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on Construction and
Garment Industries in the Context of
China's 'Going Out' Policy**

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A Review of Labour Practices in China with a Focus on Construction and Garment Industries in the Context of China's 'Going Out' Policy

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Abstract: This paper promotes an understanding of factors that are playing a role in encouraging capital to move to Africa by providing a review of labour practices in China. In the mid- and late 1990s, China experienced major changes in both the ownership and employment structures, which gave rise to a spectrum of labour practices with certain general tendencies such as informalisation of employment and weakening of labour's power. The informality has induced a variety of issues in the construction and garment industries, such as low signing rate of labour contracts, wage arrears, and long working hours. However, China has witnessed a consistent wage growth in these industries over the last fifteen years. This paper argues that the rising wage costs have played a role in driving capital to move to Africa.

Keywords: labour practices, informalisation, factory regimes, wage increases, China

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1. Introduction

This review examines labour practices in China with a focus on the construction and garment industries. These industries are representative labour-intensive industries in which Chinese firms have invested in Africa. The research forms part of a wider project seeking to understand the labour practices of Chinese firms from the same two industries in Ethiopia and Angola. We focus on the historical background and new developments of labour practices with an approach that combines a review of key literature with data from official sources. We limit the review to three aspects of labour practices: employment, labour relations, and wages. We examine the characteristics and patterns of employment and labour relations, and we discuss the reasons for the consistent wage growth in the last fifteen years.

The aim of this paper is to promote an understanding of factors that are playing a role in encouraging Chinese capital to move to locations outside China. Known as ‘going out’ in policy documents, the Chinese government has encouraged investments across multiple sectors in many countries (Lee, 2018). The first wave of Chinese firms going out was spearheaded by state-owned enterprises (SOEs) seeking energy resources or taking part in state-level deals on large infrastructure projects that involve both state-owned and private construction companies. The second and third waves have been more mixed in terms of ownership, and much of the investment can be traced to private-sector companies, with garment producers emerging as significant players. We argue that a key push factor in going out lies in rising wages. In other words, China’s labour practices are generating outcomes that encourage capital flows beyond China as firms seek to lower wage costs. This is consistent with the main findings of the project that this paper belongs to, i.e. Chinese firms in Africa have created considerable local employment and there has been no statistically significant difference in the localisation rate between Chinese firms and other foreign-funded firms (Oya, 2018). In this sense, some of the

factors that drove foreign direct investment into China are not entirely dissimilar from those that are driving Chinese capital out of the country.

Labour practices in China share some similarities with other countries that participate in the neoliberal globalisation. However, there are of course characteristics of China that directly shape labour practices and the outcomes they generate. First, China adopted a gradualist approach in the reform that brought about the rise of a private sector that included both domestic private firms and foreign investments and meanwhile retained and restructured large SOEs. The diversification of ownership creates a spectrum of labour practices that contains both the institutional legacies of the pre-reform era and the characteristics of the neoliberal era. Second, the state pursues the goals of both economic growth and social stability, as well as attempts to keep the balance between the two. For example, on the one hand, the state represses labour's power by forbidding independent unions and providing no legal or constitutional protection of the right to strike; on the other hand, the state consistently raises the minimum wage such that it grows at least as fast as the economy. Third, China has a dual structure with a large reserve army of labour residing in rural areas. Migrant workers from rural areas play a crucial role in urban employment, especially in labour-intensive industries such as construction and garments. However, under the administrative residential system known as *hukou* (household registration), migrants have limited access to social welfare in the cities where they work, which significantly shapes the pattern of social reproduction and also facilitates labour control on the shop floor.

These characteristics have created a counterintuitive combination of repressed labour power and rising wages, which is the research puzzle of this paper. There have been three major explanations to the rising wages in the literature: the labour shortage explanation, the labour militancy explanation, and the pro-labour policy explanation. Rising wages have become a major concern for the firms in labour-intensive industries (Xu *et al.*, 2017). It is surmised that a growing number of firms are "going out" or at least considering exit, replicating the movements of capital that moved to China in the 1980s and 1990s in search of low wages.

The remainder of this paper is structured as follows: Section 2 provides a brief review of the historical background, emphasizing the demise of permanent urban employment, formation of rural-urban migration, and rise of the private sector. Section 3 examines the employment patterns in China by focusing on the informality of jobs. This section also presents the geographical transformation of employment from Eastern China to Central and Western China—a process that took place simultaneously with going out, which was associated not only with policies promoting development in Western China but also with rising wages. Section 4 reviews labour relations in two aspects: workplace relations and formal institutions (unions and labour dispute resolution) that govern labour relations. Section 5 discusses rising wage costs to employers and explanations to the rising wages. Section 6 concludes the paper.

2. Historical Background

2.1 Demise of the Iron Rice Bowl of Urban Permanent Employment

Prior to the reform period that started in 1978, employment in China's state sector was distinguished by permanent employment that was known as the 'iron rice bowl' (Kuruvilla, Lee and Gallagher, 2011). Employment in SOEs, and to a lesser extent collective-owned enterprises (COEs), came with enterprise-based welfare benefits in a 'low-wage high-welfare' model that was generous in comparison with other developing countries (Zhu, Cieri and Dowling, 1998). Almost all SOE employees were formally registered as urban residents under China's rigid and binary rural-urban residential system known as *hukou*. Job security—and a concomitant lack of employment mobility—was such that specific posts could be passed on to workers' children following retirement (Walder, 1986). COEs provided lower but still significant levels of employment security and welfare.

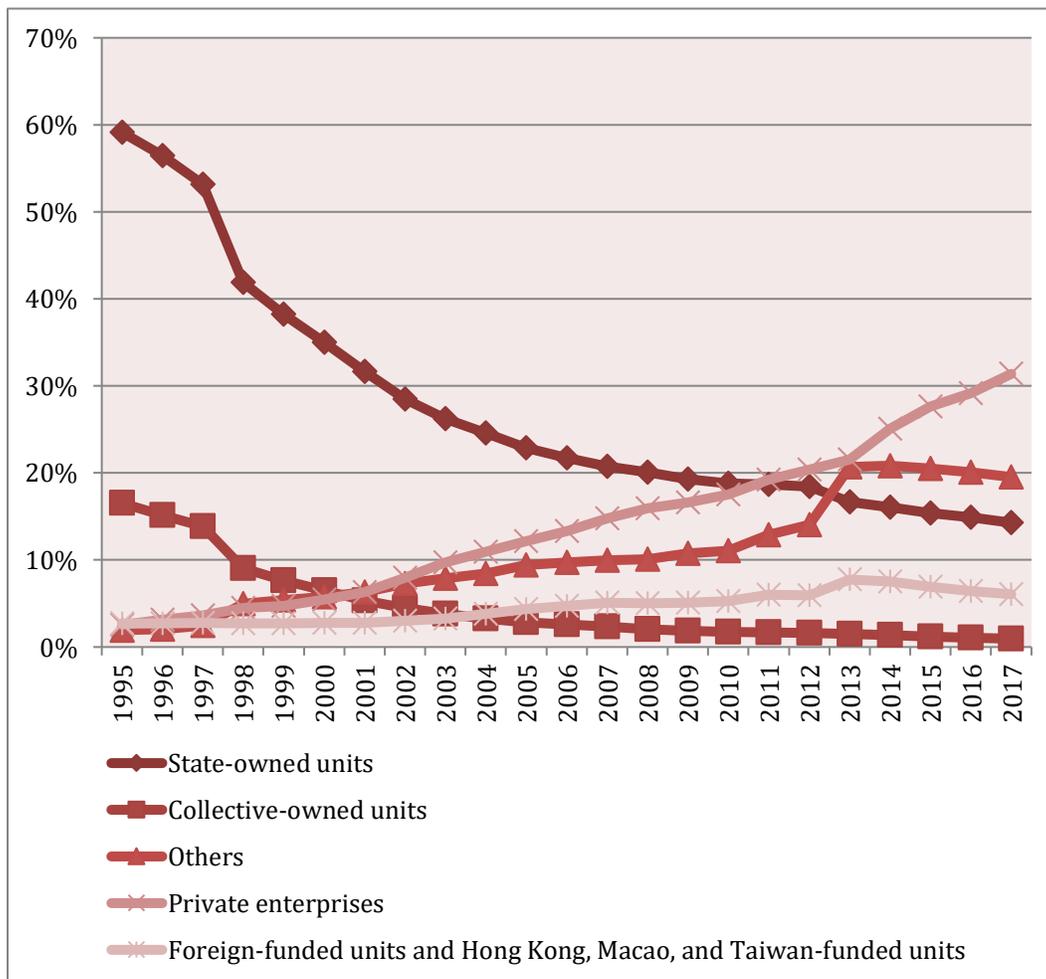
Cautious reform commenced in the early 1980s. A series of official documents, including the Provisional Regulations on Expanding the Autonomy of Enterprises (1984), the

Regulations Concerning Deepening Enterprises Reform and Increasing Vitality of Enterprises (1986), and Provisional Regulations Concerning the Contract Operational Responsibility System in State-Owned Industrial Enterprises (1988), provided regulatory guidance to the reform. SOE reform was pursued with caution since the Communist Party of China (CPC) was keenly aware that dismantling the iron rice bowl might be met with widespread resistance, and the presence of SOE workers in demonstrations in support of students occupying Tiananmen Square during the spring of 1989 seemed to justify this anxiety (Pringle, 2011). Indeed, these events in 1989 led to a three-year hiatus on employment reforms in the state sector (Pringle, 2011).

However, during the famous southern tour in 1992, paramount leader Deng Xiaoping gave official approval to marketisation and restarted reforms to the state sector. In 1997, the 15th Party Congress announced a national restructuring of SOEs captured by the official slogans of ‘hold on to the large and let go of the small’ and ‘downsizing and enhancing efficiency’ (Lee, 2007). Large SOEs were transformed into shareholding companies and listed on domestic or overseas stock exchanges, whereas small and many medium-sized SOEs were privatised and/or sold to individuals including former enterprise managers. Park and Cai reported that employment in SOEs fell at a mean annual rate of 6.4 per cent between 1995 and 2000, a ‘total loss of 31.5 million jobs or 15 per cent of the urban labour force’ (Park & Cai 2011: 17) in a programme of three-year phased redundancy known as *xiagang* (i.e., to step down from a [work] post). In contrast to the sudden and sweeping privatisation program in Russia that was heavily influenced by pro-market Chicago School economists (Pringle and Clarke, 2011), *xiagang* regulations stated that laid-off SOE workers were entitled to retraining, a livelihood wage—about 30 per cent of a full wage—and medical reimbursements for three years after being laid off (Solinger, 2001; Pringle and Leung, 2006). Implementation of these regulations was patchy but is nevertheless illustrative of the CPC’s gradualist approach to employment reform encapsulated by the phrase ‘cross the river by feeling for the stones’.

The decision to roll out a national program of restructuring was partly driven by China's negotiations to join the World Trade Organisation (WTO), a process that required closer adherence to the principles of a market economy. Indeed, the transition to a market economy generated a dramatic expansion of the private sector that included both domestic capital and foreign direct investment operating via various forms of property rights: joint ventures, joint stock, domestic private ownership, and, to a lesser extent, foreign ownership. These structural changes to the economy were cemented by China's WTO membership in 2001 and are illustrated in Figure 1.

Figure 1: Urban employment structure by firm ownership, 1995–2017



Sources: *China Statistical Yearbook*, various issues.

2.2 Rural-Urban Migration and the Rise of the Private Sector

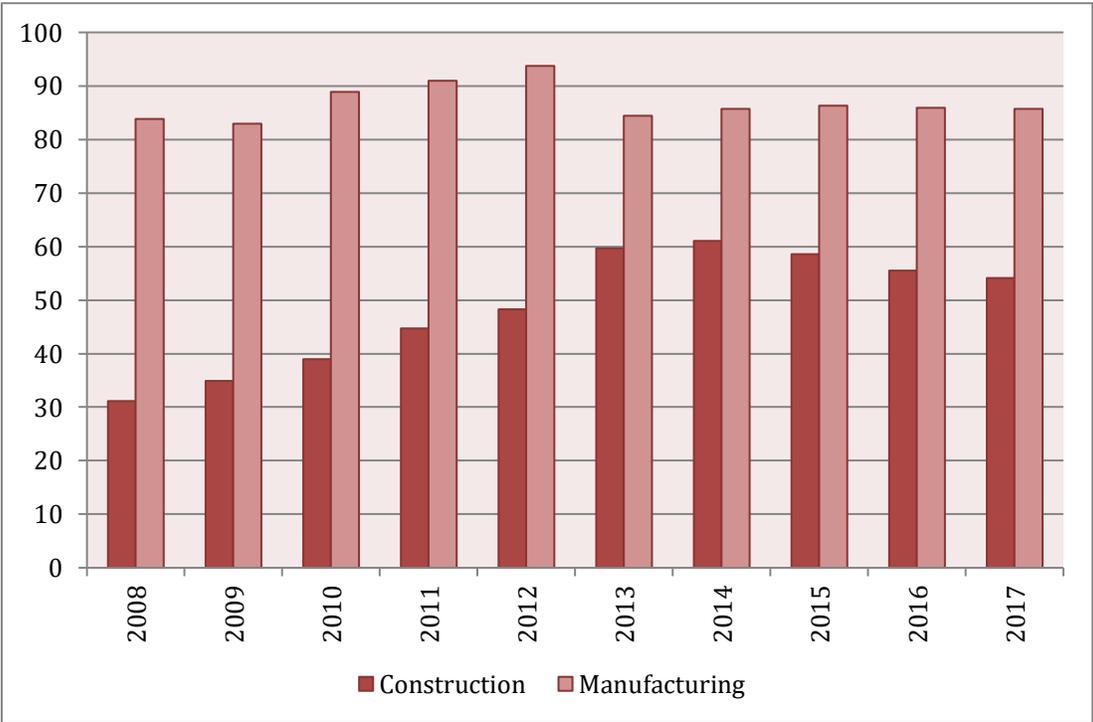
The rural reforms during the late 1970s and early 1980s dismantled the rural collective agriculture system and, with financial support from the state, brought a rapid growth in income for peasant households in the early 1980s (Wen and Yang, 2016). Commune and brigade enterprises were transformed into township and village enterprises (TVEs) owned by local village committees, and new TVEs were established. This rapidly growing sector provided up to 123 million (1993) local non-agricultural jobs for peasants (MOA, 2009). However, the rural economy began to stagnate in 1985, and TVEs were privatised in the early 1990s (Pan, 2002; Andreas, 2010). The rural economy provided rural workers with few opportunities to increase income or even meet the living and farming costs, which created compulsion for migration (Qi and Li, 2019).

The urban private sector—both domestic private firms and foreign-funded firms in various forms—expanded rapidly after Deng Xiaoping’s southern tour in 1992, especially in the labour-intensive and export-oriented industries of coastal provinces. Restructuring the state sector provided opportunities for urban elites, including former officials and SOE managers, to privatise state assets and become capital owners, which induced an explosive growth of the private sector. The private sector heavily relied on a consistent supply of cheap labour, which was satisfied by the migrants seeking jobs in urban areas.

The number of migrant workers in urban employment (defined as workers with non-local rural *hukou* who stay in the town or city for at least six months) increased from 39 million in 1993 (Han, 1995) to 172 million in 2017 (NBS, 2018). By 2017, migrant workers in cities accounted for over 40 per cent of urban employment (NBS, 2018). Since 2009, the National Bureau of Statistics (NBS) has conducted annual surveys on migrant workers, and Figure 2 illustrates the number of migrant workers in the construction and manufacturing industries over

the period 2009–2017. The 2013 Economic Census² reported the number of manufacturing employees and construction employees as 124 million and 53 million, respectively, whereas the 2013 NBS survey reported the number of manufacturing migrant workers and construction migrant workers as 84 million and 60 million, respectively. Thus, the number of construction migrant workers was higher than the total number of employees in the construction industry. These data imply not only that migrant workers have accounted for most manufacturing and construction employment but also that significant numbers of migrant workers are ‘invisible’ even to the Economic Census.

Figure 2: Number of construction and manufacturing migrant workers, 2008–2017
(millions)



Source: NBS annual surveys on migrant workers.

² The Economic Census is conducted by the National Bureau of Statistics every five years. It is the only data source that provides society-wide employment data on the sectoral level.

Migrant workers enter the labour market mostly through associations with relatives, friends, or *laoxiang* (people from the same hometown). A survey conducted in 1999 showed that 76.8 per cent of migrant workers in Beijing found their jobs through relatives, friends, or *laoxiang* (Zhao and Sun, 1999). Hometown associations (*tongxiang hui*) have also played a crucial role in employment functioning at the intersection of class and place-of-origin organisations (Chan, 2009), which in turn has lowered the cost of hiring new employees for firms, reduced the uncertainties faced by job seekers, and helped curtail the formation of large unemployed populations in urban areas.

In summary, the demise of the iron rice bowl and the rise of rural-urban migration were the major structural changes that constituted the historical background of the contemporary labour practices in China. These changes resulted in the rise of a private sector that coexists with the remaining SOEs, which has laid the foundation for a spectrum of labour practices in China. However, both migrant workers and urban workers are faced with informality of employment, which is the focus of the next section.

3. Employment

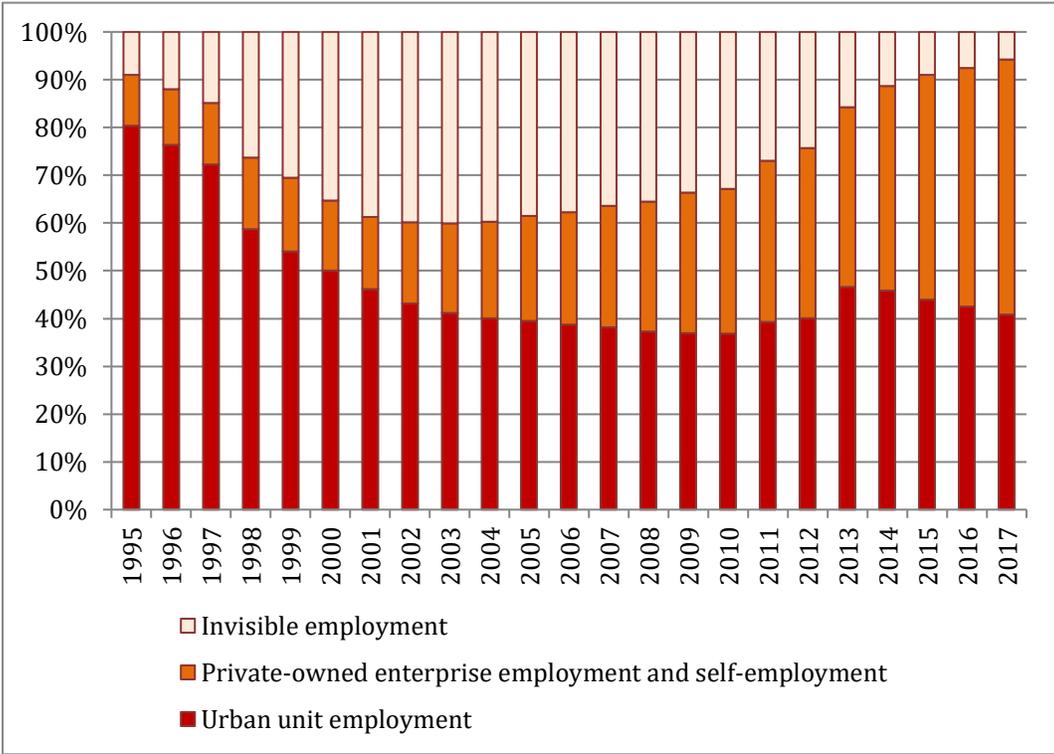
3.1 Informality of Employment

It should be clarify the difference between formal and informal workers at the beginning. Formal workers refers to wage workers “with a secure contract, worker benefits, membership in a formal trade union, and employer contributions to their social protection.”(Chen, 2012: 15) And informal workers are those who lack the security and benefits. The demise of urban permanent employment and rise of the private sector led to the informalisation of employment in China, which significantly shaped patterns of employment not only in the private sector but also in the state sector. It is noteworthy that there are informal workers in SOEs and COEs, as the informalisation of employment converted those sectors with socialist traditions into sectors

featured by dualism in employment. Firms tend to increasingly hire non-regular workers and avoid meeting the legal requirements in regard to labour contracts, working hours, and social security, which renders workers vulnerable to situations such as wage arrears and job injuries.

Figure 3 presents an overview of informalisation in China. As shown in the figure, NBS sectoral employment data do not allocate occupational categories to approximately 100 million employees in the early 2000s. This employment invisibility reflects the extent of informalisation and the size of the ‘informal economy’ (Huang, 2009; Park and Cai, 2011) that includes both laid-off SOE workers and migrants.

Figure 3: Urban employment structure by informality, 1995–2017



Source: China Statistical Yearbook, various issues.

Notes: Invisible employment is the residual of total urban employment subtracting urban unit employment, private-owned enterprise employment, and self-employment. This invisible employment has accounted for an increasingly smaller share because NBS has improved its investigations on private-owned enterprises and migrant workers.

As already noted, between 1997 and 2002, over 30 million workers were laid off in what was a peak period for SOE restructuring. Combined with the privatisation of TVEs during the early to mid-1990s, SOE restructuring generated a wave of informalisation as a significant informal economy emerged in urban and semi-urban areas in both manufacturing and construction (Swider, 2015). Informalisation has played a role in large SOEs that emerged intact from restructuring via the widespread use of non-regular workers such as agency workers, subcontracted workshops, and temporary contracting teams. Jia's (2015) fieldwork at an SOE producing construction and engineering equipment, such as shield tunnelling machines, showed that the enterprise introduced temporary contracting teams to the workshop in order to achieve flexibility in production and impose a discipline effect on formal workers. These temporary contracting teams, which have become the majority of the labour force in that factory since 2008, recruit migrant workers through personal contacts. The dominance of contracting teams in production made formal workers feel that they were marginalized. A study by Tong (2008) found that temporary contracting teams accounted for 43.2 per cent of total employment in a shipbuilding company and agency workers accounted for one-third of total employment in an oil company, both of which were state owned. In her study on the auto industry in Chengdu, Zhang (2014) found that managers often hire temporary informal workers to reduce costs and discipline formal employees. The dualism of formal and informal workers allows managers to adopt a “divide and conquer” strategy so that during economic downturns managers can lay off informal workers and make formal workers accept pay cuts.

The informality of employment is revealed by the low labour contract-signing rate among migrant workers. Both the Labour Law (1995) and Labour Contract Law (2008) in China stipulate that employers should sign labour contracts with employees. Despite of the laws, only 35.1 per cent of migrant workers had labour contracts in 2016 (NBS, 2017). This rate shows that the majority of migrant workers in China are working informally, although it is above the world average (29.3 per cent) and the average of middle-income countries (28.1 per cent) in 2015 (ILO,

2015). One also needs to consider that, as estimated by the All-China Federation of Trade Unions, there was 37 million dispatch workers in 2011 (Huang, 2017). These workers should also belong to informal employment because they had labour contracts with third-party agencies but no contract with the actual employers. According to the NBS annual surveys, the contract-signing rate of migrant workers fell consistently from 2012 to 2016, which suggests that the economic slowdown after 2012 deepened informality, similar to the impact of the global recession on the labour markets in many other countries (United Nations, 2011). Construction ranks the worst among all industries in terms of labour contracts. The NBS annual surveys show that only around one-fourth of migrant workers in construction signed labour contracts from 2009–2012. According to a survey conducted by the Chinese Seamen and Construction Workers Union in 2004, only 10–20 per cent of construction migrant workers in small cities signed labour contracts; none of the over 6,000 migrant workers in Hainan Province covered by the survey signed labour contracts (Chinese Seamen and Construction Workers' Union, 2005). The Students and Scholars Against Corporate Misbehaviours (SACOM) reported that the New World China Land, a major national real estate developer in China, signed no labour contracts with its construction workers, and the Chengdu branch of the developer even made workers sign a blank contract in case of unexpected investigations by officials (SACOM, 2009). A 2013 survey of construction workers in Beijing, Chengdu, Chongqing, Wuhan, Zhengzhou, Xi'an, and Shenyang showed that only 17.4 per cent of construction workers had labour contracts (Pun, 2014).

The literature suggests that subcontracting hierarchies are the key institutional reason for the low contract-signing rate in construction (Pun, Lu and Zhang, 2010; Ren and Jia, 2010; Pun, 2014). Employment patterns in China's construction industry mirror the global phenomenon of a labour contracting system in which subcontracting hierarchies connect contractors across specific projects and sites. Hierarchies comprise at least four (Pun, Lu and Zhang, 2010) and up to ten layers of contracting relations (Ren and Jia, 2010). At the apex sits the developer (local governments in the case of infrastructure construction) that also acts as the

main investor but does not participate in construction. The second layer is the construction company that subcontracts various aspects of the project to other lower-level or smaller construction companies. These construction companies act as subcontractors and make up the third layer; they then further subcontract the project to labour agencies/firms or sometimes directly to labour contracting teams that form the bottom layer of the subcontracting hierarchy. A *bagong tou* (individual labour contractor) or a labour contracting company recruits migrant workers and is responsible for work assignment, supervision, livelihood allowances, and wage payment.

Related to the role of labour contractors in construction employment, in her ethnographic study of construction workers across three major cities in China, Swider (2015) presents three templates of employment configuration: mediated employment, embedded employment, and individualised employment. The pathway to mediated employment is via labour contractors who rely on the *hukou* system to survive and reproduce the configuration across China's cities. The labour contractors' trump card is that they have the resources to fund rural migrants' journey to urban construction sites where they work, live, and eat in a social relation that provides them with monthly pocket money for daily reproduction. Embedded employment is characterised by dense social networks that cohere around migrant villages in large cities. Social networks at kinship, hometown, provincial, and occupational levels provide the main pathway into employment, and employment relations are 'regulated by mechanisms evolving from these social networks' (Swider 2015: 58). The third configuration offered by Swider is individualised employment, where vulnerable, highly mobile, and highly visible individuals who are often sleeping in public spaces become dependent on urban labour markets as 'markets of the last resort' (Swider 2015: 85)—basically street markets where day labour is purchased ad hoc.

A study by Cai and Jia (2009) illustrates an example how social networks function in wage arrears, which is similar to what Swider calls 'embedded employment'. Based on the

fieldwork of a road and bridge construction company, the authors found that workers closest to the contractor personally were the last to get paid. The authors called this sequence a ‘reversed differential mode of association’. From a traditional society perspective, having a close personal relationship with the contractor should be an advantage to workers; however, when this relationship is integrated with employment relations, it becomes a disadvantage to workers.

A feature of the construction sector is that wages are not paid by month but paid at the end of the year or when a given project is completed (Qi, 2011; Pun, Lu and Zhang, 2012; Swider, 2015). This is also a form of informality, which has made wage arrears more common in construction, despite former Premier Wen Jiabao’s demands that the problem of wage arrears be addressed as early as 2003. The subcontracting hierarchy in construction makes wage arrears and non-payment a common occurrence (Pun, Lu and Zhang, 2010). In most projects, the costs of construction are not advanced by the developer but by the general contractor, who then transfers the burden and risk to lower contractors. Consequently, labour contractors at the bottom layer are required to contribute to the funding necessary for construction, and without funds advanced by the developer and general contractor(s), they are mostly unable to pay wages to workers. The speculation that has accompanied the boom in the real estate market has facilitated these practices of risk transference. Interestingly, Li (2015) documents a counter example of the subcontracting hierarchy. At a construction site at Peking University, the general contractor directly hired construction workers without the usual layers of labour companies and labour contractors. The direct employment resulted not only in shorter working hours and better benefits but also better quality of construction.

In addition to the low labour contract-signing rate and wage arrears, low participation in social security is also an aspect of informality faced by migrant workers, while the participation rate among urban workers is much higher. This low participation in social security renders rural land and rural living environments vital for the social reproduction of migrant families. The main benefit of social security is insurance coverage for old-age pensions, injuries, medical care,

unemployment, and maternity. The NBS survey results provide the migrant worker participation rates for each type of insurance from 2009–2014. As shown in Table 1, the majority of migrant workers do not participate in social security, despite its significant participation rate growth from 2009 to 2014. The participation rates for manufacturing are in general higher than those for construction. Given that construction workers are more likely to suffer from job injuries, injured construction workers without insurance must bargain individually with the employer for compensation. The situation would be even worse if the injured worker had no labour contract.

Table 1: Migrant workers’ participation rate in social security, 2009–2014 (%)

Construction	Old-age pensions	Injury insurance	Medical insurance	Unemployment insurance	Maternity insurance
2009	1.8	15.6	4.4	1.0	0.6
2011	4.3	14.1	6.4	2.2	1.6
2012	3.8	14.0	6.0	2.2	1.5
2013	3.7	14.4	5.2	2.0	1.3
2014	3.9	14.9	5.4	2.1	1.3
Manufacturing	Old-age pensions	Injury insurance	Medical insurance	Unemployment insurance	Maternity insurance
2009	8.8	27.5	14.7	4.2	2.4
2011	14.1	28.0	17.8	7.5	4.8
2012	15.2	28.9	18.5	8.1	5.3
2013	20.9	32.8	21.7	12.2	8.8
2014	21.4	34.2	22.1	13.1	9.3

Source: NBS annual surveys on migrant workers.

Note: NBS has not published relevant data for 2008, 2010, and the period 2015–2018.

The informality of employment also exists in the production process where firms hiring migrant workers or even urban workers consistently violate labour laws on working hours. A 1994 survey showed that overtime work was common among migrant workers (Du and Bai, 1997). The 2010 NBS survey results reveal that migrant workers on average worked 58.4 hours per week, one-third higher than the 44 hours of normal working time stipulated by China's Labour Law; the average working week in construction and manufacturing was 59.4 hours and 58.2 hours, respectively (NBS, 2010). The Chinese General Social Survey showed that the work week in private-owned enterprises varied between 49 to 54 hours from 2003–2013.³ Long working hours are widespread in both the garment and construction industries. Anita Chan's 2009 survey in the garment and toy factories located in Shenzhen showed that the average working hours per month reached 303 hours, which was 43 per cent higher than the maximum stipulated by the Labour Law (Pun *et al.*, 2009). SACOM documented examples of long working hours and extensive overtime work in OEM factories such as Foxconn. In construction, the average working day was 11.64 hours, yet only 26 per cent of workers received overtime payments in 2007; workers rested for only 2.9 days per month (Zhou 2007). At the construction sites of New World China Land, a 10-hour shift (or even a 13-hour shift in some cases) was recognised as a 'normal' working day for workers earning hourly wages. At one construction site in Chongqing, workers were required to work at least 12 hours a day (SACOM, 2009). A survey in 2013 on construction workers revealed that the average working day was 10 hours in the spring, summer, and autumn and 9.5 hours in the winter (Li, 2014).

Long working hours are possible thanks to the dormitory system. Private firms tend to provide dormitories and meals to migrant workers as benefits, which in turn significantly reduces the living costs of those workers. Workers live in the dormitories at the construction sites so that the labour supply can be adequately flexible to meet the requirements of production (Ren and Jia,

³ Source: Author calculation.

2010). Employers prefer outsiders (workers from distant rural areas) to local workers because outsiders live in the dormitories instead of living with their families and their time is more flexible (Ren and Jia, 2010). The working scheme is so intensive that only outsiders who live in the dormitories are able to adapt to the rhythm.

3.2 Geographical Distribution of Employment

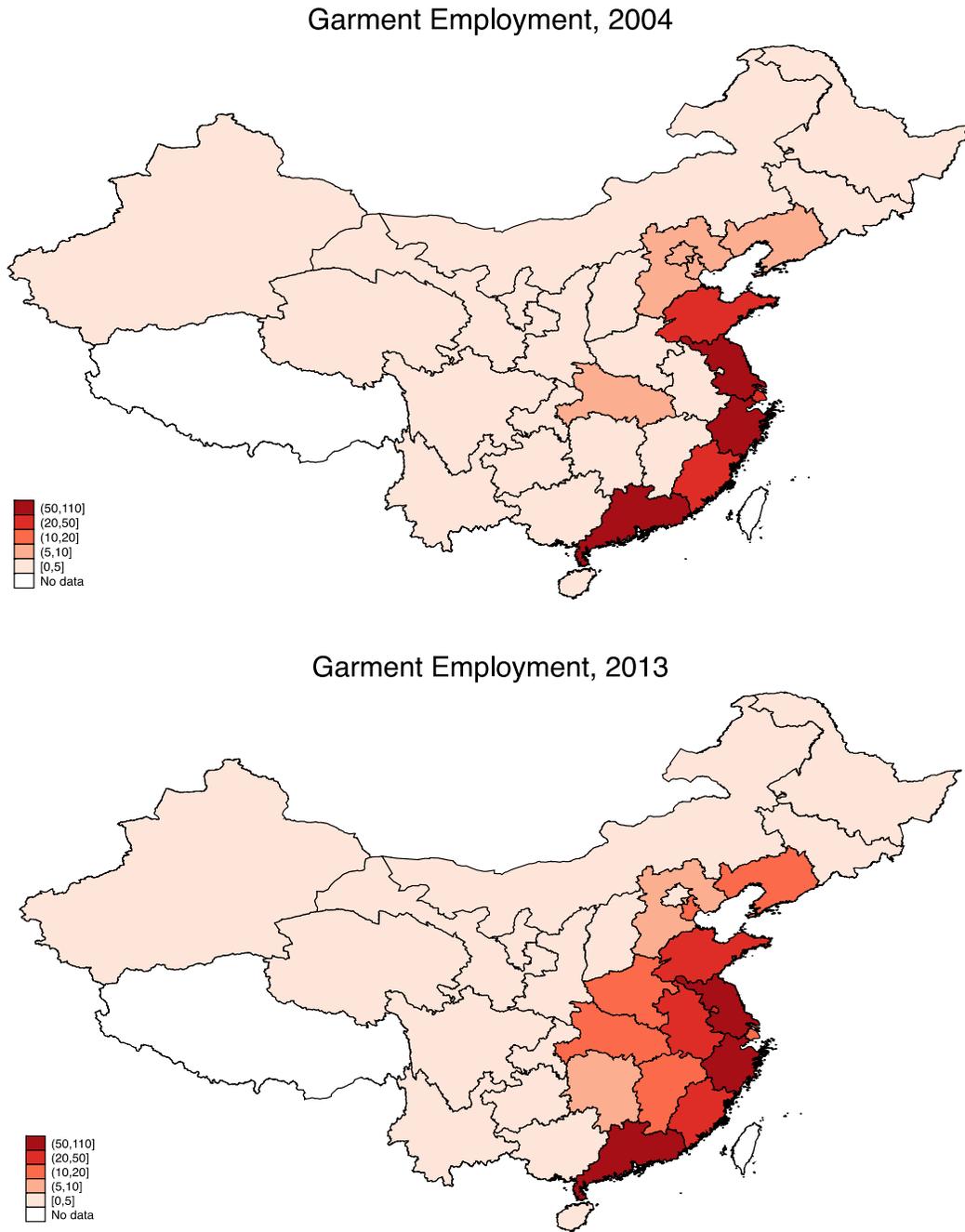
There has been a significant geographical bias towards eastern and southern coastal provinces in the growth of the private sector across labour-intensive industries including garments. This has meant that millions of migrants travelled thousands of miles from rural counties in Western and Central China to find work in Eastern China. In 2005, 89 per cent of all employment in firms manufacturing clothing, footwear, and hats was in Eastern China compared to just 6.7 per cent in Central China (Xu *et al.*, 2017). This extreme concentration began to decrease in the following decade (He and Wang, 2012), driven by rising costs resulting from increasing wages in Eastern China and a policy of industrial upgrading that gathered momentum in key provinces such as Guangdong (Butollo, 2014). In 2014, employment in these industries had dropped to 76 per cent in Eastern China and almost tripled to 18 per cent in Central China. Xu *et al.*'s (2017) survey of 640 labour-intensive light-manufacturing above-scale firms in the Pearl and Yangzi River deltas that included the garment-, shoe-, and hat-making industries revealed that 18 per cent of firms had transferred operations to other locations within China between 2014–2016 or invested or planned to invest outside China by 2020.

The geographical distribution of construction is not only affected by wages but also driven by real estate development and government-funded infrastructure building. Local governments' pursuit of tax revenues through providing cheap land and infrastructure to potential investors has been a major driver for construction (Tao *et al.*, 2010). In the early 2000s, construction was concentrated in eastern and southern coastal provinces given that the rapid growth of manufacturing in those provinces required infrastructure investments and the rising

housing prices stimulated real estate investments. Both infrastructure and real estate relied on bank loans, and large cities in coastal provinces typically had more access to loans than did hinterland cities. The 2009 massive stimulus package in response to the global financial crisis changed the situation. Local governments in hinterland provinces initiated debt-funded infrastructure projects (Ehlers *et al.*, 2018), which stimulated housing prices and real estate development. Therefore, construction employment exhibited an expansion from coastal provinces to some hinterland provinces.

Figures 4 and 5 demonstrate changes in the geographical distribution of employment from 2004–2013. As shown in the figures, garment employment in 2004 was concentrated in coastal provinces such as Guangdong, Zhejiang, and Jiangsu. However, over this period, there was a prominent transfer of garment employment from coastal provinces to central provinces like Henan, Anhui, Jiangxi, Hubei, and Hunan. Construction employment exhibited a similar pattern over these years, except that construction employment expanded significantly in both coastal provinces and central provinces. These patterns confirm that the geographical distribution of garment employment is sensitive mainly to wages, while that of construction employment depends on both wages and market demands.

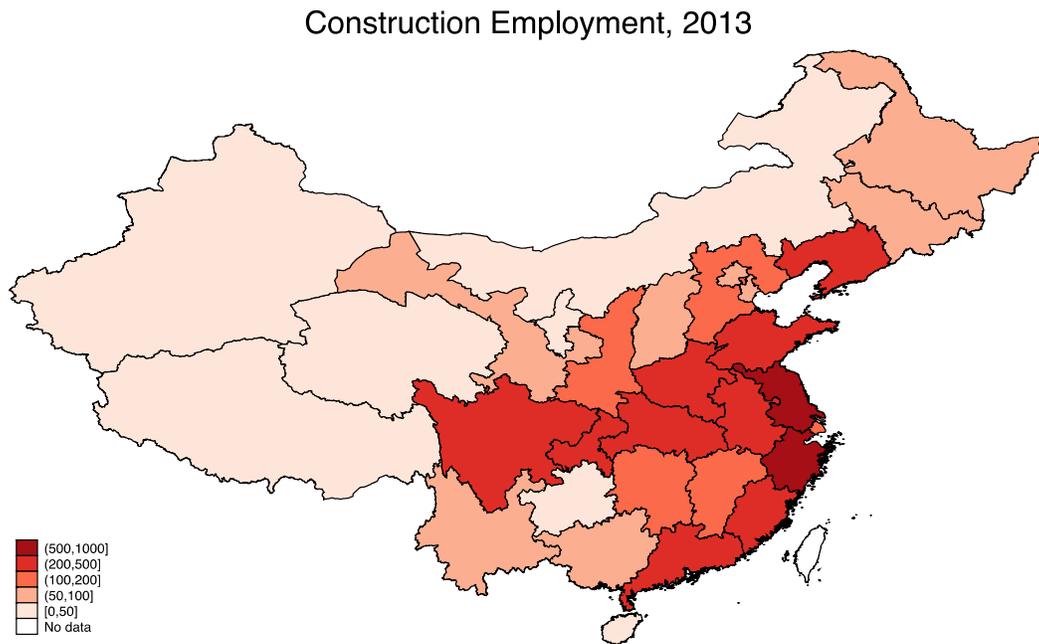
Figure 4: Geographical distribution of garment employment, 2004 vs. 2013



Sources: *China Economic Census Yearbook*, 2004 and 2013.

Note: The classifications are set to be the same for both years.

Figure 5: Geographical distribution of construction employment, 2004 vs. 2013



Sources: *China Economic Census Yearbook*, 2004 and 2013.

Note: The classifications are set to be the same for both years.

In summary, employment trends in the garment and construction industries have been characterised by an unprecedented rural-urban migration, diversity in forms of firm ownership, and informalisation. These processes have generated significant pressures on the governance of labour-capital relations and the consequent separation of interests, a reality that remains politically sensitive. The next section discusses capital's workplace strategies to weaken labour's power on the shop floor and formal institutions that the state established to govern capital-labour conflicts.

4. Labour Relations

4.1 Workplace Relations and Factory Regimes

Unlike Russia and other former socialist countries, China adopted a gradualist approach in reform. Even the radical reform of SOEs in the mid- and late 1990s did not privatise all SOEs but retained and restructured large SOEs, which currently play a crucial role in stabilizing economic growth and promoting technological progress in China (Qi and Kotz, 2019). Labour-intensive and export-oriented private firms cannot represent all firms in China. There is heterogeneity not only between export-oriented private firms and domestic market-oriented private firms but also between private firms in general and restructured SOEs. The diversified ownership leaves room for the development of distinct approaches of management, giving rise to diversified factory regimes—the political apparatuses that govern relations in production. Following the concept of 'factory regime' proposed by Burawoy (1985), studies have identified the main types of factory regimes in China. As shown in Table 2, three types of factory regimes can be summarized from the literature. The table also shows the accumulation regimes that correspond to each factory regime. An accumulation regime here refers to key features of the accumulation of capital, focusing on inter-capital relations (monopoly or competition) and sources of demand (domestic-oriented or export-oriented).

Table 2: Typology of factory regimes

Represented by	Factory regimes	Accumulation regimes
State-owned manufacturing enterprises	Dualism	Monopoly; domestic market-oriented
Private manufacturing enterprises	Despotism	Competition; export-oriented
State-owned or private construction enterprises	Relation hegemony	Competition; domestic market-oriented

The first factory regime is the dualism of state-owned manufacturing enterprises. Walder's well-known study of the pre-reform SOEs found in those enterprises an organised dependency of workers on the state and a widespread patron-client relationship, which Walder called 'neo-traditionalism' (Walder, 1986). The institutional foundation of neo-traditionalism was originally based on the state playing the role of the sole supplier of jobs and benefits; however, this foundation faded as the 'out of the plan' market reform proceeded and the private sector grew alongside the state sector. 'Disorganised despotism', a concept proposed by Lee (1999), is a development of neo-traditionalism. According to Lee (1999), 'disorganised' refers to the lack of coordination of diverse reform measures and the inadequate mediation of interests among social groups, whereas 'despotism' refers to three aspects of labour-management relations: labour's institutional dependence on production work for livelihood, coercive modes of labour control, and workers' collective perception of such control as a violation of their material interests and moral precepts. This factory regime was produced by the series of reforms on SOEs in the 1990s that strengthened the authority of managers on the shop floor, weakened job security and the benefit institutions, and commoditised labour power. This transition dismantled the institutional foundations of traditional socialist factories and significantly suppressed the power of state workers. As a result, the factory regime in SOEs presents two kinds of dualism: on the one hand, SOEs tend to reduce costs and enhance flexibility through the informalisation of

employment, whereas monopoly power favours SOEs so that they retain some characteristics of neo-traditionalism (Li, 2003); on the other hand, dualism exists within an enterprise, given that the managers tend to hire informal workers for not only reducing costs but also disciplining formal employees, as observed by Tong (2008) and Jia (2015).

The second factory regime is various forms of despotism in the private-owned manufacturing sector, especially in the export-oriented firms that have been integrated into the global value chain. Scholars have analysed the mode of management in private firms such as Foxconn. Guo et al. (2011) suggested that most enterprises hiring migrant workers follow a typical despotism factory regime. The authors identified Foxconn as a military despotism regime and Nanhai Honda as a conventional despotism regime. The military despotism regime is characterised by several features: first, intensive labour, long working hours, and low wages are common; second, the dormitories where workers live are surrounded by the factory and have become the extension of the despotism regime; third, the production and dormitory institutions have isolated individuals and destroyed the social network of workers; and fourth, the enterprise has adopted a military mode of management. At Foxconn, intensive labour, strict dormitory discipline, and harsh management have atomized and isolated workers and given rise to serious psychological pressures, which largely explains the spate of suicides since 2010. In contrast to Foxconn, the conventional despotism regime represented by Nanhai Honda has retained the social network of workers. Under the conventional despotism regime, wages are relatively higher, despite the intensive labour; the dormitories where workers live are surrounded by local communities instead of the factory; and the mode of management is less harsh than that at Foxconn. Wang and Meng (2013) compared the modes of management at Foxconn, Nanhai Honda, and Shenzhen Ohms and defined the factory regimes as military despotism regime, quasi-despotism regime, and despotism regime, respectively. Their study found that Foxconn has completely ruled out workers' participation in management and adopted a strict mode of

management and even verbal abuse in production. In contrast, Nanhai Honda has, to some extent, considered workers' feelings and listened to their opinions on some affairs.

The third factory regime is relation hegemony, which exists in both state-owned and private construction firms. Under the subcontracting system, personal relations between workers and labour contractors disguise the labour relations between migrant workers and construction companies. This factory regime can be linked with Swider's concept of 'embedded employment', which, as mentioned above, refers to a specific pathway into employment, whereas the factory regime emphasizes the institutions that regulates capital-labour relations on the shop floor. Based on the concept of 'hegemony' proposed by Burawoy (1985), Shen (2007) suggested a relation hegemony in the labour process of China's construction industry. In contrast to the hegemony that produces consent in the factory regime of the post-WWII capitalism, relation hegemony produces loyalty of workers to the labour contractor. Relation hegemony has constrained the workers' power in defending their interests and forced them to voluntarily bear the loss from the uncertainties of production. According to Zhou (2007), a construction team is comprised of the labour contractor, core workers, quasi-marginal workers, and marginal workers. The labour contractor is not only the boss but also possibly a supervisor and even a worker, depending on the size of the team. Core workers have crucial production skills or management skills and are responsible for assigning work, recording contributions, and monitoring workers as *ban zuzhang* (team leaders or group leaders). Quasi-marginal and marginal workers are skilled and unskilled workers, respectively. The employment relations between the labour contractor, core workers, quasi-marginal workers, and marginal workers are embedded in personal relations.

4.2 Unions and Labour Dispute Resolution

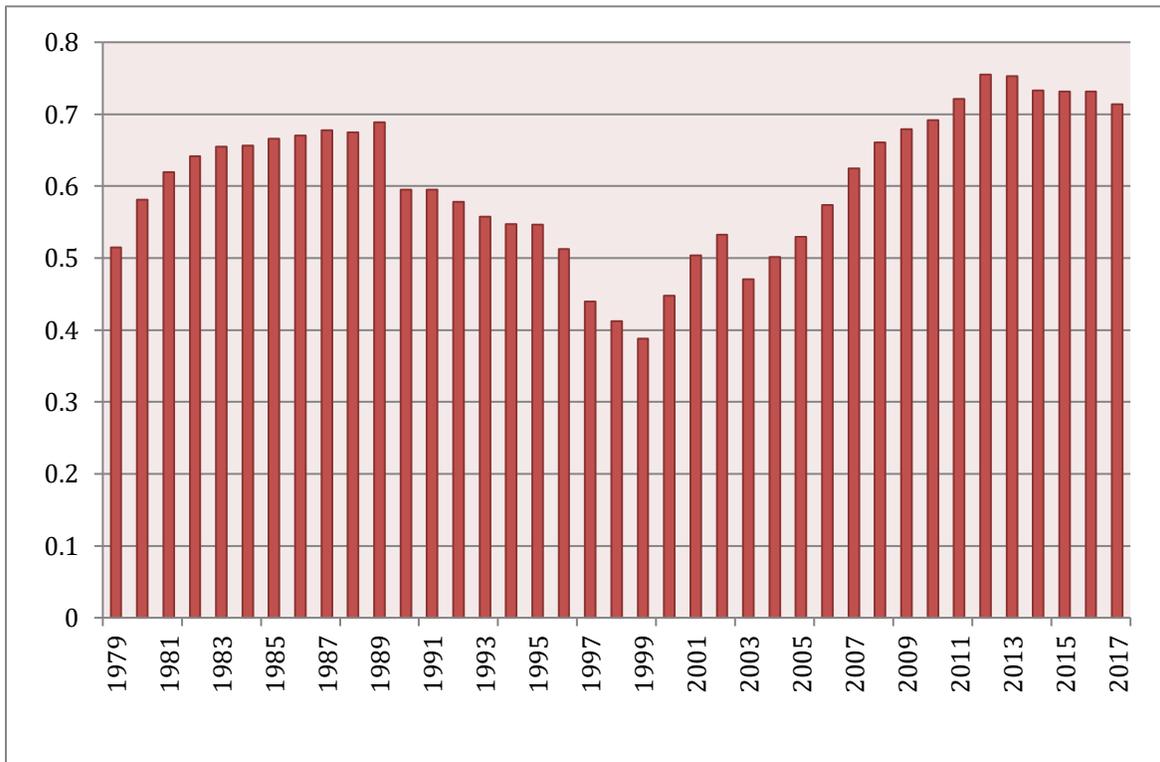
As is the case in the history of many other countries, the rapid capital accumulation in China has given rise to labour unrest (Pringle, 2016). The state has attempted to establish formal institutions for state-controlled trade unions and labour dispute resolution mechanisms to govern

labour relations and control labour unrest. China's Trade Union Law (1950) was revised in 1992 as part of the CPC's efforts to construct a body of labour laws fit for the transition to market relations, but freedom of association remains firmly off the political agenda. Indeed, Cooney et al. argued that in contrast to the 1950 version, 'the 1992 version leaves little room for trade unions to act with relative autonomy from the Party' (Cooney et al. 2013: 67). Trade union autonomy from the CPC was—and still is—just one constraint on effective workplace representation. Up until 2003 and the All-China Federation of Trade Unions' (ACFTU's) 14th Congress, trade unions were very much the exception to the rule in the private sector, and the union itself only recognised migrant workers as part of the working class at the 14th Congress (Pringle, 2011). This dramatic change was in part a response to the extensive loss of members from the state sector resulting from the mass layoffs during restructuring but also a realisation that ACFTU had to increase its presence in the private sector. Two years earlier in 2001, ACFTU launched a branch-building campaign under the slogan 'Trade union organisations (branches) must be established wherever there are staff and workers' (Pringle 2011: 110). As shown in Figure 6, union density has increased dramatically as a result. However, this process was generally promoted by ACFTU in cooperation with employers, and workers played no part in it (Pringle 2018: 32).

Increasing trade union density has not prevented employers from regularly violating China's Labour Law. The law was based on the desire to regulate a form of social relations that China has not experienced since a country-wide program of industry nationalisation completed during China's First Five Year Plan in 1955 (Xu, 2003). Labour-capital relations were reintroduced cautiously in China's special economic zones established during the 1980s and governed by a set of provisional regulations that came together to form the Labour Law in 1995. Although comprehensive and largely in keeping with international standards (Cooney, Biddulph and Zhu, 2013), the law nevertheless focused on individual rather than collective labour rights (Gallagher, 2005; Pringle and Clarke, 2011; Cooney, Biddulph and Zhu, 2013). Workers were

urged to ‘use the law as a weapon’ (Gallagher, 2005), and by the mid-1990s, China’s evolving system of labour dispute resolution was clogged up by the sheer number of cases going to arbitration and then court.

Figure 6: Union density, 1979–2017



Source: *China Statistical Yearbook*, various issues.

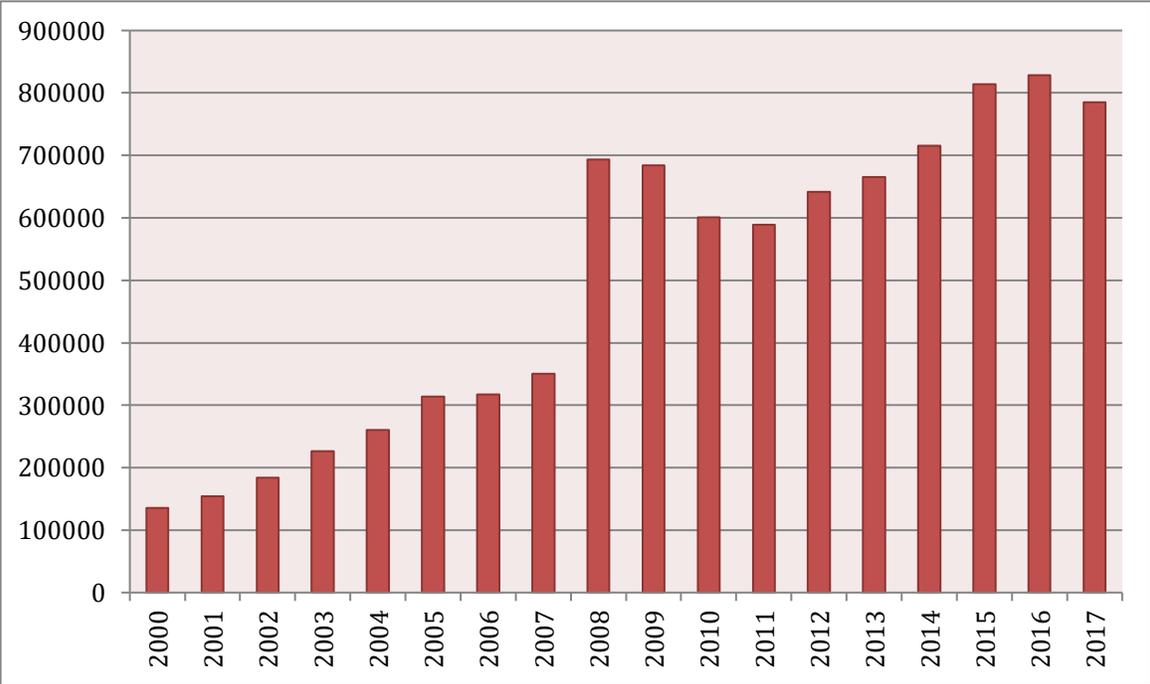
Note: Union density = ACFTU membership/urban employment.

The three-tier mediation-arbitration-litigation (court) process of grievance resolution (Shen, 2007) required significant investment from workers once they moved beyond internal workplace mediation to external arbitration, and although labour arbitration committees (LACs) found in favour of workers in the majority of cases, many litigants preferred to go to court because employers habitually ignored LAC rulings due to the ‘structural vacuity, lack of authority and the unsuitable quality of arbitrators’ (Chang 2007: 32). In 2008, the Labour

Disputes Mediation and Arbitration Law was promulgated to reduce delays and costs to participants and deflect a growing trend of strikes. However, the new law did not address the core issue of institutional autonomy. An LAC is nominally a tri-partite committee made up of representatives from the local office of the Ministry of Labour and Social Security, the trade union, and enterprise management, but ‘in practice it has been dominated by the labour department’ (Cooney et al. 2013: 65).

As labour relations have remained tense in China, both the LACs and the courts have processed rising numbers of cases, as illustrated in Figure 7. Aside from the issue of autonomy, arbitration and court processes are further constrained in workers’ eyes by the lack of labour contracts because neither LACs nor the courts are able to accept a case unless there is evidence of a labour relationship which is usually a contract.

Figure 7: Cases of labour disputes, 2000–2017



Source: China Statistical Yearbook, various issues.

The state has been consistently and acutely aware of the potential threat that labour unrest presents to its rule (Howell and Pringle, 2019). On the one hand, the state has striven to develop a legal framework for labour relations across multiple forms of firm ownership that mainly reflect ILO conventions and standards (Chang, 2007; Cooney, Biddulph and Zhu, 2013), aside from the crucial exceptions of freedom of association and the right to strike. On the other hand, the state has demonstrated caution towards trade union adaption to the new social relations that have emerged (Pringle, 2011; Pringle and Clarke, 2011; Chan and Hui, 2014; Friedman, 2014; Lee, 2016). The next section focuses on the trend of rising wages, which is associated with the state's attempt to reconcile economic growth and social stability through pro-labor policies.

5. Rising Wages and Explanations

5.1 The Trend of Rising Wages

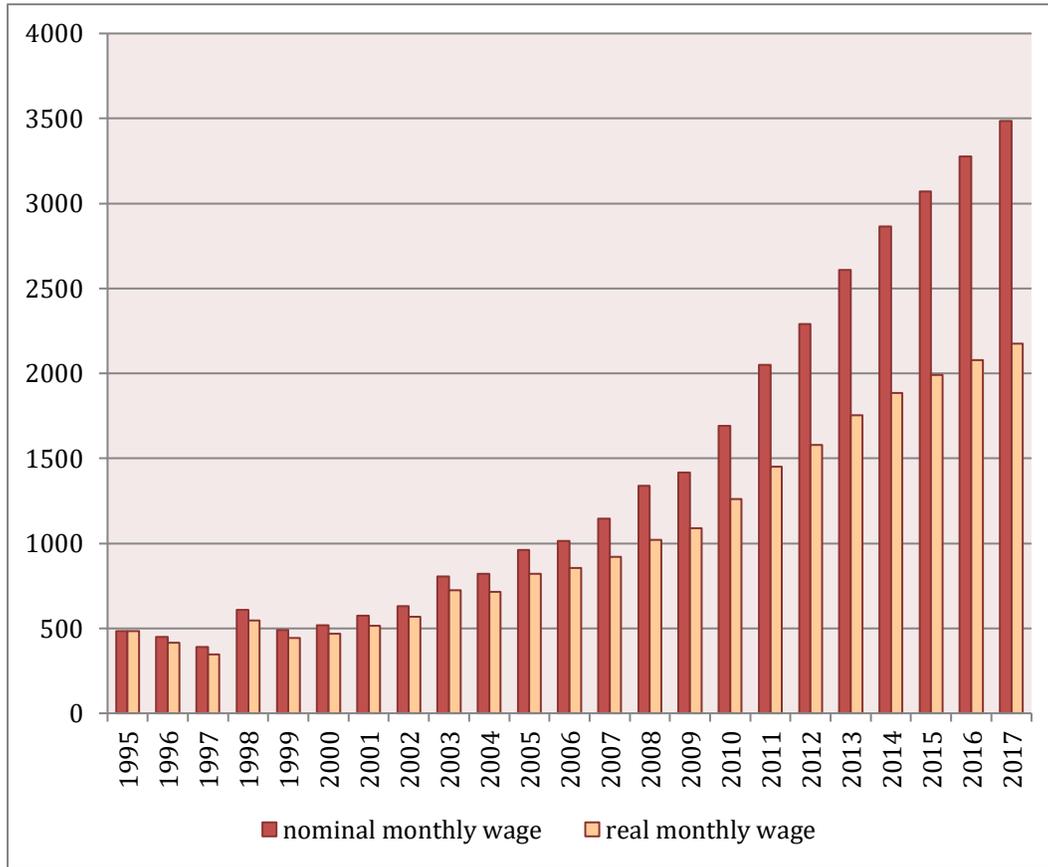
Although the informality of employment and pro-capital labour relations are in general unfavourable to workers, the last fifteen years witnessed a substantial wage growth. According to ILO *Global Wage Report*, China achieved the fastest wage growth from 2008-2017 among G20 countries; China's wage growth was consistently and significantly higher than the global average from 2000-2017 (ILO, 2018). This contrast in wage growth suggests that rising wages are a key driver for Chinese firms to invest in low-wage countries.

Figure 8 presents the trend of rising wages of migrant workers since the mid-2000s. In construction, wages have grown more rapidly than labour productivity since 2008. Figure 9 plots the growth of wages in the construction sector and compares it with the growth of labour productivity within the sector. There are different measures of wages, depending on different groups of employees. None of the measures is perfect in covering all construction workers regardless their employment statuses and informality. Each measure captures a particular group of employees and thus partially reflect the general trend of wage rises. The following two

categories are crucial, given that they amounted to a significant share of total employment: construction employees in the private-owned sector and construction migrant workers. It is noteworthy that the vast majority of the former category are construction migrant workers; in addition, the former category also includes non-worker employees such as engineers and managers. Unfortunately, the data for these categories are only available for recent years. Thus, we also use another three categories: construction employees in the urban formal sector, construction employees in the urban collective-owned sector,⁴ and construction employees in the TVE sector. The data of the urban formal sector suffers from two problems: the sector is a relatively small part of construction, and the data ignores informal workers within it. However, the urban formal sector has the most complete data for presenting a time trend. The urban collective-owned sector is a part of the urban formal sector. We use the urban collective-owned sector because it tends to face more serious market competition, making firms in this sector pay a wage close to that paid by private firms. For the same reason, we also adopt the TVE sector. For comparing the growth in wages and labour productivity, we set as unity the wage level in the urban collective-owned sector in the year 1998. All the other wages are converted accordingly. Labour productivity in 1998 is also set to unity.

⁴ Urban collective-owned enterprises are a category of public enterprises whose assets are owned collectively by the employees of the enterprise. Since 1992, the size of the urban collective sector in terms of employment has consistently decreased. It had 4 million employment in 2017.

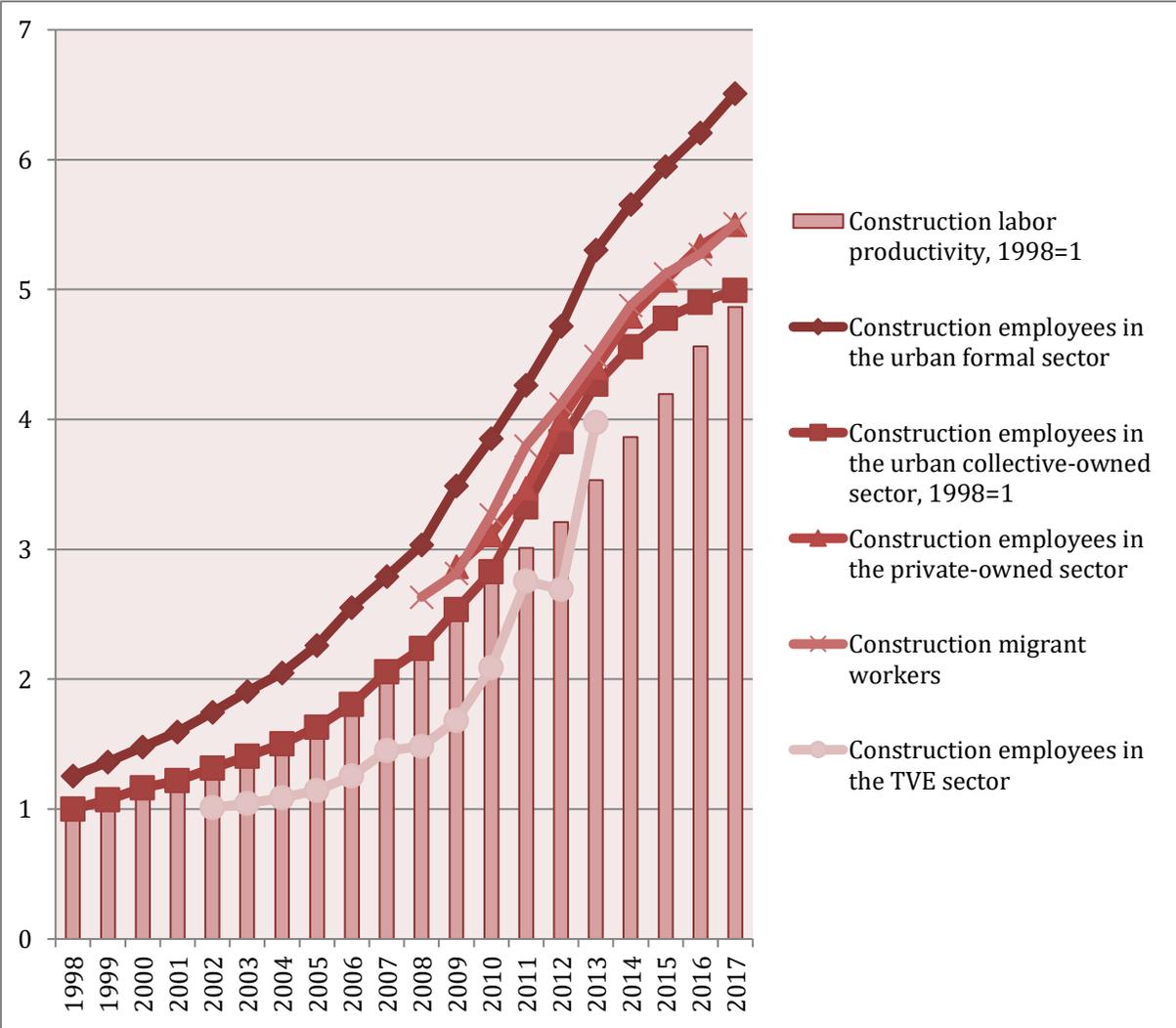
Figure 8: Monthly wages of migrant workers, 1995–2017 (RMB yuan)



Sources: *China Statistical Yearbook*, various issues; NBS annual surveys on migrant workers; Lu (2012).

Note: Nominal wages are converted into real wages at the 1995 price level with the consumption price index.

Figure 9: Growth of wages vs labour productivity in the construction industry, 1998–2017

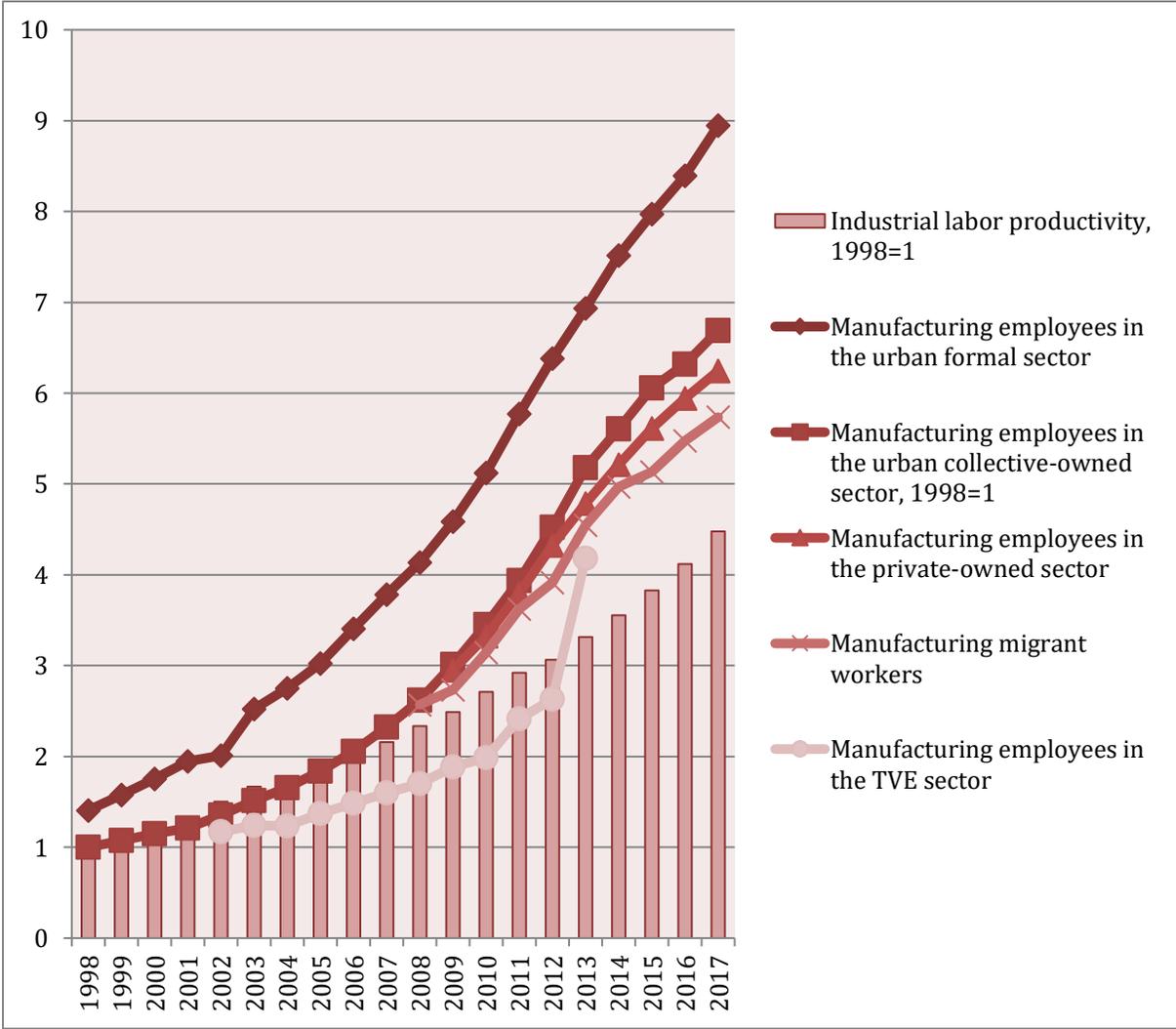


Source: *China Statistical Yearbook*, various issues.

Note: Construction labour productivity in 1998 and the real wage for construction employees in the urban collective-owned sector in 1998 are both set to unity.

Figure 9 illustrates a growth pattern in which wages grows faster than labour productivity. Since labour productivity is the sum of wages per worker and profits per worker, this growth pattern implies firms are facing wage pressures as capital-labour distribution is biased towards workers. A similar wage-productivity growth pattern exists in manufacturing and in the garment sector in particular, as presented in Figures 10 and 11, respectively. Figure 10 compares the growth of wages in manufacturing with the growth of industrial labour productivity. The industrial sector in China's statistical system consists of mining, manufacturing, and the production and provision of utilities, while manufacturing is the largest subsector of the industrial sector. We use industrial labour productivity because manufacturing labour productivity is unavailable. Figure 10 shows that the wage growth was prominent, particularly after 2009. The gap between the growth in wages and in labour productivity was more prominent in manufacturing than in construction. Figure 11 plots different measures of wage growth in the garment sector and compares them with the growth of industrial labour productivity. The wage growth was again faster than labour productivity.

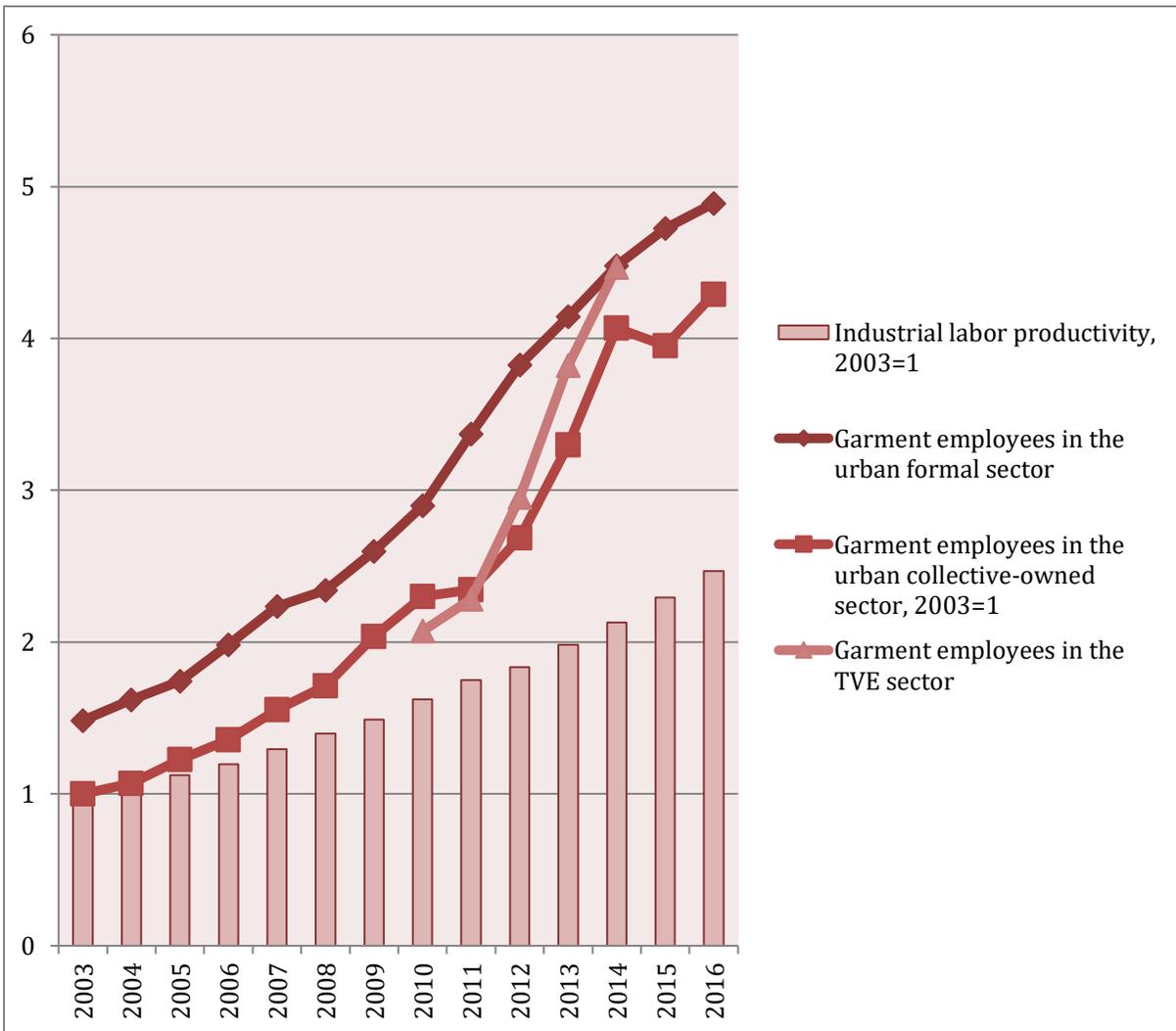
Figure 10: Growth of wages vs labour productivity in manufacturing industry, 1998–2017



Source: China Statistical Yearbook, various issues.

Note: Industrial labour productivity in 1998 and the real wage for manufacturing employees in the urban collective-owned sector in 1998 are both set to unity.

Figure 11: Growth of wages vs labour productivity in the garment industry, 2003–2016



Source: China Statistical Yearbook, various issues.

Note: Industrial labour productivity in 2003 and the real wage for garment employees in the urban collective-owned sector in 2003 are both set to unity.

5.2 Explanations for the Trend of Rising Wages

Three explanations for the trend of rising wages have emerged in the literature: the labour shortage explanation, labour militancy explanation, and the pro-labour policy explanation. Each

explanation captures some crucial aspects of the facts and is supported by evidence. Rising wages have been an outcome of the interactions of these aspects.

First, a research agenda has proliferated around the argument that China has passed the Lewis turning point (Cai, 2010; Cai and Du, 2011; Knight, Deng and Li, 2011; Zhang, Yang and Wang, 2011). Related studies emphasize that demographic changes (such as the aging of the population, the slowdown of the population growth, and so forth) have constrained the growth of labour supply and created a labour shortage. They show that wages of migrant workers from rural areas—who comprise the majority of urban employment—have undergone rapid growth since the mid-2000s. Of particular note is that Lewis in his original argument suggested that a turning point in the wage share marks the transformation of the economy (Lewis, 1954). In Lewis's theory, an economy with surplus labour sees consistent reductions in the wage share until capital accumulation exhausts surplus labour and wages begin to rise. In China, the wage share in the national income has shown a U-shape over the last two decades: measured by the compensation of employees in total GDP, the wage share fell from 51.4 per cent in 1995 to 43.6 per cent in 2008, then slowly increased to 47.5 per cent in 2017.⁵ This evidence that China has passed the Lewis turning point and exhausted surplus labour.

Second, another strand of literature underscores labour unrest, rising labour militancy, and the rising class consciousness of workers in recent years (Pun and Lu Huilin, 2010; Smith and Pun, 2018). Using data from China Labour Bulletin, Xu and Chen show that the number of strikes generally increased from 2011-2018 (Xu and Chen, 2019), which evidences the stronger power of workers. While Lee (2016) question the empowerment hypothesis and underscores the precarity faced by workers, labour unrest leading to wage rises does not conflict with precarity. The combination of labour unrest and precarity implies that the workers' power is increasing but still relatively weak. In a comparison of the actual wages of private-firm employees with a living

⁵ Source: Author calculation based on data from various issues of the *China Statistical Yearbook*.

wage standard, Li and Qi (2014) found that the former is still significantly lower than the latter, which implies that the wage growth has been largely compensatory growth rather than aggressive growth. In particular, it is noteworthy that the wage growth in recent years did not lead to a reduction in working hours; the vast majority of workers (especially migrant workers) still need to work overtime.⁶ Also noteworthy is the fact that the wage growth has been associated with the housing price inflation (Liang, Lu and Zhang, 2016), which implies that the wage growth is largely a response to the rise in living costs.

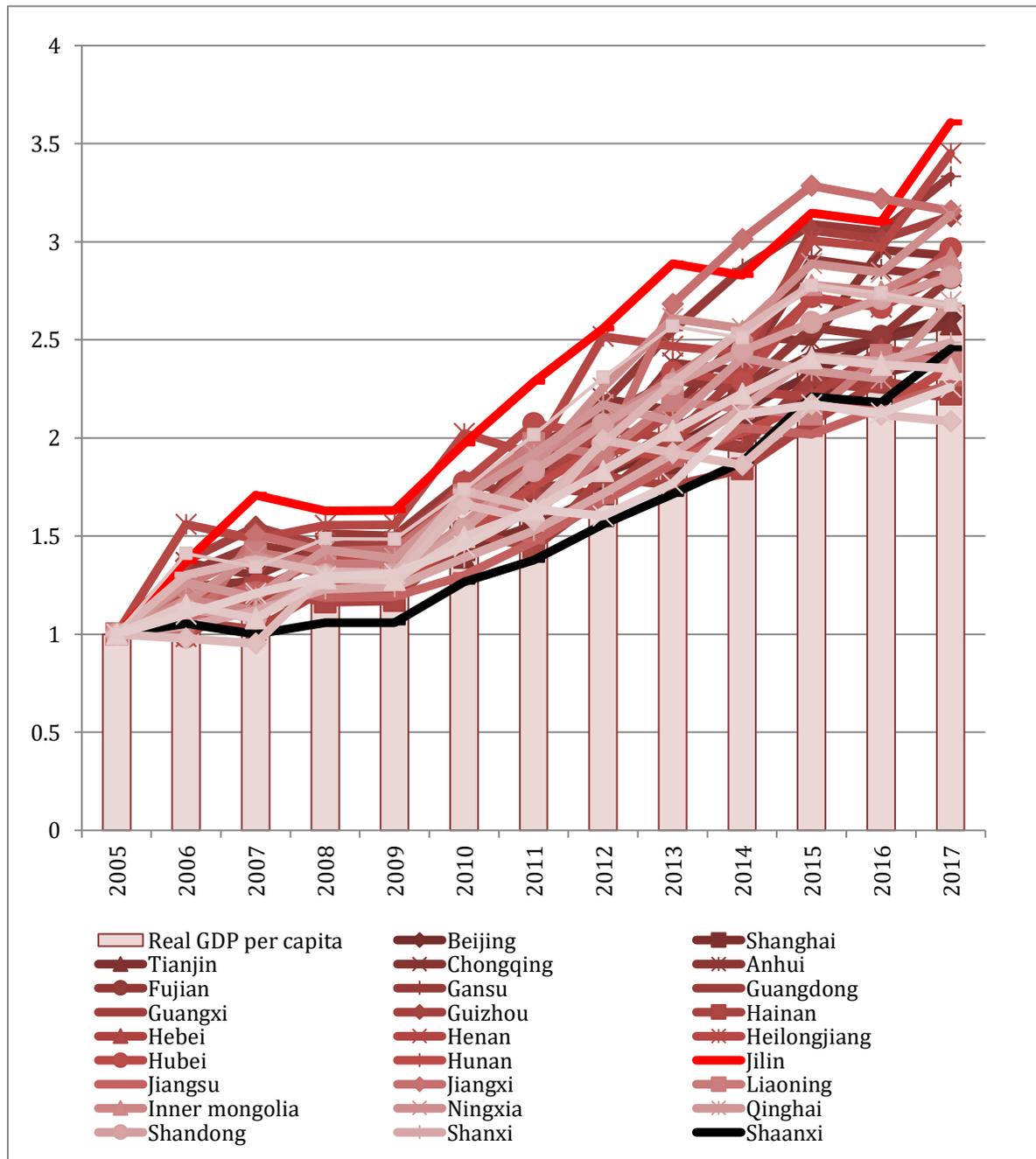
Third, the state has adopted pro-labour policies, resulting in wage rises. The state attempts to harmonize capital-labour relations by implementing pro-labour policies without encouraging the formation of the collective power of workers. These policies include the Labour Contract Law (2008), the rebound in unionization (see Figure 6), the implementation of the minimum wage legislations since 2004, and so on. Local governments are able to affect wages for most migrant workers by setting the official minimum wages. A crucial feature of the wage system in China is that the total wage of a migrant worker has a structure consisting of a basic component and a performance component, and more importantly, firms tend to set the basic portion of the wage at the official minimum wage and set the performance part as overtime payment (Li and Qi, 2014). Thus, an increase in the minimum wage tends to raise the total wages a migrant receives. In this way, the state is capable of intervening in wage distribution by setting the minimum wages in order to maintain a subtle balance between economic growth and social stability. This attempt of course does not rule out conflicts, especially considering the increasing power of workers arising from either labour shortage or labour militancy.

The rapid growth of minimum wages provides evidence for this policy explanation.

Figure 12 plots the real growth of the minimum wage from 2005–2017.

⁶ The NBS surveys have not reported working hours of migrant workers since 2009; however, these surveys report that the share of migrant workers working more than 44 hours per week in total migrant workers was consistently higher than 84 per cent over the period 2009-2016.

Figure 12: Growth of minimum wage versus growth of real GDP per capita, 2005–2017



Source: Wind database.

Note: The real GDP per capita and minimum wages in 2005 are all set to unity.

Nominal minimum wages are converted into real wages with the urban consumer price index. The 2005 levels of minimum wage in all regions are set to unity. The 2005 real GDP per capita of the whole economy is also set to unity. The minimum wage regulation was effective only after 2004. Since then, local provincial governments have revised the minimum wage every year except 2009, when the global financial crisis broke out and impacted China's economy negatively. The figure shows that minimum wage achieved a significant growth over the period, particularly between 2009 and 2017. The regional minimum wage on average increased 1.68 times between 2005 and 2017, while the real GDP per capital increased 1.67 times over the same period. This finding might suggest that local governments update the minimum wage largely according to the rate of economic growth.

6. Conclusion

This paper reviews three aspects of labour practices in China: employment, labour relations, and wages. Historically, reform in the 1990s significantly transformed the ownership and employment structures in China. Diversified ownership brought about diversified factory regimes. However, labour practices in China have also been driven by some general tendencies, specifically informalisation of employment and weakening of workers' power. These unfavourable tendencies for workers have not impeded strikes and labour unrest. As Silver (2003) argued, the relocation of capital leads to the relocation of labour unrest. The Chinese State has established formal institutions to govern labour relations but repressed the formation of collective power of workers. Labour practices in China are distinguished by rising wages, which we hypothesise has been an outcome of the interaction of labour shortage, labour unrest, and the state's policies pursuing a balance between economic growth and social stability. Nevertheless, the slowdown of China's economy renders domestic capital more sensitive to rising wages, which becomes a key driver for the global relocation of Chinese firms.

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