

A stylized world map composed of a grid of grey dots, with several dots highlighted in red to indicate specific geographical locations.

# Wage Strikes and Trade Unions in China – End of the Low-wage Policy?

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- The wage strikes in China in 2010 shed a harsh light on the contradictions inherent in the inherited system of labour relations and the dilemma facing the All Chinese Federation of Trade Unions (ACFTU): if ACFTU continues to act as mediator in the interests of the state or the employers the employees will militate for better working and employment conditions without it. On the other hand, if it defines itself as representative of the workers' interests – and thus as an actor in disputes – it must cease to function as an »outsourced« social bureaucracy of the Ministry of Labour.
- Since the global economic crisis of 2008 it has become apparent that the Chinese accumulation model, with its high export surpluses and massive state investment in infrastructure, has reached its limits. The Twelfth Five-Year Plan (2011-2015) makes clear that the Chinese leadership intends increasingly to ensure economic growth by boosting the domestic market and by raising low wage and consumption rates.
- Against the background of economic and social policy reforms the wage strikes and labour conflicts call into question the role of the All Chinese Federation of Trade Unions. Although ACFTU is currently supporting an initiative calling for mandatory collective bargaining, until enterprise trade unions become coupled to workers' interests through elections and obtain organisational autonomy genuine wage negotiations are unlikely. The new wage policy in China will probably be determined much more by the interplay between wage strikes and increases in legal minimum wages.



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## 1. Introduction

Since the outbreak of numerous wage strikes which commenced in Guangdong province in April 2010, before spreading to other regions, there has been a heated debate on these events in China.<sup>1</sup> Many regard the walk-outs as a one-off;<sup>2</sup> others perceive the country's wage policy as standing at a crossroads, taking the view that the era in which low wages are paid in Chinese factories will soon be at an end.

The wage debate<sup>3</sup> is intertwined with many other socio-political and socio-economic discourses and current reform efforts. This includes demands for more equitable income distribution, an end to social discrimination via household registration (*hukou*), the rapid construction of a welfare state and, above all, a strategy to redirect the Chinese accumulation model from its export orientation to domestic market development.

Wage strikes, however, call into question the legitimacy and functionality of the official trade unions. The walk-outs and ensuing wage negotiations were organised by migrant workers,<sup>4</sup> without trade union support. If

strikes and wage negotiations continue to be conducted without the participation of the All Chinese Federation of Trade Unions (ACFTU) the Communist Party of China (CPC) could question the purpose of the official trade unions. Accordingly, the trade union federation is pushing initiatives which would give it a leading role in wage negotiations.

In this article we shall look at the processes set in motion by the strike wave of 2010. Perspectives can be discerned in the contradictory interaction of various levels which are significant for future wage policy, the shaping of industrial relations and the role of the trade unions.

## 2. Wage Strikes: A New Development

Since centralised labour allocation has been replaced by labour markets in China and private sector employers have come to prevail, labour conflicts can best be understood in terms of the difference between disputes of rights and disputes of interests.<sup>5</sup> Besides the demonstrations within the framework of the reform of state-owned enterprises workers' protests until recently were concentrated in the manufacturing plants in the export zones on the east coast, in which predominantly migrant workers are employed. Although there are no statistics on the basis of which their course can be traced in detail<sup>6</sup> the literature is in agreement: labour relations in these factories were characterised by serious violations of labour law, in particular wage payments below the legal minimum, non-payment of overtime hours and withholding of wages, often for periods of several months.

1. See, for example, China Labour Bulletin (2011) and CLNT (2010). See also the two Workshops in which the Friedrich-Ebert-Stiftung was involved as co-organiser: »Labour Dispute Resolution« (Nanjing, 8-9 April 2011) and »The Strike Wave and the Emergence of Collective Bargaining Mechanisms: the South China Experience« (Guangzhou, 10-12 April 2011).

2. In the crisis year of 2009 the government had recommended that there be no wage increases. To that extent, we can talk of a need for a one-off catch-up.

3. There are no detailed data on wages and wage rates in China which could be used to establish accurate trends. The extent to which published minimum wages and average wages are adhered to, as well as which wage groups are included in the calculation of the average wage, remain unclear. The following can serve as indicators: the share of total wages in GNP fell from 53 per cent in 1995 to 40 per cent in 2007. The increase in urban average wages initially lagged behind GNP development, but in recent years it has increased at an above average rate. Statutory minimum wages fell from 44 per cent of average wages in 1995 to 28 per cent in 2006, which amounts to a strong increase in the wage spread. Migrant workers receive around 50-70 per cent of the wages of urban workers for the same work. See Schucher and Kruger (2010), Dun and Pan (2009) and OECD-Report (2010: Chapter 6).

4. »Migrant workers« are not to be equated with seasonal workers. Rather they are employees who do not have a permanent right of residence (*hukou*) where they are employed. Since social insurance is administered by local government and the municipalities hitherto have not set up a properly functioning accounting system dealing with existing insurance entitlements, migrant workers in practice are without social insurance (see, for example, OECD, 2010: Chapter 6).

Data on the number of migrant workers range between 170 million to a maximum of 280 million. According to the 2010 census there are 261.4 million »migrants«, predominantly »rural migrants« (Shanghai Daily, 20.4.2011). They can be divided almost equally into urban and rural places of work.

Their significance for the overall economy is discernible when one considers them in relation to the total labour force, which numbered 798 million in 2009. The urban sector numbered 320 million, with 311 million employees and 9 million unemployed. 469 million employees are ascribed to the rural sector, of which 156 million are wage workers in municipal establishments (so-called »Township and Village Enterprises«) and 31 million in private establishments. The number of peasant households is not cited explicitly (China Statistical Yearbook 2010: 117).

5. The demonstrations in 2002, in which laid-off workers called for compensation payments and social support in the wake of the reform of the state-owned sector of the economy (1995-2002), were attributable to the breach of the socialist social contract, which was not enshrined in legislation. They cut across the division into disputes of rights and disputes of interests, however, and are not considered here (see Lee 2007).

6. The statistics do not include any wage strikes and it is not discernible what problems underlie the »disputes on labour remuneration«. Overall, the number of registered labour conflicts increased from 48,121 to 684,379 between 1996 and 2009. In 2009, the number of cases dealt with by courts was 320,000 (China Labour Statistical Yearbook 2010: 417).

Workers went on strike to try to ensure that their legal or contractual rights were adhered to. Legal action was often blocked: municipal administrations were involved in competition between locations and local bureaucrats and Party cadres stood on the side of enterprise owners in the event of disputes. Many disputes led to violence (Lee 2007; Chan 2011).

The individual rights of migrant workers were strengthened<sup>7</sup> significantly in 2008 with the adoption of two new labour laws (the Law on Labour Contracts and the Law on Mediation) and employers can expect heavy fines.<sup>8</sup> Legal action was simplified and the costs reduced through the abolition of fees and the simplification of the provision of evidence. Workers are now much better informed about their rights and are less and less reluctant to take legal action.

There have been strikes for higher wages only for the past few years. In some instances they appeared to take the form of a chain reaction.<sup>9</sup> The extent of the strike wave in 2010, which was triggered in April by a Honda supplier (Lüthje 2010; Hui and Chan 2011; CLNT 2010) and spread to many other factories and sectors – estimates range from 200 to 1,000 strikes<sup>10</sup> – is something new in China. For the first time, over large areas wage increases were accomplished according to the pattern »first strike, then wage negotiations«.

- The strikes were classic disputes of interests. It was no longer about compliance with the minimum wage or the payment of wage arrears. Wage increases were demanded and in many instances the introduction of seniority-based wage grades which should make possible individual wage upgrades within the company.

- The strikes were not restricted to labour-intensive manufacturing plants for export which are subject to strong wage pressure, but encompassed also automobiles and other companies in the metalworking industry which produce for the domestic market, utilise capital intensive production processes and have a larger proportion of qualified personnel.
- Foreign companies were particularly affected, especially Japanese. This may be one reason why at first the disputes were reported on in detail, until the media abruptly fell silent – allegedly in order to prevent a bandwagon effect.
- The strikes led to losses of production in downstream processing stages: the multiplier effect strengthened the position of the workers.
- The strikes appear to have been overwhelmingly successful. Wage rises were between 20 and 50 per cent. Wage pressure could also be felt outside the striking plants and many companies increased wages as a precautionary measure.
- The strikes occurred spontaneously and without trade union participation. In some cases, the strikers demanded the election of their own representatives. The company trade unions were nowhere to be seen, while the higher level trade unions (district or provincial trade unions) arrived on the scene only after the outbreak of a strike. In some instances, they tried to negotiate on behalf of the strikers, in others, to end the strike quickly.

A strike wave does not amount to a workers' movement. However, there are significant changes in the labour market which suggest that upheavals are in the offing.

The workforce is undergoing far-reaching social restructuring. Many of the strikers were below 30 years of age and constitute a second generation of migrant workers. They have a better formal education, no longer have a knowledge of agriculture and no longer regard themselves as commuters between two modes of production. Because they wish to remain in the cities permanently they include in the calculation of their costs of reproduction expenses, which among their parents would have been paid for via the agricultural economy. Their earnings must now cover spending on maintaining a family,

7. A written labour contract is now obligatory. If no contract is forthcoming after a year the employment relationship is rendered permanent, also after 10 years of fixed-term employment or its third extension with the same employer. A position with employment agencies must last at least two years (see Däubler and Wang 2008).

8. If there is still no written labour contract after a month double wages must be paid. If the employer is in arrears with wage payments he must pay at least 50 per cent more.

9. For example, the taxi drivers' industrial action in 2008 which began in Chong Ching and was followed by protests in other cities.

10. Data vary considerably concerning the number of wage strikes. At a discussion meeting in Guangzhou (see footnote 1) the following figures were cited for Guangdong province: 77 strikes in the two main months May and June. For 2010 as a whole there were around 200 strikes, 95 per cent in manufacturing. In northeast China, in Lianing there were an additional 100 strikes. However, mention was also made of 300 strikes in Shenzhen alone, and of around 1,000 nationwide. There are no official strike statistics in China; ACFTU does not have any either.

upbringing, health and pensions and they also aspire to urban consumerism. Discrimination on account of their background is no longer acceptable. With better formal education, knowledge of modern means of communication and the need to put down urban roots they seek not only permanent jobs with good employment conditions and possibilities for individual advancement, but are also prepared to assert their interests via collective action.

Their stronger negotiating position is underpinned by demographic trends. In 2004, companies in the export zones of Guangdong province reported a labour shortage for the first time. In 2010, again, many jobs could not be filled. This conceals not only temporary migratory movements, but also the rapid aging of the Chinese population. Although the turning point with regard to population growth will be reached only in 2025/2030, due to the one-child policy<sup>11</sup> this has been dramatically brought forward for the working population and already applies. Even if it is disputed whether the annual increase in jobs already exceeds<sup>12</sup> the additional supply of labour, the trends are unambiguous: the working population – which roughly corresponds to those aged 15-59 (see Table 1) – is declining and thus the era of unlimited supplies of migrant workers is at an end.

### 3. Trade Unions in China: Transmission Belts, Mediators or Interest Representatives?

From the 1950s Chinese trade unions were integrated within the constraints of the centralised planned economy, directing their efforts to boosting plant productivity and became responsible for the distribution of social benefits and services to the workforce. Wage negotiations were obsolete and labour relations were characterised by lifelong employment for all and state wage determination.

The radical reform of the public sector, in the course of which around 50,000 state-owned companies were wound up between 1995 and 2002, called time on social employment policy and plunged the ACFTU into

11. The one-child policy, which at first was rigorously applied, was subsequently considerably diluted and now applies mainly to urban couples. In rural areas the two-child rule dominates, while for ethnic minorities more liberal provisions apply.

12. This is influenced primarily by the release of further workers from the rural economy and rising productivity.

Table 1: Population increase, 2000-2050 (millions; medium variant)

Years/Increase	Population	Age group 15-59
2000-05	+ 45,3	+ 66,7
2005-10	+ 41,9	+ 36,9
2010-15	+ 41,9	+ 5,2
2015-20	+ 35,2	- 0,007
2020-25	+ 22,0	- 17,8
2025-30	+ 9,3	- 32,1
2030-35	- 0,1	- 28,1
2035-40	- 7,3	- 12,9
2040-45	- 14,8	- 25,4
2045-50	- 23,2	- 47,0

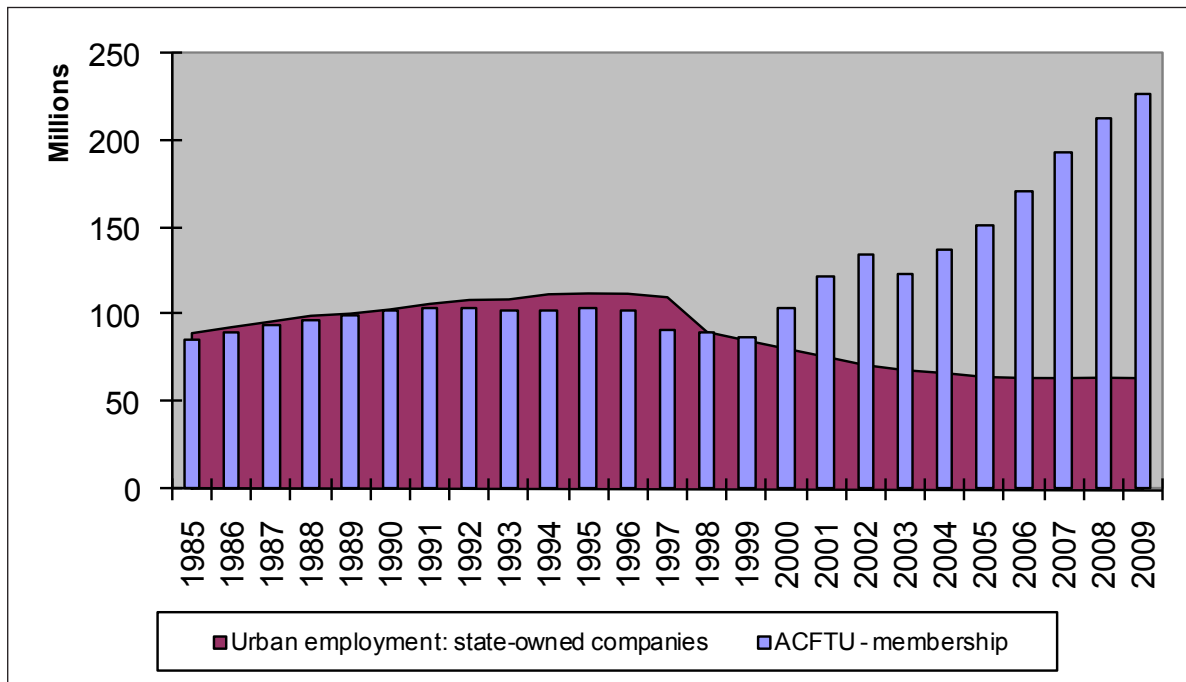
Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2008 Revision*, <http://esa.un.org/unpp>.

deep organisational crisis. The cull deprived the trade unions, which until then had been represented only in state-owned companies, of their central area of responsibility and buried the socialist welfare policy which had been bound up with factory units. In the space of only four years ACFTU lost 17 million members and faced the prospect of marginalisation.

In 1999, ACFTU tried to turn the situation around. Spurred on by the CPC, which had insufficient presence in the now booming private sector, ACFTU set about organising in private companies. Within only a decade ACFTU gained – according to its own figures – 140 million new members. Today, it is nominally represented in around 2 million establishments or work units. On the urban labour market, with its 311 million workers (2009) it has a density of around 75 per cent. If one extends the waged workforce to include the 150 million rural workers, for which ACFTU does not consider itself responsible, trade union density is still around 50 per cent.

The high nominal presence does not mean, however, that the socialist trade unions were able to transform themselves into a countervailing power in urban labour markets and in privately owned companies. In the latter, the trade unions remained after 1999/2000 what they had been hitherto in state-owned companies: a state labour bureaucracy whose primary task is to prevent labour conflicts. In fact, the founding of trade unions in private

Figure 1: Urban employment in state-owned enterprises and ACFTU membership, 1985-2009



Source: China Statistical Year Book (2010: 118, 885)

companies had nothing to do with campaigns and the mobilisation of workforces.<sup>13</sup> Furthermore, no demands were made for improvements in working/employment conditions or higher wages. The organisation campaign was purely an administrative business: officials from higher-level district trade unions sat down together with enterprise managements and discussed the conditions under which a trade union branch would be set up. ACFTU's persuasiveness does not lie in its ability to mobilise hundreds of thousands of workers, but rather in the view of enterprise managements that it is advisable to fall in with the wishes of the Party. The enterprise trade unions formed in this way had little of a trade union about them. Their main features to date can be summarised as follows:

- They are not anchored in the workforce but are embedded in enterprise management. The provisions of the Law on Trade Unions and the ACFTU statutes notwithstanding, most trade union leaders are not freely elected but appointed by management, higher-level trade unions or directly by the Party.<sup>14</sup>

- Wage negotiations are not envisaged from the outset or are purely nominal. Collective agreements ultimately contain only wage adjustments recommended by the government either by decree or in its annual wage guidelines.

Notwithstanding ACFTU's statistics on «collective contracts» or «wage only collective contracts», wage negotiations in pursuit of higher remuneration do not exist. In a comparison of organised and unorganised enterprises Lee and Liu (2011) reach an unequivocal judgement:

»Our survey indicated that enterprise unions in China do not appear to produce a union wage premium (...) whether unions exist or not itself makes little difference in most aspects of working conditions such as higher wages, better benefits, employees' turnover and others, as enterprise unions are often under [the] heavy influence of [the] employers at the workplace. There are numerous studies which support the above findings« (Lee and Liu 2011).

13. The frequently cited example of Wal Mart was only initially a campaign of mobilisation, which changed right away from a »bottom-up« into a »top-down« process [see Hui Elaine Sio-ieng and Chan King-chi Chris (2011)].

14. In his investigation of 1,811 companies in 2004-2006 Qiao found that 23 per cent of the chairmen of enterprise trade unions were ap-

pointed and 52 per cent nominated and elected without opposition. »Only 2.6 per cent are elected through the General Member Assembly or Representative Assembly following open competitive screening tests« (Qiao 2010:9).

Chinese trade unions are characterised by their domination by the management in the enterprise, while at higher levels – such as city, district, prefecture, province or central federation – they are controlled by the Party. It goes without saying that enterprise trade unions governed by management<sup>15</sup> will not push for improvements in working conditions or higher wages which will increase costs. However, the ability of enterprise trade unions to represent the workers' interests is neutralised not only by the embedding in the management, but also because of their political and legal enframing. Although the Law on Trade Unions lays down that they »represent the legitimate rights and interests of the workers«,<sup>16</sup> they must not operate as partisan representatives of workers' interests, but rather orientate themselves towards the well-being of the enterprise, the Party and the »socialist state power of the people's democratic dictatorship«.<sup>17</sup>

How capitalist class interests govern socialist trade unions in the Chinese framework is illustrated by the concept of labour dispute mediation. Following Western procedures a three-stage model is envisaged, with internal and external mediation, as well as court rulings. The mediation is tripartite. In the internal mediation committee, however, the trade unions do not line up on the side of the workers, but take the chair and negotiate a reconciliation of interests between employer and employees.<sup>18</sup> They are institutionally obliged to reconcile interests, not to articulate them.

The same applies to walkouts. China does not recognise an explicit right to strike, although the Law on Trade Unions does mention »work stoppages«<sup>19</sup> and »slow-

down strikes«.<sup>20</sup> If such occur, trade unions are obliged to intervene so that normal production can be restored as soon as possible.<sup>21</sup> This amounts to an implicit right to strike for workers and an explicit strike prohibition for trade unions. In any case, trade unions may not take the side of the striking workers.

ACFTU is de facto a state authority and not an organisation representing the interests of the workers. It is financed mainly from tax revenues<sup>22</sup> and trade union officials are treated as public employees in accordance with the dispositions of the Organisational Department of the CPC<sup>23</sup> and paid out of public coffers. By order of the Party it undertakes the tasks of a labour ministry, not those of a trade union in the Western sense.

#### 4. From Strikes to Wage Negotiations: Is ACFTU Being Transformed into a Trade Union?

Historically, trade unions are strike associations and even today there is much to suggest that they are able to exercise their strength only through conflict. This is also the case in China. The wage strikes in 2010, which without exception were conducted without the active involvement of the trade unions, plunged ACFTU into a major organisational crisis, its second since 1995.<sup>24</sup> When com-

15. »Take Guangzhou, the capital city of Guangdong Province, for example. Among the approximately 20,000 grassroots trade unions, nearly 50 per cent have chairmen who are also employed as deputy general managers or the equivalent in the company« (Kong 2011).

16. »The basic duties and functions of trade unions are to safeguard the legitimate rights and interests of workers and staff members« (TUL 2001: Art. 6).

17. »In enterprises and institutions, the Chinese trade unions (...) promote the development of enterprises and institutions (...) promote economic development and the long-term social stability and make contributions to the all-round construction of a comparatively well-off society and a harmonious socialist society (...) the Chinese trade unions safeguard the socialist state power of the people's democratic dictatorship« (ACFTU constitution 2008: General Principles).

18. »A labour dispute mediation committee may be established inside the employing unit. The committee shall be composed of representatives of the staff and workers, representatives of the employing unit, and representatives of the trade union. The chair of the committee shall be held by a representative of the trade union« (Labour Law 1994: Art. 80).

19. The right to strike included in the Constitution in 1978 was abolished in 1982. To that extent, China does not have a right to strike, but strikes are not prohibited, either.

20. See TUL 2001, Art. 27. Some Chinese scholars consider the mere mention of »work stoppage« and »slowdown strikes« as indirect recognition of the right to strike.

21. »In case of work stoppage or slowdown strike in an enterprise or institution, the trade union shall, on behalf of the workers and staff members, hold consultation with the enterprise or institution or the parties concerned (...) The trade union shall assist the enterprise or institution in properly dealing with the matter so as to help restore the normal order of production and other work as soon as possible« (TUL 2001: Art. 27).

22. Membership contributions are set at a nominal 0.5 per cent of gross wages, but they may make up less than 10 per cent of ACFTU's revenue. The main funding comes from tax revenues (2 per cent of total wages at companies with a trade union). Trade unions also receive revenues from business activities – especially hotels – and receive government subsidies. In financial terms, little would change for ACFTU even if it had no members.

23. Organisational Department of the CPC: »Statement on the administration of organs of people's and mass organisations like trade unions, CPC youth, women's association etc. in accordance with the civil service law of the Republic of China«, promulgated 26.08.2006. See <http://www.yimendj.gov.cn/Article/ShowArticle.asp?ArticleID=4079>.

24. ACFTU has undergone numerous organisational crises. Founded in 1925, its importance grew rapidly due to its strike activities, but this phase ended with the bloody suppression of the Shanghai workers' uprising of 1927 by Chiang Kai-Shek and the withdrawal of the CPC into the countryside. In 1948, with the CPC's seizure of power it was founded anew, only to fall victim to the Red Brigades of the Cultural Revolution: from 1966 until its third establishment in 1978 it did not exist. In the meantime there were constant debates on ACFTU's direction

panies are forced into wage negotiations by walkouts and concluded successfully by elected strike committees the irrelevance of the official trade unions seems evident. ACFTU must therefore take the lead in wage negotiations, constrain spontaneous strike action and ensure that wage increases are attributed to its own actions. To put it bluntly, ACFTU faces the challenge of transforming itself into a body with the capacity to conclude collective agreements. There are indications of such a development. For example, besides announcements such as the »Rainbow Plan« of 2008, in which the Labour Ministry, ACFTU and the governmental employers' association the CEA laid down that all private companies must conclude collective agreements by 2012 (IHLO 2011; Hong Kong Lawyer 2010), ACFTU initiatives can also be discerned which address structural problems in collective bargaining.

#### *(1) Separation of Trade Unions and Management*

Lately, ACFTU seems to have accepted that a trade union led by management cannot conduct negotiations on behalf of the workers. The personal union between trade union leadership and management at enterprise level is to end. A trade union fund is being set up from which, in future, trade union officials at a company will be paid. The assumption is that, when they cease to owe their living to the company management, they will be more willing to enter into conflict (Kong 2011).

#### *(2) Obtain Legitimacy through Elections*

Direct plant-level elections have long been enshrined in the Law on Trade Unions and have already been proclaimed the object of a campaign once, at the ACFTU congress in 2003. To date, they have not played a significant role, however. Since strike demands also included a call for elected plant officials, connecting trade unions back to workers' interests via direct elections is extremely urgent. According to reformers within ACFTU direct elections are at the top of the trade union policy agenda (Kong 2011). Election rules have not yet been forthcoming, however.

which were also played out among the leadership, hence the conflicts about operational autonomy and the implementation of the industrial trade union principle to which the ACFTU leaderships fell victim in 1951 and 1957. During the period of liberalisation of the 1980s trade union demands for operational autonomy attained new impetus. Since 1989 and the fall of the reformer Zhao ACFTU has again been closely tied to the Party.

#### *(3) Mandatory Wage Negotiations*

In Shenzhen, in Guangdong province and nationwide, initiatives have been launched with the aim of making it mandatory for companies to negotiate. ACFTU is to have the monopoly on the workers' side. In unorganised companies the workforce is to be able to determine its own representatives. The latter are to receive instructions from the district trade union, however, and it may be that the upper union will be entirely responsible for the leadership of negotiations.

Guangdong province could serve as pilot region with a new law on »democratic management in the enterprises of Guangdong province«. Formulations favouring ACFTU are strongly opposed by the employers' side, especially the Hong Kong General Chamber of Commerce. At present, it remains open when and in what form the law will be adopted.<sup>25</sup>

#### *(4) Restricted Right to Strike*

The Guangdong provincial trade union (GFDTU) is arguing for a restricted right to strike. This would constitute a break with the previous understanding of trade unions, according to which their role in disputes is confined to mediation and arbitration. Among possible conditions for strike action they cite the following: (i) the management deliberately violates workers' rights: this must be proved; (ii) several rounds of negotiations break down; (iii) the strikers remain at the factory site; (iv) machines and equipment are protected.<sup>26</sup>

In its second version the Guangdong legal amendment also contains a right to strike of a particular kind. According to it, a strike is permissible if enterprises do not comply with a request for wage negotiations within 15 days. The right to strike in order to apply pressure for negotiations is tied to the approval of 20 per cent of the workforce. If negotiations prove fruitless, a mediator must be called in.<sup>27</sup>

25. The current fourth draft of the law contains more »may« than »shall« provisions and the more pointed formulations of the second draft have largely fallen by the wayside.

26. See Qiao Jian's presentation at the FES event on »Labour Dispute Resolution« in Nanjing, 8-9 April 2011.

27. Given the opposition of the employers' side, especially from Hong Kong, which is the largest investor group in Guangdong province, with more than 50,000 establishments, a regional right to strike – in whatever form – would be hard to enforce. It may be assumed that the initiative for a regional right to strike has collapsed and that the provinces are waiting for a directive from Beijing.



A definite interpretation of these initiatives will be possible only when the provisions and rules of implementation are available and experiences of their practicalities have been collated. The different ways in which ACFTU is seeking to obtain the leadership in wage negotiations, however, reflect the contradictions with which its organisation is fraught and within the framework of which it must act:

- The separation of enterprise trade unions and management is indispensable. However, there are currently around 2 million workplace trade unions with more than 500,000 full-time officials (in 2007: 491,731). If they were all taken onto the trade union payroll the number of trade union employees would increase six-fold, from around 100,000 to 600,000, which would require an enormous financial effort unmanageable without ACFTU's reorganisation and substantial cuts. Secondly, enterprise trade unionists often receive high wages as members of the management. Being taken onto ACFTU's payroll would involve a substantial loss of income for many. While from ACFTU's standpoint – but not only theirs – the separation of management and enterprise trade unions is a necessary step, for »management trade unionists« it goes hand in hand with a loss of social status, which they are likely to resist.
- Elections are the key to establishing legitimacy. Three restrictions contained in the Law on Trade Unions and the ACFTU statutes are currently preventing free elections: (i) a newly formed enterprise trade union must apply for admission to ACFTU; (ii) elected enterprise trade unionists must be confirmed by the district trade union; and (iii) the district trade union exercises technical supervision and the enterprise trade union is subject to its instructions. If these controls were completely done away with, enterprise trade unions would become independent and thus it isn't very likely. Furthermore, enterprise trade unions can conduct wage negotiations only if they have the relevant scope. To that purpose, democratic centralism must be partly abolished at the lower end of the hierarchy and converted into operational trade union autonomy. If enterprise trade unions are to be regarded as legitimate representatives of the workforce and to be able to conduct wage negotiations in their interests the district trade unions must renounce their veto and surrender control over wage negotiations.
- A right to wage negotiations is empty if means of exerting pressure in pursuit of interests are lacking. Although companies can be obliged to participate in collective bargaining, they cannot be made to yield to trade union demands, unless there is a return to central state wage determination. It is true that rules and orientation criteria for (wage) negotiations can be established by law. However, if it is laid down in detail what direction wage formation should take no wage negotiations are needed since the result is fixed in advance. If the guidelines remain vague, however, negotiations could, as a rule, end up with an arbitration award, which would definitely represent progress. If an arbitration award represented the only means of bringing negotiations to a successful conclusion, however, they would not be conducted with the necessary conviction from the outset, but with an eye towards the ensuing arbitration which is coming anyway. Furthermore, the arbitration award would be moot if one side or the other does not accept it.
- It is to be expected, finally, that a right to strike fraught with bureaucratic hurdles would be counter-productive. An obligation to pursue a certain course, a necessity to call for a vote before or requirements that communication be in writing and that there be documentation are conditions that only those who control an apparatus could fulfil. Such a right to strike will become the right to strike of an organisation. Where it leads to if a right to strike is bestowed on trade unions which have no anchoring in the workforce is illustrated by Vietnam. Since its introduction in 1995 all of the more than 3,000 strikes so far were illegal (Chi 2011). In contrast to that, Chinese practice hitherto of leaving strikes unregulated by law has a number of advantages. ACFTU could also make use of this by calling a strike in certain circumstances. This would require the amendment of trade union law, however, because so far the union has been obliged to bring about a rapid end to strike action in the event of »work stoppages«.

ACFTU therefore stands before a fundamental dilemma. If it really wishes to conduct wage negotiations it will have to engage actively with the members through free enterprise elections and devote itself positively to strike action. To that end it would have to deviate somewhat from the legal obligations with regard to arbitration and strict organisational leadership in accordance with the principles of democratic centralism would at least

partially have to be overridden. Enterprise trade unions could become confrontational and in a position to engage in wage negotiations only with operational autonomy. But on this point free collective bargaining conflicts with ACFTU's trade union role as transmission belt of the Party. The decision on legal and organisational leeway therefore lies not with ACFTU, but with the CPC. At every organisational level, the trade unions are subject to »horizontal Party supervision«, the dominant form of control. Ultimately, it is the local Party structures which call the shots with regard to district trade unions and – to the extent they do not receive instructions from above – decide on trade union autonomy.

## 5. Macroeconomics and New Social Policy

It is not only striking workers and demographic shifts that are calling into question previous wage development. Arguments for raising wages also arise from macroeconomic policy and international economic relations. Since the global financial crisis of 2008/2009 foreign trade policy – and with it China's comparative labour cost advantages – has been shaky. China's bulk purchasers in the EU and the USA must save for the long term given their accumulated public and private debts. The Obama administration also wishes to rebuild the US economy and has announced an export offensive. If the world economy is to avoid being driven into long-lasting stagnation export-oriented countries must set about reducing their current account surpluses and thereby create new scope for growth increases (Palley 2011).<sup>28</sup> Even if the schedule and pace of the turnaround will be carefully controlled by Beijing, in the coming years China will scarcely be able to avoid a significant revaluation of the national currency and the renunciation of administratively controlled exchange rates.<sup>29</sup>

28. This applies equally to other strong export countries. If the trio of China, Germany and Japan refuse to take rapid and effective steps to reduce their current account surpluses it will ultimately lead to trade protectionism. According to Global Trade Alert, in the past two years around 400 restrictions on trade have been established, most of them by countries which met at the G20 summit in Seoul in 2010 and there called for free trade (Evenett 2010).

29. In 2005, Beijing gave up the fixed link to the US dollar and for three years revalued the RMB by around 20 per cent. With the beginning of the global financial crisis the RMB was once again linked to the US dollar and pulled down in its wake. In the meantime, the link has been carefully relaxed. Since June 2010 the RMB has been revalued by around 5 per cent. The new debate on raising the RMB's profile in international exchanges and the constant comments in the Chinese media that the RMB should play a major role in a basket of leading currencies indicate that financial and capital market restrictions will gradually be lifted.

Economic policy discourse in China has increasingly focused on switching from an accumulation model based on export surpluses and state investment in infrastructure to a growth model supported by domestic demand. The reduction of trade surpluses<sup>30</sup> and the orientation of economic growth towards higher domestic demand requires above all an increase in the private consumption rate. This has fallen continuously for a number of years and in 2009 stood at only 35 per cent (China Statistical Yearbook 2010: 56). Any increase depends on the boosting of private purchasing power, as well as on the willingness of consumers to spend the money on consumer goods rather than save it.

The savings rate of private households, at around 25 per cent, is far higher than in other countries. There are two main reasons for this: the need for private provision in the face of life's contingencies and an extremely unequal income distribution. Under Maoist socialism China had one of the world's most equal income distributions. Today, China is approaching the opposite extreme, with a Gini coefficient of around 0.5, which puts it high up the international rankings. Since the rich and the super-rich invest primarily in assets an increase in the consumption rate must be supported by income redistribution.

There seems to be unanimity on how to increase the consumption rate: accelerated expansion of the welfare state and higher wages. Chinese households save a lot because, since the dissolution of people's communes and the »freeing« of state-owned enterprises from their social obligations, they no longer have viable pension or health insurance.<sup>31</sup> The strong propensity to save reflects a rudimentary welfare state in which private provision for life's contingencies is made at the expense of consumption.<sup>32</sup>

30. In recent years the reduction of trade surpluses has made some headway. In 2008, the trade surplus was still 295 billion US\$, but in 2009 and 2010 it fell to 196 billion US\$ and around 183 billion US\$, respectively. This trend is set to continue in 2011. For the first time in seven years there is even a quarterly deficit. Cautious revaluation of the RMB and higher inflation rates (in March 5.4 per cent) among the main trading countries will further weaken the cost advantages of Chinese exports.

31. Social insurance coverage of the 778 million-strong workforce in 2009 (urban employees: 311 million; rural employees: 469 million) breaks down as follows (number of employees covered): pension insurance: 177 million; unemployment insurance: 127 million; health insurance: 164 million; insurance against accidents at work: 149 million. Insurance benefits are, on the whole, low. Three groups have virtually no social protection: the rural population, migrant workers and urban employees in the informal sector. Around 23 million urban residents and 48 million rural dwellers receive a »minimum living allowance« (China Statistical Yearbook 2010: 903, 910).

32. This is reflected by the banks in which enormous deposits have accumulated (deposit-credit ratio: 1.5:1).

The twelfth Five-Year Plan (2011-2015) in principle recognises the need for a change of course and speaks of inclusive growth, accelerate expansion of the welfare state and a significant increase in minimum wages.<sup>33</sup> As with earlier Five-Year Plans these promises must be taken with a pinch of salt (Schucher 2011). However, resistance is growing to abuses in society and social pressure for change is building up. The government is particularly concerned by the rapid increase in the number of mass protests,<sup>34</sup> which raises the spectre of political instability. Beijing has reacted with two different strategies. Little remains of the willingness to engage in cautious political liberalisation – for example, the extension of direct elections – since the »Orange revolutions« in Ukraine and Kyrgyzstan or the political unrest in Lhasa in 2008. Recently, the state has cracked down hard on dissidents and their demands for political freedom and pluralism.<sup>35</sup> The Party is taking a different approach to social dissent. While previously their reaction was repressive, petty-minded and legalistic, the political and administrative cadres now have to tread more carefully in response to socially motivated unrest. If protests lead to serious clashes with the state authorities the responsible cadres can count on demotion or even expulsion from the Party.<sup>36</sup> The state reacts harshly against political dissidents, but in the case of social unrest it is ready to talk and to compromise, and seeks peaceful solutions.

## 6. Trade Unions and Wages – Trends and Development

What does this social and political upheaval mean for trade unions and wages? The way in which municipal authorities dealt with wage strikes in 2010 differs sharply from the political response to workers' protests in earlier

years.<sup>37</sup> They mainly passed without incident and ended with (wage) negotiations rather than police action. Even the trade unions insisted on a peaceful (negotiated) solution in several instances in which the municipal authorities were pushing for a rapid end to the strike.<sup>38</sup>

A number of key factors are responsible for a turning of the tide with regard to wage development: the state is no longer – or no longer to the same extent – taking a repressive approach to striking workers, demographic factors are shifting the balance in favour of the workforce and second-generation migrant workers are seeking an urban lifestyle. The question of specific implementation mechanisms remains open. Four different possibilities suggest themselves. (i) Companies will react to labour shortages and fluctuations with wage increases. (ii) The state will conduct an aggressive minimum wage policy to put pressure on the wage structure from below and support this with its annual wage directives. (iii) Trade unions will become collective bargaining partners and manage to push through wage increases in line with inflation and productivity development, and with elements of redistribution enabling workers' wages to catch up. (iv) There will be a repeat of 2010, with serious wage negotiations coming only after walkouts and wildcat strikes determining wage development. In order to avoid conflict companies which have not yet experienced strikes will accept negotiated wage adjustments.

ACFTU hopes to acquire a legal monopoly with regard to wage negotiations that workers will respect. This is unlikely. Operating under the supervision of the Party it cannot become an actor in the conflict; and if the enterprise trade unions do not obtain operational autonomy they cannot commit themselves to workers' interests and negotiate in their name.

Spontaneous walkouts could increase in the future. With regard to the organisation of new labour relations the key question should be whether elected strike committees allow themselves to be integrated into discussions via existing trade unions or demand free elections and independent enterprise trade unions committed to the workforce. There has been nothing to indicate so far that the Party would be willing to tolerate such a devel-

33. All rural dwellers, as well as 357 million urban dwellers are to receive retirement benefit; minimum wages are to increase by at least 13 per cent a year (information from Chinese Embassy in Germany 2011).

34. Until 2006 the government published annually figure on so-called »mass incidents« (violent clashes involving three persons at least). In 1993, the figure was 8,700, it increased to 87,000 in 2005. No differentiation according to causes is considered. A majority of cases appear to be linked to environmental offenses, corruption and infringements of labour rights.

35. *The Economist's* judgement was unambiguous: »the latest crackdown on political dissent certainly constitutes the worst since Tiananmen Square in 1989 and its aftermath« (*The Economist*, 16-22 April 2011: 9).

36. When for days the media reported on unrest in Weng'an district in Guizhou province, where in June 2008 20,000 residents clashed violently with the police over the death of a youth, the Party leadership felt compelled to dismiss the local Party secretary, administration head and police chief.

37. On the nature of previous conflicts see, for example, Anita Chan (2011), which describes the differences between China and Vietnam.

38. Lectures on strike action at a conference in Guangzhou in April 2011 (see footnote 1).

opment. The organisational question trumps the strike question as far as the Party is concerned. As long as the CPC insists on its political monopoly it will not accept independent trade unions.<sup>39</sup> The government therefore faces the alternative of permitting strikes as a way of regulating wage increases or of ensuring wage increases itself with a proactive state wage policy.

There is some evidence to suggest that there will be a certain amount of interaction: the government is likely to respond with massive minimum wage increases<sup>40</sup> when strikes get out of hand and demands multiply for independent trade unions. This would curb walkouts rapidly. The government has laid down the following for the next five years: »The country will try to make sure employees earn wages that rise by 15% every year, so we can realize a target set out in the 12th Five-Year Plan (2011-2015) period, calling for such wages to be doubled« (Yang Zhiming, Deputy-Minister of Human Resources and Social Security [China Daily, 20 April 2011]). If wage adjustments based on official recommendations fall below expectations, however, strikes could flare up again as a corrective.

In this scenario ACFTU has no independent role. It would remain what it is now: an external social bureaucracy of the labour ministry without significance with regard to the key issues of labour market regulation in the private economy. Without organisational weight of its own, it remains in thrall to the Party, ignored by the workers. New signals flare up from another side. Employers now support strong ACFTU trade unions. They are resisting the upward pressure on wages and desire collective agreements which keep a lid on wages.<sup>41</sup> If the ACFTU trade unions become a party to this, industrial action in enterprises will intensify.

39. There are indications that the government could ratify the ILO conventions on the right to collective negotiations (ILO Convention No. 98), but also that Convention No. 87 on freedom of association and protection of the right to organise is not up for debate.

40. The government of Guangdong province announced that minimum wages shall be doubled during the twelfth Five-Year Plan (2011-2015).

41. Some of the few industry-wide collective agreements seem to have precisely this character. In order to prevent poaching of workers, for example, in Wenlin employers and the local trade union reached agreement on maximum wages.



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