



Labour, Education & Society

30

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Collective Bargaining and Changing Industrial Relations in China

Lessons from the U.S. and Germany

Introduction

The issue of low wages in China has become a recurring problem in the Chinese national economy. As China is now widely acknowledged as the “workshop” of the world, its low wages, no doubt, have been an attraction for manufacturing. Nevertheless, the same low wages have also become a major bottleneck for further economic growth and social development. First, the necessity of increasing domestic consumption was addressed in the 2008/9 global recession. Clearly, the over-dependency of China on foreign demand in the past is no longer able to sustain its overproduction of industrial goods in the long run. Besides, the generally low skill levels of the industrial workforce have led to a vicious “low-wage/ low-skill/ low-value-added” trap. “Made-in-China” mainly means labor-intensive, low-end and low-tech products, or in many cases, high-tech products but with core design and technologies controlled outside China and a strictly limited input from Chinese workforce. At the same time, the high turnover rates and frequent labor disputes (e.g. in the electronics industry) reflect the lack of employees' loyalty and their unwillingness to cooperate. As an innovation and upgrading strategy may necessarily reduce the demand on unskilled labor or require skill development, only a trustful labor relations can make the strategy successful primarily by soothing workers' insecurity of employment and relevant concerns. Consequently, the unstable situations in Chinese industries make any innovation or industrial upgrading extremely difficult. Further, low wages have become the top cause for several major waves of labor unrest. For instance, the recent slew of suicide cases at Foxconn and the Honda strike in 2010 were argued by Chinese media and Internet forums as a sign that the era of rock-bottom wages in China was passing (Yang 2010).

However, a question remains as to how this low-wage development path can change. The average incomes of Chinese manufacturing workers have been pushed to an extreme, for instance, they were only one fourteenth of the average wages of South Korean workers in 2003.¹ According to the sixth national survey of the All-China Federation of Trade Unions (ACFTU) on employment in 2007, 26.7% of ordinary workers had not any form of wage increases in the last five years.² Apparently, the wage increases have been far behind the growth of productivity. From 1998 to 2004 the productivity grew 187%, but workers' average wages increased only 134% (Zhang and Zhao 2006). In 2010, the strike

1 Chosun News, The wages of manufacturing workers in South Korea are 14 times of in China, http://chn.chosun.com/site/data/html_dir/2003/08/26/20030826000024.html

2 ACFTU Research Department, General Report on the Sixth National Survey of Employees and Workers, Theory & Practice of Trade Unions, No. 16, 2008, p3-18

wave and the Foxconn labor crisis resulted to a 30% wage increase by Foxconn and the collective agreement signed by the Honda Nanhai supplier. Nevertheless, many foreign observers suspect whether such “success” can be actually implemented or is able to last in a long term.

Specifically, collective bargaining has been the center of the public discussion, although at the policy level, it has been written into the law in China since the 1990s. In the early days of capitalist development, the importance of collective bargaining had already been recognized soon after the beginning of the industrial revolution, and later it became the dominant form of wage determination, such as during the post-war era of Fordism in the United States and in Germany. In fact, collective bargaining is not only a mechanism of determining wages and other labor standards, but also one of, if not the most important ways of adjusting industrial relations. It is usually conducted between collective labor organizations and employers or employers' associations. The basic idea is to overcome the inferior position of the relatively powerless wage workers, compared to employers in terms of property and administration rights, e.g. lowering workers' costs of demanding on wages (Offe and Wiesenthal 1980). Primarily, the liberal idea of regarding labor and capital as "equivalent", which used to be dominant in academics and practice, would be simply mistaken. According to Marx (1887), laborers possess nothing but their own labor-power and labor-power is a peculiar commodity. For the means of subsistence, the "owner" of labor-power is forced to enter into a wage contract. As labor power cannot be physically separated from its "owner", the employment of a laborer involves submitting to the authority of the capitalist for a specific period of time. On the contrary, capitalists can decide whether to employ a laborer or not, and what and how to work if employed. Capitalists can also release themselves partially from their dependence upon the workers by introducing labor-saving technologies, thereby depressing the wage rate. Given such conditions, effective collective bargaining is desired, in which two relatively balanced powers determine wages and other working conditions together.

Apparently, collective bargaining is the mechanism that could potentially improve the current wage system and channel the conflictual labor-capital relations in China. Therefore, this study aims at exploring the very existence and more likely, the future possibility, of effective collective bargaining in China. There are two major questions: what is collective bargaining in practice? what can it become in the future?

In short, collective bargaining in China has to be analyzed in the context of the changing industrial relations. As the national economy has been expanding at a nearly unprecedented speed and consequently impacting other economies through global networked production, industrial relations in China are attracting

increasing attention worldwide. At the same time, the state-controlled system of industrial relations has come under criticism. At the international level, its low wages and export orientation have often been regarded as being against trade rules and labor standards (She and Fu 2001). The debate about the nature of the official trade union, especially its close linkage with the state, continues. Domestically, the large-scale dismantlement of state-owned enterprises, combined with a growing low-wage sector, has resulted to increasing inequality in the distribution of economic, social, cultural and information resources (Lu 2002). Given the ambiguous statuses of both trade unions and management in labor relations, and the inconsistent industrial policies of the government, labor-capital conflicts have frequently emerged, and from time to time burst into open labor unrest (e.g. Lee 2007). As a response to international and domestic pressures and state policies aimed to build harmonious labor relations, the system of collective bargaining and collective contract has been written into the Chinese law and officially promoted by the trade unions.

Significant labor-related changes have taken place, mostly in a top-down manner directed by the state. A capitalist market system has been introduced with the following features: the establishment of an employment contract system, a labor market, multiple types of enterprise ownership, and distribution according to production factors. The capitalist labor relations have become a matter of fact. In a few recent studies, China has been identified as “capitalism with Chinese characteristics” - a version of state-led capitalism driven by entrepreneurial rural China in the 1980s (Huang 2008: xvi), or as a “market-liberal state capitalism” (Ten brink 2010). No matter how we look at it, the economy is in accordance with many key features of capitalism, such as competition-driven accumulation, social stratification, economic-political structural interdependence and the inter- and transnational capitalist system integration. Thus, it is fruitful to look at the Chinese collective bargaining system in the much broader trajectory of the global economy and labor polity, of which, undeniably, China has already become an inseparable part.

It is recognized that collective bargaining is a key mechanism of industrial relations, but may take distinctive forms and exert different degrees of influence in a specific country. At present, the fundamental elements that compose an effective model of collective bargaining remain to be a quite confusing field in China. For instance, as revealed in the field study of this research (see chapter 3), the majority of trade unionists and managers are or pretend to be ignorant of the social norm in typical collective bargaining procedures in which wages follow the inflation increase plus the increase in labor productivity. Thus, this study attempts to clarify the elements of collective bargaining by first comparing the

formation and functioning of the historical models of collective bargaining in the U.S. and Germany, during periods of the rise and fall of Fordism.

The U.S. was chosen because it was the first country that developed mass production method as well as Fordist wage regulation, which was centered on collective bargaining. In the 1930s and 1940s, collective bargaining had reached the greatest influence in the U.S. with the largest coverage ever since. Following the US, Germany was a late comer to the modern mass production of automobiles, but its well-known model of "high wage, high skill, high quality", based on industry-wide bargaining, enabled the country to rapidly become a leading player in the global market. Importantly, the two cases show a comparison of industrial relations in two distinctive political traditions and economical orders. In fact, both countries had experienced massive labor conflicts and the labor movement waves during the heyday of the development of the automobile industry (e.g. in the 1930s and 1960s respectively). In consequence, collective bargaining, although in highly different ways and content, has become the basic feature of typical "Fordist" regulation in the industrial relations of both countries. Nevertheless, the two models of collective bargaining, and more general industrial relations, have gone remarkably different paths, especially since the 1970s. The boom of the electronics industry, claimed by many scholars as the symbol of "post-Fordism" (Dicken 1998: 353-4), has marked the divergence. The industry boomed in the US and later spread to Germany, at a much faster pace than the automobile industry. It is true that the broad range of varieties in production and enterprises in this industry has weakened the role of traditional collective bargaining systems in both countries. Nevertheless, while it created a notorious union-free sector and the collapse of social contract in the U.S., in Germany the industry-wide collective bargaining was able to maintain the coherence of the economy and society much longer.

Therefore, I compare the two distinctive models of collective bargaining in the U.S. and Germany, and examine the institution-building processes of both models. Through the observation of both the automobile and electronics industries, this study attempts to summarize the key factors for the formation and functioning of collective bargaining throughout the rise and fall of Fordism.

At the same time, while taking general rules from other countries as reference, it is important to survey the special characteristics of industrial relations in China. To a certain degree, industrial relations is a country-specific system. For instance, strong labor movements, according to an intriguing research of Silver (2003), came along with the development of modern manufacturing and capitalist labor relations. She argues that mass production recreates similar social contradictions and accordingly increasing labor struggles wherever it emerges. Throughout the twentieth century, this norm proved itself,

as shown in North America in the 1930s and 1940s and Germany in the 1960s and 1970s. However, in spite of the existence of modern manufacturing and capitalist relations in China, a strong labor movement has not emerged. Also, the system of collective contract came into being not through the pressure of workers. In this sense, China is an exception in the norm found by Silver.

Accordingly, collective bargaining is explored in the specific economic, social and political conditions of China today. This study is based on the investigation into production regimes at the factory level in both auto and electronics industries, and wage regulation at regional and national levels. The auto and electronics industries, as the leading industries of the twentieth and twenty-first centuries respectively, are now the core and strategic sectors in China. Although some low-end, low-tech, low-cost traditional sectors appear as the main image of China, many capital-intensive, high-tech and modern industries are quickly developing too. The conditions of the two leading industries may forecast the trends collective bargaining and industrial relations may take in the future.

Above all, this study takes into consideration both common patterns throughout history of industrialization, as well as the specific configurations of China. Besides, the current global industries and politics have provided new conditions for establishing collective bargaining systems than that of the post-war era. It is uncertain whether China may follow the global trend of the demise of Fordist wage regulation or welcome the return of Fordism, namely relatively regulated and effective collective bargaining. In any case, we have to expect that the regulation itself, the actual process, and the driving forces behind it, may be very different from those in the past. This study attempts to find perspectives that combine the advantages of collective bargaining models in both the U.S. and Germany and avoid their fundamental flaws, particularly excessive trade-offs in concessionary bargaining. On this basis, I try to identify the essential problems of the existing collective contract system in China, and explore a future model that fits into both general tendencies and the specific conditions. In any case, the principles of collective bargaining, such as shop-floor control and above-enterprise coordination, shall not be forgotten. Fundamentally, the labor history of the U.S. and Germany illustrates that collective bargaining has always been a systematic process of institution-building driven by the efforts of collective labor, rather than a unilateral policy from top down.

A note on methodology and resources

This study is a qualitative analysis of collective bargaining and industrial relations, supported by selective quantitative data from both official sources and field study. Primarily, an extensive analysis of the existing literature provides a general framework of the historical development of industrial relations, especially collective bargaining in both the U.S. and Germany. The automobile and electronics industries - two representative industries of Fordism - are selected to illustrate the dynamics of production regimes and regulation modes. Moreover, case studies³, complemented with statistical data and previous labor studies of the two industries, have been conducted in representative Chinese cities in order to position collective bargaining in the broader context of industrial world and in the national and international labor politics.

Historical materials have been mainly collected through library and media research. In order to trace the historical development of collective bargaining, previous literatures on production regimes, collective bargaining patterns, and general industrial relations systems in the U.S. and Germany are referenced. In addition, direct contacts with several companies and trade unions in Germany also help to clarify the current debates and challenges on collective bargaining.

As in the case of China, general information about automobile and electronics industries has been collected, such as the proportions of FDI and employment in the national economy. The two leading industries - the automobile and electronics industries, in terms of employment, investment, industrial values and exports, apparently are of extraordinary significance in exploring the China model of industrial relations.

Moreover, case studies from both industries are selected from China, including a broad range of companies - ten in the automobile industry and sixteen in the electronics industry. The author attempts to cover at least three typical cases in each representative category of enterprises, following the distinctive industrial structures respectively. Thus, there are auto assemblers and part suppliers, and a more complex combination in the electronics industry. From the perspective of ownership types, I have included global brand name multinationals, joint ventures, no-name contract manufacturers, private small suppliers etc., from Europe, America, Japan, Taiwan and Mainland China. Besides, this selection covers the three core industrial clusters - Beijing and Tianjin, Yangtz River Delta, and Pearl River Delta - in North, East and South China with distinctive local features. In practice, interviews in each factory were arranged with human resource managers, trade unionists, and workers whenever

3 The field study was conducted in a joint research project funded by Hans Böckler Stiftung. Detailed case studies have been published. See: Lüthje, Luo, and Zhang, 2013

possible, through existing contacts with Chinese universities and labor experts. In some occasions, interviewees were former classmates or acquaintances of the author, which provided a more open atmosphere in speaking about certain problems and concerns. At the same time, on-site observation of work processes, including the division of labor, polarization of skills, and work organization were also conducted, which show the features of production flow and working conditions, as well as the wage structure, job appraisal scale, and training system. This method was effective in evaluating the reliability of interviews. Beyond that, several conversations centered on the question of collective bargaining were arranged with trade unionists, engineers, and government officials, which added different perspectives in the policy debate.

As the outcome of the field study, profiles for each company have been documented. In terms of production and work organization, one major question asks whether there are certain Fordist production features, such as assembly line, segmentation of work, the hierarchical division of labor, the polarization of skills, and the degree of rigidity. In addition, working conditions were another key part of the investigation, particularly wages. Relevant questions that were raised were: Were wages determined by collective bargaining, individual negotiation or management only? What was the role of trade unions or other forms of collective workers? Were the wage levels for similar occupations comparable in each enterprise, or each industry? What were the wage differences between manufacturing workers, engineers and managers? In summary, I present comparisons among enterprises within the same industry and between the two industries. I also examine how the impacts of the “country of origin” or ownership forms determine differences in collective bargaining.

Besides the production regimes, the actual status and future possibility of wage regulation and collective bargaining are evaluated in the broader context, such as the interaction between major players in industrial relations and the existing national and global labor polity. On the basis of both empirical research and previous literatures, the role of the state, both central and local states, and its relationship with capital are analyzed to understand the obstacles behind the policy-making and problematic implementation (e.g. the acquiescence of some local governments to employers’ violation of labor rights). Moreover, the potential of workers in initiating and participating in the collective bargaining process is explored, apart from the often-criticized trade union. Even though industrial relations may be formed “on the basis of given conditions inherited from the past” (Lipietz 1987: 195), the struggle of people is the ultimate drive for change. Through a systematic analysis on production, social and political factors, the findings in the dynamics between workers, state and employers may illuminate the prospects of collective bargaining and industrial relations in China.