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# **The end of cheap China: reasons and challenges from a labour perspective**

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## Introduction

The idea of this Thesis comes from my internship at De' Longhi APA Ltd. in Hong Kong. The role in the supply chain department got me involved in production planning and logistics and I had to deal with numerous factors that are crucial to meet production deadlines. Among the elements to take into account, one in particular attracted my attention: production planning and products delivery in China in February is arranged considering the Chinese New Year. To celebrate this event, workers that usually come from central and northern regions (since the southern part of China is the most industrialized area of the country) go back home and remain out of the factory at least three weeks because the journey to their home is significant long and expensive. During this period off work, they usually seek for new job opportunities that offer better pay and working conditions or that are closer to their home. Due to the shortage of workers (as a consequence of the one-child policy), employers are forced to incentivize workers to come back to the factory and they resort to the offering of higher wages. The bargaining power gained by workers in this context stimulated my interest because China has always been known for the exploitation of the workforce through low pay, unhealthy working conditions, few social benefits and workers have always been on the weak side: the offering of higher wages seemed to be out of context. Then, through an in-depth research on the matter, I discovered a situation in China that appeared completely new: China is not cheap anymore. The competitive advantage built on the availability of a large pool of unskilled workers that enable the country to thrive for years was exhausted and China must recover quickly to a new source of economic development. At the same time, the country must change its position in the global value chain to survive.

The analysis of the issue is conducted considering the labour perspective that highlights the shift from the exploitation of unskilled workers to the development of a skilled labour market able to sustain an innovation-driven economy. To start the analysis, a better look is given to the socio-economic situation in China and the legislation in the labour context. Chapter 1 presents the characteristics of the employment system in China before and after the opening up in the late 1970s and, in particular, the change occurred due to the shift to a market driven economy and the three laws considered the

legal pillars of the Chinese labour legislation introduced in the 1990s. Then, the socio-economic background explains the factors that enabled China to build a competitive advantage based on cheap labour and the situation of migrant workers that made them vulnerable to employers' exploitation.

Chapter 2 deals with the government's project of building a "harmonious society" and its response to the rising labour conflicts through the introduction of an improved legislation. The decline of labour surplus and the relative triggering factors are presented to understand that the idea of the government to control the workers' movement with the introduction of a new legislation was useless considering that the demographic changes that occurred were uncontrollable, at least in the short term. Moreover, labour shortage threatens the economic prosperity of the country.

Chapter 3 explains the development of the workers' movement in China, beginning with the issue of the weakness of trade unions' in the battle against the enterprises' management and the changes occurred in the workers' awareness of the law and attitude towards injustice at the workplace. Later, the Foxconn and the Honda cases represent the best examples that show the increase of the workers' willingness to demand better pay and working conditions and cope against injustice. The contribution of NGOs helped workers to develop more organized protests and the Walmart case is rooted in this new trend.

A glance to the economic context in which China is involved is offered in Chapter 4, where is firstly showed the development of the concept of "global value chain" introduced to understand the relationship among countries since the new international division of labour. China's position in the downstream stages of the chain with the offer of cheap labour force is currently threatened by the rise of the so-called MITI-V (Mighty-Five) countries due to lower labour costs compared to China. Among these countries, India is expected to be the future manufacturing hub of the world and a narrow analysis of its labour legislation sheds light on the background that allows employers to maintain low wages.

Chapter 5 shows how China is dealing with the project of a new form of economic development based on innovation. The “Made in China 2025” establishes the goals that China is expected to reach within 2025 and both investments in R&D and robotics are proofs of the country’s trajectory towards innovation. A critical weakness of the “Made in China 2025” is that the impact on the labour market is not mentioned while it should be of primary importance. A skills deficit is affecting the country’s labour market and China must address the issue focusing on its education system (enhancing the enrollment in vocational schools and the match between market demand and graduates’ capabilities) and the training of the existing workforce. In the short term, China is focused to attract Chinese-born students from abroad and foreign talents with the proper set of skills.

If China once relied on the exploitation of the workforce to thrive in the global economy, it is now facing a big challenge: an innovation-driven development that requires the development of a skilled labour market. Great efforts must be undertaken in this perspective and the outcomes remain to be seen.

# 1. The socio-economic background in China from 1970s

## 1.1. The employment system in the Maoist era: the “iron rice bowl”

During the Maoist era (1949 – 1976) the Chinese workforce was state-controlled since the government acted as the recruiter and the employer at the same time in the SOEs (i.e. state-owned enterprises). Under the centrally planned economy,<sup>1</sup> SOEs dominated the industrial background, followed by collective enterprises owned by members of the government and they were fully controlled by the Party-state: the *capital was funded either by government or government-owned banks, profits were remitted to the State and the losses were subsidized by the State* (Zhong, 2014). The Communist Party claimed to be “the vanguard of the working class” and, according to this vision, any conflict of interest between the State and the workers could not exist. Workers were considered the “masters of the State”<sup>2</sup>: they had the duty of carrying out their tasks and the contribution to the country’s wealth provided them significant material gains.

Citizens were distinguished into urban workers and farmers (or rural workers) and the work was organised respectively in work units called *danwei* and rural “communes”, the *renmin gongshe*. The distinction between urban and rural residents was officially recorded through the *hukou system*, the household registration that identifies a citizen according to the area in which he (or she) lives. Not only could the State manage internal migration and urban growth but also the status and identity of individuals. The system determined employment opportunities, residential rights and access to welfare according to the place of origin: rural residents were provided a parcel of land to produce the quota of goods set by the government, while to urban workers were guaranteed lifetime employment, fixed wages and social welfare provisions. Because the Party-state established industrialization as the priority for the country and the social welfare programs were tied to the hukou status, urban citizens received a wider range of benefits. The system led to the discrimination of migrant workers<sup>3</sup> in terms of

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<sup>1</sup> Under Mao the Chinese economy was totally controlled by the Party that is why it was called “centrally planned”.

<sup>2</sup> Article 42 of the People’s Republic of China (PRC): “(...) All working people in State-owned enterprises and in urban and rural economic collectives should approach their work as the masters of the country that they are”.

<sup>3</sup> See paragraph 1.5.

compensation (wages and social services) and civil rights, thus *providing the socio-political background to the supply of cheap labour to the newly created “Special Economic Zones” (SEZ) in the coastal South* (Scherrer, 2011).

The *socialist social contract* (Friedman and Kwan Lee, 2010) guaranteed not only a lifetime employment thanks to cradle-to-grave occupations but also other basic needs: entitlements to pensions, medical care, housing and children education. Under this occupational model called the “iron rice bowl”, the entire workers’ life was organised by the Party-state in exchange for political loyalty and it represents a tool for the government to both exert its control and build its legitimacy.

## **1.2. Towards a market-driven economy**

In 1978 started the “reform and opening-up” program led by Deng Xiaoping, a period characterized by a series of economic reforms in order to shift from the central planned economy to a market-based one. The government’s target was the “socialist market economy”<sup>4</sup> as China was moving towards a market economy different from the kind experienced in Western countries. Under the planning period, the Chinese economy was isolated from the rest of the world and labour relations in SOEs used to take the form of “administrative” relationships. The shift to a market-driven economy implied more market-oriented employment relationships, the openness to the world and the co-existence of multiple ownership forms.

The “iron rice bowl” employment system had to be dismantled in order to ensure the enterprises’ competitiveness in the global economy and this led to the loss or the curtailment of workers’ rights to welfare provisions. Between 1995 and 2000, for example, nearly 48 million workers were laid-off from different SOEs and they were not entitled to certain social benefits while waiting for re-employment as the previous system would have guaranteed.

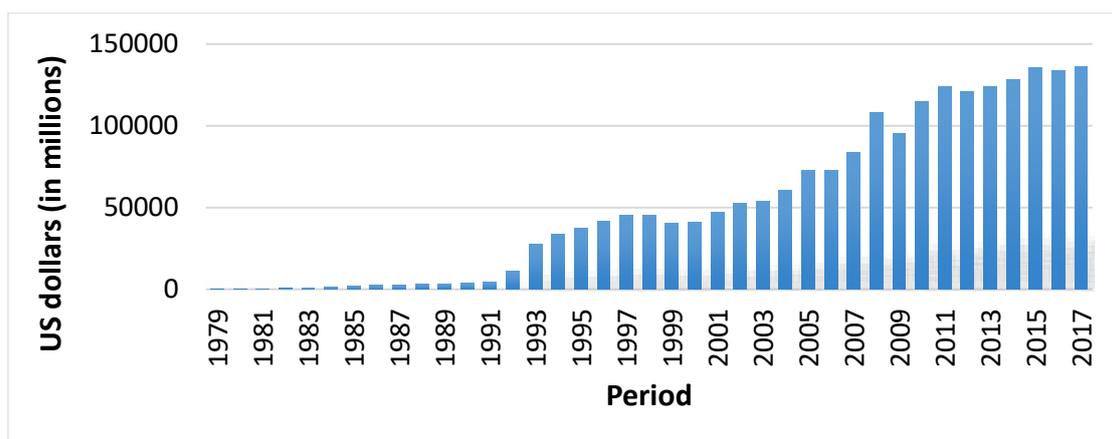
China’s turn to the capitalist view of production was the source of the commodification of labour: *Chinese workers and farmers have to sell their labour power in the market in*

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<sup>4</sup> The term was first used during the 14th National Congress of the CPC in 1992 to describe a system based on the predominance of public ownership within a market economy.

order to obtain the means of subsistence (Hui and Chan, 2011) like other kinds of commodities. While in the socialist period workers were considered “masters of the nation” and their engagement in labour was source of proudness and moral legitimacy, they gradually became casual labourers in the capitalist labour market. Whereas capital was weighed as the priority by the State, China started to follow *a model of economic development dependent on high rates of exploitation* (Friedman and Lee, 2010) resulting in a widespread labour unrest over time.

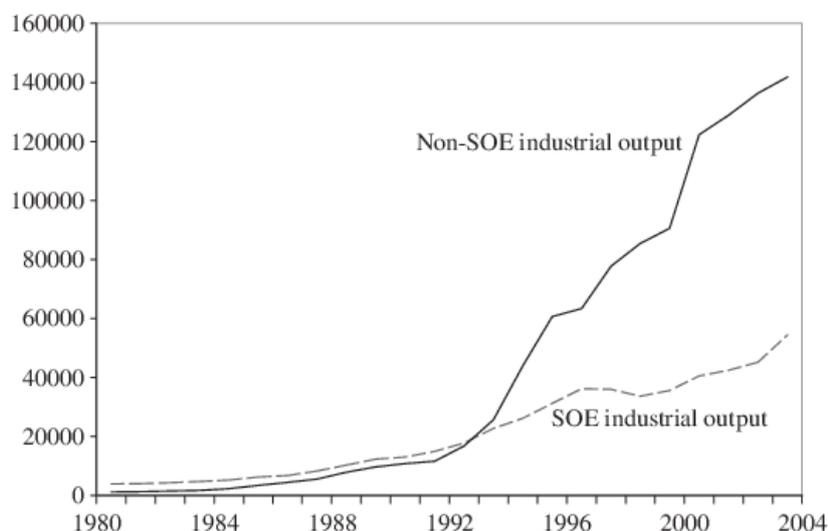
The establishment of four Special Economic Zones (SEZs) in 1979 constituted the first attempt of the government to attract foreign investments in order to improve the degree of the country’s openness to the world: previously called “special export zones”, they were settled in Shenzhen, Zhuhai, Shantou in Guangdong province and Xiamen in Fujian province. SEZs benefited from favourable economic conditions and flexible governmental measures compared to those in mainland China, including tax incentives for foreign investments and greater independence from the central government on international trade activities. Given the new international division of labour<sup>5</sup> Western enterprises started to invest in Southern China, through the settlement of new production plants and joint ventures. The opening up of Chinese economy to foreign trade and investment began slowly since 1979 and started to play a significant role in the 1990s (Figure 1).



**Figure 1.** China’s FDI inward flow 1979-2017. Source: UNCTAD.

<sup>5</sup> The new international division of labour enabled the shift of low value-added activities in more favourable locations (typically developing countries) in terms of cost, legislation etc.

The rise of multiple ownership forms started with the constitutional amendment allowing individual labourers to operate even with some restrictions (1979) and the consequent rise of the private sector. SOEs' efficiency was challenged by the market competition so that in 1987 the Contract Responsibility System<sup>6</sup> was imposed to government-led enterprises in the hope of maximizing profits as they were the main fiscal income for the state. Under the contract, a fixed annual tax had to be remitted to the state and it was up to the enterprise to distribute the remaining profit between workers and managers. The attempt to boost profit maximization did not work as supposed mainly because when the profit increased, the government demanded a higher tax than previously agreed thus limiting the incentive for the management to seek for higher productivity. Alongside the fiscal dispositions, the novelty was the autonomy in decision-making granted to the management in establishing, for example, the quantity and variety of output, production methods and selling price. Over the course of time, the number of SOEs has been drastically cut due to an increasingly wide gap in terms of performance compared to private businesses that have gradually constituted the greater percentage of Chinese industrial output.



**Figure 2.** Industrial GDP in State-Owned and Non-State-Owned Enterprises, 1980–2003 (RMB 100 million). Source: China Statistical Yearbook 2004.

<sup>6</sup> The reform of profits retention system was launched in 1984 on an experimental basis and later extended to all SOEs.

The phenomenon highlights the contradiction in pursuing a strategy based on market principles, that is essentially a democratic process spreading out power among people, while maintaining the supremacy of the state in the business context. The predominance of public ownership in a market-driven economy, the “socialist market economy” or “socialism with Chinese characteristics”, appeared for the first time during the 14th National Congress of the Communist Party of China in 1992.

### **1.3. The shift from the socialist social contract to the labour contract**

The transformation from the centrally planned to the market-driven economy had a deep impact on employment as it became increasingly informal across nearly all sectors since the mid-1990s. *In state-owned enterprises, previously the domain of the iron rice bowl, flexible, tiered employment systems have become increasingly popular among workers* (Friedman and Lee, 2010) creating a category called “dispatched workers”. They were employed by hiring companies which then “dispatch” them to manufacturers in need of a highly, and highly exploitable, workforce (Friedman and Lee, 2010) and they could be fired at any time with no compensation guaranteed. Ordinary workers did not enjoy better working conditions as labour standards declined markedly in the workforce as a whole: excessively long working hours, unhealthy and unsafety working conditions, low pay, overtime pay denied, absence of a social insurance, wage arrears, illegal firings, and discrimination were commonplaces. The availability of a cheap workforce was enabled by the adoption by the government of a system that prioritized the capital accumulation over the social welfare and this explains the weakness of the State in enforcing the law.

Friedman and Lee (2010) pointed out two main features that paved the way to the violations of labour standards in the transformation of the economy: local accumulation and the “rule by law”. Local accumulation refers to the capital accumulation at the local level in which decentralization, in the attempt to liberalize the economy, created the most favourable conditions for foreign investors. On the one hand fiscal incentives in which taxes and profits were still remitted to the State but by a lower rate; on the other, a regulatory framework that does not take into account labour rights.

The concept of “rule of law” consists in converging labour conflicts into a legal apparatus controlled by the government. The consent among the working class went hand in hand with the Party-state legitimation and social stability so that new labour laws and regulation of labour disputes had been undertaken. The contradiction lies in the exposure of the courts to the political pressure: *with the Chinese judiciary dependent on local governments for financing and personnel appointment* (Friedman and Lee, 2010) and the priority of capital accumulation, it was clear that the State actually did not mean to defend workers’ interests in the perspective of “ruling the country by law”<sup>7</sup>.

Among the labour laws promulgated in the 1990s, the three considered the legal pillars of industrial relations in China were: the Trade Union Law (1992), the National Labour Law (1994) and the Arbitration Law (1995). Considering the number of laws enacted to fix minimum wage levels, workplace injury compensation, pension rules and others, what emerges is that the problem was not the lack of a labour legislation in China, but its actual enforcement.

### **1.3.1. Trade Union Law (1992)**

At the enterprise level the institutional structure consisted of *the Party committee, the trade union, and the workers’ congress that was led by the trade union* (Hendrickx and De Stefano, 2018). The ACFTU (All-China Federation Trade Union) represented the “transmission belt” between the Party and workers and it was the only trade union legally allowed: the duty was to relay government’s policies to workers while conveying their concerns to the Party-state. As the common practice was that ACFTU’s members were appointed by the government, the consequence was its inability to represent workers’ interests when bargaining with management<sup>8</sup>. The Trade Union Law (1992) established the structure, rights and obligations of enterprise trade unions considered as *“mass organizations of the working class voluntarily set up by staff members and workers”*<sup>9</sup> which basic duty was to protect the *overall interests of the entire Chinese*

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<sup>7</sup> The concept was first used in the 1999 Constitution and was widely mentioned due to its importance to maintain social stability.

<sup>8</sup> See more about ACFTU in chapter 3.

<sup>9</sup> Trade Union Law of the People's Republic of China (1992): article 2.

*people* (Hendrickx and De Stefano, 2018). Since the article referred to the “entire Chinese people”, it becomes evident that there is no mention of the need of safeguarding workers’ interests in particular and this represents one of the reasons for the inability of the ACFTU to represent workers effectively. On the contrary, there are some clauses that strengthen the idea that the ACFTU is merely an arm of the state bureaucracy. As article 8 provides that “*trade unions should mobilize and educate staff members and workers to regard labourers as being masters of the nation*” and later in article 9 “*trade unions should conduct among staff members and workers education in patriotism, collectivism, socialism, democracy, rule by law, discipline, science (...) to enhance staff members and workers’ ideological and moral sense*”, it appears evident that trade unions are primarily a tool to exert political power and ideology in order to prevent any dissenting opinion and maintaining social stability.

Another sign of the political environment of ACFTU’s operations stems from the term “reasonable” contained in article 25: “*When there is a work stoppage or a slow-down in an enterprise, the trade union should work with the management or relevant parties and consult on settling those workers’ demands that are reasonable and can be resolved, and restore production to normal as soon as possible*”. From this clause derives first that the reasonableness of the demand is evaluated by the trade union (under the pressure of the management) and its interests cannot be the same of workers’, leading to a resolution in the favour of the enterprise business; secondly, the ACFTU must act as a mediator between the workers’ and employers’ interests rather than as the voice of workers.

### **1.3.2. National Labour Law (1994)**

The formal aim under the introduction of the Labour Law in 1994 is explained in Article 1: “This Law is formulated in accordance with the Constitution in order to protect the legitimate rights and interests of labourers, regulate labour relationship, establish and safeguard a labour system suited to the socialist market economy, and promote economic development and social progress”<sup>10</sup>. The need to protect labour rights goes

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<sup>10</sup> National Labour Law (1994), Clause 1.

together with the need to promote economic development, considering that the Party-state has secured its legitimacy upon the country's economic growth.

The progress brought by the new labour legislation is the introduction of labour contracts and collective contracts<sup>11</sup>, the specification of the maximum working hours on a weekly basis (44 hours), the establishment of one day a week of rest, the right to have vacations in specified occasions (for example, the Spring Festival), rules on wages<sup>12</sup> and other provisions regarding the occupational safety and the social insurance and welfare system. Collective bargaining should be a negotiation between workers and employers that ends with a collective contract, *which contains improved labour standards as well as regulations about collective labour relations* (Scherrer, 2011) but *the collective contract system lacks a basic set of procedures for information disclosures, the rights, obligations and responsibilities of the bargaining team, or workers' review and approval of the proposed contract* (China Labour Bulletin, 2010). In this way, workers were excluded from the negotiation process and the power asymmetry between the two parties in the workplace remained an obstacle for the achievement of fair labour relations.

Although the law had been introduced, rights' violation was something endemic in the workplace: the labour contracts that have been signed were merely *pro forma agreements imposed on the workforce by the management* (China Labour Bulletin, 2010). Compliance with the law was sporadic especially in the private and foreign sectors where labour contracts were a simple formality, usually short-term and riddled with irregularities or they were not signed at all: wage arrears were a widespread practice together with compulsory overtime, daily working hours did not respect the law and legal provisions about the layoff were not taken into account.

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<sup>11</sup> National Labour Law (1994), Clause 3.

<sup>12</sup> National Labour Law (1994): Clause 46. The distribution of wages shall follow the principle of distribution according to work and equal pay for equal work.

### **1.3.3. Arbitration Law (1994)**

*“This Law is formulated in order to ensure the impartial and prompt arbitration of economic disputes, to protect the legitimate rights and interests of the parties and to safeguard the sound development of the socialist market economy”*<sup>13</sup>. The priority of maintaining social stability was at the basis of the promulgation of the Arbitration Law in 1994 in the view that any labour dispute needed to be managed and solved individually: the major threat for the government was the organization of a collective action by workers and channeling dissatisfaction into safe channels was the response to prevent it. Before its enactment, the arbitration system in China suffered the dependence to the Party and the judicial awards were not binding. Drafted with reference to international arbitration principles, the Arbitration Law represented a major step forward in this context.

### **1.4. China’s competitive advantage**

From the 1980s, China’s economic reforms aimed at transforming the country from an import-oriented to an export-oriented economy realized one of the most impressive growth performances in the world history. Considering the period from 1980 to 2010, real Gross Domestic Product (GDP) and real GDP per capita growth rates were considerably high: respectively at 10% and 8.7%<sup>14</sup>. Marketization from the 1980s and privatization from the 1990s have been two important factors that explain such a quick growth and the competition between SOEs (most of the big domestic companies were still state-owned) and the growing private sector (of mostly small- and medium-sized companies) triggered a remarkable productivity development in almost all sectors. Moreover, the international division of labour paved the way for the country to become a key node in the global economy. The rapid technological progress in terms of transportation and communication infrastructures led to a greater decentralization and fragmentation of the production processes that could take place in geographically

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<sup>13</sup> Arbitration Law (1994), Clause 1.

<sup>14</sup> Source: IMF.

scattered locations. Transnational corporations (TNCs)<sup>15</sup> became the dominant type of enterprise in the new world economy.

The increasing organisation of production across borders enabled to move labour-intensive activities from developed to developing countries, known for being favourable business locations in terms of cost advantage. The availability of cheap workers represented the comparative advantage for developing countries, according to Ricardo's theory<sup>16</sup> and the major element of attractiveness for Western companies.

China's production system was characterized by two main factors: the availability of cheap labour and the dominance of TNCs in the country's exports. These elements were strictly linked considering the low-wage export-oriented development strategy: China's competitiveness depended on foreign companies' output that in turn relied on the Chinese low-cost labour force. Through the creation of SEZs, China took advantage from foreign investments drawn by the availability of cheap labour in the perspective of importing and learning from other countries. The spillover effects that stemmed from foreign investments enabled the creation of a huge manufacturing-driven economy that relied upon others' production technologies. The presence of a large and accessible pool of low cost labour is the main reason of China's rise as the world's factory: social phenomenon together with the weak enforcement of the legal framework generated a flourish environment for a regime of super-exploitation.

### **1.5. Migrant workers issue**

From 1978, the introduction of the Household Contract Responsibility System provided a strong incentive for food productivity but resulted in a surplus<sup>17</sup> of labour in the

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<sup>15</sup> A transnational corporation is registered and operates in more than one country at a time. Generally, the corporation has its headquarters in one country and operates wholly or partially owned subsidiaries in other countries.

<sup>16</sup> David Ricardo (1772- 1823) demonstrated that if two countries capable of producing two commodities, in the condition of free market, each one benefits from exporting the good for which it has a comparative advantage while importing the other good. The comparative advantage depends on the country's factor endowments or technological progress.

<sup>17</sup> There were about 240 million of surplus labourers in rural China in the 1980s. (Source: Cheng Wang, *Employment transition in China: From hidden unemployment and underemployment to efficiency-oriented employment*, Economic Research, 1996).

agricultural field that was supposed to be absorbed into the industrial sector, so that millions of people have migrated to the southeast China to find an occupation. Commonly referred to as “rural-to-urban migrant worker” or “peasant worker”, a migrant worker was considered a labourer who has rural household registration, but works in urban areas or in non-agriculture sectors. The phenomenon violated the current Household Registration System<sup>18</sup> and the government intervention was directed to make it easier for the rural migrants to reside in urban areas: peasants were allowed to work in urban areas but maintaining their rural household registration and later they could ask for temporary residence permits in most cities. The State’s approach must be seen in the perspective of creating an almost inexhaustible supply of cheap workforce, what can be considered the engine of the Chinese economic growth of the past decades. The typical profile of the migrant worker was that of a young, poor person from an inland province seeking for an occupation and willing to accept a job at any condition. The aspiration was not to settle permanently in the city but to get a job and bring money back at home. The urgent need for employment made them victims of poor labour conditions including underpayment, forced labour, long working hours, dangerous working conditions and discrimination. Peasant workers were classified as second-class citizens by both urban residents and authorities and their hukou status prevented them from receiving social benefits guaranteed to urban citizens even though they resided in urban areas. Inside the factory they were considered as “uncivilised” individuals that needed to be disciplined by modern factory rules and practices.

As aforementioned, migrant workers needed a permit to settle in the city and they could obtain it if they had a job. This situation pushed them to accept an occupation at any cost in order to be registered as workers and reside legally in an urban area. Moreover, *they were normally required* by their employers to reside inside the factory grounds, in crowded dormitories that often accommodated eight people in a single room. The factory dormitory was an extension of the production line and that constituted breeding ground for the employer to exert control over both the working and non-working time of its workforce. The management drew up shop floor and dormitory rules along with physical punishments aiming at transforming migrants into docile and disciplined

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<sup>18</sup> See in paragraph 1.1.

subjects. The power asymmetry between managers and migrant workers was fostered by their excess compared to the demand for workers in urban cities. The huge number of migrants available and willing to work by all means hindered them from achieving a significant bargaining power and, for this reason, the management had no interest in appeasing workers or assure a healthy and safe workplace.

## **2. Building the “Harmonious society”: the State’s attempt to maintain control in a decade of profound social changes**

### **2.1. The “Harmonious society” project: aspects and contradictions**

The concept of the “Harmonious society” was first mentioned in the 16<sup>th</sup> Chinese Communist Party Congress held in 2002 with the aim of highlight the project of building a society on *democracy and rule of law, justice and equality, trust and truthfulness, amity and vitality, order and stability, and a harmonious relation with nature* (Holbig, 2006). Maintaining stability has always been considered from the Party as the prerequisite for economic growth and the essential element to secure its legitimacy.

A way to assure people’s consent was to embrace the ideology for which everyone is asked to contribute to the country’s wealth in the same way as in the socialist period workers were hailed as “masters of the State”: the feeling of being part of the country’s mission made citizens more willing to accept unfair conditions at the workplace. The country’s economic growth was celebrated as a project of all classes and in its pursuit *all the people will do their best, each individual has his proper place, and everybody will get along in harmony with each other* (Holbig, 2006). Maintaining capital accumulation at the top of its objectives, the Party sought to align the people’s and the capitalist class’ interests in the perspective of the benefit brought by the economic growth for the country as a whole.

The project of building “harmonious” social relations was fuelled by the imperative of maintaining stability because self-organized social activities could have threatened both China’s economic success and political legitimacy that determined the survival of the Party. The government claimed to protect the country from the side effects of collective protests and individual petitioning and it seemed to be more worried about expressions of collective discontent than about conventional crime: the promotion of the rule of law was used to suppress the demands of those considered enemies in the pursuing of social stability driven by the Party-state. As Hendrickx and De Stefano (2018) pointed out, *Party-state’s priority of maintaining stability means maintaining a top-down, control-driven approach to labour relations because if workers are allowed to organize autonomously they would pose a significant threat to the stability of the political-economic status quo.*

The author Yu Jianrong<sup>19</sup> argued that the “rigid stability” the government was promoting *has served to increase social anomie and contributed to the development of profound social contradictions* (Todd, 2013). While a “dynamic stability” would have contained the features of flexibility necessary to address social discontent in view of creating stability according to ever-changing social needs, the obsession of status quo led to the rigidity that boosted social unrest. In addition, *“rigid stability” cannot effectively confer legitimacy upon the political authorities and for this reason it is attended by enormous social risks* (Todd, 2013). The control of social organizations was at the heart of the “rigid stability” approach and it was founded on state violence: political power was exerted on any kind of social organization that must be approved by the Party-state and registered, significantly restricting the freedom of expression and association.

Workers bargaining power was hindered due to two main factors: the possibility of organizing by themselves and their number. Given the little or no ability to create a union that effectively protect their interests the only means available to show dissent were strikes, road blocks and other forms of demonstration. The second factor was the oversupply of labour, coupled with its high mobility and lack of legal knowledge that enabled employers to face no pressure to improve working conditions and could unilaterally establish wages, terms of employment and other conditions. Seeking urgently for a job, workers competed against each other and accepted employment at all costs resulting in a race to the bottom in which monthly pay was hardly sufficient to basic living standards.

The unbreakable alliance between the government and capital was evident in the fact that local officials had direct interest in the economic success of the businesses settled in their jurisdiction as they owned part of the shares. The tacit agreement between local authorities and managers led to the violation of workers’ legal rights considering also that local governments compete to attract investments: the power of capital went hand in hand with the weakness of the labour power. In return to the allowance to exploit the workforce, enterprises were subjected to a heavy taxation that accounted for nearly 30

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<sup>19</sup> Professor and Director of the Social Issues Research Center at the CASS Rural Development Institute.

percent of their net profits. Enterprises deprived of a significant part of their income had little incentive to improve working conditions or increase wages: if they were allowed to retain a greater part of their profits they were probably more likely to meet employees' demands.

Alongside the political propaganda of developing "harmonious" social relations, the project involved new policies *that entail some compromises on secondary issues without challenging the long-run interest of the dominant group* (Hui and Chan, 2011). In this context, problems concerning peasant workers were addressed in the "Opinions on Policies for Facilitating the Increase of Farmers' Income" issued by the CCP Central Committee in 2004 that allowed migrant workers to be ACFTU's members and recognized them some basic civil rights. Securing the consent of the exploited classes granting some material concessions was seen a tool *to sustain the long-term domination and ascendancy of the capitalist class* (Hui and Chan, 2011). In this way, the project seemed not to be only political rhetoric. Nevertheless, containing labour unrest became central in the political agenda *as labour relations are among basic social relations. Harmonious labour relations form the basis of a harmonious society while social harmony underpins the prosperity and the rejuvenation of a nation and the well-being of its people* (Hui and Chan, 2011).

## **2.2. Rising labour conflicts: the government's response**

Despite the effort to create a "harmonious society" through the political propaganda and some material concessions, a new phenomenon prevented the Party to reach its project: labour shortage. A couple of reasons both sociological and at the economic level took the blame of the situation and China's entering in WTO in 2001 fuelled the already precarious availability of workforce since it implied an even greater demand of labour. Labour shortage enhanced workers' bargaining power in the marketplace and that boosted the confidence in defending their rights through all means available: strikes, protests, roadblocks, threatening suicide. In this context, labour shortage and workers' activism grew hand in hand from 2000s upward.

After the increasing number of strikes that took place from nearly 2004, the State was forced to intervene. At first, many local governments increased the minimum wage

level: considering the Shenzhen Special Economic Zone (SEZ), minimum wage rate jumped by 40% from 2004 to 2007<sup>20</sup>. Secondly, the government strengthened and updated the legal framework that disciplined labour relations, introducing three new laws: the Labour Contract Law the Employment Promotion Law (2008) and the Labour Dispute Mediation and Arbitration Law (2008). The new labour legislation was considered stricter even compared to developed countries and it has been ranked by the Employment Protection Legislation of OECD<sup>21</sup> at the third place among OECD countries with a score of 3.2 out of 3.5.

### **2.2.1. Labour Contract Law (2008)**

The Labour Contract Law of the People's Republic of China was passed in June 2007 and became effective in January 1, 2008. The background under its promulgation was characterized by a weak enforcement of the Labour Law issued in 1994, especially in the informal sector, where the majority of migrants were employed. Non-compliance attitude varied across provinces and sectors and occurred in many forms including: total absence or flawed contracts, underpayment, wage arrears, compulsory overtime and social insurance denied. Just to take an example, a survey conducted on 83 enterprises in Shengzhou (Zhejiang province) in 2002 found that 16% had signed contracts with all workers, 14% had signed contracts with some of their workers and 70% had not signed contracts at all (CLB, 2010).

Article 1 stated that *"This Law is enacted in order to improve the labour contract system, define the rights and obligations of both parties to a labour contract, protect the legitimate rights and interests of workers, and establish and develop a harmonious and stable labour relationship"*. In a period of increasing labour unrest highlighting rights' protection and the need of developing harmonious labour relations was more necessary than ever. The key elements of the law are the following:

- Formation of written contracts
- Emphasis on non-fixed term contract

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<sup>20</sup> Source: Shenzhen Municipal Statistics Bureau.

<sup>21</sup> Source: OECD Indicators of Employment Protection.

- Social insurance contribution
- Protection of dispatch workers' rights

Even if the law seemed not to provide greater rights for workers, the novelty is the reinforcement of legal sanctions for employers found in violation. Compared to the previous Labour Law of 1994, the Labour Contract Law focuses more on the formation of contracts. *“The employees of an enterprise as one party and the employing unit as the another may, through negotiation on an equal basis, conclude a collective contract on matters relating to labor remuneration, working hours, rest and vocation, occupational safety and health, insurance, welfare benefits, etc. The draft collective contract shall be submitted to the worker’s congress or to all the employees for discussion and adoption”*<sup>22</sup>. Written labour contracts are mandatory for all workers and must contain the provisions required by the Law otherwise *“the administrative department of labor shall order it to rectify. If harm is done to the worker, the unit shall be liable for compensation”*<sup>23</sup>. If the employer did not sign written contracts within a month from the first date of employment, he was required to pay double salaries to employees<sup>24</sup>.

Open-ended contracts were introduced as labour contracts *“where the employing unit and the worker have agreed not to stipulate a definite ending date”*<sup>25</sup>: they could be reached through consultation while they had to be automatically concluded if the employee had completed two fixed-term contracts or he is employed from more than 10 years. Employers’ interest in concluding written contracts successfully were boosted by the fact that after 12 months of employment without a formal contract, the worker was considered hired with an open-ended contract<sup>26</sup>. Keeping attention to workers’ welfare is another key element of the new Law to the extent that a labour contract could be revoked in the case it did not provide social insurance premiums. Regarding

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<sup>22</sup> Labour Contract Law (2007): Clause 51, 54, 55.

<sup>23</sup> Labour Contract Law (2007): Clause 81.

<sup>24</sup> Labour Contract Law (2007): Clause 82.

<sup>25</sup> Labour Contract Law (2007): Clause 14.

<sup>26</sup> Labour Contract Law (2007): Clause 14.

payments, workers must be remunerated in time and fully in compliance with minimum wage standards<sup>27</sup>.

Dispatch workers once subjected to discrimination were recognized equal pay and benefits as permanent employees and labour agencies are asked to monitor that employers followed their legal duties<sup>28</sup> because *“if harm is caused to the dispatched workers, the labour-dispatching unit and the labour-receiving unit shall bear joint and several liability for compensation”*<sup>29</sup>.

Entrepreneurs strongly opposed the new legislation since it would have raised labour costs and therefore undermined companies' international competitiveness. According to an independent survey of foreign-owned businesses, the total cost increase directly related to the Labour Contract Law was between two to three per cent<sup>30</sup>. Employers used different strategies in order to evade their legal duties: they reduced labour costs decreasing workforce through massive lay-offs or increased the use of sub-contracted work.

Economic interests put pressure on the government's ability and willingness to enforce the law, therefore the State agreed in loosening its implementation, such as reducing social insurance premiums and forth. For example, the Guangdong government stipulated that law enforcers should prosecute white-collar criminals with caution and factory owners and managers should not be arrested even if accused of crimes such as corruption. On the contrary, with regard to workers, the government imposed that *prosecutors should crackdown on any crimes that harm the legitimate interests of enterprises or jeopardize production* (ITUC, 2010).

If a survey by the National People's Congress found that less than 20 per cent of small-and-medium-sized private companies had signed contracts with their workers before the law's entry into force, the situation after the Law was passed showed little improvements. *More workers have signed contracts since the LCL went into effect, but*

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<sup>27</sup> Labour Contract Law (2007): Clause 38, 74.

<sup>28</sup> Labour Contract Law (2007): Clause 58.

<sup>29</sup> Labour Contract Law (2007): Clause 92.

<sup>30</sup> Report for the WTO General Council Review of Trade Policies of the People's Republic of China, International Trade Union Confederation (ITUC), 2010.

*the number with contracts is still exceedingly low considering that the law requires that all employees have a formal contract*<sup>31</sup>. Data indicated that the number of formal contracts signed remained slight compared to the total of workers employed and they did not contain all the provisions demanded by the Law. Once again the alliance of interest between State and capital turned out to be stronger than the devotion of the government to its citizens' interest.

### **2.2.2. Employment Promotion Law (2008)**

The Employment Promotion Law of the People's Republic of China was issued on August 2007 and from the beginning it emphasized the correlation between three main elements: economic development, employment and social stability that must be pursued on an equal foot. *"This Law is formulated in order to promote the employment, the coordination between economic development and employment expansion, and the harmony and stability of society"*<sup>32</sup>. Once again, harmony and stability were considered essential features of Chinese society. The Law established that also local governments must *establish a coordination mechanism for the employment promotion work, coordinate and solve the significant problems in the employment work in its own administrative area*<sup>33</sup>. They needed to support initiatives for the employment promotion and improve the employment services. At the country level, it was fundamental to strengthen the vocational education and training, and provide employment aids<sup>34</sup> considering *employment expansion as one of the important goals for the economic and social development*<sup>35</sup>.

Workers are recognized *the right to equal employment and to choose jobs on their own initiative*<sup>36</sup>: this marked the shift of the balance of power from employers to employees. Moreover, entrepreneurship is encouraged as procedures to start up businesses are

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<sup>31</sup> Elfstrom M., Becker J., *The Impact of China's Labor Contract Law on Workers*, International Labor Rights Forum, 2010.

<sup>32</sup> Employment Promotion Law, Clause 1.

<sup>33</sup> Employment Promotion Law, Clause 6.

<sup>34</sup> Employment Promotion Law, Clause 5.

<sup>35</sup> Employment Promotion Law, Clause 4.

<sup>36</sup> Employment Promotion Law, Clause 3.

more favourable and simplified<sup>37</sup>. For the first time, migrant workers' rights are protected by the law and compared to urban workers: *"Rural labourers who enter cities for employment shall enjoy equal labour rights as urban labourers. It is not allowed to set discriminatory restrictions against rural labourers entering cities for employment"*<sup>38</sup>. Fair employment is encouraged as to prevent discrimination at all levels (gender, religion, origin, race, ethnicity).

### **2.2.3. Labour Dispute Mediation and Arbitration Law (2008)**

The Labour Dispute Mediation and Arbitration Law of the People's Republic of China adopted in December 2007 was *enacted in order to resolve labor disputes in an impartial and timely manner, protect the lawful rights and interests of the parties and promote harmonious and stable labor relations*<sup>39</sup>. In a period characterized by increasing labour unrest that the government supposed not being able to manage with the Labour Contract Law alone, it was necessary to enable workers to have an easier access to justice and a quick resolution of disputes at the same time.

The first section of the Law is divided into three main sections: mediation, arbitration and litigation. Regarding mediation, both workers and employers could apply for mediation to institutions defined by the Law: for example, the assistance could be provided by *any designated labor dispute mediation committee within the enterprise composed of representatives of employees and of the enterprise* (the "Internal Mediation Committee") or by quasi-governmental organizations or groups established at the township or neighbourhoods (the "External Mediation Committee")<sup>40</sup>. Local governments gave pressure to resolve dispute internally to conform to the ideology of building a "harmonious society". Additionally, arbitration fees for both employees and employers were abolished.

If an agreement was reached, documentation must *be signed or sealed by both parties, and be signed by the mediator and sealed by the mediation institution to take effect. It*

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<sup>37</sup> Employment Promotion Law, Clause 7.

<sup>38</sup> Employment Promotion Law, Clause 31.

<sup>39</sup> Labour Dispute Mediation and Arbitration Law, Clause 1.

<sup>40</sup> Labour Dispute Mediation and Arbitration Law, Clause 10.

*shall be binding on both parties and be performed by them*<sup>41</sup>. Mediation represented the first step of the resolution process in fact with no agreement within 15 days, *the parties may apply for arbitration in accordance with law*<sup>42</sup>.

Main changes provided by the new Law about arbitration were the extension of the period in which workers could apply for arbitration from 60 days to one year<sup>43</sup> and the shift of the burden to provide evidence from the party who raised the claim to the employer if he is *in possession or control of the evidence in connection with the labor dispute*<sup>44</sup>. Any party who disagrees with an arbitration result has 15 days to appeal the result with the People's Court. Employees could appeal for any results of arbitration within 15 days after receipt of the arbitration results<sup>45</sup> while employers were allowed to appeal the reward of an arbitration only in the cases established by the Law<sup>46</sup>.

The Labour Dispute Mediation and Arbitration Law made it easier for workers to file labour dispute cases against employers and together with the Labour Contract Law and the Employment Promotion Law, it signalled a significant advancement in Chinese labour legislation even though the struggle against the power of capital seemed to represent a never-ending issue. The State's attempt in building a solid labour legislation with the introduction of the laws as explained before appeared to favour and protect the worker-side at the expenses of the employer. On the contrary, the government's strategy was focused on the development and the promotion of the rule of law campaign started in the reform era.

Before a proper legal system was developed in China, workers used to resort to traditional institutions for dispute resolution, *including the petitioning office of the local government and the government office in charge of (or even owner of) their public sector employer* (Gallagher, 2006). The rule of law propaganda constituted a way to reorient offended citizens from petitioning to the legal apparatus. This redirection represented a way to insert space between the government and social actors, *such as state-*

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<sup>41</sup> Labour Dispute Mediation and Arbitration Law, Clause 14.

<sup>42</sup> See note 50.

<sup>43</sup> Labour Dispute Mediation and Arbitration Law, Clause 27.

<sup>44</sup> Labour Dispute Mediation and Arbitration Law, Clause 6.

<sup>45</sup> Labour Dispute Mediation and Arbitration Law, Clause 50.

<sup>46</sup> Labour Dispute Mediation and Arbitration Law, Clause 49.

*enterprise workers who have historically been quite close to the government and treated, according to socialist ideology, as the “ruling class”* (Gallagher, 2006).

The need to legally educate the population, emphasizing the use of the legal channel in place of the traditional one, seemed undoubtedly a tool to shift from the socialist ideology based on equality and collectivism to the discourse of capital accumulation characterized by *individual contract and exchange, efficiency and, limited government responsibility for social welfare* (Gallagher, 2006). Additionally, the recourse to the legal channel emphasized the dispute between two parties (the worker and the enterprise) and kept the government out of the question. By so doing, workers' claims fitted the market economy and reduced expectations on the government and workplaces for social welfare since they were more focused on contracts and less on moral obligations of firms.

### **2.3. The decline of labour surplus: a sociological perspective**

China experienced the first wave of labour shortage from 2004 and resulted to be not a sporadic event but a more profound issue that forced the country to change course in its economic growth plans. Reasons about the phenomenon have different nature and had to deal especially with the change in the composition of the society.

As aforementioned<sup>47</sup>, China's rapid economic growth in the last decades of the 20<sup>th</sup> century was favoured by an economic model that relied upon a massive pool of labour force available. Alongside with favourable governmental policies, the huge number of workers coming from the countryside to seek for a job in urban areas was fostered by the structure of the population: in the 1980s, the proportion of the rural population accounted for 80 per cent of the total population, while in the 1990s it represented 74 per cent<sup>48</sup>. The “baby boom” occurred between the 1960s and the 1970s forced the government to control its population fertility rate thus preventing the country from achieving the unsustainable projected population of 2.4 billion by 2050<sup>49</sup>. By so doing, the “one-child policy” was introduced in 1979 to limit the country's growth to 1.2 billion

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<sup>47</sup> See chapter 1.4.

<sup>48</sup> Source: National Bureau of Statistics.

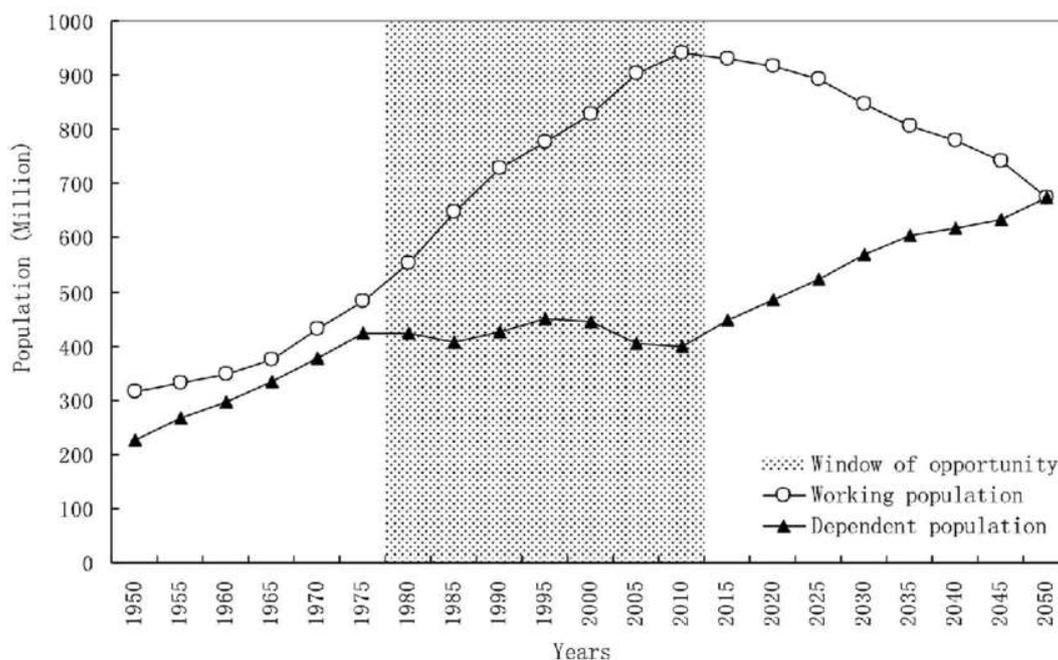
<sup>49</sup> Source: National Centre for Biotechnology Information (NCBI).

by 2000: a series of incentives and penalties were set to boost the compliance with the program.

### 2.3.1. The demographic dividend

Until the policy to control the population growth did not reveal its side effects, China thrived upon its demographic dividend. The phenomenon is defined as *the economic growth potential that can result from shifts in a population's age structure, mainly when the share of the working-age population (15 to 64) is larger than the non-working-age share of the population (14 and younger, and 65 and older)*<sup>50</sup>. In other words, the demographic dividend occurs when the proportion of working people in the total population exceeds that of the dependent population (i.e. the non-working population) and consequently more people have the potential to be productive and contribute to the economic growth of the country.

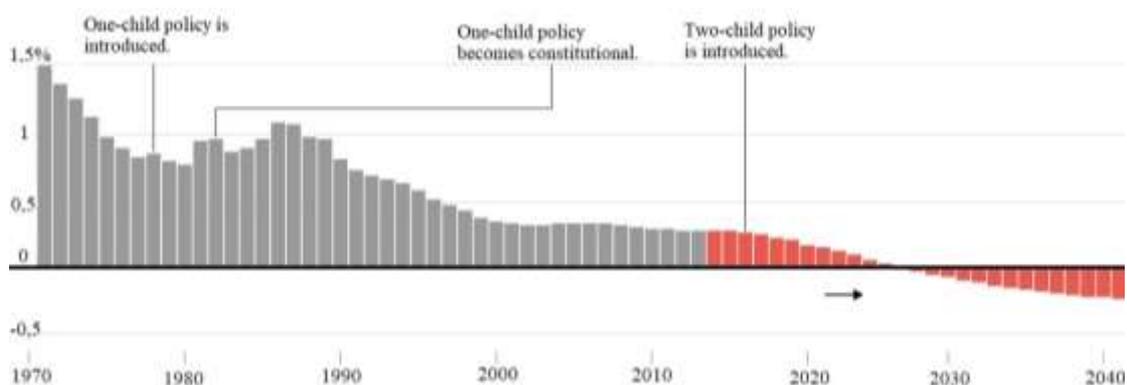
As Figure 3 shows, the window of opportunity (i.e. the period in which the demographic dividend occurred) coincided with the first three-and-a-half decades of reform and opening-up and it started declining from 2010 upward.



**Figure 3.** Changing trend of age structure and population window of opportunity. Source: UNDESA (United Nations Department of Economic and Social Affairs) 2015.

<sup>50</sup> United Nations Population Fund (UNFPA).

The persistence of a low and declining dependency ratio<sup>51</sup> due to the low fertility rate controlled by the one-child policy was taken by some scholars as a proxy to estimate the demographic dividend's contribution to China's economic growth: Wang and Mason (2008) estimated the dependency ratio contributed 15 per cent of economic growth in the period 1982–2000 while it contributed for 26.8 per cent according to Cai (2010). Whereas the family planning program left breeding ground for China's economic expansion for a while, negative consequences started to appear little by little. As it is highlighted in figure 4, annual population growth began to slow dramatically leading to a projection that turns negative nearly from 2030. Along with the declining birth rate, the increase in life expectancy led to an aging population: this meant that there were less workers able to support the elder dependent population. As Cai (2010) suggested *the further decline in fertility as a result of economic and social developments causes slowdown of natural growth rate of population, and the structural consequence of such a dynamics is population aging*. Figure 4 suggests that the growth in the working-age population is slowing while the non working-age population is growing.



**Figure 4.** Annual population growth. Source: U.S. Census International Data Base.

The introduction of the “two-child policy” in 2016 aimed at preventing the country from experiencing negative growth: after a little improvement in the same year of the introduction, the birth rate fell again in 2017, with 17.2 million babies born compared to 17.9 in 2016. Although the number of families having a second child increased, the

<sup>51</sup> The ratio of the population defined as dependent (the population aged 0-19 and 65 and over) divided by the population 20-64, multiplied by 100. Source: OECD.

total number of births continued to drop (births in 2018 fell to 15.2 million). Many authors suggested that the policy had been implemented too late to actually solve the situation. Cai (2010) argued that *since demographic transition is an irreversible process and cannot be stopped even if one-child policy is modified, aging population trend will continue.*

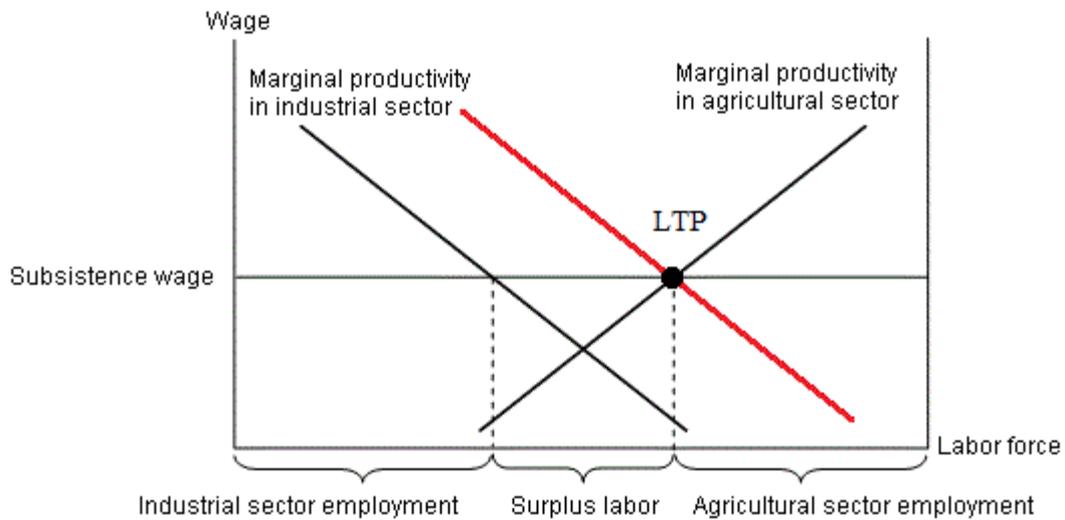
Undoubtedly, the “one-child” policy worked well for several decades but at a cost: it has distorted the country’s population structure that brought dramatic consequences that will challenge China’s economic success in the future.

### **2.3.2. The Lewis Turning Point**

The phenomenon from which the country took advantage for almost 20 years – the demographic dividend – started to decline as China passed the Lewis Turning Point. According to the theory of dual economy promoted by Lewis<sup>52</sup> in 1958, a typical developing economy is characterized by two sectors: the agricultural (low-productivity sector) and modern sectors (high-productivity sector). Labour force is in excess relative to land in the agriculture sector and its marginal productivity is close to zero. The expansion of the modern sector led to the transition of the labour surplus in the industrial sector, without substantial rise of wages as there are no pressure to raise pays. The process goes on until it reaches a threshold – the Lewis Turning Point - *where agriculture surplus labour is exhausted, industrial wages rise faster, industrial profits are squeezed, and investment falls* (Phillips and Barnett, 2013).

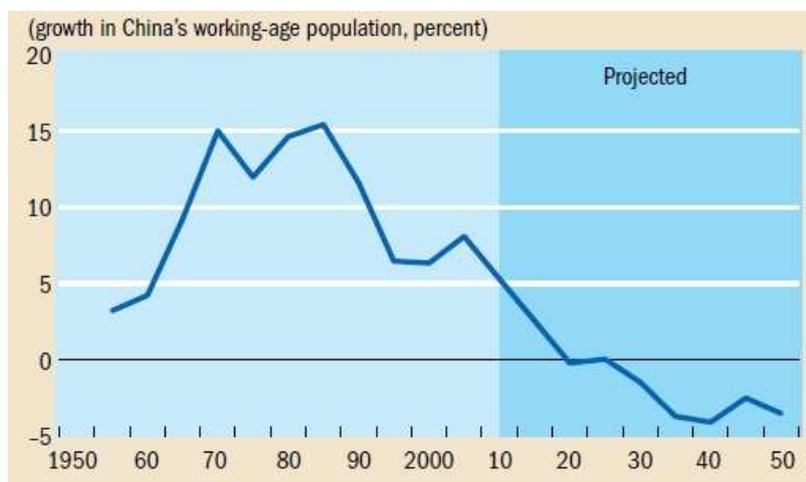
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<sup>52</sup> William Arthur Lewis (1915 -1991) was an economist well known for the so-called Lewis Turning Point, a key theoretical model in development economics.



**Figure 5.** Relationship between wage and employment in the Lewis model.

Because productivity increases faster than wages, the high-productivity sector is more profitable than it would be if the economy were at full employment. It also promotes higher capital formation, which drives economic growth. As the number of surplus workers dwindles, however, wages in the high productivity sector begin to rise, sector's profits are squeezed, and investment falls. A labour shortage, on the contrary, means that wages grow faster than productivity.



**Figure 6.** A shrinking workforce: China's working-age population is expected to slow.  
Source: United Nations and IMF staff estimates.

Working-age population is on the verge of a sharp decline: from 151 million in 2010, to 57 million in 2015, to 33 million in 2020. China is expected to reach the Lewis Turning Point between 2020 and 2025.

### 3. The labour movement in China: evolution of workers' collective actions

The 2008 global economic crisis had a considerable impact on the world's economies and especially on China: the world's fastest-growing economy faced its slowest pace since 2001, when the annual rate was 8.3 percent according to the World Bank. The country recorded a growth rate by 9.7 per cent in 2008, the first time in which China's GDP growth fell into the single-digit range since 2003.

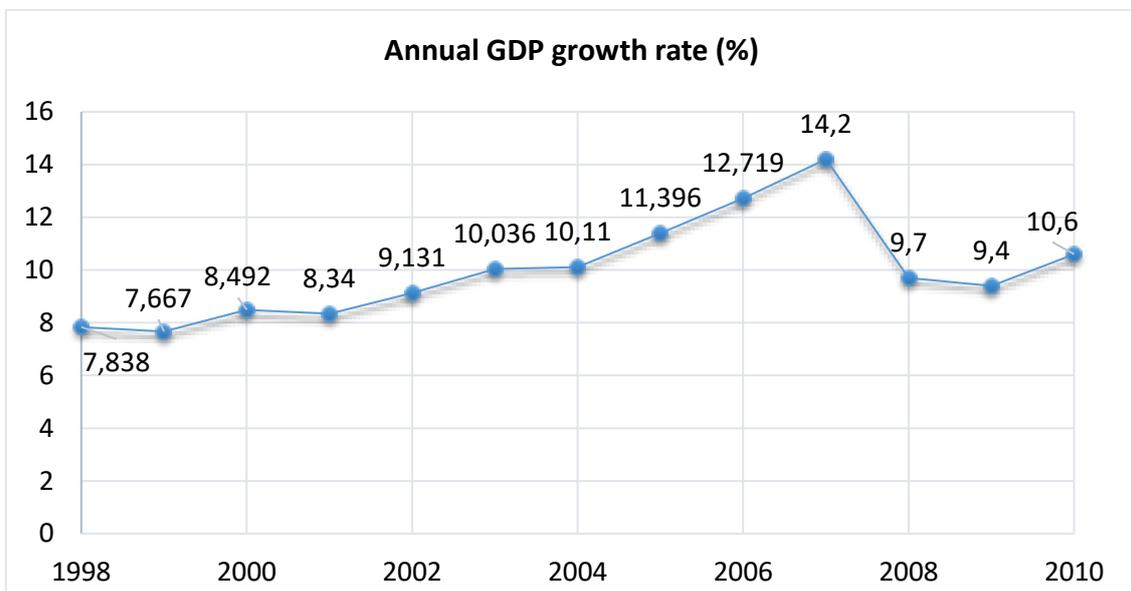
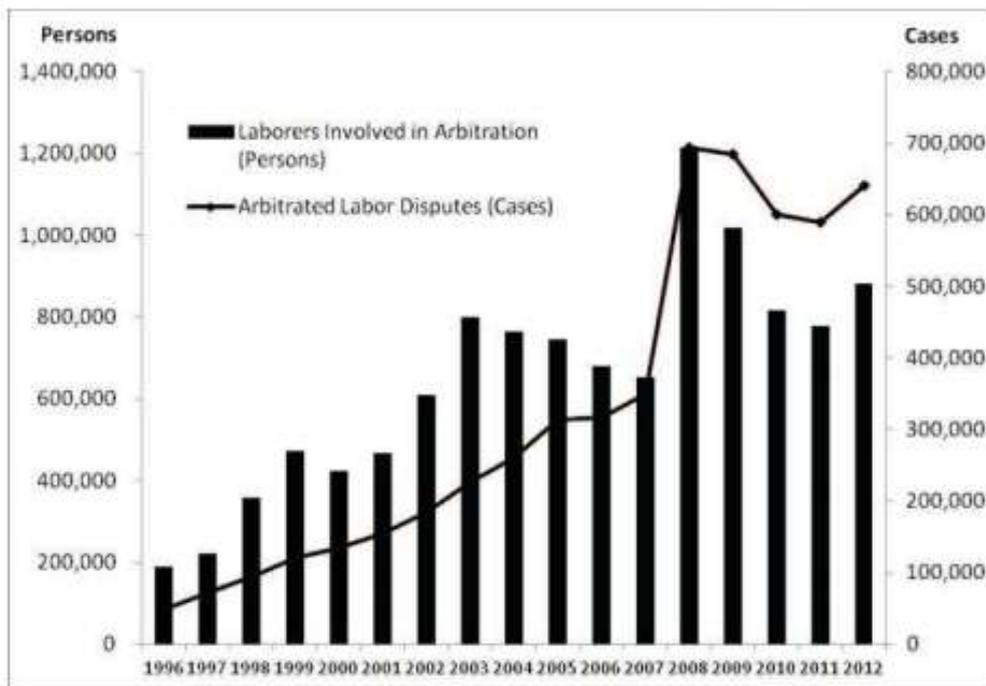


Figure 7. Annual GDP growth rate (percentage) from 1998 to 2010. Source: World Bank.

The response from enterprises was to lower labour costs reducing the workforce thus about 20 million of the total estimated 130 million migrant workers were laid off in 2009 and have been forced to return to rural areas. Along with the wave of lay-offs, employers sought to evade their legal responsibilities and shut down the factories without paying the proper compensation to their employees; in other cases, the management reduced wages or eliminated bonuses and welfare benefits.

Official statistics showed that the number of labour dispute cases accepted for arbitration in 1996 were 48,121 and the total rose dramatically to 120,191 in 1999, involving more than 470,000 aggrieved workers. The trend continued from 2000 upward, as the private sector expanded. In 2008, labour disputes reached the amount

of 693,465 involving more than 1.2 million workers nationwide especially in the most industrialised areas: in Guangdong, Jiangsu and Zhejiang labour disputes increased respectively by 41 per cent, 50 per cent and 159 per cent<sup>53</sup>. Disputes were mostly over wage and insurance payments, illegal layoffs, and inadequate compensation payments.



**Figure 8.** Arbitrated Labour Disputes in China 1996-2012.  
Source: China Labour Statistical Yearbook 2013.

The government adopted numerous measures to prevent the growing labour unrest due to the economic crisis. Special training was provided to local police departments on how to deal with “mass incidents” with the aim of managing protests in order not to rise noise on the issue as social stability was one of the State’s main concern. Moreover, the Supreme People’s Court issued special guidelines on how to handle labour disputes: the courts *should protect the legal rights of workers, but at the same time must facilitate the survival and development of enterprises so that “harmonious labour relations” could be preserved, and so that a “win-win” situation could be reached* (Hui and Chan, 2011). The courts were also urged to seek for a quick resolution in order to anticipate any organization of a workers’ collective action.

<sup>53</sup> Report for the WTO General Council Review of Trade Policies of the People’s Republic of China, International Trade Union Confederation (ITUC), 2010.

### 3.1. The All-China Federation Trade Union: where the contradiction lies

The All-China Federation of Trade Unions (ACFTU) is the sole legal trade union allowed in China and with its 212 million members, it is considered the world's largest union: it has more participants than the rest of world's trade unions put together. Although it was established as a representative of workers' interests, it has been largely criticised by labour activists and scholars about the ability to actually protect workers' rights. As it has never been an autonomous body, the ACFTU has always played the role of "transmission belt" between the Party and workers: the main purpose was to transmit the Party's rules and ideas to workers and transfer employees' ideas and demands to the government in order to be considered in making policies.

Being an important pillar for the regime stability, its basic duty was to protect the *interests of workers and staff members*<sup>54</sup>, considering that union officials were usually appointed by the Party, the interferences between the regime and the unions' activity was something difficult to avoid. The ability to bargain with management in favour of the employee and the capacity to monitor enterprise management practices and enforce the observance with the law were highly compromised: in this way, unions were able to protect labour rights only to the extent that the government allowed. The result was that the employer unilaterally established workers' wages and conditions at the workplace.

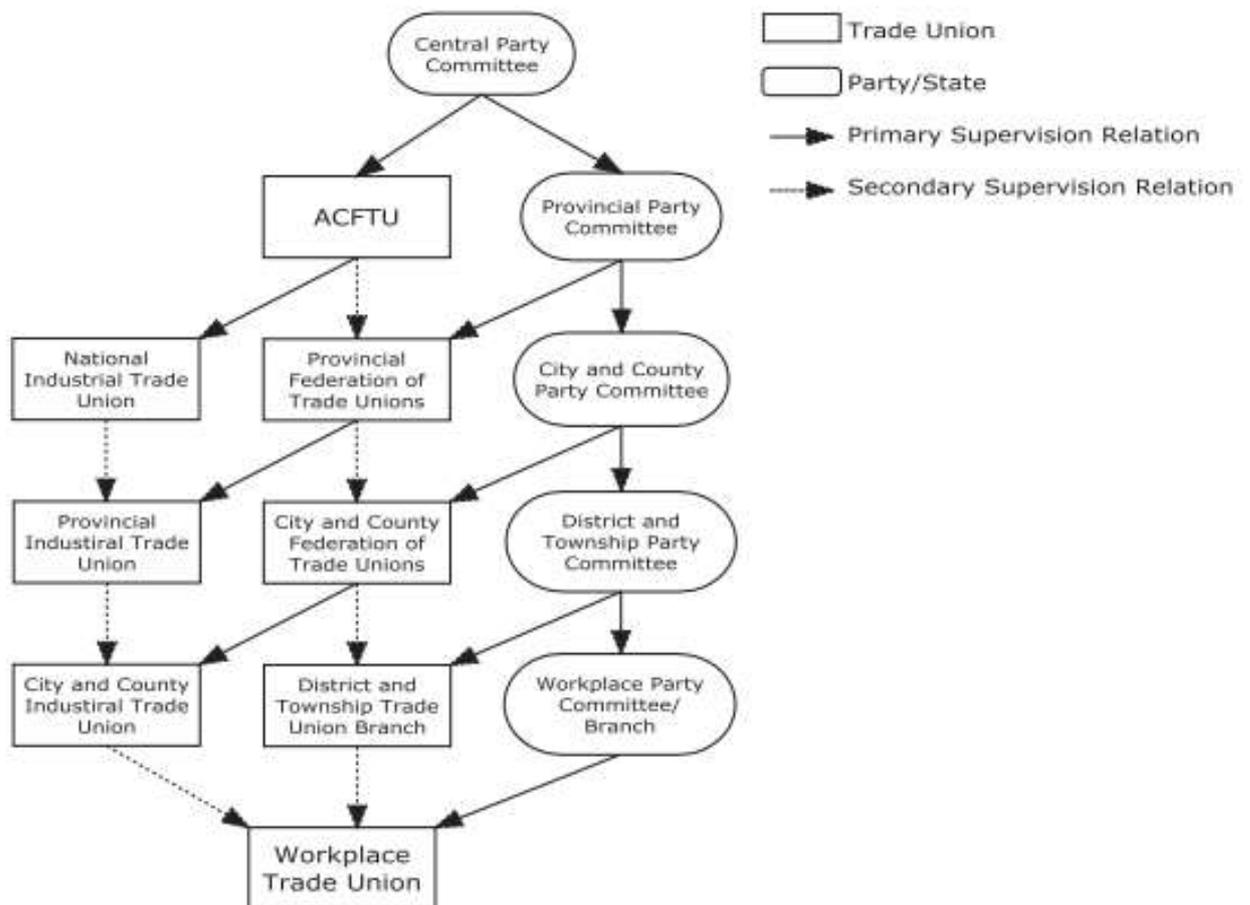
ACFTU's role as mediator was reflected in the Trade Union Law 2001: *"If an enterprise or public institution is subject to stop work or slow down measures, the trade union shall represent the employees to negotiate with the enterprise, public institution or other relevant authorities, make known the employees' views and requirements and propose resolutions. The enterprise or public institution shall meet the reasonable requirements raised by the employees. And the trade union shall assist the enterprise or public institution in its work so as to enable the normal production process to be resumed as quickly as possible"*<sup>55</sup>. Once again, workers' demands had to face and struggle against the country's economic interests since any delay in the production process could lead to significant monetary losses: meeting GDP targets was of much higher priority than

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<sup>54</sup> Trade Union Law, 1992. Article 7.

<sup>55</sup> Trade Union Law, 2001. Article 27.

maintaining labour relations. ACFTU's structure itself has undermined its identity in front of workers that perceived it as the *“administrative local union”* or the *“bosses union”* (Hendrickx et al., 2018) because of the over-dependence on the government. In fact, in order to ensure that the ACFTU followed the regime's rules *its branches have been institutionally tied to the government at the same level to do their work and its chairman is usually a relatively higher-ranking official in the government and the party of the same level* (Dongtao, 2010). The hierarchy generally corresponded with the party-state hierarchy at each level.



**Figure 9.** ACFTU Dual Organisation Structure and its Relations with the Party-State (Dongtao, Huang, 2016).

Seeing as how labour relations were increasingly tied to political implications, the government boosted the ACFTU to improve particularly on unionisation, legislation and disputes resolution. In the context of unionisation, ACFTU achieved great results: by the

end of 2007, 80% of foreign-funded enterprises established trade unions in China. The best achievement was the establishment of a trade union in Walmart, the world-leading retailer known for its anti-union approach. Nevertheless higher union density did not lead automatically to a better workers' protection considering that unions were rarely on the side of the employee. About legislation, ACFTU took part in the drafting of labour legislation especially in the case of the Labour Contract Law (2008) but the lack of sufficient power and resources to enforce high standard law and regulations, caused its participation to be useless or insufficient. In order to better assist workers in labour disputes, ACFTU's local branches settled many legal service centres: from 2000 to 2007, the number increased from 2,363 with 4,960 staff to 6,178 with 18,433 staff in China (Dongtao, 2010). Despite this progress in taking care of aggrieved workers, the perception of the ACFTU of being on the side of workers was still considered something long to achieve.

As aforementioned, ACFTU was the unique trade union allowed in China: the Party banned independent trade unions and their leaders have been arrested, detained or imprisoned because any labour association must belong to the state-controlled ACFTU by law. The Trade Union Law (2001) stated *"the establishment of a basic-level trade union, local all-level federation of trade unions or a national or local specific industry trade union must be reported to the trade union organization at the next highest level for approval"*<sup>56</sup>. Freedom of association is one of the fundamental ILO's values: it is part of the ILO Constitution (1919), the ILO Declaration of Philadelphia (1944), the ILO Declaration on Fundamental Principles and Rights at Work (1998) and also a right recognized in the Universal Declaration of Human Rights (1948). The right to organize and form employers' and workers' organizations is the prerequisite for the implementation of an effective collective bargaining system. Freedom of Association and Protection of the Right to Organise Convention (1948) recognized the right for both workers and employers to establish and organize their associations freely without any previous authorization: *"Workers' and employers' organisations shall have the right to draw up their constitutions and rules, to elect their representatives in full freedom, to*

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<sup>56</sup> Trade Union Law, 2001. Article 11.

*organise their administration and activities and to formulate their programmes. The public authorities shall refrain from any interference which would restrict this right or impede the lawful exercise thereof*<sup>57</sup>. The Right to Organise and Collective Bargaining Convention (1949) established the right to collective bargaining and allowed workers to *“enjoy adequate protection against acts of anti-union discrimination in respect of their employment”*<sup>58</sup> and *“against any acts of interference by each other or each other’s agents or members in their establishment, functioning or administration”*<sup>59</sup>.

The combination of freedom of association and collective bargaining constitutes two important instruments to establish a fair employment relationship and avoid costly labour disputes. The former ensures that both workers and employers can associate to negotiate working relations and the latter enables the two parties to have an equal voice in negotiations in order to assure that the outcome will be fair. Many authors argued that the rise in labour disputes could have been prevented or limited in the amount if freedom of association and collective bargaining would have been recognized without restrictions by the State.

Together with the rights described above, also the right to strike is not formally recognized by law and it has an ambiguous state in China. Removed from the China’s Constitution in 1982, there are no laws that clearly prohibit it, neither provisions that legally protect striking workers. Something about strike is mentioned in the Trade Union Law (2001): *“if an enterprise or public institution is subject to stop work or slow down measures, the trade union shall represent the employees to negotiate with the enterprise, public institution or other relevant authorities, make known the employees’ views and requirements and propose resolutions. The enterprise or public institution shall meet the reasonable requirements raised by the employees. And the trade union shall assist the enterprise or public institution in its work so as to enable the normal production process to be resumed as quickly as possible”*<sup>60</sup>. In practice, despite the

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<sup>57</sup> Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87). Article 3.

<sup>58</sup> Right to Organise and Collective Bargaining Convention, 1949. Article 1.

<sup>59</sup> Right to Organise and Collective Bargaining Convention, 1949. Article 2.

<sup>60</sup> Trade Union Law, 2001. Article 27.

undefined legal status of the strike, this kind of workers' manifestation increasingly grew in number with the police repression and the lack of support from the trade unions.

### **3.2. Workers and law awareness**

The China Labour Bulletin<sup>61</sup> (2011) estimated that nearly 90,000 mass incidents occurred throughout China in 2009, the vast majority of which were triggered by specific rights violations and one third were labour-related. The most fundamental goal was to achieve a decent wage: *workers have been fighting an uphill battle to keep up with the growth of the economy, the revenue garnered by the government and the profits made by their bosses* (CLB, 2011). Official figures showed that between 1997 and 2007, government fiscal revenues rose from 10.95 percent of GDP to 20.57 percent, while corporate earnings increased from 21.23 to 31.29 percent in the same period. However, employees' compensation fell from 53.4 percent of GDP to 39.74 percent during the same period<sup>62</sup> thus representing another proof of unfairness and inequality at the workplace.

Many scholars have pointed out the revolutionary potential of young migrant workers and celebrated their courage in standing up for their rights but when dealing with the increasing number of mass protests, some others are uncertain to state that workers' collective actions were based on an increasing legal consciousness among Chinese citizens. Mary Gallagher's study represented one of the first contribution regarding the legal awareness of Chinese workers. Her analysis was based on a legal aid centre in Shanghai specialized in employment and labour law that offered significant information on workers' experience and evaluation of the legal system and the aftereffects of legal mobilization. According to the author, the increasing number of protests and the use of courts were signs of workers' tendency to frame their grievances in terms of legal rights and protect these rights through various modes that invoke legality. This phenomenon was considered the *social response to the state's rule-of-law project* (Gallagher, 2006) and it can be considered one of its intended goals.

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<sup>61</sup> Non-governmental organization based in Hong Kong.

<sup>62</sup> Source: CLB (2011).

While legal consciousness is commonly said to increase from low to high, the author adopted a more critical look on the notion of a “linear” rise and argued that changes in workers’ attitude towards the law occurred in two dimensions: *in one’s feelings of efficacy and competency vis-a-vis the law* and *in one’s perception/evaluation of the legal system* (Gallagher, 2006). These aspects are related but must be analysed separately. Evidence suggested that a better and deeper knowledge of the law was the key of the legal mobilization process and a tool to strengthen individual feelings of efficacy and competency but what emerged from the research was that there remains a general confusion over the employer’s legal responsibilities. Older workers that experienced the “iron rice bowl” system tended to believe that the right to have stable jobs was still in force but the new system did not guarantee permanent employment and even employers’ responsibilities were reduced.

Mary Gallagher adopted the concept of “informed disenchantment” to state that Chinese citizens were gradually acquiring new knowledge about the legal system, shifting from being naïve to being more critical and losing their unrealistic expectations on the law. As the author suggested, a phase of “disenchantment” implies a prior state of “enchantment” that consisted in the citizens’ high confidence and trust in the legal process, a phenomenon unique to China. This general confidence was the result of an enduring effort from the State to shape individual’s feelings about the law through different means such as campaigns and the use of media. One of the most effective tool was the so-called “law dissemination campaign” that officially started in 1985. Among the statements: *“In the interest of developing socialist democracy and improving the socialist legal system, it is necessary to place the law in the hands of the masses of people so that they will know what the law is, abide by the law, acquire a sense of legality and learn to use the law as a weapon against all acts committed in violation of the Constitution and the law”*<sup>63</sup>. The slogan “use the law as a weapon” became a strong incentive in using the law in case of injustice and profoundly influenced people’s

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<sup>63</sup> Thirteenth Meeting of the Standing Committee of the Sixth National People’s Congress, November 22, 1985.

expectations and participation in legal affairs as the law was highlighted not only as something to follow and fear but also to use to protect themselves.

Official media contributed through news and articles on newspapers (such as the Labor Daily and the New Morning Daily) about legal aid and labour disputes: actual cases were presented with comments released by lawyers or legal aid activists involved in the case. Since the State exerted its control over the media, especially in the form of self-censorship, newspapers avoided topics openly banned or sensitive, giving space only to disputes resolved in the workers' favour. In this way, the media presented situations that created high expectations among citizens but they did not describe reality accurately, therefore creating incorrect and unrealistic judgments about the legal process.

Alongside campaigns and official media, the State attempted *to reorient aggrieved citizens from the petitioning route to the legal one* (Gallagher, 2006) as part of the strategy to build and strengthen the "rule of law". Nevertheless, older workers used to eschew the law because *they believed that the legal system would not honor or respect their long tenure as employees of the state* (Gallagher, 2006) and therefore they turned to traditional institutions for dispute resolution, especially petitioning. The redirection of petitioners and the use of campaigns and the media were fundamental elements in the transformation of how the State dealt with its citizens: the "rule of law" project changed the ideological discourse from the emphasis on socialist equality and collectivism to elements typical of the capital accumulation ideals (contract, exchange, efficiency). Making the legal route the preferred one meant putting *more emphasis on contracts, less on moral obligations of firms and also opens up the distance between the government and workers* (Gallagher, 2006) since the dispute was between two parties, a worker and a firm. Doing so, the State's authority would not be undermined in case of labour disputes considering that it did not appear involved in the contract.

Mary Gallagher noted that surprisingly the sense of disenchantment did not lead to resignation but Chinese citizens appeared to be resilient and willing to sue again for a similar problem, better prepared and with the aim of transmit the lesson to their friends with similar grievances. The gap between attitudes and behaviour was important to

understand that a greater demand for law, as the increased use of courts highlighted, did not lead necessarily to an increased legal consciousness since the phenomenon just tell us what people do and not how they evaluate the legal system. Infact, Chinese workers experienced a *greater efficacy and understanding of legal strategy with a concomitant sense of disappointment and frustration about inequities and dysfunctional aspects of China's developing legal system* (Gallagher, 2006) but as aforementioned, this disappointment did not lead to resignation in struggling for rights. The way in which Chinese citizens became more critical, shed light on the capability of reforms to boost political participation and social activism: despite the top-down characteristic of the rule-of-law project, *these newly minted little experts challenge the law to live up to the state's own professed standards of fairness and justice* (Gallagher, 2006).

Another study carried out by Franceschini<sup>64</sup> presented a different situation. The author conducted a survey among a sample of 1379 employees of Italian metal mechanic companies in China to better understand the level of knowledge and trust in the labour legislation thus evaluating a real “rights awakening” of Chinese workers. In the sample, employees were mostly men and, among them, migrant workers covered 63.7 percent of the total: 24.5 percent were born before 1980, 45.5 percent were born in the 1980s and 30.1 percent in the 1990s. Surprisingly, 97.2 percent of respondents had signed an individual labour contract and this could be interpreted as the commitment of the authorities in enacting the labour legislation but actually the percentage of labour contract signed varied among regions and sectors: the rate between construction workers, for example, remained low at only 36.2 percent in 2015 according to the National Bureau of Statistics.

When it came at assessing the level of interest in the labour contract, results showed a general disinterest as 46.5 percent of the respondents said that they just gave a quick look to the legal provisions implied and only 26.7 percent read them carefully. Nevertheless, there was a widespread trust in the contract as a tool to protect workers and two thirds responded optimistically. A significant minority (12.8 percent) believed

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<sup>64</sup> Department of Political and Social Change, Coral Bell School of Asia Pacific Affairs, Australian Nation University.

the labour contract was a tool to restrain mobility that was considered by some workers the only way to resist corporate exploitation.

Regarding the awareness of the legal content of the law, respondents showed a selective knowledge of the provisions, appearing very aware of clauses tied with their direct economic interests while uninformed about aspects that they probably perceive less relevant to their income.

### **3.3. The new generation of migrant workers**

The term “new generation of migrant workers” (xin shengdai nongmingong) was introduced to identify the 125 million migrant workers born in the 1980s and 1990s. Scholars referred to this label in order to highlight the contrast between the first and the second generation of migrant workers due to their difference in attitude and expectations. The new generation of migrant workers was considered the *core of China’s new working class* (CLB, 2011) as it represented almost two thirds of China’s migrant workers overall: according the National Bureau of Statistics, in 2010 61.6 percent migrant workers were born after 1980.

Second generation migrant workers were characterized by higher education levels and aimed at obtaining additional education and skills training thus improving their job opportunities and the possibility to build a considerable professional career. As they were born or simply grew up in the city, they had a deeper connection with the urban culture rather than with the countryside: on the contrary, the first generation of migrant workers used to seek for a job in the city with the intention of marry, settle, raising and educating children in the rural areas and coming back once the period of retirement have occurred. At the opposite, younger migrant workers no longer considered themselves as peasants and many of them did not know anything about how to work the land: the proportion of the new generation of migrant workers with experience of agricultural work have been reduced to 11 percent compared with 35.7 percent of the first generation. Whereas their ties with the countryside weakened time by time and the desire to have a career and a life in the city were profoundly rooted in their mind, the new generation of migrant workers still faced *discrimination and numerous institutional*

*barriers based on their rural residency status, which in turn leads to frustration, resentment and a growing sense of social injustice (CLB, 2011).*

The new generation recorded a change also in employment patterns. Only 5.5 percent of the new generation worked in the construction sector, 12.4 percent less than the older generation and 73.9 percent were employed in manufacturing in 2010, with the proportion employed in the primary and tertiary industries declining slightly compared with the previous year. Additionally, the new generation of migrant workers used to change employers on average once every four years, while older migrants changed jobs once every ten years on average, according to China Labour Bulletin (2011). They were *more discerning when looking for jobs* (Franceschini et al., 2016) because they were better educated and willing not to take an occupation characterized by long working hours at low wage but rather they preferred a satisfactory job that allowed them to enjoy the urban lifestyle and free time. The purpose of getting a job, aside the need to self-sustainment, was to gain a life experience through a decent job for both professional development and personal fulfilment.

Another school of thought instead highlighted the continuity between the two generations and considered the differences aforementioned as *exaggerated by popular perception* and argued *that the scope for change for Chinese migrant workers is limited due to the continuation of structural constraints that mire them in a condition of labor exploitation* (Zhu and Lin, 2014). Findings revealed that the new generation of migrant workers worked longer hours and earned lower wages than the first generation thus questioning their willingness in occupational choices.

The co-existence of two different approaches in comparing the new and the older generation of migrant workers that state the rupture and the continuity respectively, depended mostly on the fact that the studies on which the analysis was based are qualitative. Despite these dual perspectives, the increasing number of labour protests and strikes cannot prevent us from concluding that something is really changing in the labour context as workers seemed not to accept their plight in silence thus representing an element of novelty compared to the first generation of migrant workers. For example, a nation-wide study of workers' awareness of the 2008 Labour Contract Law recorded that awareness of the law increases with age and education (Gallagher et al., 2015) and

Wong concluded that *education level and pre-migration status appeared to be more important in shaping migrants' awareness of the laws* (Wong, 2011). Being better educated seemed to represent an advantage for the younger generation in dealing with and struggling for fair working conditions.

### **3.4. 2010: the wake-up call for Chinese authorities. The most notable examples of labour activism.**

Two important events occurred in 2010 - namely the series of suicides at Foxconn in Shenzhen and the massive strike at Honda in Guangdong province – that can be considered the wake-up call for the Chinese government to take care of workers' conditions in face of economic interests. They stood out just as tip of the iceberg of the labour protests that were increasingly affecting the country and undermining the “harmonious society” that the Party-state attempted to build. The facts had a deep impact not only for their size alone but also for the media coverage and the subsequent discussion about labour conditions and human rights protection in China that arose worldwide.

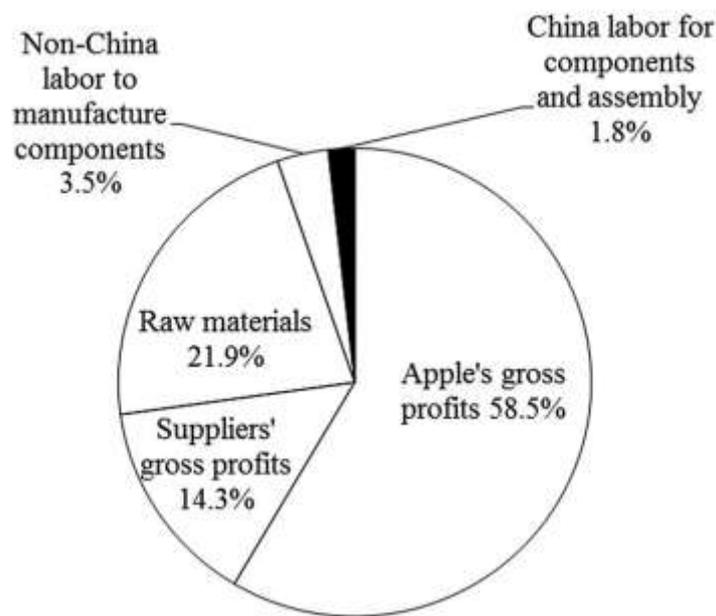
#### **3.4.1. The Foxconn case**

In 2010, 18 workers attempted suicide at Foxconn facilities in Shenzhen: the result was 14 deaths and four survivors seriously injured. These young migrant workers were ranged in age between 17 and 25 and the tragedy shocked the public opinion in China and the international community as well. Suicide notes and survivors told of immense stress, unsustainable long working days and humiliation from managers guilty of unfair punishments and unkept promises of benefits. The case of “jumping suicide incidents” stimulated the investigation of scholars over labour conditions in China and generally the global value chains' impacts on labour relations in developing countries. Foxconn corporation is not to be blamed alone for the tragedy since the company is involved in a system that push to ignore the enterprises' human capital to meet global customers' demand.

Foxconn is Apple's major manufacturing partner and China's biggest industrial employer. After reaching the amount of 700,000 employees in 2008, it further increased the size of the labour force to 1,000,000 in 2010: its manufacturing plants are settled in

the four major municipalities of Beijing, Shanghai, Tianjin and Chongqing and also in 16 provinces throughout China.

Apple represented 40 percent of Foxconn's total revenue. The distribution of profits from an Apple product sale highlights the imbalance of power between companies in GVCs<sup>65</sup> that explains the difficulty for Foxconn to preserve workers' interests under the pressure exerted by Apple.



**Figure 10.** Distribution of Value for the iPhone (Pun et al., 2016).

The American corporation received 58.5 percent of the profit while Foxconn's share accounts only for 1.8 percent: the different distribution of profit coupled with the proportion of Apple's proportion in Foxconn's revenue determine the power of the brand over its partner. *"Obedience would be the precise term to describe the relationship with Apple. If you want to work in this department, you have to be very tough and perform well under pressure. Apple, which gives large and diverse orders, is our main client. Moreover, Apple's slyness is far beyond comprehension. They usually come to us first to solve problems; however, if we are unable to provide satisfactory replies, they have whoever else is in charge oppress us. Anyway, the stark reality is that Apple does*

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<sup>65</sup> GVCs functioning will be discussed in the next chapter.

*whatever it wants*" (Lin & Tseng, 2016). Lin and Tseng (2016) provided a label to classify the Foxconn's factory regime: *"global fragmented despotism"*. The term contains the features of *"global"* that suggests the influence of global brands in GVCs; *"fragmented"* which highlights the vertical, horizontal and geographical separation of workers and employees and *"despotism"* that is referred to the arbitrary managerial power on the shop floor. This is a hybrid system between the two ideal types of factory regime elaborated by Burawoy, a famous British sociologist, namely the despotic and hegemonic regimes. The former takes place under monopoly capitalism and leads to the so-called *"manufacturing consent"* that is *the voluntary obedience of workers that could alleviate class struggles* (Lin & Tseng, 2016); the latter occurs under competitive capitalism where the state intervenes in labour processes and social welfare. Lin and Tseng argued that *the deregulation of labour markets and the retrenchment of welfare states under globalization* led to a system that combines both despotic and hegemonic elements that can be referred to as *"hegemonic despotism"*. However, in the case of Foxconn, it is not sufficient to capture all its key features.

Some features of this factory regime can be held responsible for workers' struggles in Foxconn. Among them, the Chinese government's *laissez-faire* policy in the labour market and special deals on taxes with foreign companies: as to boost GDP in their territories, local authorities attracted foreign investments systematically ignoring labour law enforcement and workers' interests' protection. Moreover, the brand's demand forced the company to continually reorganize the corporate structure thus reallocating assembly lines and required an unsustainable pace of work. Relocations occurred when additional labour force was required in other plants in the country (that was easier than hiring new staff) but generally the shift from coastal to inland regions was due to the lower labour costs.

Working conditions were extremely unhealthy at the company both physically and psychologically. As the workers' minimum wage was not sufficient to afford a decent life in the city, workers relied on overtime pay and some of them worked overtime more than 36 hours per month (the limit of overtime work established by the Labour Contract Law). Many times overtime work was not something that a worker could choose on its

own but was systematically compulsory: for example, if Apple needed to increase production by 20 percent for a new product launch, Foxconn could decide whether to hire new workers or fix more working hours to the existing labour force. Nevertheless, the choice of increasing the pool of workers by 20 percent in a factory that counts 1.000.000 workers would mean hiring 200.000 people, something considered unfeasible. For this reason, the response from Foxconn was to impose overtime work on the existing labour force and try to hire new people through vocational schools that represents a way to acquire new low cost workers taking advantage from hiring them under the label of skills training. Apple's demand was determining for the factory work pace so much that a machine operator interviewed said: *"The demand from Apple determines our lives. On the one hand, I hope I can earn higher wages. On the other hand, I can't keep working every day without a day off"* (Pun et al., 2016).

Relocations led to workers' psychological alienation since moving to different plants meant also change dormitories thus preventing them from creating social interactions. The lack of social support and the emotional exhaustion caused by high-stress work, anxiety and humiliation contributes to widespread depression. Apart the issue of social isolation, humiliations by managers were ordinary at the workplace: bosses used to scold workers in front of their peers instead of discussing performance privately as a way to punish someone in order to make an example for everyone in the factory. Any mistake caused in the production process or behaviour that violates the factory rules was subjected to severe penalties including warnings, dismissal, cancellation of performance prizes and physical punishment in extreme cases: a survey revealed that 16.4% of workers experienced beatings by security or managers (Pun et al., 2016).

Some authors argued that Foxconn shaped a kind of semi-militarized labour system that requires absolute obedience throughout the hierarchy of command and the rule that each employee is aware of that lower grades must obey higher ones. Workers at the shop floor are at the lowest ladder in the hierarchy and the awareness of the little power in their hands is expressed in this widespread thought: *"Fate is not in your own hands but in your superior's"* (Pun et al., 2016). Like in a military-style environment, workers were under surveillance 24 hours a day: the factory was entirely walled, security checkpoints and cameras were installed in every building, dormitory, public and working area and employees must pass inspection to enter each factory section. Moreover,

workers are not allowed to talk on the line because this prevent them from being in time with the high-speed work and from making mistakes in the work processes: a group of workers reported that they were required to maintain a military-style straddle position because it was forbidden to rest the back on the chair.

After the suicide wave, the corporate first response was to install nets outside many buildings to catch falling bodies and exhort workers to sign pledges that stated they would not attempt to kill themselves. From Apple's CEO, Steve Jobs, the reaction was that the rate of suicides was within the national average thus not something endemic in Foxconn. Suddenly, the union at the workplace (whose effectiveness was doubted considering that the chairman was also the CEO's executive assistant) set up a hotline in order to respond to workers' discontent: the result was that claims about the dormitory conditions were addressed immediately while complaints regarding the production lines resulted in firings. Later, in June 2010, Foxconn raised the basic wage of production workers in Shenzhen 9% above the local minimum wage and the event marked the first time that the company offered a compensation above the legal minimum. Additionally, the factory reduced the level of 100 hours of overtime work per month (almost 3 times the legal minimum) to the statutory 36 hours per month. However, the seemingly effort by the company to alleviate workers' claims about wages was caused to be useless when, in early 2011, the management deducted a part of the monthly wage for the rent in the factory dormitory since it was established no longer free of charge to offset part of the increased wages. Whereas workers' salary was increased, many business units have limited engineers' payrolls since employees' total compensation remained the same as before. The consequence was managers and engineers' discontent that resulted in more "wildcat strikes".

In conclusion, the buyer-driven global supply chain, Foxconn's features including working conditions and the dormitory regime and the collusion between local authorities and foreign investments contributed to growing labour resistance. Many scholars argued that *throwing their bodies from dormitory buildings is an act of frustration and defiance. In their defiant deaths the workers call on the Chinese nation – and international society – to wake up before more lives are sacrificed* (Lin & Tseng, 2016).

### **3.4.2. The Honda strike**

The strike that took place on 17 May 2010 at Honda Auto Parts Manufacturing Co., Ltd (CHAM) in Foshan in Guangdong province has been considered one of the most important industrial manifestation among the labour protests occurred throughout China. CHAM is one of Honda's four branches settled in China that produces transmissions and was set up in 2007. Workers usually came from technical schools and they were recruited through an internship system as they had to do a one-year experience in an industrial company during the fifth and last year of school: after the graduation the company could offer a formal employment status.

The riot involved 1800 workers and although most strikes in China lasted from half a day to few days, it covered a timeframe of 17 days. It was costly for the company as it registered a daily loss of 240 million yuan and for other two main reasons:

- i. The production of transmissions is an extremely important part for automotive companies that represents the supply for other departments: once produced, transmissions are sent to the branches specialized in car-making and assembly. Any delay of transmissions supply have domino effects on the other Honda's factories involved. Indeed, three other Honda plants had to cease production during the strike since no material was arriving from the Foshan branch;
- ii. Just-in-time production requires to keep a minimal amount of stock and the workers' strike upset the usual supply flow.

Workers claimed a wage increase of 800 yuan and the democratic reform of trade unions considering that existing ones were unable to protect workers' interests. Initially, the company refused to enter into negotiations and indeed tried to intimidate workers including photographing the people involved in the strike. For this reason, many workers wore masks for fear of being singled out for reprisals.

On May 31<sup>st</sup> an episode of physical confrontation between strikers and trade union's members upset the public opinion. Since workers refused to work in spite of the attempt of these 200 people (wearing the official trade union membership cards) to persuade them to halt the strike, they were beaten and injured: the police outside the station did nothing to help workers even if it witnessed what was happening. Sources revealed that

they have been mobilized by the local government, following an anti-union and pro-business approach. Afterwards the CEO of Guangqi Honda Automobile asked to the strikers to elect their own representatives in order to start a negotiation. The same day, Nanhai District Federation of Trade Unions (NDFTU) issued a letter of apology to workers, even though it expressed for the most part the faults of keep going with the strike. In order to create more solidarity among workers and achieve a greater external support, strikers' representatives talked to all CHAM workers with a letter where they expressed in detail what they considered as reasonable requests: a wage increase of 800 yuan, a seniority premium, a better promotion system and a democratic reform of trade unions at the workplace. Their class consciousness is manifested in the last sentence of the letter *"our struggle is not only for the sake of the 1,800 workers in CHAM; it is also for the wider interest of workers in our country. We want to be an exemplary case of workers safeguarding their rights"*<sup>66</sup>. The enterprise management and the strikers reached a solution: workers' wages raised from 1544 to 2044 yuan (an increase by 32.4%) and intern students' compensation was established at 1500 yuan (from about 900 yuan), registering an increase of 70%. Concerning the reform of the enterprise trade union, the management refused to discuss the request with the justification that it was matter of workers' associations. Nevertheless, the Chinese Communist Party secretary of the Guangdong province, stressed the workplace trade unions' role as workers' representatives and their duty of safeguarding workers' rights according to the law and the vice president of the Guangdong Provincial Federation of Trade Unions (GDFTU) promoted a quick democratization of trade unions thus allowing members to elect their own president.

What emerged later was that fully democratic trade union reform was still an unlikely event. Trade union elections took place from the division, department and factory level from September to November 2010 with the GDFTU officials active intervention, who refused to remove the current trade union president: workers demanded to change person as he had supported the management during the strike. Moreover, workers at

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<sup>66</sup> This letter had widely circulated during the strike through Internet (e.g. Caixin Net) and a number of independent websites, including the Chinese Workers Research Network.

the factory level could elect the representatives of their branch and only these representatives could vote for the election of 12 enterprise trade union officials: the result was that most members elected were from the managerial or supervisory level.

Trade union election at CHAM seemed to be a little concession directed to calm things down as the Party-state, together with the enterprise management, was still inclined to intervene in workplace organization. Offering higher wages turned to be a way for the company to mitigate the bottom-up pressure from workers *without compromising its grip on workers' freedom of association* (Chan and Hui, 2014). Additionally, raising minimum wage levels represented also a tool for capital accumulation in a context still affected by the economic crisis: since its export-oriented economic model made China dependent to US and European countries and thus instable, higher wages led to a growing domestic consumption directed to the balance of Chinese economy. Along with the reform of trade union at the enterprise level, also introducing a workplace collective consultation system turned not be a viable way to address workers' demands. Many overseas businesses strongly opposed the legal framework for workplace collective consultation proposed through the Guangdong Regulations on the Democratic Management of Enterprises and the Shenzhen Collective Consultation Ordinance (2010) that have been finally suspended.

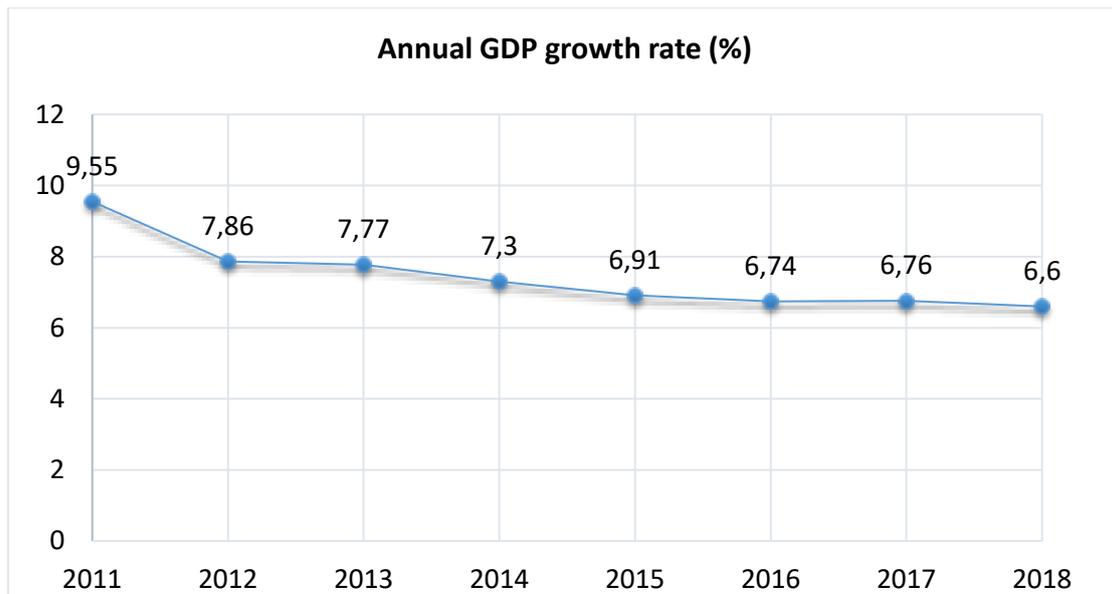
The two-week long strike occurred at Honda Motors in Foshan was a high-profile event for workers' coordination and tenacity, the nature of their demands and the impact of the strike both on labour relations and the automotive industry. There are two main elements of uniqueness: the accurate organization put in place by the workers and the external support they gained, both locally and internationally. The majority of workers in the plant in Foshan belonged to the so-called "second generation of migrant workers" (xin sheng nongminggong) and they were considered different from the previous generation for the intolerance towards unfairness and the willing to struggle for their rights. The novelty of Honda's strike was the ability of workers to create a strong network to oppose management directives: this was obtained through their previous enrolment in technical schools (that made it easier to form close relationships) and the familiarity with electronic communication technologies. *Mobile phone text messaging,*

*instant messaging using the Internet and blogs is an important attribute of these young and educated migrant workers* (Qiu, 2009). For example, they created chat groups on QQ, an instant messaging system, to discuss their strategies and organize mobilizations. Secondly, the international society attention gained was something considerable. For example, over 70 local and overseas scholars signed a petition to support workers' requests to put pressure on the company and to contribute to labourers' confidence and a website set up by young intellectuals, the Chinese Workers Research Network (CWRN) reported news about the CHAM workers' strike in detail. Shortly after, CWRN was closed down as they reported news without authorization, according to the State Council Information Office of the People's Republic of China.

The strike at Honda served as an inspiration for other workers and its knock-on effects have been remarkable on the industrial as well as the national level. Shortly after the fact, workers at a Honda factory in Zhongshan organized a strike and the leader kept in touch with strikers' representatives in Foshan to seek for advices. In the same period, two Toyota factories in Tianjin faced the same problem. A research showed that more than 100 strikes occurred in the automotive industry in the PRD after CHAM's workers struggle (Luthje, 2010) and the influence was extended also to other industries and geographical areas.

### **3.5. A better organized labour movement**

The labour protests and strikes occurred in 2010 became more widespread in the following years across different sectors and geographical areas. At the same time, the pace of Chinese economic growth started to decline since 2014 as the decline of annual GDP shows (see figure 11).



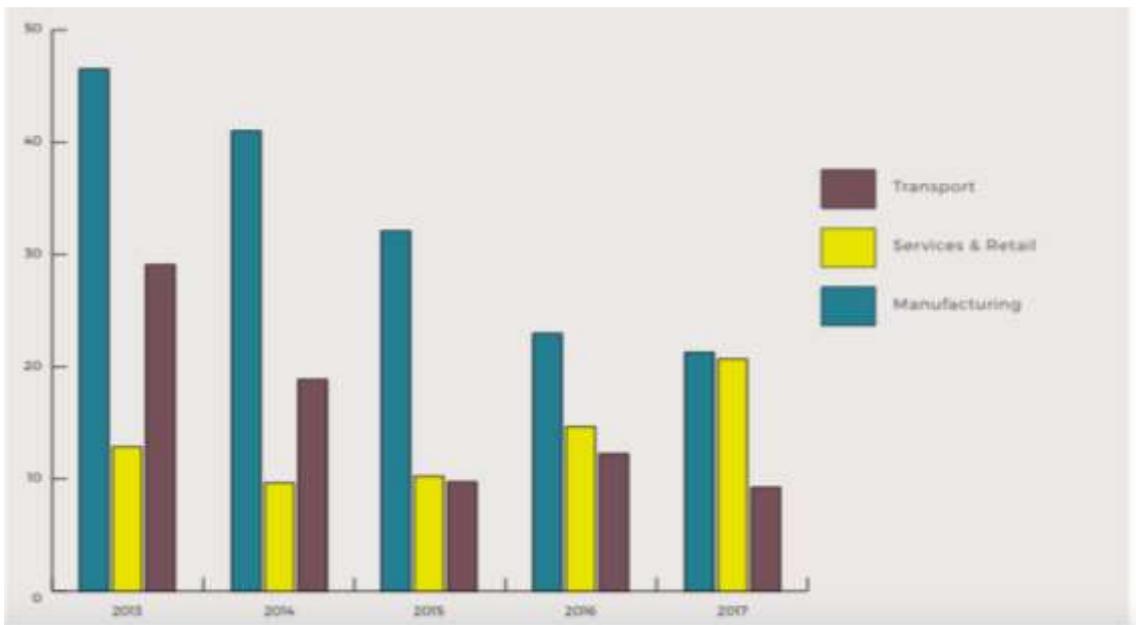
**Figure 11.** Annual GDP growth rate (percentage) from 2011 to 2018. Source: World Bank.

Since the so-called “workshop of the world” model was no longer sustainable due to a rise in labour, raw material and land prices, local governments especially in the Pearl River Delta were forced to close-down low-end industries and rely on the growth of hi-tech innovations. They invested strongly in robotics, for example, while small factories specialized in shoes and apparel had to shut down the production.

In this context, workers had once again to bear the burden. Employers arbitrarily cut wages and benefits or went out of business or relocated the factory in cheaper countries without paying the due wages, social insurance and lay-off compensation. In the case of mergers and acquisitions, workers had to accept new forms of employment under the new ownership. Considering the absence of any bargaining mechanism, workers had no other chance than resort to collective protests to voice their demands.

Seeking for economic restructuring, China promoted the development of the platform-based service sector such as e-commerce, express delivery, food delivery and online service providers. Workers in the newly emerging industries faced numerous problems associated with the failure of employers to comply with the law: apart from the real willingness of enterprises to respect the law, actually existing legislation was vague regarding the responsibilities of employers in emerging industries. As no clear rules existed, the protection of workers’ rights was difficult to achieve.

Therefore, if strikes and protests in general were previously located in the Pearl River Delta (PRD) and coastal regions (like the Yangtze River Delta), areas well-known as basis of the manufacturing sector, later manifestations emerged also in those inland provinces where the modern service sector was developing. For example, collective actions in the Guangdong province fell from 38 percent (of the national total) in 2013 to 11.8 percent in 2017 (CLB, 2018). By contrast, protests in the services and retail sector recorded a peak of 20.7 percent in 2017 (CLB, 2018).



**Figure 12.** Distribution of worker protests across different industries as a percentage of total protests (2013-2017). Source: China Labour Bulletin, 2018.

Considering the Strike Map available on the China Labour Bulletin website and comparing the period 2011-2012<sup>67</sup> and 2013-2018 we can understand the growth in labour protests number and their dissemination throughout the country.

<sup>67</sup> The comparison should have included also the year 2010 but data about strikes are available only from 2011 upward.



**Figure 13.** Strike Map 2011-2012. Source: China Labour Bulletin Strike Map (<https://maps.clb.org.hk/strikes/en>).



**Figure 14.** Strike Map 2011-2017. Source: China Labour Bulletin Strike Map (<https://maps.clb.org.hk/strikes/en>).

### 3.5.1. New trends in workers’ collective action and the role of NGOs

Nanhai Honda strike is considered the best example of labourers’ collective action that marked the year 2010 both for the way workers managed the protest and the consequences in the development of the labour movement in China. In the same way, the Lide Shoe Factory strike that took place in 2015 is an eminent case in the context of the development of workers’ collective action. In particular, the comparison between

the two strikes shed light over the new way in which workers deal with and organize labour protests to voice their discontent. If the strike at Honda was dominated by fear and anger, at Lide Shoe Factory workers showed a more rational behaviour. Additionally, in the former case workers appeared to be incoherent and divided when it came at responding to employers' counter proposals, while in the latter workers' representatives were ready and aware of the actions to take in order to be favoured in the negotiation with the enterprise management. Protests like the one at Honda ended with the common vicious circle in which the strike was followed by the management reprisal and the come into play of the police force to suppress the manifestation. The resolution through negotiations and compromise that characterized the strike at Lide Shoe Factory labelled the event as *an important prototype in the development of China's future collective bargaining system* (CLB, 2018). In few words, on one side a chaotic and fragmented workers' group whereas a structured and action-ready organisation on the other. The activity of NGOs in helping and guiding workers' collective actions was the most important factor that led to the changes in workers' attitude. Labourers started to approach NGOs firstly because they were not experienced in presenting a demand and they did not know the best way to get it accepted. Secondly, labour organizations through their legal assistance appeared to be the only trustworthy tool available to carry a labour dispute successfully.

Labour organizations' help can be analysed considering five stages: demands consolidation and class-consciousness development, workers' representatives election, workers' representatives training and bargaining process guidance, workers' representatives protection.

*i. Demands consolidation and class-consciousness development.*

Shifting from a chaotic group of people demanding improved working conditions without a clear understanding of how to address the request means at first to consolidate all the demands into a set of few requests acceptable to all. Considering that workers have different needs and demands, NGOs found necessary to identify common desires recognized by the group in order to strengthen the collective commitment. In this way, there can be avoided both the lack of commitment of the so-called "freeloading" co-workers and the

inability of the management and the local government to respond appropriately given the disparate demands that were usually presented to them. Moreover, when discussing about personal needs, workers discovered an identity of interests that pushed them to unite in order to maximize their potential benefit. Doing so, the workforce developed a class-consciousness that reinforced the solidarity and the cohesion among individuals against a common enemy: inequalities. Online tools represented an important way to mobilise workers also from distant areas and increased their commitment: they discussed about past cases, developed successful strategies together using homophones and abbreviations in order to avoid censorship. Also in online chat groups they established some representatives to organize in an orderly manner to avoid chaos and delay.

*ii. Workers' representatives election.*

As the number of people involved in labour protests was growing time by time, identifying a clear structure in the manifestation's management was considered vital for the success of the process. For this reason, workers elect their representatives and to make the mandate effective, they signed a document that authorized them to act on workers' behalf during the bargaining stage.

*iii. Workers' representatives training and bargaining process guidance.*

NGOs provided training for workers' representatives about the current legal framework and the bargaining techniques including the stages and rules of negotiations, the responsibilities and obligations of workers' representatives and the principle of concession and compromise. Representatives were also trained about whether or not to give concessions, which recommendations and solutions to offer in order to prevent the workers' confusion when subjected to government pressure. Additionally, labour organizations aimed at advise workers about the effectiveness of a rational approach when dealing with the management: being respectful and maintaining a calm attitude focused the discussion on issues, rather than on individuals, creating a breeding ground for the building of a relationship of mutual trust and respect.

iv. *Workers' representatives protection.*

Although the preventive tools that NGOs recommended to workers in the approach towards management, retaliatory measures, threats and intimidation by bosses and local government officials cannot be avoided at all. Considering this, NGOs mobilised workers to “rescue” those detained, take legal action against the authorities and defend workers in court.

Through their contribution, NGOs fulfilled a pioneering role in transforming how Chinese trade unions performed their activities as they behaved in the same way as a union should do. In fact, the failure of ACFTU *is the most important reason why it has proved to be impossible to establish a collective bargaining mechanism* (CLB, 2018). NGOs work in alleviating workers' discontent highlighted the lack in the China's legal framework of four main elements: the protection of core labour rights (specifically the right to organize and take collective action), the collective bargaining system, the protection of workers' representatives (that is not achievable if labour relations are considered only from an individual basis by the law) and a resolution system for collective disputes.

The Chinese government's attitude was far from that of a pacific acceptance of NGOs activity. According to the “Law of the People's Republic of China on Administration of Activities of Overseas Nongovernmental Organizations in the Mainland of China” drafted in 2016, NGOs must *register and establish representative office in China*<sup>68</sup>. At the same time, the government used different strategies to encourage labour activists to stop their work including psychological intimidation and harassment, the threat of freezing bank accounts and prevent people from leaving the country. Since 2015 in Guangdong many NGOs working on social issues have been forced to close down and their leaders have been subjected to an unprecedented smear campaign. Control over NGOs increased steadily and hundreds of rights activists have been detained in China because considered enemies of the “harmonious society” and they were blamed of

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<sup>68</sup> Law of the People's Republic of China on Administration of Activities of Overseas Nongovernmental Organizations in the Mainland of China. Article 9.

“inciting subversion of state power”<sup>69</sup> according to the People’s Republic of China Penal Code.

### **3.5.2. The Walmart case**

The struggle of workers at Walmart stores in China represents a successful case of labour protest with the new characteristics above mentioned. Some labour scholars have referred to the event as *an unprecedented example of cross-workplace organizing* (CLB, 2017) since Chinese workers received the support of their colleagues at Walmart America thanks to the online platforms.

The tension between the workers and the management increased with the arbitrary introduction of the Comprehensive Working Hours System (CWHS). China’s Labour Contract Law 2008 provides three different working hours systems: the Standard Working Hours System, the Irregular Working Hours System and the Comprehensive Working Hours System. The former was the most widespread and it is based on 40 hours a week (eight hours per day, five days per week) and 36 hours of overtime per month; Irregular Working Hours System was generally applied to senior managers. The Comprehensive Working Hours System (a type of flexible working hours system), instead, establishes that working hours are calculated considering a specified period (a week, a season, a month) until every day the threshold of 11 hours is not exceeded. However, working hours on each month must be the same as the Standard Working Hours System provides. The use of the CWHS also meant a change in how basic wages and benefits were calculated: for example, meal subsidies that had long been considered a benefit, they are now included in the employees’ wage resulting in a net loss of about 19 yuan per month. Additionally, flexible working hours systems are legally allowed only in specific industries such as transport, railways, construction and tourism or in the presence of seasonal and natural constraints such as salt and sugar production. As we can suppose, Walmart is part of none of these categories.

Apart from the doubtful legality of CWHS in the retail sector and the evident loss for workers with the introduction of such a system, the additional problem was that the management imposed the change unilaterally. Many workers said that when the change

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<sup>69</sup> People’s Republic of China Penal Code. Article 105.

was announced, they could not leave the meeting without having signed the agreement on the spot. But as a worker highlighted “(...) if it really represents progress why are people being forced to sign changes to their contracts? Real social progress is achieved via harmony, free will and democracy and not via these horrible traps” (CLB, 2017).

Walmart's Claims	Workers' Reality
<p><b>Flexibility and Autonomy</b></p> <p>Under the new comprehensive working hours system, workers will have a more active role in deciding their working hours. This gives them more flexibility and autonomy so that they can enjoy a better work-life balance.</p>	<p><b>Unstable working hours</b></p> <p>Instead of giving more flexibility and autonomy to workers, it is managers who will gain authority. As workers do not control their working timeslots, CWHS is more likely to disrupt employees' work-life balance.</p>
<p><b>An increase in income</b></p> <p>The total income of workers will be increased after the introduction of the new system. Workers may choose to work more frequently during peak seasons so as to increase their total income.</p>	<p><b>Actual income reduced</b></p> <p>Under the CWHS, Walmart incorporated benefits, like meal subsidies and full-attendance bonuses, into the basic monthly wage thereby reducing workers' earning potential.</p>
<p><b>Voluntary</b></p> <p>Participation in the CWHS is voluntary. Workers can continue to follow the original standard working hours system if they wish.</p>	<p><b>Mandatory</b></p> <p>Workers are forced to accept the CWHS through deception, coercion, threats and dismissal of worker activists.</p>
<p><b>Support from 'associates'</b></p> <p>Scott Price, the CEO of Walmart Asia, stated that 95% of associates welcome the new system.</p>	<p><b>Resistance from employees</b></p> <p>Strikes and mass participation in online forums reveal widespread dissatisfaction and resistance.</p>
<p><b>A win-win situation</b></p> <p>The new system creates a win-win situation for Walmart and its employees allowing the latter to 'exercise self-determination' over their working hours and improve customer service.</p>	<p><b>A win-lose situation</b></p> <p>Walmart will gain more control over workers. It may allocate fewer working hours to worker activists, indirectly pushing them to resign and thus avoid severance payments.</p>

**Figure 15.** Flexible working at Walmart: claims vs reality. Source: China Labour Bulletin, 2017.

According to the company, the new system would have offered to the workers more choice on their working time (see figure 15) while many scholars pointed out that store managers were permitted to allocate any number of hours according to the need until each employee reached 174 hours per month. In this way, overtime pay was impacted and unstable schedule prevented people from getting a second job.

Flexibility was vital for Walmart in order to cut down costs. The corporation was struggling against the growth of online retailing in China and despite the creation of Walmart's e-commerce in 2010, the competition was fierce and many physical stores were no longer profitable. The introduction of the CWHS came alongside with redundancies, declining wages and store closures. Also in the case of closures, enterprise management did not take care of its employees: with a notice of just few weeks (without any consultation with the trade union), they could be relocated in other Walmart stores or they had to accept a substandard severance pay. Walmart's practice transgressed Article 4 of the Labour Contract Law 2008 for which *"When formulating or modifying the rules and regulations, or making decisions on important matters, which have a direct bearing on the immediate interests of workers, such as labor remuneration, working hours, rest and vacation, occupational safety and health, insurance and welfare, training, labor discipline and labor quota control, the employing unit shall, after discussion by the conference of workers or all the workers, put forward plans and suggestions and make decisions after consulting with the trade union or the representatives of the workers on an equal footing"*.

Given the situation, workers' mobilization to improve pay and working conditions and strengthen the trade union presence took place in three ways: legal action, collective protests (strikes and others) and online organization. Legal action meant filing a case through the formal system of labour dispute resolution: despite the limitations of individual legal actions they can be considered the *stepping stones to developing a long-term collective bargaining platform* (CLB, 2017).

At the same time, a wave of strikes took place from July 2016: four strikes in four days occurred at Walmart stores across different regions starting in a southern city of Nanchang, followed by another store in Nanchang and later in Chengdu and Harbin.

The Internet played a fundamental role as the creation of WCWA (Walmart China Workers' Association) represented *the most successful labour-related cluster of social media platforms in China's short history of social media* (CLB, 2017): more than 20.000 workers participated at online forums to discuss the organization of protests and criticize Walmart's management practises.

Although none of Walmart stores suddenly ceased the implementation of the Comprehensive Working Hours System, workers' protests had a symbolic impact because the possibility of acting collectively empowered them to defend their rights despite the opposition of capital. According to Anita Chan, a professor of sociology at Australian National University *"it is unprecedented for workers to organise this way. Most strikes are in one workplace. This is different. Walmart has many stores in China and uses the same management methods in all the stores. So these workers understand everyone's situation: they are all the same"* (Financial Times, 2016).

Positive signs started to be seen since 2017 when some Walmart stores cancelled the CWHS and reverted to the Standard Working Hours System but the most important act came directly from the government: Xi Jinping spoke at the 19<sup>th</sup> Party Congress about the necessity to struggle against corruption and improve welfare in particular at the workplace. The president highlighted the need to *"consolidate the tripartite system of government, trade union and enterprise negotiations so as to build harmonious labour relations and ensure that workers get a fair and decent income for their endeavours"*<sup>70</sup>.

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<sup>70</sup> Complete transcript of Xi Jinping's report to the 19th Party Congress, Xinhua News Agency (18 October 2017).

## 4. China's traditional position in GVCs and current threats

Chinese workers struggle coupled with the demographic changes outlined in chapter 2 constitute a big challenge for China for the survival in the world economy. Chinese economic role in the global economy must be analysed considering the strict relationship of countries and firms involved in the so-called "global value chains" (GVCs). China's economic development was based on the export-oriented industrialization model that was made possible thanks to the integration of economic activities on a global level. For many countries, as for China, the access to international markets was not achieved through the production and marketing of new products but joining global production and marketing networks consisting of different firms. The value chain approach in analysing the global economic integration of activities helps us to understand the functioning of the world economy and, in particular, China's development patterns.

### 4.1. GVCs analysis

In order to understand the position that China used to occupy since its opening up in 1978 in the global economy, it is needed to take a look at the concept of "global value chain" from the beginning of its development. The theory of GVCs represents the way to evaluate and understand the current economic paradigm and the consequent close interdependence of nations worldwide.

In the 1960s and the 1970s, the key economic actors in most international industries were large, vertically integrated transnational corporations. In this context, the link between firms in developed countries and markets in developing ones was mainly through the import-substituting industrialization (ISI) model of growth established since the 1950s. Adhering to this model, developing countries in Latin America, Eastern Europe and part of Asia sought to decrease their dependence on developed countries thus creating local economies almost self-sufficient and home products competitive with imported ones. Under ISI policies, *industrialization meant building the whole supply chain at home* (Baldwin, 2011): as the communication technology was rather simple, complex production stages required extreme proximity thus all the manufacturing processes had to be performed inside the single factory (or industrial district). In this

perspective, the necessary competencies and know-how must be found domestically implying that countries could be competitive only thanks to a solid industrial base.

From the 1970s, the ISI model was gradually replaced by a contrasting development policy defined as export-oriented industrialization (EOI) that consisted in favouring the industrialization process through exports: exporting to larger trade partners, developing countries had the opportunity to benefit from scale economies and learning capabilities. Doing so, *the rapid expansion of industrial capabilities and export propensities in a diverse array of newly industrializing economies in Asia and Latin America allowed transnational corporations to accelerate their own efforts to outsource relatively standardized activities to lower-cost production locations worldwide* (Gereffi, 2014). The close interdependence between countries has been favoured since the 1970s by the phenomenon of globalization through the flows of good, services and financial capital worldwide. In particular, with globalization's second unbundling as theorized by Richard Baldwin<sup>71</sup>, the ICT revolution and the consequent decreased in transmission costs enabled the geographical dispersion of production activities, once performed in close proximity, without a considerable loss in efficiency or timeliness: in this way, firms could seek for the most convenient location to perform specific production activities.

All these elements led to consider the global economy *as consisting of complex and dynamic economic networks made up of inter-firm and intra-firm relationships* (Gereffi, 2014). The concept of global value chain is considered the best way to analyse and explain *the international expansion and geographical fragmentation of contemporary supply chains* (Gereffi, 2005).

According to Gary Gereffi (2005) the globalization of production and trade are the two main factors that led to the growth of industrial capabilities in most developing countries through the vertical disintegration of transnational corporations. However, the concept of the geographic dispersion of economic activities throughout national boundaries that can be conceived as "internationalization" is not a new phenomenon: the novelty of "globalization" stands on the functional integration between these geographically

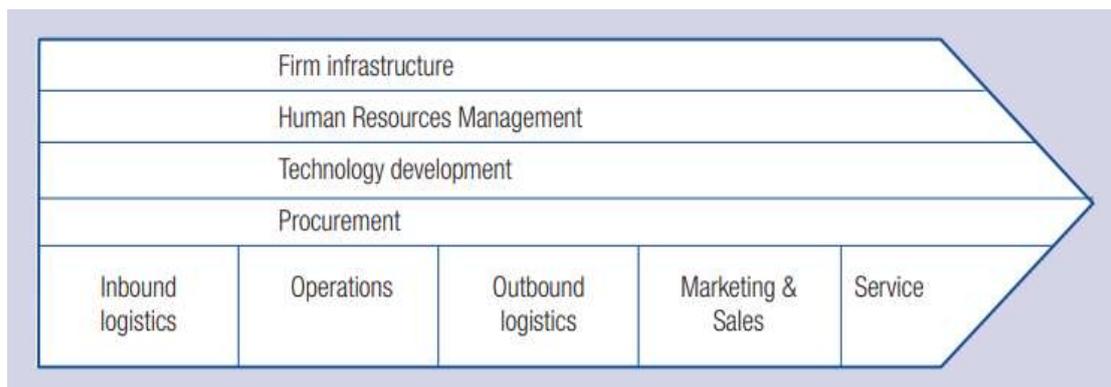
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<sup>71</sup> For Baldwin, globalization's first unbundling was the introduction of railroads and steamships thus resulting in the falling of trade costs that enabled to spatially separate production and consumption.

dispersed activities and the value chain perspective is a tool to understand the form that this integration takes.

#### 4.1.1. GVC's concept development

In 1985, Michael Porter introduced the concept of “value chain” in its best-seller *“Competitive Advantage: Creating and Sustaining Superior Performance”*: the author identified the value chain as the set of nine activities that a firm performs in order to deliver value to its customers. The definition encompasses an array of activities starting from the conception of the product, passing through the different manufacturing stages and ending with its distribution (or post-sale service). Porter divided the steps involved in the process in two categories: primary activities (such as operations, sales & marketing) and support activities (human resources management, technology development etc.) as figure 16 shows.



**Figure 16.** Primary and support activities according to Michael Porter's definition of value chain. Source: Porter (1985).

From 2000s the concept of value chain was enriched by Gary Gereffi with the introduction of the “global value chain” (GVC) theory. It can be seen as an extension of the definition of “value-added chain” that is *the process by which technology is combined with material and labor inputs, and then processed inputs are assembled, marketed, and distributed*. A single firm may consist of only one link in this process, or it may be extensively vertically integrated (Kogut, 1985). While a value chain can be concentrated within a single area or even a single firm, a global value chain involves multiple firms and geographic locations as it *focuses on globally expanding supply chains*

(Gereffi, 2014). Through the analysis of the activities performed by firms and workers to bring a product to the market, the GVC approach offers a holistic view of global industries from two levels: top-down and bottom-up. The top-down view considers the form of governance in the chain that means the inter-firm linkages while the bottom-up perspective focuses on the concept of “upgrading” that encompasses the strategies used by countries to maintain or improve their positions in the world economy.

According to Feenstra (1998), GVCs are the result of the integration of trade and the disintegration of production at the global level. Firms look for the optimal level of disaggregation of their operations over the value chain redefining their core competencies: the outcome is the focus on the highest value-added activities such as R&D and marketing and the simultaneous reduction of direct ownership over non-core functions. In this context, *the logic of comparative advantage helps to determine where the value-added chain should be broken across national borders, competitive (or firm-specific) advantage influences the decision on what activities and technologies along the value-added chain a firm should concentrate its resource in* (Gereffi, 2005). Scholars adopt the term “vertical specialization” of trade to refer to the phenomenon that is realized when a country uses imported intermediate goods to manufacture the product it later exports: the idea is that firms are sequentially linked in the production networks chain without the requirement of a vertical integration of firms involved. Fragmentation (i.e. the physical separation of different parts of a production process) is the phenomenon that allows the creation of cross-border production networks and the consequent growth of international trade occurring in components and intermediate goods.

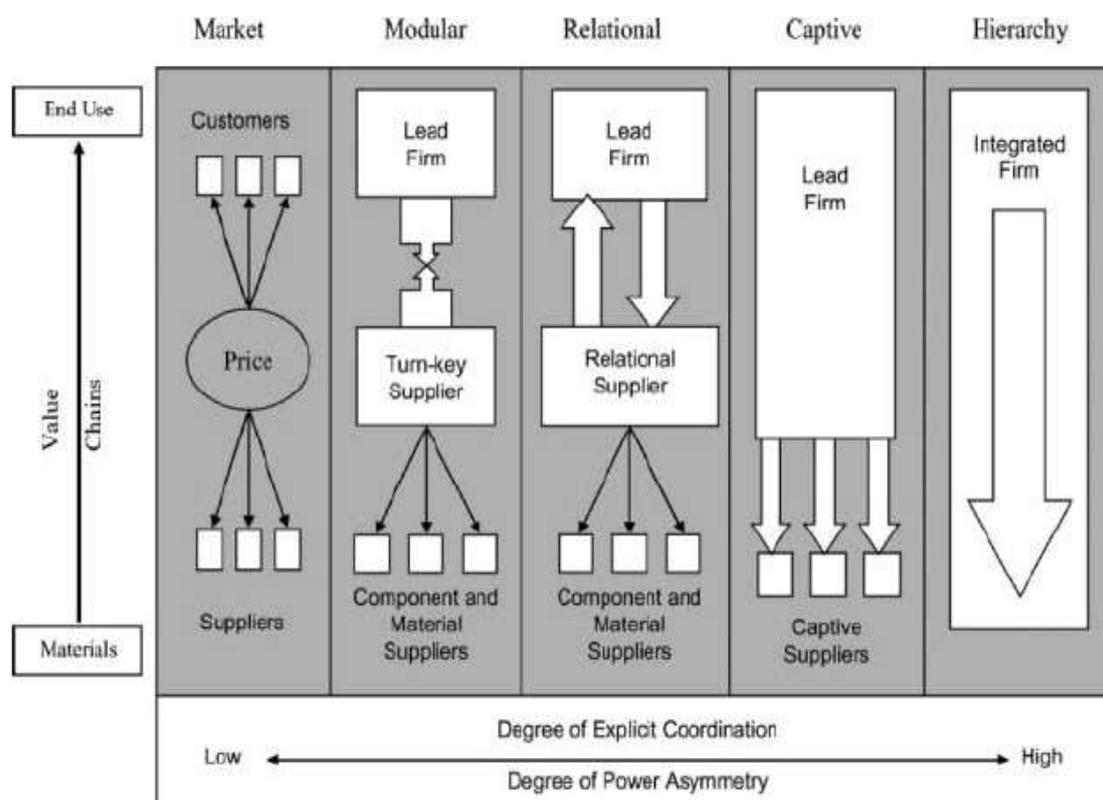
The GVC framework shed light on the effects of organizational fragmentation in the global economy, contributing to understand the nature and the content of linkages among firms and the power that regulates value chain coordination. Gereffi, the pioneer of the GVC concept, analysed the organization of the global production and constructed a theory of value chain governance considering three factors:

- i. the complexity of transactions;
- ii. the ability to codify transactions;
- iii. the capabilities in the supply-base.

Governance Type	Complexity of Transactions	Ability to Codify Transactions	Capabilities in the Supply-base	Degree of Explicit Coordination and Power Asymmetry
Market	Low	High	High	Low ↑↓ High
Modular	High	High	High	
Relational	High	Low	High	
Captive	High	High	Low	
Hierarchy	High	Low	Low	

**Figure 17.** Key determinants of global value chain governance and resulting governance forms (Gereffi et al., 2005).

The mix of these variables determines eight different combinations of which only five identify actual global value chain types while the remaining combinations are unlikely to occur.



**Figure 18.** Five global value chain governance types (Gereffi et al., 2005).

Governance shows the extent to which firms' power influences the distribution of profits in an industry. GVCs are called producer-driven or buyer-driven according to who between suppliers and lead firms exert more power.

The five combinations possible belong to a continuum that goes from arm's length relationships to a vertically-integrated firm. The governance types resulting are the following:

- I. *Market*. Arm's length relationships arise when product specifications are simple, transactions are easily codified, the complexity of information exchanged is low and thus the explicit cooperation between participants (buyers and sellers) is not required and price is the only unit of measure. The absence of asset specificity makes the cost of switching to new partners low for both producers and buyers.
- II. *Modular*. Suppliers in modular value chains make products to a customer's specifications and take full responsibility for process technology and often use generic machinery that spreads investments across a wide customer base thus limiting transaction-specific investments. Information can be easily codified so a strict relationship among parties is not required and this keeps switching costs low.
- III. *Relational*. Product requirements cannot be codified and transactions become more complex: since frequent interactions and knowledge sharing occur between parties, a relationship of mutual dependence and trust is built over time and it is regulated through reputation, social and spatial proximity. Supplier capabilities are expected to be high and firms outsource to have access to complementary capabilities.
- IV. *Captive*. When both product specifications are complex, knowledge is difficult to codify and high suppliers' capabilities are low, producers are "captive" since lead firms exert great control. Suppliers are dependent on lead firms' complementary activities (such as design) and the fact that they are locked-in by firms' needs makes switching costs relatively high for producers (ex. Foxconn).

- V. *Hierarchy*. Vertical integration is the only solution feasible when product specifications are complex, there is no possibility of codification and highly competent suppliers cannot be found. For these reasons, activities are performed in-house.

#### **4.1.2. China's role in GVCs**

The emergence of GVCs represented an opportunity for developing countries to integrate into the global economy: they no longer needed to develop entirely domestic industries to export but they could access global markets by specializing in specific products or tasks within a value chain. The opening up and joining of global trade by developing countries can be considered the hallmark of globalization and, time by time, the participation in GVCs represented a prerequisite for countries' economic prosperity. Alongside being a first step to economic development, due to global production networks and global markets access, participation in GVCs figured out as a way to build and upgrade productive capabilities with lead firms, benefiting from the transfer of knowledge, technology and investments. Moreover, standardization of both products and production processes through the breaking of production into modules with a high degree of functional autonomy (i.e. limited mutual interference between modules) favoured the joining of developing countries in global value chains, especially regarding the automotive and mobile phone sectors.

China and other developing countries joined GVCs offering unskilled labour to firms in developed countries that were seeking for lowering production costs: as developing economies were more abundant in unskilled workforce and scarce in skilled labour and capital compare to world averages, they tended to participate in lower-skilled segments of value chains. *This has often led to "thin industrialization" where a country succeeds in entering an industry but only in low-skill labour-intensive activities, without the ability to upgrade* (UNCTAD, 2015). Since 1990s, developing countries recorded a sharp rise of manufactured goods in their export such as apparels, electronics and automotive. Alongside with the export degree of manufactured products, trade in intermediate

goods<sup>72</sup> was considered a proxy of the fragmentation of production in the context of GVCs: exchanges in intermediate goods accounted for about 55 per cent of world trade in 2011 and 58 per cent of developing countries exports (UNCTAD, 2015).

Integration into GVCs requires the establishment of business environments that favour the international flow of goods, capital and knowledge in the view that costs involved at each production stage added along the value chain make GVCs sensitive to trade measures. Hence, policies about trade liberalization designed for tariff reduction facilitated the surge of GVCs. China is known for the lowest trade costs on imports in the Asian region: favourable tariffs facilitate the importation of intermediate goods thus making the country more attractive for GVCs activities. Considering the values of merchandise imports and exports of developing countries in 2012 showed in figure 19, China's data highlight its strong position in the world economy.

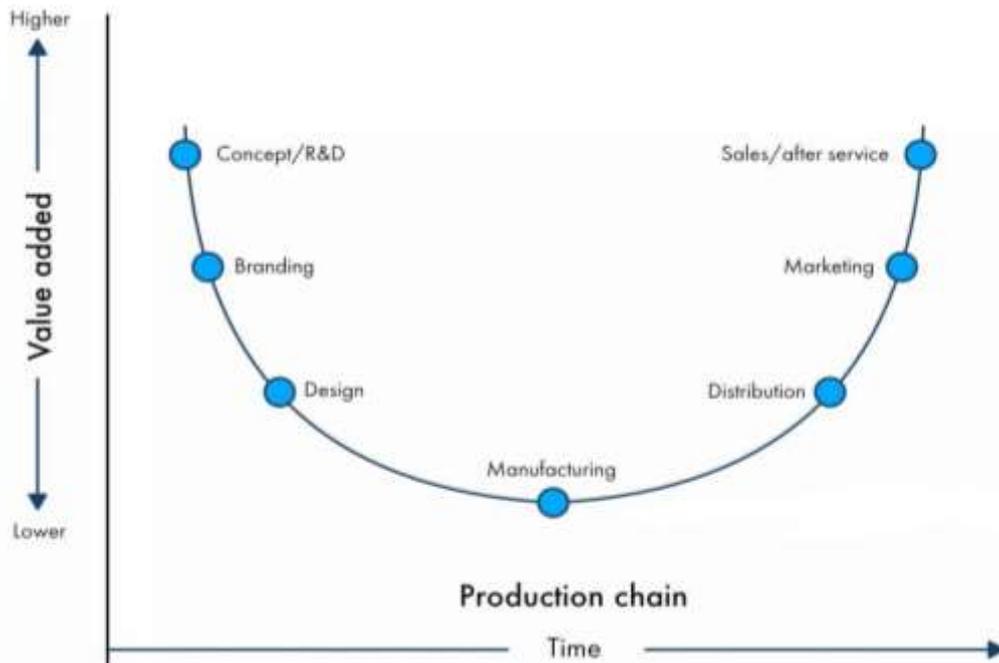
Developing economy	Values of merchandise imports	Values of merchandise exports
Singapore	379 723	408 393
Hong Kong, China	553 486	492 907
Malaysia	196 615	227 388
Republic of Korea	519 584	547 770
South Africa	124 245	87 256
China	1 818 405	2 048 714
Tunisia	24 447	17 008
Philippines	65 350	51 995
Thailand	247 590	229 519
Taiwan Province of China	270 473	301 181

**Figure 19.** Values of merchandise imports and exports in top 25 developing economies ordered according to GVC participation rate in 2012 (\$ millions). Source: UNCTADstat (2013c).

Considering that the GVC approach highlights *the relative value of those activities that are required to bring a product or service from conception, through the different phases of production* (Gereffi et al., 2001), the use of the “smile curve” makes clear how value added is distributed among countries and industries via GVCs. The concept of the “smile

<sup>72</sup> Intermediate products are semi-finished goods used in the production of other products.

curve” was first introduced by Stan Shih<sup>73</sup> in 1992 when he pointed out that in the PC industry, the highest value-added activities were concentrated at the ends of the value chain while the stages in the middle part of the chain were the lowest value-added. Then it was widely used in the business management theory to graphically represent the distribution of value-added along the different stages involved in bringing a product to the market in manufacturing industries.



**Figure 20.** The Smile Curve. Source: [www.oecdobserver.org](http://www.oecdobserver.org).

As the figure suggests, R&D and after-sales service are the highest value-added activities while manufacturing is the lowest value-added stage in the production chain: branding, design, distribution and marketing stand in the middle. The graph highlights the dynamics of rents in GVCs that are increasingly determined by intangible assets (such as branding and marketing).

In order to assess a country’s position in GVCs, the balance of payments and traditional statistics based on gross levels of trade appear to be increasingly inadequate indicators. Considering the international dispersion of productive activities and the uneven distribution of value, export shares should be analysed in value-added terms to assess a

<sup>73</sup> Stan Shih is the founder of Acer, a technology company headquartered in Taiwan.

country's competitiveness in the global scenario. Moreover, product-level GVC analysis represents the most effective way to estimate the geographical distribution of value-added. The focus on production of iPods is the classical example to understand the functioning of GVCs and each country's gain in such a system. In the case of Apple products, they are assembled in China from several components and parts that are sourced from around the world: considering the sale of an iPhone, Apple's profits account for 58.5% and China labour's gain is close to 2%<sup>74</sup>. This example constitutes an evidence of the discrepancy between a country's gross and value-added trade.

Among the researchers that tried to estimate a country's position in the global value chain, Koopman<sup>75</sup>'s contribution is considered the most accurate. To assess China's manufacturing position, he decomposed gross exports<sup>76</sup> considering the value-added sources and destinations in order to evaluate whether a country lies in the upstream or downstream of global production chains. China's gross exports were divided into five different value-added components:

- I. Domestic value-added embodied in exports of final goods and services;
- II. Intermediate goods used by the direct importer to produce its domestically needed products;
- III. Intermediate goods used by the direct importer to produce goods for third countries ("indirect value added exports");
- IV. Intermediate goods used by the direct importer to produce goods shipped back to source ("reflected domestic value added");
- V. Value-added from foreign countries embodied in gross exports ("foreign value added used in exports").

Then, based on the aforementioned decomposition, quantitative indexes as the *GVC position index* and *GVC participation index* are calculated. The values of these indexes are considered in comparison with those of other countries from the developed (EU,

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<sup>74</sup> See figure 10.

<sup>75</sup> Robert Koopman is Chief Economist and Director of the Economic Research and Statistics Division at the World Trade Organization.

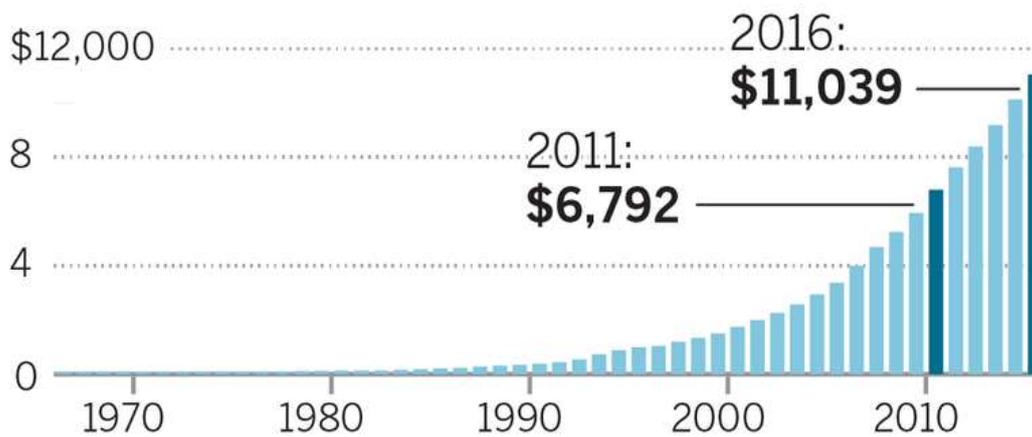
<sup>76</sup> The values on which the study is based come from OECD-WTO Trade in Value Added (TiVA) database.

Germany, US, Japan and Korea) and the developing world (Mexico, India, Thailand and Vietnam) in the range 1995-2011. GVC participation index measures the extent of a country's or a sector's involvement in global value chains while GVC position index explains the relative downstream or upstream position of a country or a sector in the GVC.

Data about countries' gross exports in 2014 show that China's manufacturing holds a significant role in the global trade since it exceeded any other country, also the developed ones (except for EU), a fact that highlights its reputation as the "biggest manufacturing" country in the world. This was due to the amount of foreign inputs in China's exports but the same result considered in value-added terms is significantly lower. Koopman's analysis helps explaining the reason of this apparent contradiction. GVC position indexes of the 10 countries selected suggest that most of the developed countries positioned their manufacturing in upstream links of GVCs conversely developing countries lie downstream. This means that components and intermediate goods are produced in developed countries and then exported to developing countries (for assembling). China's manufacturing shows the lowest GVC position index, an evidence of the low value-added of Chinese activities in the chain. Concerning the GVC participation index, developing countries show the highest results (China and Vietnam) than the developed ones, except for EU, explaining the importance of GVCs for these countries' manufacturing.

#### **4.2. The threat of ASEAN countries for China's position in the GVC**

Recently China's position in the GVC has been undermined by different factors that has gradually made it less attractive in terms of labour costs compared to other developing countries in Southern Asia. Labour costs in China rose dramatically since 2011: according to China's National Bureau of Statistics average annual wages increased by 63% between 2011 and 2016.



**Figure 21.** Average annual wages for Chinese workers (in US dollars).  
Source: China's National Bureau of Statistics.

The increasing number of labour disputes since 2010 can explain the growing of labour costs only in part because other factors to be blamed are more inherent in Chinese demography. As discussed in Chapter 2, working-age population is declining dramatically resulting in a labour shortage that does not allow the country to sustain the pace of productivity that made it the second largest economy in the world.

The so-called "China Miracle" refers to the economic boom that the country experienced since the opening-up reforms in 1978 and lasts until nearly 2014. The main driver of Chinese economic development was the large availability of cheap labour once supposed as an inexhaustible source. However, as the implementation of the "one-child policy" has gradually resulted in a smaller pool of workers available and the pressure from employees to live a decent life gave rise to considerable labour manifestations, the country found the basis of its competitive advantage no longer sustainable. In addition, the new generation expected to drive China's next economic transformation are better educated as they are more likely to have completed high school (and college in some cases) and they care more about the quality of their life than money alone: according to Euromonitor, the graduates in technical fields increased by 18% between 2011 and 2016. Given that working-age people are shrinking, the situation worsens considering that better educated young people seek for high-level jobs, not those at the shop floor level thus reducing the number of workers available for low-skilled tasks.

The period that follows the Chinese Lunar New Year known as the “jobs season” shed light on the status of employment in China, particularly on employees’ attitude. Young people who belong to the so-called “job-hopping generation” tend to seek for a new occupation when they come back home during the Chinese New Year holiday: they consider this period as the best time to hunt for the dream job that offers a better salary and other benefits. This behaviour is more common among white-collars employees but evidence suggest that the issue involves also workers at the factory level: data from an Italian small appliance manufacturer that has production plants in Guangdong reveals that every year production planning in January and February is arranged considering the potential missing of part of the workforce. An analysis based on January and February 2018 shows that the discrepancy between workers physically in the factory and the workforce originally planned needed for production gives rise to an economic loss of 26% on average<sup>77</sup>.

In the case of production facilities based in the southern areas, the issue involves mostly workers that come from the northern and central provinces that are increasingly developing and where workers can find new economic opportunities closer to their home. One strategy that companies can use to retain workers is to give the annual bonuses after the Lunar New Year, not before as the usually do. Doing so, workers are attracted to come back after the holidays. Despite this practice, companies are forced to raise wages in order to prevent people from leaving their job and this finally result in higher labour costs.

#### **4.2.1. The MITI-V countries**

The offering of cheap workforce was the tool that China used to integrate into the global economy but its position is currently threatened by the growing labour costs and the contemporary rise of other developing countries among the ASEAN nations that could replace China as the manufacturing hub of the world. Many companies are facing the issue of the higher labour costs pursuing the so-called “China plus one” strategy. The objective is maintaining existing facilities in China and adding new plants in other Asian

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<sup>77</sup> Data collected from an interview with a company’s supply chain planner.

countries favourable in terms of cost advantage. The idea is not to shut down production plants completely in China (at least in the mid-term) but adding new operations to supplement current production considering the strong supply chain network, infrastructure, and knowledge base still present in China. In fact, despite companies usually seek for cost reduction, relocation involves a huge number of factors including the easy of doing business, a favourable policy environment, good quality infrastructure, a large internal consumer market and not just labour costs alone. Thus moving out of China and entering a new country as production site and new consumer market from scratch is considered too risky while maintaining both plants represents a more viable way. Nevertheless, little by little, companies could totally move production to new attractive developing countries and that represents a big threat for China's prosperity as it must abandon the label of "world's factory".

Countries that could replace China's manufacturing position at the global level are included in the acronym MITI-V ("Mighty Five"): Malaysia, India, Thailand, Indonesia and Vietnam. All these countries have a competitive advantage over China in the manufacture of labour-intensive commodity type goods such as apparel, toys, textiles and consumer electronics. Through a survey of over 500 leading corporate executives worldwide, Deloitte Touche Tohmatsu and the US Council on Competitiveness published a report "2016 Global Manufacturing Competitiveness Index (GMCI)" that forecasts these nations among the top 15 countries in the world as manufacturing destination by the end of the decade. The Deloitte's 2016 Global Manufacturing Competitiveness Index shows China as the most competitive manufacturing country like in the previous indexes calculated in 2010 and 2012, but its position should be taken into account only "for now" since other developing countries in the Asian regions are expected to replace it in the near future (see figure 22).

2016 (Current)			2020 (Projected)			
Rank	Country	Index score (100=High) (10 = Low)	Rank	2016 vs. 2020	Country	Index score (100=High) (10=Low)
1	China	100.0	1	(▲ +1)	United States	100.0
2	United States	99.5	2	(▼ -1)	China	93.5
3	Germany	93.9	3	(↔)	Germany	90.8
4	Japan	80.4	4	(↔)	Japan	78.0
5	South Korea	76.7	5	(▲ +6)	India	77.5
6	United Kingdom	75.8	6	(▼ -1)	South Korea	77.0
7	Taiwan	72.9	7	(▲ +1)	Mexico	75.9
8	Mexico	69.5	8	(▼ -2)	United Kingdom	73.8
9	Canada	68.7	9	(▼ -2)	Taiwan	72.1
10	Singapore	68.4	10	(▼ -1)	Canada	68.1
11	India	67.2	11	(▼ -1)	Singapore	67.6
12	Switzerland	63.6	12	(▲ +6)	Vietnam	65.5
13	Sweden	62.1	13	(▲ +4)	Malaysia	62.1
14	Thailand	60.4	14	(↔)	Thailand	62.0
15	Poland	59.1	15	(▲ +4)	Indonesia	61.9

**Figure 22.** 2016 Global Manufacturing Competitiveness Index rankings by country. Source: Deloitte Touche Tohmatsu Limited and US Council on Competitiveness, 2016 Global Manufacturing Competitiveness Index.

#### 4.2.2. India

All of the MITI-V countries have their own distinct advantages and disadvantages but generally they appear attractive for manufacturers worldwide not only for lower labour costs but also for tax incentives including tax exemptions or reduced import duties or those on capital goods and raw materials used in export-oriented production. Among the MITI-V, India stands out as the next low-cost manufacturing hub in the world due to its huge internal market and low labour costs. India is currently the seventh-largest economy in the world in GDP terms and the second most populated country with a current growth rate at 1.02% according to the World Population Review 2019. The country has doubled the size of its population in just 40 years and is expected to overtake China as the most populated country worldwide in the next decades. Such a considerable population growth is a favourable element for companies both for the availability of workers and the size of the internal market.

India's labour market strengths are in the presence of a mix of high- and low-skilled workers alongside with a large base of university graduates (such as researchers and engineers). Labour at the manufacturing plants is cheaper than in China: in 2014, the average cost of manufacturing labour per hour was \$0.92 in India and \$3.52 in China. Additionally, the government started a campaign in 2014 called "Make in India" with the

objective of increasing the contribution of manufacturing to GDP growth at 25% (the rate is currently at 15%). The campaign aims at transforming India as the new manufacturing hub at the global level and a set of policies have been established to attract foreign investments and inspire confidence in India's capabilities.

In order to understand the offering of cheap unskilled workforce that makes India a choice of destinations for many companies, an analysis of the Indian labour law can give an explanation whether current labour legislation is able or not to protect workers' interests. Together with China, India is seeking for a relevant position in the global economy and a legislative framework that protect workers' from management abuses represents the tool to prevent that the costs of competition are bored by the workforce. Regarding the relationship between India and the ILO, the country has ratified six of the eight fundamental conventions: the Forced Labour Convention (1930), the Equal Remuneration Convention (1951), the Abolition of Forced Labour Convention (1957), the Discrimination (Employment and Occupation) Convention (1958), the Minimum Age Convention (1973) and the Worst Forms of Child Labour Convention (1999). Conventions still not ratified are the Freedom of Association and Protection of the Right to Organise Convention (1948) and the Right to Organise and Collective Bargaining Convention (1949), the same as China.

Labour in India is regulated by the India's Constitution (1950) that enables a joint jurisdiction between the central (federal) and state governments (local): they both have the right to enact legislation in this area. There are many labour laws considering that there is a different legislation for each groups of workers. This differs from China where the national law has the supremacy in labour and local governments can establish different working conditions at the extent that the general guiding principles of the national law are followed. According to the Factories Act (1948), workers are permitted to have a day of rest considering a working period of 6-days a week with nine hours maximum per day and 48 hours per week of work<sup>78</sup>. Moreover, managers must fill a register of the workforce and workers are not allowed to work unless their name and other particulars are recorded<sup>79</sup>. Overtime is allowed in particular for periods of stock-taking or account preparation and workers are entitled to gain twice their ordinary rate

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<sup>78</sup> Factories Act (1948). Clause 51, 54.

<sup>79</sup> Factories Act (1948). Clause 62.

of wages<sup>80</sup>. Since every state has the discretion to set its own rules, there is not a general maximum of overtime hours fixed and overtime periods varies from 3 to 12 hours per week.

The work of trade unions is prescribed by the Trade Union Act (1926) and since the act they have expanded relatively slowly. Most unions are characterized by a small size and small membership that varies across industries: the average membership per union in India is less than 800 compared with UK (17,600) and US (9,500). Due to their small size, unions suffer from lack of financial funds and this makes difficult to engage the services of experts to aid and to advise members in time of need. In addition, they are not able to face the challenge of employers for long because of their weak bargaining power. Alongside the low bargaining power of unions, workers are usually exploited by trade union leaders due to the fact that the majority of Indian workers are illiterate, ignorant and poor. These workers are usually not conscious about their rights and they often trust what eventually turn into false promises by union-leaders and politicians.

Apart from the ineffectiveness of trade unions activity, the major issue for the protection of Indian workers' interest is that, although Indian labour legislation appears quite complete, India's labour force remains largely in the informal economy which is not effectively covered by the labour regulation. This phenomenon represents the key for employers to offer low wages in particular to low-skilled workers thus making India an attractive location for investment in low-cost manufacturing.

Additionally, the joint constitutional jurisdiction over labour makes norms different across sectors and workers' groups and this influences the transparency in Indian law because it creates doubts about which laws apply in which instances.

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<sup>80</sup> Factories Act (1948). Clause 59.

## **5. Moving up the value chain: towards an innovation-driven development**

The traditional position of China as the world's factory together with its export-driven model of development have exhausted their potentials for the country's future prosperity. Afterwards the world's financial crisis in 2008, China experienced a gradual economic slowdown proved by the beginning of the country's GDP decline since 2010 (see figure 11) that led to the so-called China's "New Normal": the term was first used by Xi Jinping in 2014 to indicate that China was entering a period of slower growth rate. The imbalance between investment and consumption forced the country to promote a growth pattern more focused on domestic consumption that requires a rise in wage incomes. Increased labour costs were also caused by workers' protests and the labour shortage that affected the country as a consequence of the one-child policy. Therefore, the extensive use of cheap labour force that had fuelled China's competitive advantage for many years, it is now facing its limits. The situation for the country is even worse considering that other countries' offer of cheap labour is increasingly attracting foreign investments that are thus moving away from China to these new destinations (specifically the MITI-V nations). In this context, China is forced to improve its position in the GVC in order to survive and needs to find another source to compete in the global economy. The country is seeking to move up the value chain through industrial upgrading away from low-value-added activities towards innovation and technologically advanced production processes.

### **5.1. The 2025 Made in China Plan**

The Chinese Academy of Sciences, the Ministry of Industry and Information Technology (MIIT) and the Ministry of Research and Technology are the main proponents of the "Made in China 2025" plan issued by Li Keqiang in 2015. The masterplan promotes China's transition from low-cost production towards intelligent manufacturing and the focus on higher value-added activities in the GVC. Germany's Industry 4.0 is frequently mentioned and used as reference but the Chinese plan differs for its involvement in a much broader context of socioeconomic rebalancing rather than a mere focus on the introduction of cyber-physical systems at the manufacturing level. The plan's objective

is to enable China to gain the label of “advanced manufacturing powerhouse” at the global level and to reach the rate of 30 percent of hi-tech industries contribution to the country’s GDP growth within 2025.

*China seeks to end its reliance on international technology and upgrade its industrial capability and smart manufacturing by ensuring that innovation, product quality, efficiency, and integration drive manufacturing across 10 key industries<sup>81</sup> :*

- I. Robotics;
- II. Information Technology;
- III. Aviation and aerospace equipment;
- IV. Railway equipment;
- V. Power equipment;
- VI. New materials;
- VII. Energy-saving and new energy vehicles;
- VIII. Agriculture machinery and equipment;
- IX. Medicine and medical devices;
- X. Maritime engineering equipment and high-tech maritime vessel manufacturing.

The project involves all kinds of companies including large- and small-scale, state-owned and private enterprises. In the initiative of upgrading the country’s industrial base, the government attempts through a top-down approach to direct domestic companies’ mindset *toward a stronger focus on quality, efficiency, sustainability and capacity for both R&D and innovation<sup>82</sup>*. The government set clear targets to be achieved in these categories within 2025. For example, innovation capabilities are divided into two indicators: R&D cost/revenue and patents measured in billion RMB of revenue. Regarding the former, it is expected a growth from 0.95 percent in 2015 to 1.68 percent in 2025; for the latter, the increase is set to be from 0.44 in 2015 to 1.10 billion RMB in 2025. Moreover, the government is the promoter of a considerable funding campaign in which State-owned banks offer subsidies, low-interest loans and bonds, especially for small and medium-sized enterprises.

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<sup>81</sup> Institute for Security & Development Policy, *Made in China 2025*, Backgrounder, 2018.

<sup>82</sup> European Union Chamber of Commerce in China, 2017.

Innovation represents the core driving force of Chinese economic growth under the “New Normal”. If previously Chinese enterprises mostly relied on cost advantages to compete in the world economy, they want to enhance their innovative capabilities in order to avoid the achievement of innovation through foreign investments, as did happen for years. Innovation has become gradually more important for developed countries seeking for a sustained economic growth and the same occurs for nations that aspire to the developed status, such as China. The “Made in China 2025” plan deals with “indigenous innovations” and “self-sufficiency” to stress the aim of creating an innovation-based economy led by Chinese firms and industries: China’s history marked by low R&D intensity at the enterprise-level and a low transformation rate of scientific research achievements represent one of the factor that influences the survival of Chinese firms in the future. The strategic scenario expects Chinese brand-name firms and technological providers acquiring a leading position both in domestic and global production networks. In this way, innovation does not imply only the deployment of robots and several other technologically advanced equipment but also the reconfiguration of value chains.

Huge investments are planned to finance the creation of a network of manufacturing innovation centres at the national level that will be developed from existing state-owned enterprises or will took the form of joint ventures in the private sector: there will be 15 innovation centres by 2020, according to the plan. Such innovation clusters will promote *the agglomeration of innovative companies and efficient use of innovation resources* in the view of Wu Hao, a member of the National Development and Reform Commission. The underlined perspective is that firms which become technological standalone are unlikely to help the home country to move into higher value-added activities while the real engine seemed to be global technology ecosystems that perform open source innovation solutions. These global innovation hubs (also called “innovation demonstration zones”) will be established in Beijing, Shanghai, Hangzhou, Chengdu, Shenzhen and Guangzhou. Government’s support comes in the form of tax revenue and

state-backed loans: a Xinhua<sup>83</sup> report revealed that funds amounted to more than 2 trillion yuan in 2015.

Despite the optimistic scenario planned by Chinese institutions, the analysis based on real data following the drafting of the plan reveals a slower growth rate than expected. A study carried out by the Renmin University of China in Beijing argues that the government's objective that sees the new industries accounting for 30 percent of GDP will take more than 35 years to be reached. The National Bureau of Statistics shows that the value-added output of new industries accounted for 15.7 percent of China's GDP in 2017, up only 0.4 percentage points from 2016. According to Zhang, a professor in the Institute of China's Economic Reform & Development at the Renmin University of China, the contribution of new industries to GDP should be close to 2 and 4 percent per year to reach the threshold of 30 percent in 2025.

#### **5.1.1. Industrial upgrading**

Arguing that China is moving up the value chain means that the country's focus is shifting away from low value-added activities to higher value-added ones with the objective of increasing profits. According to Gereffi (2014), the economic upgrading consists in the strategy used by countries, regions, and firms to maintain or improve their positions in the global economy.

The phenomenon of upgrading imply the acquisition of technological capabilities and/or market linkages that are needed to boost competitiveness and move into higher-value activities. The success of the upgrading strategy depends on the set of government policies, corporate strategies and worker skills put in place to sustain the shift in order to maximise value creation and learning.

In the GVCs context, Gereffi (2001) distinguishes four different forms of upgrading:

- Product upgrading: when moving into more sophisticated product lines;
- Process upgrading: when transforming inputs into outputs in a more efficient way through the use of superior technology or the reorganization of production processes (ex. moving from craft production to mass production);

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<sup>83</sup> Xinhua News Agency is the official state-run press agency of the PRC.

- Functional upgrading: when firms acquire new functions in the chain (such as moving from manufacturing to design or marketing);
- Inter-chain upgrading: when companies are able to transfer a competence acquired in a specific function in the chain to a new sector.

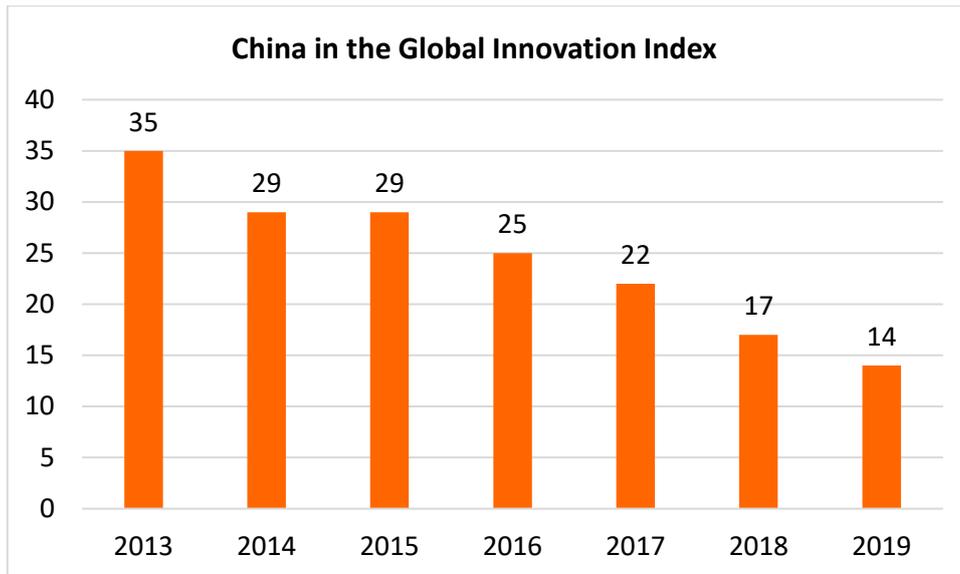
Considering the above distinctions, it can be assumed that China is performing a shift in the value chain that involves three types of upgrading that are interdependent: investments in R&D imply a functional upgrading that follows both a product and a process upgrading since innovation enable companies to produce more sophisticated goods and technology sustains the development of intelligent manufacturing.

### **5.1.2. R&D spending and other evidence of China's trajectory towards innovation**

To assess China's position in the world with reference to its innovation capabilities, the Global Innovation Index appears a useful tool. Co-published by Cornell University, INSEAD<sup>84</sup>, and the World Intellectual Property Organization (WIPO), it represents a reference on innovation and consists of a ranking of world economies' innovation capabilities. Data recorded go beyond the traditional measure of research and development alone to assess the amount of innovation projects undertaken by a specific country as it encompasses a broader vision that involves also the human aspects behind innovation. As figure 23 highlights, China improved its position year after year since 2014.

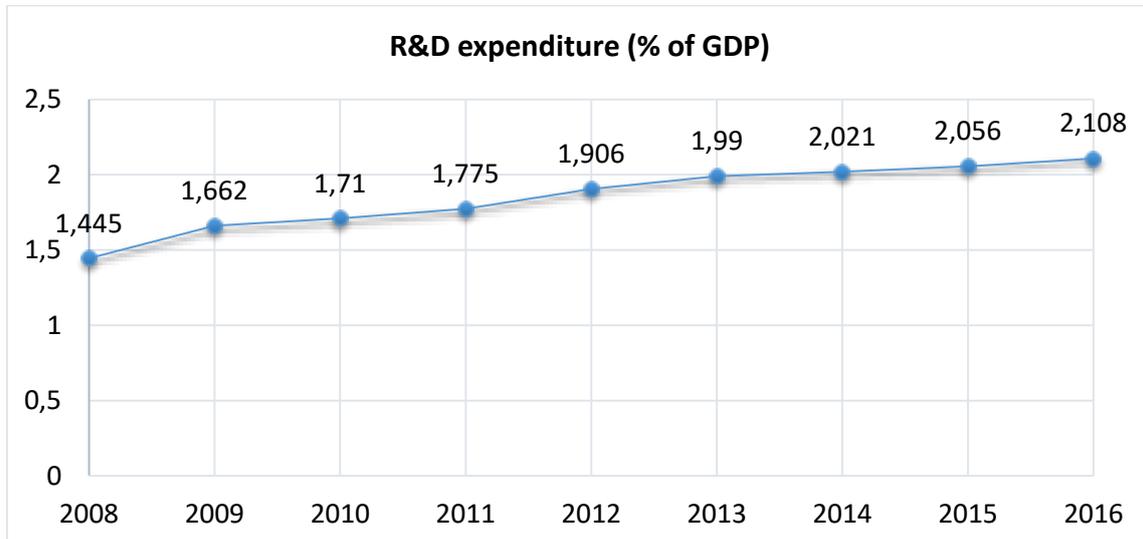
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<sup>84</sup> INSEAD (Institut Européen d'Administration des Affaires) is a graduate business school ranked among the best business schools in the world.



**Figure 23.** China's rank in the Global Innovation Index (data available from 2013). Source: [www.globalinnovationindex.org](http://www.globalinnovationindex.org)

The most common measures to evaluate a country's capacity for innovation are considered R&D spending and annual patent applications. Regarding R&D, China's expenditures as a proportion of GDP grew constantly since 2008 (see figure 24).



**Figure 24.** R&D expenditure as percentage of GDP (data available up to 2016). Source: World Bank.

The rate of China's R&D expenditure as a percentage of GDP exceeded 2% in 2014, positioning the country at the same level of EU 15 economies (OECD, 2017) and, in the 13<sup>th</sup> Five-Year Plan (2016-2020), the government set the goal of reaching R&D expenditure-to-GDP ratio of 2.5% by 2020. According to the Global Innovation Index

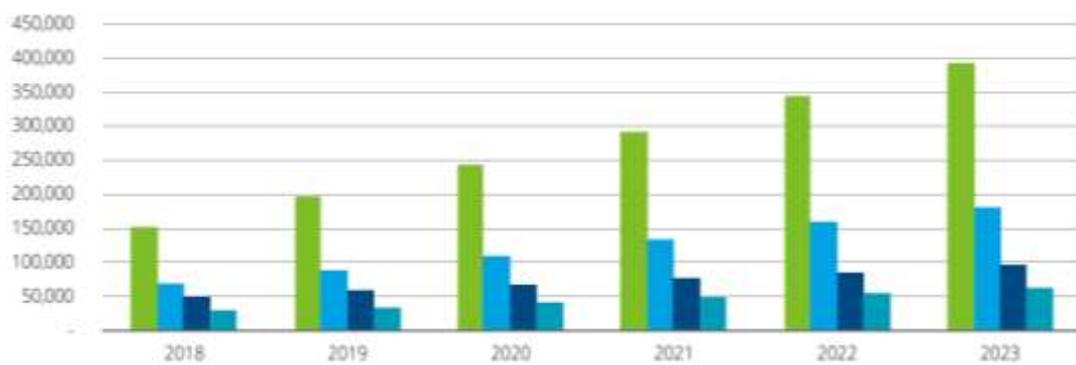
(GII), the country improved its position on R&D spending since 2014, reaching the 17<sup>th</sup> place in the rank.

To foster innovation, China focused in the setting up of innovation cluster cities like Beijing, Shanghai and Shenzhen and in the development of more than 130 high-tech parks and the so-called “innovation demonstration zones”. Beijing is known as technology innovation centre and 26 of 112 key national universities are settled in the city; Shanghai is the hub for life sciences and it is dominated by large enterprises while Shenzhen is labelled as centre of tech hardware innovation due to the proximity to electronics manufacturing companies. The Shenzhen and the Beijing hubs are ranked respectively at the 2<sup>nd</sup> and 4<sup>th</sup> place among the world’s largest science and technology clusters in 2019, according to the Global Innovation Index. Despite the efforts directed to promote R&D, a country is successful at innovation not only for scientific inventions, but also for the commercialization of ideas and technologies. China, in this sense, does not show significant outcomes and one of the main reason can be traced in the allocation of research funds among basic research, applied research and experimental development: only 4 percent of the total, in fact, is allocated to basic research (OECD, 2015). The protection of intellectual property rights appears to be critical for reaping the benefits of innovation and China is the first country in the world for the number of resident patent applications in the Global Innovation Index ranking since 2013. Two important Chinese clusters took place among the top 10 clusters ranking by patents according to a report of the World Intellectual Property Organization (WIPO) in 2017: Shenzhen and Beijing respectively at the 2<sup>nd</sup> and 8<sup>th</sup> place at the world level. Moreover, the Beijing cluster shows the greatest scientific publishing activity worldwide. Even though these important results, generally China is affected by inadequate IPR protection because the number of inventions exceed the rate of patent application: this could harm enthusiasm and initiatives for innovation among R&D centres.

### **5.1.3. Replacing humans with robots**

The considerable labour shortage experienced by China since 2008 shed light on the efforts enterprises should take to reduce the number of workers needed. Automation plays a critical role in this context since it enables companies to be productive replacing the workers unavailable with machines.

In 2013, China became the world’s largest consumer of industrial robots and it kept this leading position for six years in a row. According to data from the International Federation for Robotics (IFR), the Chinese market for robots accounted for 4.2 billion USD in 2017 and represented 27 percent of the global market. Estimates reveal an increasing growth that will reach the amount of USD 5.9 billion by 2020 while sales are expected to increase steadily and surpass also the developed countries known for their approach to technologically-advanced investments to a significant extent, as depicted in figure 25.



**Figure 25.** Industrial robot sales in major global markets. Source: IFR, Deloitte Research (2018).

The case of Foxconn highlights *the transformations in the dynamics between the state, capital and labour as China witnesses gradual change in development strategy gradually shifting from leveraging its “demographic dividend” to developing a “robot dividend”* (Huang & Sharif, 2017). The company<sup>85</sup> well known for its traditional reliance on a massive workforce and unfair working practises had replaced 60,000 workers with robots in 2016 due to the implementation of the industrial upgrading policy. With the introduction of advanced machines, the productivity per worker was expected to rise even if this is normally associated with fewer jobs available: in 2015 the total workforce (1.3 million in 2012) was reduced at 1 million and in 2016 to 800,000 while the company reached an unprecedented annual profits and was ranked 27<sup>th</sup> among the Fortune Global 500. According to the company’s management, they are applying robotics engineering to replace repetitive tasks previously done by the workforce and they are training employees in order to enable them to focus on higher value-added stages in the

<sup>85</sup> See “The Foxconn case” par. 3.4.1.

manufacturing process, such as R&D, process control and quality control. Actually, workers' position at Foxconn is that of attendants of the so-called "Foxbots" and they are relegated to dead-end jobs, such as spraying, welding, polishing and printed circuit board assembly. To make the condition of Chinese workers even worse, the manufacturing giant announced in 2015 the plan of starting twelve new factories in India, employing one million workers. Foxconn can be considered the best example to explain companies' behaviour in the current Chinese context: the introduction of advanced machines to increase productivity and replace workers too costly or unavailable goes hand in hand with the relocation of low value-added activities to close cheaper countries.

## **5.2. A key driver for automation: the labour market composition**

Automation would certainly reduce the number of workers needed in the production processes but the example of Foxconn's trajectory leaves doubts about the human costs of industrial upgrading. In other countries like Japan and Germany that approached automation earlier, labour unions had a strong bargaining power thus workers' interests are well protected. In China, on the contrary, the weakness of trade unions would affect the consequences for the workforce in the context of the intelligent manufacturing in terms of unemployment. According to the World Bank's Digital Dividends report issued in 2016, estimates for all economic sectors (agriculture, industry and services) reveal that the disappearance of low-skilled jobs in developing countries is likely to affect two thirds of all jobs. The Made in China 2025 Plan did not take into account the consequences for the labour market alongside the promotion of an innovation-driven strategy of development. Even though the plan was supposed to have a significant impact on work and labour markets, trade unions, the Ministry of Labor and Social Security and the labour bureaus at the local level did not participate in its drafting. Automation was launched to cope with the notorious labour shortages in key manufacturing industries but the assessment of the long-term impacts on the labour market and on skill development is not mentioned at all. As Butollo and Lüthje (2017) argue, *sustainable path of innovation-driven economic development would require fundamental changes in work systems, labour market regulation, professional education and industrial relations*. The potential impact of such a development on China's labour

market raise questions over the social consequences for the country and stresses the need to advance China's labour reforms ranging from the protection of individual to the institutionalisation of collective labour rights. This need is considered especially with regard to *the cheap labour regime and its reliance on low pay and long working hours that has been preserved by the non-implementation or non-enforcement of institutionalised collective bargaining mechanisms and codified labour standards* (Tsokhas, 2017). Therefore, the issue of labour standards has to be considered as part of the challenge to upgrade production in the age of digital manufacturing. *Sustainable industrial development calls for an integrated mode of development in which innovative technologies can support the creation of decent work and well-paid jobs* (Butollo & Lüthje, 2017).

### **5.2.1. The role of skill endowment in GVCs participation**

The phenomenon of upgrading that involves the shift in the nature of activities performed along the value chain, affects the link between GVC and the demand for skilled labour: higher value-added tasks, such as R&D, are more skill-intensive. In fact, what emerges is that technological innovation has lowered the demand for low-skilled workers relatively more than compared to high-skilled workers. In this perspective, China should put emphasis on the need to develop the skilled labour force required.

Considering the World Bank point of view, *the workforce development is defined as the process by which a territory's initial endowment of human capital is converted, through education, training and relevant services such as labor market intermediation, exchange and information, into a source of competitive advantage for firms and industries in the territory* (Gereffi et al., 2011). A skilled workforce is ranked among the most important assets of industrial development and a tool to enhance economic competitiveness. Hence, workforce development should not be considered as the sole domain of social policy but as integral element for industry competitiveness.

The harsh competition in GVCs raises the standard of quality and productivity of production processes and, therefore, the skill endowment of the workforce. Grundke et al. (2017) analysed the economic importance of different types of skills and proposed a framework of six task-based indicators that are critical for a firm's performance:

- I. Information and communication technology (ICT) skills;
- II. Readiness to learn and creative problem solving;
- III. Managing and communication;
- IV. Self-organisation;
- V. Marketing and accounting;
- VI. Science, technology, engineering and mathematics (STEM) quantitative skills<sup>86</sup>.

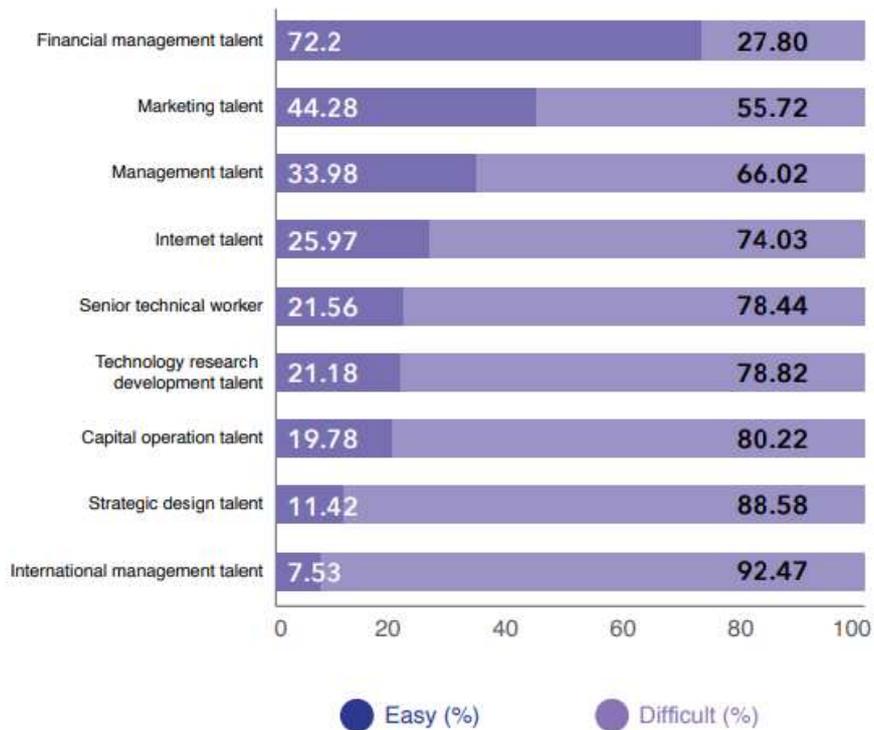
Among these indicators, ICT skills play a fundamental role in the ability of countries to participate in GVCs and high results in self-organisation suggest higher productivity. At the same time, managerial and organisational skills are critical due to the positive correlation between their development and a more efficient diffusion of digital technologies since digitalisation requires a good management to assist changing business processes. The study also highlighted that the traditional analysis of comparative advantage has focused on single skills thus ignoring their within-country dispersion and the importance of the skill bundle. Grundke et al. (2017) found that skill bundles (i.e. a mix of different skills at the worker level) are determinants of a country's performance in GVCs much more than individual skills. These findings suggest that the workforce should be equipped with these capabilities and education programs should be extended to bundles of skills rather than on the development of individual ones. Moreover, special training should be put in place to develop the skills needed by the market and particularly for unskilled workers, the category that is facing the highest risk of displacement in the digital era. Generally, anticipating the development of skills required in the production context and the deployment of the existing labour force constitutes two important imperatives for favouring the adaptation to the current challenges of international production chains. Both initial education and subsequent training are keys to develop the skills that the digitalisation era requires.

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<sup>86</sup> Marcolin L., Squicciarini M., *Investing in Innovation and Skills: Thriving through Global Value Chains*, Review of Economics and Institutions, 2018.

### **5.2.2. Skill shortages in China's labour market**

In its trajectory of industrial upgrading, China is facing numerous obstacles that cannot be solved with immediate reforms. Among them, the gap in supply and demand for skilled and highly skilled workers in the Chinese labour market represents a serious issue to be addressed as quickly as possible. The shift from labour-intensive activities towards smart manufacturing requires a labour force able to interact with the new technologies: as China had relied on low-skilled workers for long, it did not take into account the skill endowment of its workforce. The 2016 Global Manufacturing Competitiveness Index found that talent is the top driver of manufacturing competitiveness, even before cost competitiveness and productivity. Without the right skills available, the country will not be able to compete on the basis of quality and therefore the composition of the labour market must be fine-tuned to ensure China's competitiveness. In particular, China is facing two challenges: the shortage of skilled workers and the skill deficit faced by enterprises that are seeking for industrial upgrading. In fact, alongside with the number of skilled workers, the additional issue is that the skills available in the labour market do not meet companies' requirements. According to the Ministry of Human Resources and Social Security, skilled workers account for 19 percent considering the entire workforce, while the highly skilled labour constitutes only 5 percent. On the one hand, the majority of the workforce is constituted by low-skilled workers that are not ready to manage automation and, on the other, the skill endowment of the skilled workforce does not meet what companies need. According to the 2017 Hays Asia Salary Guide, 70 percent of employers in China stated the lack of right talents to pursue their business objectives. Moreover, a survey conducted by J.P. Morgan in collaboration with the Fudan University and the Tsinghua University (2016), shed light on the specific skills that those considered "skilled" workers lack. The most acute shortage is found in international management and strategic planning skills, two elements considered crucial as enterprises get more involved in the global division of labour.



**Figure 26.** Difficulties in acquiring talents in the nine skills included in the survey (J.P. Morgan, 2016).

The skills gap differs across regions, ownership types and firms size:

- i. as it has been found that the skills gap is negatively correlated with a province's economic structure and level of development, the shortage of skilled workers affect western regions more than eastern ones;
- ii. domestic companies face more problems than foreign-owned ones because foreign companies record higher labour productivity and wages and thus they are able to attract skilled workers more easily;
- iii. the lack of strategic planning and advanced technology research capabilities affect more small and medium size firms while skill shortage in large companies is related to capital management and Internet services.

The problems that China is experiencing in the composition of its labour market, together with the traditional reliance on unskilled workforce (with the consequent little incentives to develop skills) have to deal with the characteristics of the education system and the national culture embedded in it. The college system is more focused on academic studies than the market demand. Doing so, the skills of graduates do not match firms' needs, young students result unprepared for employment and their job

expectations inevitably fail. The surplus of qualified academics (without practical experience) and the contemporary shortage of qualified skilled workers can be explained by the general low status conferred to vocational schools and the traditional approach of the government spending in favour of university expansion. Vocational studies are usually considered a fallback for those who failed their exams and generally a second-level choice, because the general idea is that *those who do mental labour can govern those who do manual labour* (Stewart, 2015). Moreover, economic reasons are at the basis of the discrimination, in fact white-collar salaries are far higher than blue-collar ones.

The effectiveness of vocational education is undermined not only by its low-status in the public mind but also by its own structure. The lack of practical relevance is evident in the fact that vocational apprentices perform only simple tasks during their work experiences that usually last only few weeks, school buildings are not equipped with modern machines and the teaching staff has low practical capabilities. The connections with the industry are weak and there are few incentives for cooperation between schools and firms set by the government. In addition, programs tend to be focused on the entry-level skills instead of promoting the development of the capabilities required to move up in a career and the skills acquired generally do not support the adaptation to a rapidly changing economy. Many experts, according to Liu Zhanshu, Vice Chairman of the Chinese Society of Vocational and Technical Education, forecast that by 2020 the talent gap will reach 19 million and 29 million by 2025 in the ten key industries covered by the Made in China 2025 plan. Therefore, China is forced to address the issue quickly.

Aside the cultural and structural problems that affect vocational education and the skills mismatch that companies face with academic graduates, another element that remains undeveloped in China is the adult education. In fact, *as the life cycle of skills gets shorter and as China transitions from a low-skill to a higher-skill economy, the need for skills training of adults will greatly expand* (Stewart, 2015) and a lifelong learning apparatus is quite undeveloped in the country. In the perspective of creating an effective lifelong learning system, the government plays a fundamental role in the introduction of skills development policies together with the financial support that assure a continuity of

income and labour market security: in this way, workers are more likely to engage in adult learning programs. Under the transformations that new technologies are bringing to labour context, *workers have an entitlement to lifelong learning that represents a key for people to be able to benefit from new technologies and the new work tasks that will follow* (ILO, 2019).

### **5.3. Developing a labour market for a sustainable innovation-driven development**

The lack of advanced workforce skills is one of the main threat for the success of the Made in China 2025 plan even though the project did not focus on how to deal with the issue. As the quality of the labour market and the development of talents are considered keys for the success of China's innovation-driven development, the country must recover quickly from the flaws of its workforce. Efforts must be addressed to the development of an internal labour market capable of interact with the new technologies: proper actions must be taken for the reform of the education system (to build skills from scratch) and the training of the existing labour force that is facing the risk of displacement. As these actions will take time to produce effective results to solve the skills gap, China plans to recover in the short-term luring back foreign-educated Chinese graduates to the homeland as well as acquiring talents from abroad.

#### **5.3.1. Creating a more skilled internal labour market**

Education and training policies are critical in the perspective of the human capital development to sustain nations' economy especially considering that *the skill composition of a country's workforce – both the types of skills and their distribution – shapes specialisation and positioning along the global value chain* (Marcolin et al., 2018). Well-functioning labour market institutions are vital in the context of industrial upgrading since labour policies that promote the match between workers and firms favour the reallocation of the workforce considering the changing patterns of GVCs. In the perspective of creating a flourishing labour market, China must focus on creating the workforce that sustain the Made in China 2025 project both reorganizing the education system and providing training for unskilled workers that risk to be replaced by industrial robots.

Concerning education, the government has planned to reform the vocational education system with the target of 23.5 million young enrolled in secondary vocational schools and 14.8 million in college-level vocational schools by 2020. Funds that account for 100 billion yuan will be allocated for the training of 15 million targeted attendees in order to upgrade their skills, as stated in the Government Work Report (2019). Moreover, according to the report, the government will increase the fiscal spending for vocational colleges, as well as the financial assistance for vocational college students to encourage more high school attendees to apply.

A new legislation has been introduced to manage work-study internships arranged through the college or university. In 2018, the Ministry of Education and of Finance issued the *Regulations on College and University Work-Study Internships* to have a better supervision over the collaboration with local companies. These regulations involve companies' requirements to build a partnership with the university, the characteristics of the tripartite agreement (concluded between the company, the work-study service organization and the student) including compensation (that cannot be lower than the minimum wage of the province where the school is located) and each party's rights and obligations, student protections and working time.

Financial support will be given to companies and social training agencies to arrange training courses on professional skills while to improve the relationship between schools and firms, vital for the creation of the proper set of skills, the Ministry of Education issued the *Methods for Promoting Cooperation between Vocational Schools and Enterprises (2018)* an institutional framework that provides guiding principles for the development of a more "applied" education approach. Following these guidelines, the Ministry of Education will support the establishment of over 1,000 pilot projects in 100 cities of 10 provinces, to favour the integration of vocational education and the business environment. The government has also projected to create new majors in emerging fields, such as smart manufacturing and big data management. The project is inserted in the "excellent engineer training program" to which 208 universities across the country took part, *involving 1,257 bachelor's degree programs and 514 master's degree programs and covering 260,000 students. These universities altogether had recruited*

24,000 engineers from corporations to serve as part-time faculty members, and had sent over 10,000 faculty members to receive on-site training in companies, while 626 engineering student practice centres had been established in cooperation with over 10,000 companies<sup>87</sup>.

In 2019, the Chinese State Council published its *Implementation plan on National Vocational Education Reform* to reinforce the focus on vocational education in the attempt to raise its status from being a second choice to an academic degree. A significant effort is led to promote the importance of quality and, in particular, teaching quality. Since in 2018, fewer than 40 percent among the teaching staff at vocational institutions had both practical work experience and teaching skills, the plan aims at enhancing the proportion of teachers with at least 3 years of work experience in industry. A short-term objective is to transform select universities into “practical” institutions by 2022 where attendees will acquire a bachelor degree and a set of skills certificates under a system called “1+X” model.

Another way useful for developing a skilled workforce is through workshops: in Beijing have been set up about 37 State-level and 130 city-level workshops. In 2019, the ILO co-hosted a quality apprenticeship workshop in Beijing with MOHRSS (Ministry of Human Resources and Social Security) to stress the importance of implement a new model of enterprise-based apprenticeships as they are recognized fundamental tools addressed at mitigating the skills mismatch issue in the labour market because they contribute to facilitate the school-to-work transition. According to Dai Xiaochu, Deputy Director of ILO Country Office for China and Mongolia, *apprenticeship is one of the core areas of ILO’s work and plays a growingly important role in skills development and employment promotion*. Furthermore, the ILO presented the *ILO Toolkit for Quality Apprenticeships Volume 1: Guide for Policy Makers* (2017) to share its knowledge and expertise alongside with guiding principles and practical tools for their implementation. From the definition of apprenticeship in the Vocational Training Recommendation (1962)<sup>88</sup>, the ILO

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<sup>87</sup> Ministry of Education of the People's Republic of China, 2018.

<sup>88</sup> “Systematic long-term training for a recognised occupation taking place substantially within an undertaking or under an independent craftsman should be governed by a written contract of apprenticeship and be subject to established standards” Vocational Training Recommendation, 1962 (No. 117).

developed the concept of “Quality Apprenticeship system” to emphasize the importance of quality and the role of training in the labour market. According to the definition, *Quality Apprenticeships are a unique form of technical vocational education and training, combining on-the-job training and off-the-job learning, which enable learners from all walks of life to acquire the knowledge, skills and competencies required to carry out a specific occupation. They are regulated and financed by laws and collective agreements and policy decisions arising from social dialogue, and require a written contract that details the respective roles and responsibilities of the apprentice and the employer; they also provide the apprentice with remuneration and standard social protection coverage. Following a clearly defined and structured period of training and the successful completion of a formal assessment, apprentices obtain a recognized qualification (ILO, 2017).*

The Global Innovation Index show positive outcomes of China’s efforts to improve the elements critical to thrive with innovation. The country reached the first place in the ranking for knowledge-intensive employment and the number of firms offering formal training to their workforce. From the perspective of innovation linkages, the extent of university-industry research collaboration are ranked at the 27<sup>th</sup> place globally and shows a significant improvement over years (GII Report, 2018).

### **5.3.2. Filling the skills gap with foreign talents**

Simultaneously with the development of a proper internal labour market, China aims at recovering - at least in the short term - from the shortage of skilled workers attracting workers from abroad. Policies oriented towards working and living in China are directed both to Chinese citizens studying or working overseas and foreign talents. The country counts a large pool of highly qualified Chinese talents spread all around the world, especially in the science and engineering fields due to the phenomenon of the one-way flow of talents from the developing to the developed world known as “brain drain”. Then, the return back home of talents trained abroad suggest a new trend of “reverse brain drain”.

Among the national policies introduced, the Thousand Talents Program is one of the most well-known. It was introduced in 2008 and involves three categories: the Innovative Thousand Talents Plan directed to Chinese scholars below the age of 55; the Foreign Thousand Talents Plan for foreigners below 55 years and the Overseas Thousand Talents Plan for young people not above 40 years of age. The program is directed primarily to Chinese citizens and only to a small elite of foreign talents with expertise in science and innovation. The selection involves Chinese citizens with doctoral degree from a top-ranked university while those with an academic work background should have worked as scholar at recognized foreign universities or research institutions. Among those without an academic or scholarly background, they should have fulfilled the role of senior-level manager or have had a technical position in a large foreign firm. To individuals that match the requirements, the government allocates financial subsidies for research work, living expenses and other forms of assistance such as housing and tax-free education allowances for their children. For example, to Chinese scientists from top overseas institutions were guaranteed professorships and relocation allowances of 1 million RMB. Overall, the number of experts recruited is low compared to the entire Chinese population that had studied and worked abroad. One of the reason is probably that the bar established for the inclusion in the program is significantly high: in this way, the country provides the return of the very highly skilled Chinese talents but this could eventually undermine the effectiveness of the plan since the majority of skilled workers are ignored. Since under the recruitment of foreign experts there is the need of enhancing the country's overall research capabilities, there are two aspects to be considered in particular: the improvement in the *quality of host countries' scientific and technological workforce* and the possibility of *expanding the international research scope of the destination countries* (ILO, 2017).

The introduction of the Green Card in 2004 marked the first important initiative for the permanent residency of foreign workers in China in order to encourage talents abroad to seek for an occupation in the country. Although this important step, it was only in 2012 that the government recognized to green card holders the same social and economic benefits as Chinese citizens. In 2017, the Ministry of Public Security of the People's Republic of China (MPS) introduced a new version of the Green Card aimed at

improving its practical utilization and assuring a friendly working and living environment. The objective was to tighten the rules of the Card, including the shortening of the period required for Visa application, the lowering of the bar for the obtainment of the permanent residence status and the improvement of the provision for workers' families. From now on, the Card is considered a proof of identity for foreigners and it is not longer necessary to pass through China's customs with a separate re-entry visa.

Apart from new Green Card regulations, the State Administration of Foreign Experts Affairs (SAFEA) promoted the immigration of high skilled workers building a database of overseas talents. This project that involves big data is at the basis for the creation of a digital platform for matching foreign experts with potential employers in China. *The database suggests that the Chinese Government at the national level is also starting to experiment with methods to retain talents that have already arrived in the country, and retention is an essential component of growing the overall talent pool (ILO, 2017).*

Although the employment perspective has not been taken into account in the "Made in China 2025" plan, the focus on the labour market is crucial for its effective implementation. Resorting to Chinese-born and foreign talents from abroad is a solution to alleviate the skills gap, at least in the short term. Nevertheless, the government policies aiming at enhancing the workforce capabilities seem to have taken the right way, but effective results remain to be seen in the future. The traditional approach of exploitation towards the workforce marked China's long way to create the skills necessary for its new of economic development.

Beside the uncertain outcomes and the timeliness in the creation of the labour market able to foster an innovation-driven development, what remains questionable is the ability of the current labour legislation to deal with automation and digitalization at the workplace. China must introduce quickly the laws directed to manage the impact of the provisions established in the Made in China 2025 plan on employment and then on the social stability of the country.

## Conclusion

The opening-up to the global trade occurred in the late 1970s paved the way for China's rise as the fastest growing economy in the world through the export-driven model of development, the rise of GVCs and the reliance on the country's comparative advantage that turned the nation into the "factory of the world". In fact, the main fuel of the so-called "Chinese miracle" was the availability of a large pool of unskilled workers that have been exploited for years with the compliance of a government not much concerned over the protection of labour rights. Despite the introduction of new labour laws such as the Labour Contract Law in 2008 to improve workers' protection, the continuous weakness in the enforcement of the legislation in the perspective of favouring employers' interests constituted an issue not yet solved. Moreover, the inherent structure of the ACFTU remained unchanged and the influence of the government's concerns continued to represent an obstacle to protect effectively workers' interests.

The demographic dividend of which China took advantage for many years exhausted its potential since 2004, when the country recorded a significant labour shortage that marked the beginning of the end of the "cheap China". The introduction of the one-child policy in the late 1970s directed to the containment of the population growth, eventually resulted in a shrinking labour force due to the decrease in the proportion of the working-age population and the contemporary aging of the population that led the country to reach the Lewis Turning Point.

The general labour unrest caused by the working conditions and the lack of labour rights protection gave rise to increasingly numerous strikes and protests: among the manifestations that took place, the Foxconn case of jumping suicide incidents and the Honda strike in 2010 represent the most significant examples that aroused not only the government's concerns but also the international attention. The new attitude towards injustice at the workplace led scholars to consider workers involved in protests and disputes as members of the so-called "new generation of migrant workers". Time by time, labour protests became more organized thanks also to the contribution of NGOs and the increasingly structured labour movement directed to improve pays and working conditions, as the Walmart case proves, turned into a threat to social stability.

Rising wages for low-skilled workers in China forced the country to reconsider the basis of its competitive advantage especially due to the rise of other Asian countries in terms of labour cost competition. In fact, the traditional position of China in the GVC in the lowest value-added activities that attracted foreign investments for years, was threatened by the impossibility to keep labour costs unchanged and the contemporary offer of cheaper workforce from the MITI-V countries (Malaysia, India, Thailand, Indonesia and Vietnam). Among these countries, India represents the next low-cost manufacturing hub in the world in the near future and the ability to maintain low labour costs is given by the presence of the workforce mostly in the informal sector, where the labour legislation is unable to fill its duty of workers' protection. As China could be replaced in the GVC, the focus of the country on the strategy of industrial upgrading is directed to build the future prosperity of the nation on a new basis: the objectives published in the "Made in China 2025" issued in 2015 head towards the establishment of China as one of the most advanced manufacturing powerhouse in the world by 2025. The shift to higher value-added activities in the GVC requires a new model of economic development based on innovation. Consistent investments in R&D and the development of hubs for innovation appear the fuel towards this new model of development and China is performing well year by year in the context of innovation performance according to the Global Innovation Index ranking. The focus to higher value-added stages of the GVC could solve the issue of workers shortage and the rising labour costs for labour-intensive activities but new problems are expected to arise. Actually, the implications on the existing workforce have not been addressed in the "Made in China 2025" even though they represent a big challenge for the country.

The introduction of automation and the consequent replacement of workers with robots requires a labour legislation to protect workers' rights in case of displacement and directed to the workforce training to align workers' skills with the market needs. Moreover, a skilled workforce able to sustain the country's industrial upgrading and the introduction of technologically advanced manufacturing processes must be built from scratch: in this context, the structure of the education system that will develop new entrants to the labour market plays a critical role. The focus on skills development and the reform of the school system are two elements that China is promoting with

significant financial funds and policies from the central government. What remains uncertain is the ability of current labour laws to deal with the new era of robotization and digitalization and the trade unions' voice in finding a balance among the interests of employers, workers and the government's programs of economic development. The lack of efforts to provide a labour legislation consistent with the changes put in place may eventually turn into a general labour unrest that will challenge, once again, the country's social stability. As the impact on labour of the new model of economic development seem not to be taken into account in terms of legislation improvements, China must face the challenge in the perspective of the effective implementation of the "Made in China 2025" and the pursue of the social stability of the country.

The Thesis revisited the milestones of the labour legislation in China and highlighted its non-linear path: improvements of the labour law that occurred in the last 20 years have been used by the government as a tool to maintain the country's social stability and have taken place without the long term project of creating an effective legislation on labour. Moreover, none of the labour laws introduced have been fully implemented since the priority of the country's economic interests prevailed over the creation of fair conditions at the workplace. The country's objective to pursue an innovation-driven model of development without the consideration of the implications on labour demonstrates once again that China has not clear that the economic development cannot work without the contemporary social development of the country. Historically, the Chinese model implied that the social development runs after the economic one considering that economic growth together with additional reforms at the social level could maintain the country's stability. Actually, China must deal with the labour implications of its upgrading strategy and consider the labour legislation as the ground on which build the country's economic prosperity in the near future and just little improvements of the law cannot sustain its project.

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