. 4

Provided in Cooperation with:
The Global Labour University (GLU)

Suggested Citation: Zenglein, Max J. (2008) : Marketization of the Chinese labor market and the role of unions, Global Labour University Working Paper, No. 4, International Labour Organization (ILO), Geneva

This Version is available at:
https://hdl.handle.net/10419/96386

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

WWW.ECONSTOR.EU

Mitglied der Leibniz-Gemeinschaft

GLU

GLOBAL LABOUR UNIVERSITY WORKING PAPERS

PAPER NO. 4, NOV 2008

MARKETIZATION OF THE CHINESE LABOR MARKET AND THE ROLE OF UNIONS

MAX J. ZENGLEIN

ISSN 1866-0541

www.global-labour-university.org

Max J. Zenglein recently has been teaching economics at the Southwestern University of Finance and Economics in Chengdu (China) and currently is a PhD candidate at the University of Hong Kong. He specializes in institutional economics and labor markets with a focus on the Chinese economy.

Editorial Board
Sharit K. Bhowmik (Tata Institute of Social Sciences, India)
Hansjörg Herr (Berlin School of Economics, Germany)
Mariano Laplane (University of Campinas, Brazil)
Seeraj Mohamed (University of the Witwatersrand, South Africa)
Wolfgang Schröder (University of Kassel, Germany)

Contact Address
Fachhochschule für Wirtschaft Berlin
IMB - Prof. Hansjörg Herr
Badensche Str. 50-51
D-10825 Berlin

Contact: glu.workingpapers@uni-kassel.de
Layout: Harald Kröck

Global Labour University Working papers
ISSN: 1866-0541

© Global Labour University e.V. All rights reserved.
The material in this publication may not be reproduced, stored or transmitted without the prior permission of the copyright holder. Short extracts may be quoted, provided the source is fully acknowledged. The views expressed in this publication are not necessarily the ones of the Global Labour University or of the organisation for which the author works.

First published 11/2008

ABSTRACT

This paper will provide insight to recent developments in Chinese labor markets and the current role of trade unions. The Chinese labor market has changed dramatically within the past few decades, moving from a centrally planned economy to a more market oriented one. The marketization of the Chinese labor market has contributed in creating an employer dominated labor market and potential social conflict among the labor force. Recent government efforts have attempted to improve industrial relations and in these efforts the role of trade unions has also been evolving. However, Chinese trade unions are not independent and face considerable constraints in achieving their objectives.

Marketization of the Chinese Labor Market and the Role of Unions

Max J. Zenglein

This paper has been co-funded by EU ASIA LINK Programme. Further, I would like to thank Tianfeng Cheng for her support in completing this paper.

TABLE OF CONTENTS

1. INTRODUCTION 1
2. TRANSITION OF THE CHINESE LABOR MARKET 3
2.1 Breaking the Iron Rice Bowl 3
2.2 Consequences for a Labor Force in Transition 6
3. LABOR MARKET REFORM 9
3.1 Post-Wage Grid Wage Determination 10
3.1.1 Flexible Labor Market 10
3.1.2 Government Control 12
3.1.3 Collective Bargaining 13
3.2 Marketization Process 13
4. TRADE UNIONS IN AN TRANSFORMING LABOR MARKET 15
4.1 Organizational Structure and Function 15
4.2 Role of Grass-root Trade Unions 17
4.3 Distinguishing Collective Contracts and Wage Bargaining 19
4.4 Independent Unions 20
4.5 NGO and Foreign Influences on Labor Relations 21
4.6 Are there "Real" Chinese Trade Unions? 22
5. EVALUATING CHINA'S INDUSTRIAL RELATIONS 24
6. REFERENCES 26

TABLES & FIGURES

Figure 1: Share of Urban Private and State-owned Employment, 1989-2005 4
Table 1: Chinese Employment Structure[a] number of employees in million 5
Figure 2: Number of Labor Disputes, 1996-2006 7

1. INTRODUCTION

Over the past few decades China has been undergoing a tremendous transformation process. However, despite its impressive performance and continuous rapid growth, China's transformation is far from completion. The magnitude and speed of economic reform has had substantial effects on its institutional framework. In particular, labor market reforms have had far-reaching implications not only for the economy but for the Chinese society, as China gradually implemented a more flexible labor market with an industrial relations system vastly differing from its previous one. In its transformation from a centrally planned economy, government institutions allocating jobs, guaranteeing income and social security, providing the labor force with a so called "iron-rice bowl", have been for the most abolished. Marketization efforts have radically transformed the labor market, exposing the previously shielded labor force to market pressures. The unified grade wage system (wage grid) enforced by the government ensuring fairly small differences in wages disappeared, leading to rapid income disparity. The labor market and its institutional design have profound domestic consequences for China. Therefore they are a crucial component to the government's reform efforts, central to questions related to social, political, and economic stability in China.

Chinese industrial relations have significantly changed from governmental paternalism to a more market oriented system for large portions of the labor force. Previous labor market institutions have either been transformed or abolished while new ones have been slow to develop. The current institutional design suggests that the labor market is not functioning in an optimal manner nor is there a clearly outlined development strategy. It remains an open question if the post-reform institutional design sets the conditions for a competitive labor market. The other question is if a competitive and fully flexible labor market is suitable for China and how the government can influence these developments. In the past and to this day China has often been associated with poor labor conditions and low wages. This constellation may be connected to the rapid economic growth but is also associated with increasing discontent and inequality which has equally been on the rise as present labor market institutions have been struggling to create social stability. In this current environment of change trade unions have been trying to find their place in Chinese industrial relations. Recently the government has been paying more attention to the potential role trade unions could play in the Chinese labor market. Even so, under the current framework they face considerable constraints in representing workers' interest.

The aim of this paper is to provide insight to recent developments on the Chinese labor market and the role of unions. Current literature provides various snapshots of the Chinese labor market, but comprehensive research is still very limited. As a first step to a more comprehensive understanding, this paper, as part of ongoing research, will attempt to provide insight to central aspects pertaining to labor market developments and trade unions. First, this paper will provide an overview of the transition of the Chinese labor market and its tilt toward a market based

economy while highlighting some consequences for the labor force. In the second part the paper will focus on the marketization of the labor market since initial reform, specifically looking at current wage determination mechanisms while emphasizing Chinese industrial relations. In the third part attention will turn to how Chinese trade unions are functioning, focusing on opportunities and constraints they face under the current labor market conditions while also briefly taking external influences and independent unions into consideration. Finally, this paper will conclude by providing an evaluation of the emerging Chinese labor market conditions.

2. TRANSITION OF THE CHINESE LABOR MARKET

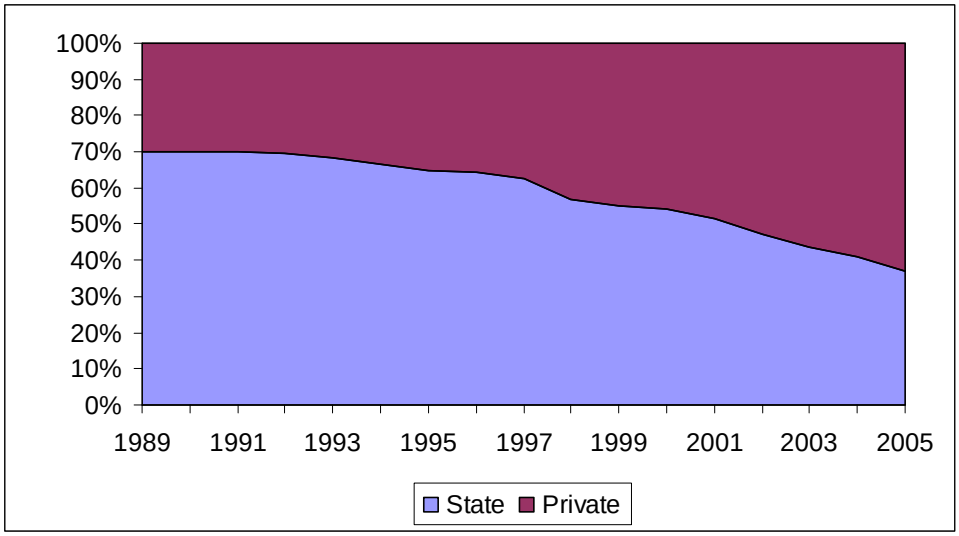
2.1 Breaking the Iron Rice Bowl

During the process of shifting from a planned economy to a market based one the government significantly reformed the labor market, gradually dismantling the government controlled system to form a more competitive market. According to Fleisher and Yang (2003) "labor market reform has been both the source and a major limitation - perhaps the major limitation of China's economic transition". Prior to 1978 the organization of labor was centered on the work unit (danwei) which was at the core of the Chinese iron rice bowl. Under this concept workers would be assigned to a work unit functioning as a sort of community within the society (xiao she hui), providing its workers and their families with a wide range of social benefits.[1] Generally, these benefits included lifelong employment, low wages in accordance to the centralized wage grid system, and additional benefits such has housing, schooling, and health care.[2] This system detached wages and employment from company performance, establishing nearly complete security (Saha, 2006). Such extensive welfare, however, was only granted to members of the danwei, and variations between different enterprises were notable. The system did not exempt workers from all kind of hardship (e.g. during the Great Leap Forward), but for the most provided basic care for its members. Additionally, the rural population did not have access to such industrial welfare provisions, having their basic needs provided through rural people's communes instead (Shen, 2007). The basic concept between the urban and rural forms of organization is similar in nature while differing in quality. Because of this it is common to use the term danwei for urban as well as rural areas in current literature; the same will be done in this paper.

[1] Next to the economic role, the danwei system was also a tool for political control of the population (see Heilmann, 2004)

[2] The wage grid system did have variations with seniority and qualification being the most important determinants. Regional differences were taken into consideration as well, but generally wage differentials were limited (Meng, 2000).

Figure 1: Share of Urban Private and State-owned Employment, 1989-2005



Source: own calculations based on data by the Statistical Year book (2006)[3]

The state played a significant part in the welfare system undermining any type of flexible markets using government paternalism to shield the working population by guaranteeing social welfare and at the same time limiting widespread inequality.[4] Under the socialist economic regime the majority of China's labor force was employed either in rural communes or in urban state-owned enterprises (SOE), but the distribution of jobs has significantly changed since (Fleisher and Yang, 2003). As the Chinese government continued its marketization efforts of the Chinese economy, benefits provided for by the danwei have gradually disappeared. In the process of marketization private enterprises have become increasingly important for employment, while at the same time government controlled enterprises have laid-off workers and significantly reduced their social benefits. Some segments of the labor force were able to benefit from this transformation, while others struggle to deal with the increased social risks (see section 3). The changing composition is illustrated in Table 1. Various forms of private ownership types are crucial in job creation enabling the government to reduce employment in the state-owned sector.

Initial reforms limited exposure to market mechanisms, but continuous privatization efforts reforms began to specifically target the labor market

[3] State only includes state-owned companies, while private is compiled adding all other enterprise forms (collective owned, cooperative units, joint ownership, limited liability corporations, shareholding corporations, private enterprises, foreign and greater China funded companies, and self-employed). Please note that some of the enterprises under private ownership form may also be state-owned. Therefore, the exact figures should be treated with caution. Data here should rather be seen as an indicator of the basic privatization trend. When taking Town-and-Village enterprises (TVE) in the rural sector into account the importance of the state is somewhat increased, but the trend remains identical.

[4] Although wage inequality may have been limited, hidden inequality can be assumed to have been present as party officials have had better access to non-monetary income and benefits. However, current inequality is much more widespread and substantial. Please also refer to section 2.2 below.

affecting a higher proportion of the labor force. Labor market reforms entered the most radical phase in the 1990s when the government significantly down-sized the public sector, putting an end to "cradle-to-grave" socialism and lifetime employment (Dong, 2004).

Table 1: Chinese Employment Structure[a] number of employees in million

	2001	2002	2003	2004	2005	2001-2005 Change in%
Total	**730,3**	**737,4**	**744,3**	**752,0**	**758,3**	3,8%
Urban Employed Persons	**239,4**	**247,8**	**256,4**	**264,8**	**273,3**	14,2%
State-owned Units	76,4	71,6	68,8	67,1	64,9	-15,1%
Urban Collective-owned Units	12,9	11,2	10,0	9,0	8,1	-37,3%
Cooperative Units	1,5	1,6	1,7	1,9	1,9	22,7%
Joint Ownership Units	0,5	0,5	0,4	0,4	0,4	-0,1%
Limited Liability Corporations	8,4	10,8	12,6	14,4	17,5	108,1%
Share-holding Corporations Ltd.	4,8	5,4	5,9	6,2	7,0	44,7%
Private Enterprises	15,3	20,0	25,5	29,9	34,6	126,5%
Units with Funds from Greater China[b]	3,3	3,7	4,1	4,7	5,6	70,8%
Foreign Funded Units	3,5	3,9	4,5	5,6	6,9	99,5%
Self-employed Individuals	21,3	22,7	23,8	25,2	27,8	30,3%
Rural Employed Persons	**490,9**	**489,6**	**487,9**	**487,2**	**484,9**	-1,2%
Township and Village Enterprises	130,9	132,9	135,7	138,7	142,7	9,1%
Private Enterprises	11,9	14,1	17,5	20,2	23,7	99,3%
Self-employed Individuals	26,3	24,7	22,6	20,7	21,2	-19,2%
Registered Unemployed Persons (Urban)	6,8	7,7	8,0	8,3	8,4	23,2%
Registered Unemployment Rate (Urban) %	3,6	4	4,3	4,2	4,2	16,7%

Source: Statistical Year book 2006, National Bureau of Statistics of China.

a. Please note that employment data by enterprise type are based on the annual population sample survey. As a result, the sum of the data by ownership and by sector is not equal to the total.
b. Hong Kong, Macau, and Taiwan

Downsizing of the state sector is reflected in Figure 1, as the proportion of employees in state enterprises rapidly decreased in the early 1990s whereas it remained relatively stable in the years before. Consequently, as has been the case in other post-communist countries, a major employment and welfare institution was reformed, significantly influencing fundamental values of the Chinese society. Continuous liberalization resulted in marketization of labor relations, specifically related to determination of hiring, dismissal, and wages, transforming the paternal employer-worker system to an exchange of labor services for wage payments (Rawski, 2003).

The demolition of the danwei system and the establishment of a mix-economy has brought along an increase in private held enterprises, entrepreneurialism,

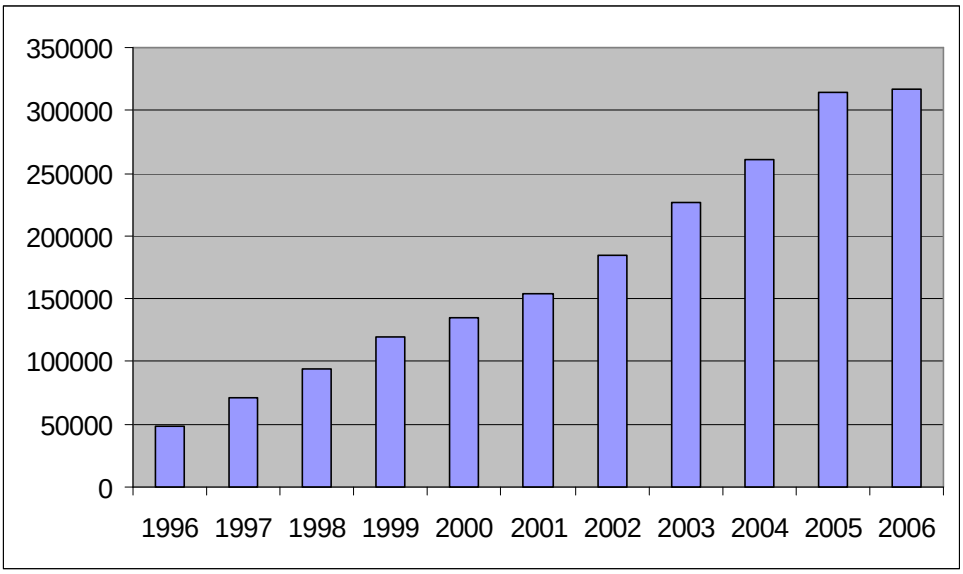
and profit orientation. But unlike in many Western countries where capitalism and workers' rights were able to develop themselves during the industrialization process, any such developments remain under tight orchestration of the Chinese government. In order to please the country's desire for industrialization and economic development, output and profits have been given key priority. Often this came at the expense of workers' rights and the environment as a mechanism needed to be developed to find employment for a massive number of laid-off state employees in an effort to reform highly unproductive government enterprises. If this apparent economic policy path chosen by the Chinese government was necessary for job creation remains debatable.[5]

2.2 Consequences for a Labor Force in Transition

Public attention on high profile cases of labor and environmental maltreatment have recently been cause of much discussion in China. China's labor market has been in the press internationally and to an increasing amount domestically for poor working conditions, default on wages, low wages, forced labor and other forms of abuse, not to mention the depletion of the environment which is contributing to health problems within the population while keeping production costs low. Unpaid wages and violation of employee rights have become an apparent problem within the labor market and are an indicator that the labor market is highly unregulated. A survey conducted by the Standing Committee of the National People's Congress (NPC) in 2005 found that 80% of private firms violate employee rights (China Daily). This is reinforced by figures for defaulted wages. Considering many cases of unpaid wages are not reported, an exact figure on default wages can only be estimated as official data may be the tip of the iceberg. However, national data on defaulted wages from the state regulated construction industry may illustrate the enormity of the problem: 278 billion yuan (2001), 336.5 billion yuan (2002), 367 billion yuan (2004) (Chan, 2005).[6] Data for 2001 indicates that private companies are especially prone to disputes, being involved in far higher numbers than state-owned companies (Cai, Wang and Du, 2005). The negative trend of rising labor disputes (see Figure 2) has been increasing over the years indicating that the Chinese labor market is facing significant challenges and discontent among its labor force. As with figures for defaulted wages, the official data may only be an indicator for a much greater national problem.

[5] Theoretically and empirically it is highly contented whether such economic policy, often relying on low wages, is needed to increase employment.
[6] These figures are taken from new conferences or press releases quoting government officials.

Figure 2: Number of Labor Disputes, 1996-2006



Source: China Labour Statistical Yearbook 2006

Though in aggregate terms China's massive population has enjoyed significant benefits during the government reform efforts it has become clear that the rapid GDP growth has come with a price-tag and that workers' rights are not being adequately protected. As inequality is growing and benefits of the reform effort are unevenly distributed among the population, discontent about unfair treatment is on the rise. World Bank and Asian Development Data show that the Gini coefficient has dramatically risen from 0.16 in 1978 to 47.3 in 2006 giving China one of the regions highest growth rates for at least the last decade. In response to this the government has, at least on paper, taken action to increase its efforts to somewhat shift the imbalance between capital and labor.

Continuous exploitation of natural resources and labor could otherwise backfire threatening the country's tremendous economic development.[7] At present, many economic costs are externalized by the industry at the cost of the public. In how far this policy has contributed to the enormous growth and impressive development of the Chinese economy would require further detailed research. Perhaps other economic policies would have been more suitable and sustainable, but a full discussion of this topic is beyond the scope of this paper (see e.g. Stiglitz, 1996). Regardless of this debate, this policy influenced initial economic reform and labor market polices. After achieving first milestones, these policies have not been able to adapt to challenges related to dissatisfaction and uncertainty in

[7] Economic development at the expense of the environment may inflate actual GDP and enable short-term growth. However, this degradation comes with significant long-term costs, and therefore it is not a recommended strategy. The Chinese government has reacted to international and more important, domestic pressure identifying environmental protection and sustainable development as a desirable goal. Just recently it was announced that the State Environmental Protection Administration (SEPA) will be upgraded to a ministry.

society. China's current social problems become apparent when considering the growing income and wealth gap in the country as well as the speed at which this has happened. Certainly the vast majority of the country has benefited from the countries development in terms of living standards, but as the wealth gap is rising and workers' rights are being violated further change seems necessary. Abolishing the iron-rice bowl under the danwei system were important steps in the marketization efforts, but the government has not yet established labor market institutions effectively protecting worker's rights, while at the same time private enterprises have had the opportunity to exploit a wide range of opportunities with little regulation creating a significant power imbalance.

The lack of supporting social institutions might now be a threat to the continuous transition to private employment (Fu and Gabriel, 2001). The move from a socialist paternal labor relations system has been implemented without providing the labor force much possibility to adjust nor supplying it with necessary support providing institutions. In a sense the Chinese labor market flexibility has become so prevalent that when there is no work workers often have no income, but during busy periods overtimes reach levels in violation with national laws (Chan, 2005). The government has relied on the private sector for job creation as it was downsizing the state-owned sector and perhaps for this reason has provided management much leeway in establishing an industrial relation system best suiting their needs. In this process the government has shifted from a system where it had complete control over labor, benefits and wages to a system where its influence has significantly been reduced. From an enterprise's perspective these conditions might be favourable at first, but this kind of capitalism cannot be beneficial in the long-run. Uneven institutional evolution of labor markets including their regulation has profound economic, social, and political consequences for China. Dealing with the challenges of the transformation of the labor market is an essential task the Chinese government must tackle (Fleisher and Yang, 2003).

3. LABOR MARKET REFORM

With continuous reform efforts the labor market has attempted to progressively marketize. Equally the Chinese labor market has become segmented, creating different conditions for a now heterogeneous labor force. In great contrast to the previous wage grid system which ensured unified wages independent of performance, the unified labor market has been broken up and a variety of labor market segments have evolved creating variations in the consequences faced as marketization efforts are being carried out.

Breaking the iron rice bowl brought dramatic changes to the Chinese labor market. First, over time the state controlled enterprises increased worker lay-offs. As outlined above these workers were dependent to find subsequent employment in the newly established private sector. People entering the workforce faced a very different scenario from previous generations, now being confronted with a far more flexible labor market, where different criteria determine employment. Searching for job opportunities, portions of the population began to migrate within the country; typically from rural to urban areas. However, constraints due to the household registration system (hukou) put migrant workers in a difficult legal situation, making them susceptible to exploitation.[8] Commonly these jobs are described as "three-D-jobs": dangerous, dirty, and demanding. Usually they are attributed to little job security or benefits as the usually informal nature of such jobs makes it easy for employers to evade formal rules regulating the labor market (Cai, Wang and Du, 2005). Second, wages have become increasingly determined by the market and profit orientation leading to wage deviations along the different segmented sectors of the labor market. The lack of labor market institutions filling the large gap left by the demolition of the iron rice bowl set condition for establishing a flexible labor market with an uneven employer-employee relationship.

At this stage of the Chinese labor market reform, the evolution of institutions regulating the now more flexible market have been slow to evolve, often providing employers with far more leverage over the average worker. Recent negative developments on the labor market have perhaps convinced the government to introduce stricter rules and regulations. The new Employment Contract Law taking effect January 1st, 2008 is intended to provide employees with improved protection and rights. A core component of the law requires employers to enter into a contract with an employee within 30 days of fulltime employment. Further, the law sets out to provide improved protection of employees' rights. Perhaps this move can be seen as a statement to limit full liberalization of the labor market and to set out certain minimum standards, all contributing to a healthier and harmonious relationship between workers and

[8] The household registration system (hukou) was established in 1951 and did not originally intend to control movement. However, since the failure of the Great Leap Forward it was used to control movement due to food shortages. In this sense it took on a more macro oriented function. Since 2000 the hukou system has been reformed, but certain aspects still limit mobility without constraints as accessibility to education and other social benefits may be restricted. As with many Chinese policies the hukou system has local variation (see eg. Zhao, 2003).

employers. On paper these changes appear impressive but they remain little more than a paper tiger when employers continue to violate existing laws.

3.1 Post-Wage Grid Wage Determination

When analyzing the marketization of the labor market, wage determination mechanisms are a crucial component. For the purpose of this paper the scope will be limited to this dimension. Fragmentation of the labor market and different reform efforts have had its effects on the wage determination process. At this stage the Chinese workplace relation system is in the making; with several competing or perhaps interrelated systems in place. Current competitive labor markets are coexisting with government control and attempts of collective bargaining (Chan, 2000) but it is still unclear which system will prevail. Regional experimentation rather than the "big bang" approach has been a notable feature of Chinese reforms as policy makers did not prescribe to the mainstream economic formula of development (Qian, 2002). When dealing with the evolution of the labor market similar developments are noticeable.

Some authors such as Meng (2000) will argue that the Chinese labor market has become increasingly flexible with evidence of a neoclassical labor market with an evolving market mechanism, whilst others will reject the competitive hypothesis and argue that administrative controls on wages continue to exist (Yao, 1999) and that there is no evidence of regional or sector wage conversion (Yang, 2005) as the neoclassical model would predict. Other recent studies (e.g. Fleisher and Yang, forthcoming/Cai, Park and Zhao, 2004) indicate no major developments which have led to an improvement in the functioning of labor markets. Yet, others argue that China has inherited several institutions from the pre-reform era which in the post-reform era interact with the newly emerged labor market (Cai, Wang and Du, 2005). The current discussion shows the complexity of the Chinese labor market and conflicting conclusions for different segments. In some cases, the different perspectives can be explained by the different sectors of the labor market which have been the focus of analysis, but a comprehensive understanding is still lacking. However, current literature will agree to the fact that the labor market has become increasingly flexible while pre-reform institutions are still influencing the newly developing labor relations. To illustrate the increasing marketization of the Chinese labor market the influences of three existing wage determination mechanisms and the problems for the labor force which result out of them will be briefly outlined: flexible labor market, government control, and collective bargaining.

3.1.1 Flexible Labor Market

Pay based on qualification and performance are a driving component in the marketization of the Chinese labor market, both in the state as well as the private sector. Though the government may still influence wages (see section 3.1.2 below) its influence was considerably reduced having a growing portion of wages being non-regulated. In a competitive market, regional disparities would attract

migration from low earning regions to regions with higher pay reducing wage differentials over time (Yang, 2005). However, this assumption can only function in presence of complete labor mobility, not to mention that it assumes that wages are the only determinant and relocation of a human being is as simple as shifting money from a low interest country to a high interest country. With a large migrant population and a continuous shift from rural to urban areas, labor mobility seems to be present in China. However, the hukou system still continues to be a major constraint and an institutional barrier. Workers may migrate to higher paying urban areas in hope to find employment, but pre-reform institutions create a major obstacle, putting them at a disadvantage while providing employers greater bargaining power.

In the low skill sector with an enormous pool of workers looking for jobs and intense rural-urban competition, supply and demand result in low wages, poor working conditions and job security.[9] Workers cannot be sure to keep their current job, nor can they rely on their source of income as the flexible labor market will lay them off in an economic downturn as quickly as it has hired them. To make matters worse a large informal sector combined with weak enforcement of laws may strip workers of nearly all their rights. Neoclassical theory would prescribe that workers leave the labor force under unfavorable working conditions. Considering, that welfare and social security is basically non-existent, this option does not appear to be feasible for the majority of employees relying on wages for income. With a large pool of labor supply for the low skilled sector, enterprises will seldom be in the situation where they are required to improve working conditions to secure adequate employment numbers. Certainly, workers will try to choose the companies with the best labor conditions and the situation will contribute to high labor turnover at companies with poor working conditions, but the enormous labor pool puts employees who rely on wages at a disadvantage vis-à-vis employers. [10] Additionally, high labor turnover will reduce employers' willingness to invest in training and may further contribute to an inefficient labor market.

In the skilled sector the same market conditions apply, but in this case high skilled workers are in a far better condition, enabling them to bargain for higher pay and opt for better positions and conditions if such an opportunity arises. While at the same time the heated competition for skilled and highly skilled employees has come with significant wage increases, wages for unskilled workers have been stagnant and in real terms declining (see e.g. Rawski, 2003 and Chan, 2005). This then again underlines the weak position of unskilled workers and that they are

[9] „Considering a pool of 150 million surplus workers in the countryside, the job market in China is complicated and grave," said Du Ying, Vice-Minister of the National Development Reform Commission, last month." (China Daily) It should be mentioned that there is an ongoing debate. Some authors such as Chan (2005) argue that due to the bad working conditions fewer workers are willing to migrate to urban areas, causing a shortage of labor. This, however, is a recent trend with strong regional variations and the overwhelming opinion will indicate over supply of labor.

[10] A survey conducted by Fu (2001) concludes that in the sample of manufacturing workers in nine provinces Foreign Joint-Ventures (FJV) and State-owned Enterprises (SOE) where the most preferred type of employer with 37% and 29% respectively.

bearing the brunt of problems of the marketization efforts. Speculatively, they may be punished as management attempts to off-set wage increases in the skilled sector. Whereas undersupplied skilled labor can bargain for improved labor conditions, the majority of the labor force faces a unitarily determined wage rate set by management. The problem with all this flexibility is that the share of unskilled workers is far higher than the share of skilled workers, creating a challenging situation for the majority of the Chinese workforce. As a result this development may have contributed to high income disparities and it might be questionable if this is a desirable situation for the social and political system of China.

3.1.2 Government Control

As illustrated in Figure 1 the importance of government owned enterprises have become less relevant to the majority of the population, as enterprises have drastically been downsized and emphasis has been put on the private sector. For the remaining employees certain components of the danwei system are still in place in the state sector although the government has gradually withdrawn from its extreme intervention and let market forces take over (Knight and Song, 2005). During the mid-1980s and especially during the 1990s, when the most significant labor market liberalization efforts were undertaken, SOEs were granted more freedom in setting wages (Yueh, 2004). Wage-grid style government control is no longer known in China as the labor market has shifted from a planned economy to a market based economy. Wage structures in SOEs have been reformed during the 1990s, subsequently implementing performance based schemes and a reduction of regulations (Saha, 2006). Still so, the government continues to influence market conditions as government and party officials establish wage guidelines mostly for, but not limited to, SOEs. Typically, this influence may pertain to regulating total wages and increases of total wages, leaving internal wage distribution to the management (He, 2003). How wide spread government wage guidelines are and in to what degree they are actually enforced remains unclear. However, it can be expected that the overall influence for the majority of the labor force will remain negligible as these guidelines will most likely only be applicable for executive or mid-level management positions (Rawski, 2003).

Outside of the state-owned sector the government has introduced minimum wages for China in 1994. The minimum levels vary by province as well as within the provinces themselves due to variations in cost of living. Although the minimum wage rate has been increased since its introduction, increases have not been able to keep up with inflation. Further, the Ministry of Labor and Social Security (MOLSS) has advised enterprises, especially profit making ones, to pay workers more than the minimum wage (CLB, 2007). As with many things, in how far this is enforced, also in presence of wages rates below the minimum level, remains an open question and is likely to vary across the country and sectors.

Technically, the government has a considerable share of control over agreements involving trade unions as any collective contracts (see below) between unions

and management are subject to approval by the MOLSS. But here too, as with minimum wages, the same issues are apparent. Given the sizable influence the government can have on limiting market mechanisms, its influence on the private sector will depend on local government's preferences and abilities, and may be more enforced on a case-to-case basis rather than on a large scale basis.

3.1.3 Collective Bargaining

It is noteworthy not to confuse collective bargaining with collective contracts which usually do not include wage negotiations. Quite in contrast to collective contracts, collective bargaining requires courage, skills, and the determination to confront management with fundamental issues of the collective labor force represented by the trade union. There have been limited experimentations with collective bargaining in China, with the majority of collective wage bargaining taking place at the enterprise level, although there are also regional and industry variations. There are MOLSS regulations for the process of collective bargaining, but it remains unclear how this process gets initiated.[11] Therefore, it is no surprise that collective wage bargaining remains highly uncommon in Chinese industrial relations, as trade unions have little bargaining power over management and lack political support. To this day, Western style collective bargaining has been given little priority in the government's determination to increase marketization. We will return to this topic in more detail in section 4.4.

3.2 Marketization Process

With the beginning of first economic reforms including continuous downsizing of the state sector accompanied by specific labor market liberalization in the 1990s, the Chinese labor market has become extensively marketized while the government has permitted market forces to control larger shares of the labor market. The changing employment patterns and conditions have become more market oriented, while causing problems to job security, social protection, and wages. It may seem as if the Chinese government has relied on these mechanisms in the immature labor market to solve problems of unemployment during the transition period.[12] Market forces have taken on an important part in developing the labor market and breaking up formally fully institutionalized wage structures (Cai, Wang and Du, 2005). Compared to the past, the Chinese labor market has for sure become more flexible.[13] According to Fleisher and Yang (forthcoming), major problems contributing to problems within the labor market can be contributed to current legislation often not being "incentive compatible with the goals of local governments". Current efforts to privatize and let market forces take over have paid-off, enabling the evolution to a more market based economy, but at the same time other parallel institutions contributing to a labor market with fair treatment of labor have been neglected. In how far the government has

[11] See http://www.chinacourt.org/flwk/show1.php?file_id=91497 for a copy of the regulations (in Chinese), retrieved on March 14th, 2008.
[12] Regarding the debate whether is policy is necessary see Stiglitz (1996).
[13] For a more detailed discussion see Zhao (2005).

remained in complete control of these privatization efforts should also kept in mind. Heilmann (2004) argues that due to bureaucratic confusion regarding how to control the private sector combined with a general underestimation of the developments, growth was fairly unnoticed and uncontrolled. This led to the point where the private sector had gotten too large to enforce a "conservative counter-strike".

4. TRADE UNIONS IN AN TRANSFORMING LABOR MARKET

4.1 Organizational Structure and Function

The All-China Federation of Trade Unions (ACFTU), the governing body for all unions in China, has not much changed in terms of its basic organizational structure, although its responsibilities have dramatically changed with the demolition of the iron rice bowl where unions' main duties were related to social welfare and leisure activities (Heuer, 2004). In 2007 the ACFTU had over 150 million official members, covering about 20% of the labor force (ACFTU, 2007). A breakdown of unionization by ownership type is a difficult task, as figures cannot be confirmed by official ACFTU data. However, Shen (2007) provides own estimations as well as figures used by other authors. Generally, SOEs are likely to have a high degree of unionization, with as much as 90% of enterprises having a trade union. Figures for private enterprises and foreign owned enterprises vary by author, ranging from under 10% to about 50%. These figures are to be treated with caution, but it can be assumed that non-SOEs are significantly less likely to unionize voluntarily.

The ACFTU's current structure is a top-down, hierarchical organization. As outlined by Chinese Trade Union Law grass-root unions can be established at the enterprise level if so desired by workers, which would then represent the lowest organizational level. Competing enterprise unions are not tolerated by the law and all established grass-root unions are subordinate to the local, provincial and industrial levels of organization, with the national ACFTU on top. Grass-root union representatives are usually appointed by party officials and as a result one can expect that union leadership is more likely to side with management than to fight for its members' interests. Since, for the vast majority, union leadership is not chosen by workers, their interest can be easily ignored. Contributing to this, local governments are in competition for foreign investment domestically as well as with other rising regional economies such as Vietnam, and may prefer to keep trade unions tame (Chan, 2000). Consequently interaction between union officials and members is nearly non-existent and it may be argued that Chinese unions are likely to operate more on behalf of government and management (Metcalf and Li, 2005). There have been small numbers of enterprise level elections of union officials potentially contributing to provide workers with improved representation, but in how far this mechanism is suitable and supported by the government is yet to be determined (Chan, 2005). As with many policies in China, much depends on the sentiment of local officials. Since local and provincial governments are expected to deliver high growth of output and exports while often facing excess labor supply, official sentiment can easily tilt towards employers (Rawski, 2003). The dependence on local governments' preferences can reduce unionization efforts, and, if they are established, their effectiveness and bargaining power.

An important role for trade unions has been to keep the government in touch with its workers, having them functioning as a "transmission belt" (Dong, 2004). The top-down function is the mobilization of labor for means of production and serving the government's interest. The bottom-up transmission then is the protection of workers' rights and interest. However, workers have little room to communicate their interests as much bottom-up transmission is suppressed (Chan, 2000). In this sense, its core activities have little to do with Western understanding of trade unions. This historically limited role may have, among others, two reasons. First, the concept of the iron rice bowl, the wage grid system as well as the a non-market economy with non-profit oriented enterprises administrated by the government meant that most traditional trade union activities were occupied by the government, leaving trade unions with a limited role associated to providing for welfare issues. Second, all people, workers and management, were (supposedly) pursuing a common goal which due to the ideology made any further union activity futile. Another factor which contributes to the stagnant organizational structures and tight government association are political fears owing to the association of parts of the ACFTU and especially autonomous trade unions with events during the 1989 Tiananmen Square incident (Sek and Warner, 1998). As a result Chinese trade unions remain under the same strict government control as it has in the past thirty years. Nevertheless, due to the increasing marketization of the Chinese economy, the ACFTU has been confronted with a rapidly changing environment. With reform efforts drastically transforming the previously planned economy, the formerly homogenous Chinese workforce has become increasingly diversified, creating problems of representation for such a centralized organization as the ACFTU (Howell, 2003).

The tripartite between government, management, and trade union may cause legitimacy to be questioned by employers and workers for different reasons. Workers' trust in the state controlled union will be limited for fear that it does not represent its interest but rather that of management and/or the government as the union is caught in the dilemma set out by the rules and regulations governing its existence. Management, on the other hand, next to the standard reservations against unions, may fear close ties to the government and worry about potential state interference (Ge, 2007). Several authors such as Metcalf and Li (2005) will however argue that the interaction between unions and its members is practically non-existent, while unions tend to operate on behalf of the government and management instead. These circumstances put unions in a situation which is prone to a conflict of interests making it difficult to truly represent its actual constituency when bargaining with management.

4.2 Role of Grass-root Trade Unions

When exploring what role Chinese unions are currently doing, this paper will first highlight the tasks outlined by legislation and regulations set out by the ACFTU itself, followed by a critical evaluation of its present role as well as the limitations set out by the conditions influencing the current situation on the Chinese labor market.

In the past decade the Chinese labor law as well as the role of unions has been transforming. But a serious gap of what trade unions are entitled to do and what they do in reality persist as this paper will try to demonstrate below. Today, as the ACFTU constitution states, the union's basic responsibility is to protect workers' legal rights and interest. This then is reflected in the union's core activities outlined in Article 28 of the constitution, including assistance in mediation of labor disputes, education programs, legal supervision, and workers' representation during collective contract negotiations. The majority of the activities include dealing with malpractice in employment and poor working conditions which have been recognized as factors contributing to unstable labor relations (Dan, 2003). Basically, a core function of Chinese trade unions is to act as a watch-dog for the implementation of labor laws and to provide workers a pressure valve to which they can turn in the event of unfair treatment in violation of current laws. Very much in contrast to Western unions, wage negotiations are not a core function for Chinese unions at this point (see section 4.4). On the national level the ACFTU has been pushing on the legislative front to improve the legal status of the workforce, most notably the new Employment Contract Law. Certain parts of the law were under criticism by European and American lobbyist groups representing Western enterprises' interests in China and have been watered down. Worried about wide spread discontent, the government, in a recent push, set quotas to unionize foreign owned enterprises and in a high profile case successfully unionized Wal-Mart in 2004 which elsewhere refuses its workers to organize (Chan, 2005).

When it comes to evaluating what Chinese unions are actually doing one could have a vivid discussion. Arguments could be as far as that unions are practically non-existent to that unions are doing their very best, given their current status. Perhaps everyone would be able to agree that Chinese unions currently function very different compared to Western unions, both in terms of their organizational structure as in the role they have representing workers' interests. For this reason it may not be appropriate to compare them with each other. Certainly the working conditions of Chinese unions are very challenging as they have multiple objectives to keep in mind involving government, enterprises, and the interests of workers. It is only naturally that conflict of interest will arise leading to unstable implementation of policies. The dilemma of unions may question its legitimacy of representing workers. As a result, workers tend to still view trade unions less associated with their representation, as personal linkages between management, government, and union leadership continue to be assumed (Heuer, 2004).

Even if grass-root unions are willing to protect its members' rights, they still have very little bargaining power over employers. Some authors such as Chen (2003) will argue that after smashing the iron rice bowl the government is "sacrificing workers interests for the sake of restructuring the economic system". Local officials' preference for GDP growth might also contribute to side with the enterprises' desire for a union free labor relationship at the expense of protecting workers' legal rights. The government has discovered the potential of unions, but at this stage might still be experimenting on what exact role they should be given even as they are pushing for a stronger unionization rate. As the paternal role of the government has been abandoned this vacuum might be filled by unions (Metcalf and Li, 2005) and lead to a revised form of state paternalism. In an effort to please workers' needs and to prevent confrontational labor issues its new role may be to appease discontent workers (Chan, 2000). Of course this assumption might conflict with workers' limited trust in trade unions itself (see section 4.4). Union activity has been controversial and it might be questionable if workers' interests are truly being represented. Any changes must be supported by the government, limiting the possibilities of union officials. But changes in the Employment Contract Law and apparent strengthening of union activity might be first steps in helping workers assume their legal rights which have and continue to be violated in many cases; developments underlined by increasing numbers in official labor disputes, keeping in mind that these might be dwarfed by actual violations (see figure 2).

At its current stage Chinese labor unions are to take on a role to protect workers legitimate rights outlined in the country's labor laws and to enable workers to communicate grievances in their employer relationship. Perhaps in response to increasing worker-employee tensions the government has taken first steps to protect workers from exploitation, poor working conditions, and uncertain labor relations. These developments in increased labor protection are new and might conflict with the government's current economic policies and chosen, yet debatable, strategy for continuous growth and job creation (see section 3). On paper workers are now given some leverage in the unequal power relation between workers and employers. But Chinese trade unions traditionally, have had a collaborating role with the communist party as well as management and it might seem unlikely that they will strongly oppose the state bureaucracy. For the long-run development they need to improve their ability to represent workers' interests and change their organizational structure (Ge, 2007).

4.3 Distinguishing Collective Contracts and Wage Bargaining

Collective contracts have been present in China since the early 1980s and have been reshaping themselves over time (Sek and Warner, 1998). Despite their presence and evolution one might question their effectiveness. First, its representation of workers' interest is questionable as is the leverage against employers in the bargaining process. Second, their scope is fairly limited. The agreements do not emphasize a confrontational bargaining process between management and unions, as the main goal is to create "harmony" and "stability" within society (CLB, 2007). Consequently, as mentioned above, collective contracts do little more than reflect current labor legislation and for the most do not include any additional provision which might increase labor costs. Clarke (2004) refers to collective contracts as a self-regulatory collective institutional mechanism to secure 'harmonious' labor relations". The ACFTU's perception of collective contracts and agreements is in a similar fashion[14]:

> "Practice has shown that under the conditions of developing a socialist market economy in China, implementing the system of collective consultation and collective contract has played a very important role in protecting workers' legitimate rights and interests, establishing harmonious and stable labor relations and promoting economic growth."

Though at first one might question the significance of collective contracts for workers as they limit their scope to legislation, in a country where labor laws are often ignored to the benefit of management this can be an institution which improves working conditions for employees covered by collective contracts, assuming unions then actually control the implementation. Wage negotiations, a central point in advanced economies, only play a limited role, but as Chinese industrial relations are in the making, this might be too much to ask for at the current transformation phase.

The new Employment Contract Law of January 1st, 2008 can be seen as a commitment by the government for further development of collective contracts. Revisions and additions to the old law outline that "labor unions shall assist and guide workers in the conclusion of employment contracts with their employer and the performance thereof in accordance with the law, and establish a collective bargaining mechanism with the employer in order to safeguard the lawful rights and interests of workers" (Article 6). Article 53 even gives provisions for industry and area wide collective contracts quite in contrast to the usual enterprise level based system in place. The new law improves the legal status of workers, but for the most it excludes provisions regarding collective bargaining and yet needs to prove its effectiveness.

Collective wage bargaining is still premature, but since the 1990s there has been experimentation (Howell, 2003). According to the ACFTU, "with painstaking promotion and positive participation by trade unions at various levels in China, by

[14] Retrieved from http://english.acftu.org/template/10002/column.jsp?cid=77 on March 10th, 2008

the end of 2006, 305,000 special collective wage contracts had been signed across the country, with 526,000 enterprises and 37.15 million workers involved; and 23,900 special regional and industrial collective wage contracts were signed, with 281,000 enterprises and 11.138 million workers involved".[15] Assuming these numbers are not inflated, coverage is 4.8% of the total workforce. It also remains to be analyzed how and under what conditions these negotiations are carried out. Given the limited bargaining power of Chinese unions the actual significance may need to be put in perspective. However, it should be noted that, very much in line with previous Chinese reform efforts, a certain amount of experimentation is being carried out at a regional level. Though collective wage bargaining is being carried out to a limited extent, wage negations do not belong to the core activity of unions and the focus has been instead on protecting workers' legal rights. Chinese trade unions are highly unlikely to become as confrontational as in many Western countries any time soon, but the government has taken steps to increase their power base in protecting workers legal rights and providing them a pressure valve in case of violations. Current Chinese conditions are not favorable for wage bargaining as without a power balance the process on equal terms is not feasible. Strikes would provide workers the necessary instruments increasing their leverage during the negotiation process. However, strikes are viewed with apprehension by the government as it is disruptive to labor-management relations and might be a source for potential social unrest (Sek and Warner, 2000). Since 1982 Chinese law, therefore, officially prohibits strikes, significantly weakening trade unions' bargaining power.[16]

4.4 Independent Unions

An indicator that Chinese workers are increasingly facing frustration is the now frequent occurrence of spontaneous strikes and unrest, which have led the Communist Party leadership to identify labor related unrest as one of the most worrying threats to Chinese stability (Sheehan, 2000). As illustrated above grass-root trade unions under the governing body the ACFTU are to defuse this threat. At the same time trade unions should help prevent the emergence of independent trade unions, especially out of fear of the prospects of a Polish Solidarity union uprising (Metcalf and Li, 2005). These fears were underlined by events around the Tiananmen Square events in 1989 and have increased party control over any union activity, as well as the determination to undermine independent trade unions. In many cases trade unions have failed to resolve labor disputes or to represent workers' interests increasing the perception among workers that its interest are not effectively being represented (Howell, 2003). Studies confirm low approval ratings: only a fraction of unionized workers would turn to the trade union for assistance (see e.g. Chen and Lu (2000) and Yao and Guo, 2004). Needless to say, that this refers to unionized enterprises only, and does not consider the discontent among workers where unions have not been

[15] Retrieved from http://english.acftu.org/template/10002/file.jsp?cid=81&aid=232 on March 10th, 2008.
[16] In certain cases wild strikes have been tolerated, see section 4.4.

established, whether the reason is management or government refusal, nor the large migrant workforce population.

Limited legitimacy and strong linkages with management and government, and as a result ambiguous union activity, are harmful in establishing any trust among its members. Considering in 2006 22.4% (Chinese Labor Statistics, 2006) of the workforce were unionized and assuming that only a fraction of these see any benefits of unionization, a staggering proportion of the labor force is not effectively represented. One can only estimate the proportion of discontent workers which have no effective way of having their interests protected as the power balance in the employer-employee relations is completely off-balance. Officially labor disputes have been on the rise and wild strikes as well as unrest are not uncommon events in China. In order to make their voices heard the desire to form independent trade unions truly representing their interest in face of weak government protection is only natural.

Despite immediate suppression, attempts to establish autonomous trade unions have occurred in the past including the Beijing Workers Autonomous Federation, migrant workers of Guangdong 1995 and 2002, the Beijing taxi drivers in 1998, and the Free Labor Union of China (see Howell, 1997 and 2003). The existence and actual work of independent unions is negligible as authorities are quick to step in. Autonomous union involvement during the Tiananmen Square events of 1989 have contributed to creating a nearly impossible environment for setting up independent unions in the near future, but as Howell (2003) says: "such attempts are a constant reminder to the ACFTU at both the national and local level that its claim to represent is questionable and its power to defend the interest of workers (is) weak." Ironically, at times the government gave in to demands, sometimes enforced by illegal strikes, organized by autonomous unions or labor activists only to then imprison the responsible people (Heilmann, 2004). These attempts underline the current frustration of many workers and reservations against the ACFTU. In their usually short-lived formations independent trade unions can only play one role: remind the Chinese leadership, that for the majority of the workforce the current role of ACFTU affiliated trade unions is insufficient and the government should attempt to improve and enforce its duties as outlined in the legislation.

4.5 NGO and Foreign Influences on Labor Relations

Foreign enterprises have entered China in large numbers since the beginning of the 1980s and have in many cases shifted labor intensive production from countries with higher pay and stricter labor legislation. China's enormous workforce and limited regulations provide favorable conditions for investors needed for economic growth. Foreign enterprises involvement in emerging or developing economies is controversial, as weak legislation and different labor standards give rise to exploitation of workers. In the past and to this day, reports of poor working conditions in foreign enterprises are common. If put on the spot by the press or non-governmental organizations (NGO), and because of the

recent trend of corporate social responsibility, companies will usually give in to the public outcry and improve working conditions above the domestic levels or at least to the minimum domestic levels. Under this Western moral pressure, companies may improve working conditions for its labor force. Existing evidence suggests that in China international firms do provide higher pay and more favorable working conditions, much in contrast to enterprises under Greater Chinese ownership, which are notorious for bad labor conditions (see Ge, 2007; Fu and Gabriel, 2001; and Heilmann, 2004).

NGOs have become allowed to operate in China to some degree, but usually these are foreign or Hong Kong based. Recently, efforts by Social Accountability International, a US based NGO for promotion of corporate social responsibility, has lead to heated discussions if they have protection of Chinese workers' rights in mind or if they are working on behalf of Western protectionism trying to erode China's competitive advantage (Chan, 2005). There have also been reports of NGOs assisting workers who have been denied payment of wages (China Daily). In how far there is domestic diffusion and what roles foreign influences play would require further study. Given the concentration of foreign enterprises to the Eastern seaboard as well as the limited role of NGOs in China it can be suspected that the overall impact is small and will only affect a share of the workforce, mainly in areas where competition for labor is high.

4.6 Are there "Real" Chinese Trade Unions?

As mentioned above Chinese trade unions by no means fit any Western definition. However, when evaluating Chinese trade unions one needs to consider the inherited institutional structure in which national trade union practices need to be constructed (Clarke, 2005). At this stage it would be unfair to judge Chinese unions on the basis of understanding of trade unions in advanced economies. Despite all its advances China remains an emerging economy and it is far from having completed its transformation from a planned economy. The newly developed labor market is little more than a decade old. Additionally, the size of the Chinese economy and having the world's largest labor force creates additional challenges, perhaps calling for a different approach. Potentially trade unions may have a balancing effect in the increasing marketization of the Chinese economy after growth has been the driving force behind much of the economic policy during initial stages of economic development often compromising the labor force. Increasing environmental degradation and violation of workers' rights are now a source of discontent; current economic policy and unions may provide the necessary instruments to appease these developments. At this stage wage bargaining, a core function for Western trade unions, is not at the center of attention. Much more it is the instruments protecting workers' rights. However, an important obstacle which ACFTU affiliated trade unions must overcome is their limited credibility with its members (see section 4.5). Limited credibility will result in failure of this pressure valve and the threat to release itself in another way, potentially causing political and social unrests which cannot be in the interest of any government. It remains an open question whether the current

trade union structure can achieve the goals the government has in mind without further reforming the organization and powers of trade unions. In sum, Chinese trade unions currently are facing a significant number of limitations including problems of representation, close management and party ties, weak enforcement of laws, and the desire for continuous attraction of investment and growth. Though their overall position is weak, trade unions are a potential tool in improving protection of workers' rights. In order to develop into a powerful balancing labor market institution it will be necessary to build on its current, in comparison to Western unions limited, objectives and further evolve from there. At this stage protecting the legal rights of workers has become a central issue for the Chinese government and trade unions have the potential to be successful. A study based on the Chinese Economic Census Yearbook 2006 conducted by Ge (2007), while highlighting trade union's weak position, the weak enforcement of laws, as well as the limited scope of collective contracts, concludes that unions do contribute to the protection of workers' rights. He further finds that in an employer dominated environment with frequent violations of the law, trade unions might be the only institutions which currently can improve workers' working condition and legal status. Most importantly, unionized enterprises provide workers with the necessary channels to protect their legal rights, whereas in non-unionized enterprises workers interest might be significantly less protected.

5. EVALUATING CHINA'S INDUSTRIAL RELATIONS

Labor markets, for a number of reasons, are a special market. Workers as a factor of production differ from capital and land, comprising a human component. Unlike other factors, they have a desire for fairness and equality. In this sense, fully flexible and competitive labor markets may not be the best alternative in the long-run when transforming a command economy, requiring the government to set up institutions pressing for a non-market outcome when required (Knight and Song, 2005). An unregulated market cannot be relied on to solve all problems in the long-run; much in contrast to this a regulated market within a functional institutional framework is a prerequisite for a positive long-term development. In its evolution the Chinese labor market faces many challenges and one cannot expect it to change as fast as other parts of the economy. An institutional arrangement considerably distinct to the pre-reform arrangement needs to be carefully developed. Following Deng Xiaoping's famous "feel the stones while crossing the stream" phrase, China has chosen a unique and pragmatic approach in transforming the country: adjusting the institutional design while testing different arrangements and correcting them when necessary. Similar developments are now observable in the labor market as it is in the process of shaping and reinventing itself. At its current transformational path it is not yet clear which destination it is heading for. Moreover, China's current labor market is an evolving and tremendously crucial component of the Chinese transformation process.

Market determined forces have significantly contributed in transforming the Chinese command economy to a more market based one, but with rising inequality and an unequal employer-employee power balance, more harm could be done than gained if non-market institutions are not able to develop themselves. Chinese workers have been granted the right to choose their own employment while at the same time paternalistic institutions were withdrawn and bargaining power is significantly in favor of employers (Saha, 2006). In a way, the Chinese government is in a dilemma. On the one hand it needs to find ways to quickly create jobs for the largest labor force in the world, increasingly relying on the private sector and market forces rather than historically proven failure prone government control. On the other hand, despite improved living conditions for most of the population it is facing growing income disparities and discontent among its labor force, potentially creating social and political problems threatening the necessary reform process. While conditions have been unevenly favorable for enterprises, the continuous and apparent hardship may require the government to seriously take distinctive measures attempting to rebalance the power disparities in Chinese industrial relations.

China's economy still needs to develop the necessary institutions for its market based economy to function efficiently. Otherwise marketization is in danger of going too far, too fast, annihilating non-market institution or not enabling them

the chance to develop (Knight and Song, 2005). Unbridled marketization has its limits in developing a sustainable economic structure, as it is beneficial only if the power balance is strong enough to prevent the strongest from exploiting the weak. From a macroeconomic perspective such a market based labor market may establish an inflation/deflation prone system when it lacks institutions which could contribute to more predictability and control. Labor markets have a different function with different stages of development (Cai, Wang and D, 2005) and at this stage it might be necessary to consider the development of non-market institutions. Facilitating the establishment of employer and employee associations may contribute to improved coordination in the labor market. Trade unions can be an effective tool in achieving this goal. However, the federal government's current goodwill towards strengthening their position still needs to actually materialize on the provincial level both to gain legitimacy from its members and to establish itself as a powerful tool in balancing industrial relations.

6. REFERENCES

ACFTU Constitution, retrieved from http://www.acftu.org.cn/ on March 7th, 2008

ACFTU (2007), Chinese Trade Unions Statistics Yearbook 2006. China Statistics Press.

Asian Development Bank (2007). Key Indicators 2007.

Cai, F. & Park, A. & Zhao, Y. (2004). The Chinese Labor Market. Paper presented at a conference on China's Economic Transition: Origins, Mechanisms, and Consequences. Pittburgh, November 5-7, 2004

Cai, F. & Wang, M. & Du, Y. (2005). China's Labor Market at Crossroads. China and the World Economy, Vol. 13, pages 32-46. Blackwell Publishing.

Chan, A. (2000). Chinese Trade Unions and Workplace Relations in State-owned and Joint-venture Enterprises. In Malcom Warner (ed.) Changing Workplace Relations in the Chinese Economy. St. Martin's Press.

Chan, A. (2005). Recent Trends in Chinese Labour Issues-Signs of Change. China Perspectives, No. 57.

Chen, F. (2003). Between the State and Labour: The Conflict of Chinese Trade Unions' Double Identity in Market Reform. The China Quaterly, No 176.

Chen, S. and Lu, H. (2000). Research on the Problem of Labour and Employment Insurance in Zhejiang Province. (in Chinese)

China Daily, various

CLB, (2007). Wages in China. Online document accessed under http://www.clb.org.hk/en/node/100206 on March 19th, 2008.

CLB (2007). Breaking the Impasse-Promoting Worker Involvement in the Collective Bargaining and Contracts Process. China Labor Bulletin Research Report No.4.

China Labour Statistical Yearbook (2006). China Statistics Press.

Chinese Trade Union Law, retrieved from http://www.acftu.org.cn/ on March 7th, 2008

Clarke, S., Lee, C.H. and Li, Q. (2004). Collective Consultation and Industrial Relations in China. British Journal of Industrial Relations, 42:2.

Clarke, S. (2005). Post-socialist Trade Unions: China and Russia. Industrial Relations Journal, No. 36.

Dan, F. (2003). Research Report on Wage Determination and Workplace Management in China. ILO Publication.

Dong, X. (2004). The Changing Wage Structures in the 1990s: A Comparison between Rural and Urban Enterprises in China. paper presented at the International Research Conference on Poverty, Inequality, Labor Market and Welfare Reform in China, Australian National University.

Fleisher, B. and Yang, D. (2003). Labor laws and regulations in China. China Economic Review, Vol. 14(4), pages 426-433. Elsevier Publishing.

Fleisher, B. and Yang, D. (forthcoming). China's Evolving Labor Market. In Policy Reform and Chinese Markets: Progress and Challenges, co-editors with Belton Fleisher, Nick Hope and Anita Pena. Edward Elgar Publishing.

Fu, Y. and Gabriel, S. (2001). Transitions to Private Employment: Earnings Determination, Worker Employment Preferences, and Job Turnover in Urban China. Department of Finance and Business Working Paper Series, No. 01-21, Marshall School of Business, University of Southern California.

Ge, Y. (2007). What Do Unions Do in China. Available at SSRN: http://ssrn.com/abstract=1031084

He, F. (2003). Struktur und Funktionsweise des chinesischen Arbeitsmarktes-Der Gestaltungsprozess des Arbeitsmarktes unter dem wirtschaftlich-silialen Strukturwandel in der VR China seit 1978. Arbeit-Technik-Organisation-Soziales, No. 21. Peter Lang Verlag. (in German)

Heilmann, S. (2004). Das Politische System der Volksrepublik China (2nd edition). VS Verlag für Sozialwissenschaften, Wiesbaden.

Heuer, C. (2004). Wandel der Chinesischen Gewerkschaften (in German). Retrieved from http://www.woek-web.de/web/cms/upload/pdf/gewerkschaften_in_china/publikationen/heuer_2004_wandel_der_chinesischen_gewerkschaften.pdf on March 7th, 2008.

Howell, J. (1997). Looking Beyond Incorporation: Chinese Trade Unions in the Reform Era. Mondes en Development, 25-99-73-90

Howell, J. (2003). Trade Unionism in China: Sinking or Swimming? Journal of Communist Studies and Transition Politics, 19(01).

Knight, J. & Song, L. (2005). Towards a Labour Market in China. Oxford University Press.

Lee, M.K. (2000). Chinese Occupational Welfare in Market Transition. Palgrave Macmillan.

Meng, X. (2000). Labour Market Reform In China. Cambridge University Press.

Metcalf, D. and Li, J. (2005). Chinese Unions: Nugatory or Transforming? An Alice Analysis. Centre For Economic Performance. London School of Economics.

Qian, Y. (2002). How Reform Worked in China. CEPR Discussion Papers 3447, C.E.P.R. Discussion Papers.

Rawski, T. (2003). Recent Developments in China's Labour Economy. Department of Economics Working Paper, No. 280. University of Pittsburgh

Saha, B. (2006). Journal of South Asian Development, Vol. 1, No. 2, 179-205. SAGE Publication.

Sek, H.N. and Warner, M. (1998). China's Trade Unions and Management. St. Martin's Press.

Sek, H.N. and Warner, M. (2000). Industrial Relations versus Human Resource Management in the PRC: Collective Bargaining `with Chinese Characteristics`.In Malcom Warner (ed.) Changing Workplace Relations in the Chinese Economy. St. Martin's Press.

Sheehan, J. (2000).From Client to Challenger: Workers, Managers and the State in Post-Deng China. In Malcom Warner (ed.) Changing Workplace Relations in the Chinese Economy. St. Martin's Press.

Shen, Jie (2007). Labour Disputes and their Resolution in China. Chandos Publishing.

Statistical Year book (2006), National Bureau of Statistics of China

Stiglitz, J. (1996). Some Lessons from the East Asian Miracle. World Bank Research Observer, Oxford University Press, Vol. 11(2), pages 151-77.

Yang, D.(2005). Wages and Returns to Education in Chinese Cities. In Gordon Liu, Shufang Zhang and Zongyi Zhang (eds.) Investing in Health and Education for Economic Development in China. The World Scientific Publishing Co.

Yao, X. and Guo, D. (2004). Emperical Analysis of Industrial Relations in the Enterprises which Changed from State-Owned to Private. Management World, No. 5. (in Chinese).

Yao, Y. (1999). Rural industry and labor market integration in eastern China. Journal of Development Economics, Elsevier, vol. 59(2), pages 463-496, August.

Yueh, L.Y. (2004). Wage Reforms in China During the 1990s. Asian Economic Journal 18(2).

Zhao, Z. (2005). Migration, Labor Market Flexibility, and Wage Determination in China: A Review. Labor and Demography No. 0507009, EconWPA

Published GLU Working Papers

No.1 Seeraj Mohamed; Economic Policy, Globalization and the Labour Movement: Changes in the Global Economy from the Golden Age to the Neoliberal Era, February 2008
http://www.global-labour-university.org/fileadmin/GLU_Working_Papers/GLU_WP_No.1.pdf

No.2 Birgit Mahnkopf; EU Multi-Level Trade Policy: Neither coherent nor development-friendly, February 2008
http://www.global-labour-university.org/fileadmin/GLU_Working_Papers/GLU_WP_No.2.pdf

No.3 Edward Webster, Christine Bischoff, Edlira Xhafa, Juçara Portilho Lins, Doreen D. Deane, Dan Hawkins, Sharit K. Bhowmik, Nitin More, Naoko Otani, Sunghee Park, Eustace I. James, Melisa Serrano, Verna D. Viajar, Ramon A. Certeza, Gaye Yilmaz, Bülend Karadağ, Tolga Toren, Elif Sinirlioğlu and Lyudmyla Volynets; Closing the Representation Gap in Micro and Small Enterprises, November 2008
http://www.global-labour-university.org/fileadmin/GLU_Working_Papers/GLU_WP_No.3.pdf

No.4 Max J. Zenglein; Marketization of the Chinese Labor Market and the Role of Unions, November 2008
http://www.global-labour-university.org/fileadmin/GLU_Working_Papers/GLU_WP_No.4.pdf

The Global Labour University (GLU) www.global-labour-university.org is a network of universities, trade unions, research institutes, NGOs and foundations in order to

- develop and implement university post graduate programmes on labour and globalization for trade unionists and other labour experts;
- undertake joint research and organize international discussion fora on global labour issues;
- publish textbooks, research and discussion papers on labour and globalization issues.

Members of the GLU network:

British Trade Union Congress (TUC), U.K.
Cardiff University, U.K.
Central Única dos Trabalhadores (CUT) / Observatorio Social, Brazil
Congress of South African Trade Unions (COSATU), South Africa
Deutscher Gewerkschaftsbund (DGB) / DGB Bildungswerk, Germany
European Trade Union Institute (ETUI)
Fachhochschule für Wirtschaft Berlin (FHW), Germany
Friedrich-Ebert-Stiftung (FES), Germany
Global Union Research Network (GURN)
Global Unions (GU)
Hans-Böckler-Stiftung (HBS), Germany
Industriegewerkschaft Metall (IG Metall), Germany
International Federation of Workers' Education Associations (IFWEA)
International Institute for Labour Studies (IILS), ILO
International Labour Organisation (ILO) / Bureau for Workers' Activities (ACTRAV)
National Labour and Economic Development Institute (Naledi), South Africa
Ruskin College, Oxford, U.K.
Tata Institute of Social Sciences, India
Universidade Estadual de Campinas, Brazil
Universität Kassel, Germany
University of the Witwatersrand, South Africa

Global Labour University e. V.
University of Kassel
Department of Social Sciences
– Fachbereich 5 –
Nora-Platiel-Str. 1
34127 Kassel

E-mail: glu.workingpapers@uni-kassel.de