

# Reforming Labor Relations in China's State-Owned Enterprises: The Impact of Balancing Measures\*

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*This article concentrates on the period 1992-99, when the Chinese government carried out its second round of economic reforms. Balancing measures are the focus of this study of labor relations in state-owned enterprises (SOEs). The analysis covers three interconnected areas. The first is policy analysis, summarizing the reform and balancing measures, as well as tracing the interaction of both types of policies in the course of gradual reform, examining the impact that these balancing measures have had on the social and political functions of SOEs. The second is an examination of the influence of the restored social and political functions on internal labor relations in SOEs. The third discusses the emerging division of interests between labor and management in SOEs. This article is based on empirical findings in eight SOEs in Beijing and Zhangjiakou city, Hebei province. The authors conducted interviews with workers, managers, and the cadres of unions at these SOEs in the summer of 1998 and underwent participant observation in one of these SOEs for three weeks in the summer*

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*of 1999. Although these SOEs differed in size, at the time when the authors' fieldwork was carried out, there were no changes in their ownership situation (such as selling off the enterprise or establishing joint ventures), nor in their operational style (such as leasing or subcontracting). Hence, the data collected from these SOEs depict the transition of labor relations in SOEs with "primitive" conditions during the process of reform.*

**KEYWORDS: labor relations; balancing measures; identities of both workers and management; authority of management; integration of objectives and demands.**

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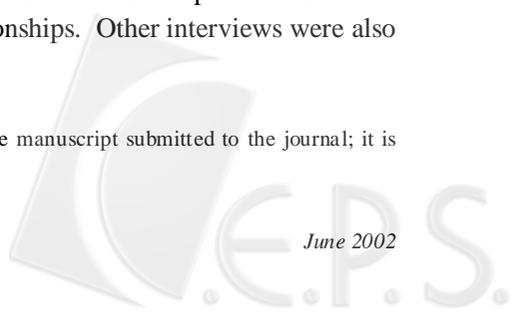
The term "balancing measures" in this article can be defined as various kinds of measures adopted to maintain political stability in the reform process. In the narrow sense as applied to labor reforms, this term refers to policy measures formulated to strengthen the appeal of the official ideology, to limit the power of state-owned enterprise (SOE) management, and to compensate for the economic losses of workers, so as to partially restore the social and political functions of SOEs.

This article begins with a discussion of the historical background of the labor reforms in China's SOEs in the 1990s. Then it examines the major balancing measures adopted in the SOEs in this period, including their conceptualization and emergence, and analyzes the influence of such measures on labor relations in the SOEs, with a special focus on the identities of both workers and management (as well as the authority of the latter). The integration of the objectives and demands on the part of labor and management is then considered.

The interviews were mainly conducted in seven SOEs in Beijing (北京) and Zhangjiakou (張家口), Hebei province (河北省).<sup>1</sup> In these SOEs, six managers, twenty-seven workers, and six cadres of trade unions were interviewed, providing information as to the respective effects of reforms on themselves and their relationships. Other interviews were also

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<sup>1</sup>A list of interviewees has been included in the manuscript submitted to the journal; it is not released here for their protection.



conducted, including the officials in the supervisory authorities of these SOEs, cadres in the relevant government agencies, and concerned scholars. In addition to the interviews, a period of participant observation, two "focus group workshops," and a systematic survey of the trade unions concerned were also conducted to gain supplementary data.

### **Historical Background**

Since the end of 1978, China's economic reforms in the urban areas have been focusing on SOEs, seeking to change their operational mechanisms so that they may first become more responsive to demand and, at a later stage, turn into market-oriented economic entities responsible for their own management decisions, profits, and losses. The reforms have strengthened the economic functions of SOEs and granted more operational autonomy to their management. Enterprises in turn have demanded significant changes of the hitherto centralized system of labor allocation, job security, wages, and social insurance.<sup>2</sup>

In the first stage of SOE reform (1979-84), the government adopted the general policy of "decentralizing authority and transferring profits" (放權讓利, *fangquan rangli*). The second stage of reforms (1984-86) focused on "strengthening the vitality of SOEs" (增強國有企業活力); the important innovations included further decentralization of power to SOEs, streamlining of government control, reform of the taxation system, and the implementation of the enterprise director (manager) responsibility system (廠長責任制). Since 1987, SOE reform entered the third stage with the focus on "rebuilding their operational mechanisms" (重建企業經營機制). The fundamental orientation was the introduction of various kinds of responsibility systems, including the contract responsibility system (承包責任制) for large and medium-sized SOEs, leasing of small SOEs, and the

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<sup>2</sup>See, for example, Olivia K. M. Ip, "Changing Employment System in China: Some Evidence from the Shenzhen Special Economic Zone," *Work, Employment and Society* 9, no. 2 (June 1995): 269-85.

experimentation with the joint-stock shareholding system (股份制).<sup>3</sup>

Reform of the labor system went hand in hand with those of the SOEs. In 1979, some measures were introduced to reduce the direct administrative control over labor allocation; in 1984, productivity-based remuneration schemes were implemented. In 1986, a labor contract system (勞動合同制) replaced permanent employment (鐵飯碗, or the "iron rice bowl"); at the same time, labor dispute mediation and arbitration systems were established, and national social insurance systems were developed to take over the previous enterprise-based ones. In 1994, limitations on the employment of rural labor in cities and towns were relaxed.<sup>4</sup> These labor reforms in SOEs, like those of SOEs themselves mentioned above, were designed to strengthen the economic functions of SOEs, while eroding their political and social roles, so as to enable SOEs to become market-oriented.

The respective status of managers and workers was re-defined. In the first place, the implementation of the labor contract system meant a transition of labor relations from being "administrative" to "contractual" in nature.<sup>5</sup> Furthermore, the labor reforms have gradually made SOE managers independent actors in providing employment (用工主體, *yonggong zhuti*) on the basis of laws and regulations.<sup>6</sup> They have secured greater autonomy

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<sup>3</sup>Lin Yifu, Cai Fang, and Li Zhou, *Zhongguo de qiji* (China's miracle) (Hong Kong: The Chinese University Press, 1995), 119-26.

<sup>4</sup>Wang Shengsheng et al., *Guoqi gaige ershinian* (The reform of state-owned enterprises in the past twenty years) (Beijing: Zhongguo shenji chubanshe, 1998), 81-86; Gao Shusheng, *Zhongguo jiuye tizhi gaige ershinian* (The reform of the employment system in China in the past twenty years) (Zhengzhou, Henan: Zhongzhou guji chubanshe, 1998).

<sup>5</sup>Daniel Z. Ding and Malcolm Warner, "Re-inventing' China's Industrial Relations at Enterprise Level: An Empirical Field-Study in Four Major Cities," *Industrial Relations Journal* 30, no. 3 (September 1999): 243-60; Jiangwei Han and Motohiro Morishima, "Labour System Reform in China and Its Unexpected Consequences," *Economic and Industrial Democracy* 13 (1992): 233-61; Solomon M. Karmel, "The Neo-authoritarian Dilemma and the Labor Force: Control and Bankruptcy vs. Freedom and Instability," *Journal of Contemporary China* 5, no. 12 (1996): 111-33; and Qi Zhirong and Xu Xiaohou, *Zhongguo laodong guanxi daolun* (An introduction to labor relations in China) (Hangzhou: Zhejiang renmin chubanshe, 1995), 70-71.

<sup>6</sup>Chang Kai, "Laoquan baozhang" (Safeguard of labor rights), in *Laodong guanxi, laodong-zhe, laoquan: Dangdai Zhongguo de laodong wenti* (Labor relations, laborers, and labor rights: Labor Issues in contemporary China), ed. Chang Kai et al. (Beijing: Zhongguo laodong chubanshe, 1995), 41-76; Qi and Xu, *Zhongguo laodong guanxi daolun*, 44-45; and

in the recruitment and dismissal of workers. The government's promotion of the establishment of a modern enterprise system since 1993 has further strengthened SOEs as legal and economic entities with even greater autonomy in their operations. In this process, the former united interests between managers and workers have been eroded and a divergence of interests between the two has clearly emerged.<sup>7</sup> These labor reforms have had a serious impact on SOE workers. Workers have been suffering from a decline in social status, a weakening of job security, expanding wage disparities, worsening workforce differentiation, segmentation, and stratification, and, in the case of unprofitable enterprises, reduced wages.<sup>8</sup> In the context of the division of interests between workers and managers, the former increasingly become aware that their personal interests and incomes have been endangered.<sup>9</sup> As relatively free agents seeking employment, workers recognize such freedom means the ability to search for better jobs and higher incomes, yet also brings risks of unemployment (失業, *shiyue*).<sup>10</sup> Many thus expect that frictions and conflicts between workers and managers will be inevitable, and labor relations in SOEs will deteriorate.<sup>11</sup>

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Wang Aiwen, *Shehui laodong guanxi: Yanbian guocheng de kaocha yu fenxi* (Social labor relations: An examination and analysis of its evolutionary process) (Beijing: Hongqi chubanshe, 1993), 38-39.

<sup>7</sup>Jiang Ruxiang, "Fenhua yu zhenghe: Zhongguo shehui wendingxing yanjiu" (Division and integration: An analysis of stability in Chinese society), *Minzu jingji yu shehui fazhan* (National Economy and Social Development), 1996, no. 2:10-13; Qi and Xu, *Zhongguo laodong guanxi daolun*, 52; Andrew G. Walder, "Workers, Managers, and the State: The Reform Era and the Political Crisis of 1989," *The China Quarterly*, no. 127 (September 1991): 467-92; Yunqiu Zhang, "An Intermediary: The Chinese Perception of Trade Unions since the 1980s," *Journal of Contemporary China* 6, no. 14 (1997): 139-52; and Ying Zhu, "Major Changes Under Way in China's Industrial Relations," *International Labour Review* 134, no. 1 (1995): 37-49.

<sup>8</sup>Karmel, "The Neo-authoritarian Dilemma and the Labour Force," 111-33; Greg O'Leary, "The Making of the Chinese Working Class," in *Adjusting to Capitalism: Chinese Workers and the State*, ed. Greg O'Leary (Armonk, N.Y.: M.E. Sharpe, 1998), 48-74.

<sup>9</sup>Qi and Xu, *Zhongguo laodong guanxi daolun*, 51; and Walder, "Workers, Managers, and the State."

<sup>10</sup>Chang, "Laoquan baozhang."

<sup>11</sup>Wenfang Tang, William L. Parish, and Tongqing Feng, "Chinese Labor Relations in a Changing Work Environment"; Wang, *Shehui laodong guanxi*, 90-92; and Andrew G. Walder, "Factory and Manager in an Era of Reform," *The China Quarterly*, no. 118 (June 1989): 242-64.

Labor reforms have basically altered the economic structure and transformed the interest relationships within SOEs, and thereby adversely affect social stability in China. As reforms advance the interests of some groups and damage those of others, social conflicts naturally emerge. These conflicts in turn have hampered the further progress of reforms, and are perceived to threaten the stability of the Chinese Communist regime. One argument is that the imbalance of economic interests and the relaxation of political controls in SOEs were major causes for worker participation in the political movement in the summer of 1989. The Tiananmen Incident (天安門事件) therefore forced the Chinese Communist Party (CCP) leadership to review the potential threat that reforms might pose to the regime. A series of policy measures to "improve the economic environment and rectify the economic order" (改善經濟環境整頓經濟秩序) were introduced,<sup>12</sup> and the reform movement lost its momentum.

Deng Xiaoping's (鄧小平) tour of southern China in early 1992 provided the impetus for a new round of reforms. As part of the process of these market-oriented reforms, dramatic changes have been taking place in labor relations in China, including the retreat of government dominance, the withdrawal of enterprise paternalism, the enhancement of managerial autonomy, the separation between workers and management, the decline in worker status, the segmentation of workers, and the changes in the role and functions of trade unions. In SOEs, however, labor relations have still retained many unchanged characteristics.

The labor relations in this context present a complex picture that is hard to be explained and understood by prevalent Western theories. Academics study labor relations in China from many perspectives, including political, sociological, legal, and economic viewpoints. A common starting point in these studies is the reform measures and, therefore, a common point implied in their different conclusions is that they have examined the changing labor relations in China. The differences in their conclusions are

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<sup>12</sup>Wu Guoguang, *Zhulu shiwuda: Zhongguo quanli qiju* (Toward the 15th party congress: Power game in China) (Hong Kong: Taipinyang yanjiusuo, 1997), 20.

usually in regard to the pace, depth, and orientation of change.

Since the SOEs before the reform era were treated as independent units (單位, *danwei*),<sup>13</sup> their social functions might be interpreted as a wall between SOEs and society, providing shelter for those working in SOEs. This wall has been gradually destroyed by economic reforms, which have been "pushing SOEs to the market"; thus SOE workers have become exposed to the vagaries of the market. Balancing measures are attempts to repair this wall, and are guided by the two principles of satisfaction and compensation. The first principle refers to measures aimed at satisfying the economic needs of those whose interests have been compromised; the second covers those aimed at compensating the losses of those whose economic needs cannot be satisfied. Further deepening of the economic reforms, however, implies that the balancing measures will not be sustainable.

## **Balancing Measures**

### *Conceptualization and Emergence*

In reforms in China, the phenomenon of "two steps forward, one step backward" is common. The reasons are several. In the first place, forging a consensus is difficult in China. In the general absence of channels of interest articulation for the powerless, disagreement with and opposition to reforms are often expressed subsequently in various forms of passive resistance and refusal to cooperate. This is often the stage where the leadership begins to respond to the grievances by offering compensatory measures. Furthermore, in view of the diverse conditions throughout China, serious adjustments may have to be made in the process of implementation. Sometimes the leadership may have been overambitious in setting the targets of reform too. Finally, the reform process has to be responsive to the changing political, economic, and social conditions; hence "one step back-

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<sup>13</sup>Lu Feng, "Danwei: Yizhong teshu de shehui zuzhi" (Unit: A special form of social organization), *Zhongguo shehui kexue* (Social Sciences in China), 1989, no. 1:71-88.

ward" may be the best strategy when adverse conditions are encountered.

The process of economic reforms in China since 1979 has been a transition in which the planned economy is being transformed into a market economy. Some economists in China have used the "distribution of rewards" approach to analyze and explain this process.<sup>14</sup> Many have argued that the conflicts among different interest groups and the compromises reached on the basis of their relative strengths determine the nature of the systematic arrangements. Furthermore, analysis of the distribution of rewards and the conflicts of interest offers measures of the cost of reforms. As the cost of reforms is related to the conflicts of interests, promotion of reforms can be facilitated both by reducing the number of people who will be adversely affected by the reforms and by offering compensation to those whose interests have been damaged by the reforms.

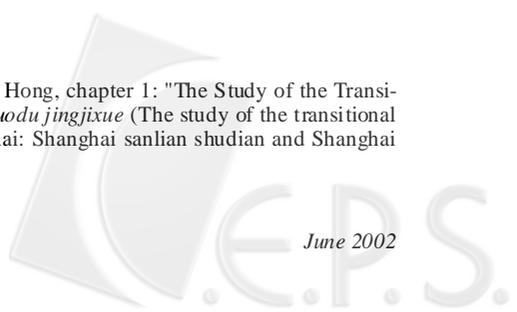
#### *Non-fixed Terms of Labor Contracts*

Job security is a precondition for workers in SOEs to enjoy various types of social insurance and benefits. Threats to job security brought about by the reforms have been the main source of worker discontent. Hence balancing measures have had to focus on providing better job security to workers in SOEs.

In the process of implementing the comprehensive labor contract system, the central government allowed the elderly workers in SOEs to avoid signing fixed-term labor contracts with their management. This was reaffirmed by the Labor Law (勞動法) of July 1994, which states: "In case a laborer has been working in the same unit of employment for ten years and more, and the parties involved agree to extend the term of the labor contract, a labor contract with a non-fixed term shall be concluded between them if the laborer so requests" (Art. 20). To reduce the resistance in implementing the comprehensive labor contract system, local governments

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<sup>14</sup>For a brief survey of the literature, see Sheng Hong, chapter 1: "The Study of the Transitional Economy in China," in *Zhongguo de guodu jingjixue* (The study of the transitional economy in China), ed. Sheng Hong (Shanghai: Shanghai sanlian shudian and Shanghai renmin chubanshe, 1994), 1-20.



usually offered further policy stipulations in favor of workers in SOEs.<sup>15</sup>

### *Restricting Layoffs*

Overstaffing or hidden unemployment is not a new problem in China's SOEs in recent years. Since an effective social insurance system has not been established in most parts of the country, managers of SOEs dare not dismiss workers easily due to their concern for social stability. For SOEs facing such serious financial difficulties that layoffs became unavoidable, a complex application procedure had to be followed. In accordance with the "Provisions on Reducing Personnel Due to Economic Reasons in Enterprises," issued by the Ministry of Labor on November 14, 1994, an SOE on the brink of bankruptcy may engage in reduction of its personnel when a people's court declares that the SOE has entered into a period of statutory consolidation, or when the SOE runs into serious difficulties in production and management. After personnel reduction has been deemed necessary, management is still required to go through several procedures, including explaining the situation to the grass-roots union or all of its staff and workers thirty days in advance, providing a plan of personnel reduction, soliciting opinions about the plan from the trade union or all of its staff and workers, and reporting the plan to the local labor administrative department. These procedures effectively restrain managers from an easy resort to the use of layoffs.

### *Re-employment Project and Re-employment Service Centers*

Since 1993, when reform policies had made impossible the requirement that SOE management continue employing their surplus workers, the central government launched a re-employment project (再就業工程) to

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<sup>15</sup>For instance, in the "Detailed Rules on the Implementation of the Labor Contract System," the central government removed the limitations on "keeping workers in the same unit of employment" and "extending the term of contract." This policy, in reality, allowed workers with more than ten years' seniority (usually the permanent workers) to continue to enjoy job security after signing a labor contract. See Beijing Municipal Labor Bureau, *Laodong zhengce fagui huibian* (Collection of labor policies and regulations) (Unpublished, 1995), 129-32.



serve the dismissed workers. The Ministry of Labor announced that the central government, by implementing the re-employment project, aimed to promote the enthusiasm of local governments, enterprises, laborers, and other societal groups, to adopt policies supporting employment, and to devise instruments to offer employment services.<sup>16</sup> Wu Bangguo (吳邦國), a vice-premier, stated the aim of the re-employment project behind this official statement as follows: "to give jobs to surplus workers in order to prevent them from demonstrating in the street."<sup>17</sup> Maintaining social stability was therefore the primary motivation of launching the re-employment project.

From 1997 onwards, the central government has been aware that reducing overstaffing is the most important means of increasing SOE economic efficiency and, thus, has adopted a policy calling for "increasing efficiency by downsizing staff" (減員增效). At the same time, Chinese leaders understand that the increasing number of dismissed workers would be a threat to political stability.<sup>18</sup> They have thus strengthened administrative measures associated with the re-employment project in order to prevent layoffs from becoming a significant source of social unrest. In May 1998, the CCP Central Committee and the State Council held a work conference on guaranteeing a basic living standard for dismissed workers and implementing the re-employment project. In the document released after the meeting, the central government promoted the emulation of the Shanghai method—setting up re-employment service centers for dismissed workers.<sup>19</sup> However, different from the Shanghai experience, these centers

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<sup>16</sup>Wang Jianxin et al., *Zhongguo laodong nianjian: 1995-1996* (China labor yearbook: 1995-96) (Beijing: Zhongguo laodong chubanshe, 1996), 208.

<sup>17</sup>Wu Bangguo, "Directives on Labor Work," *ibid.*, 14-15.

<sup>18</sup>A document issued by the CCP Central Committee in 1997 reported that, in comparison with the same period in 1996, in the first quarter of 1997 the number of events where laid-off workers took to the streets and made trouble increased 10 percent. The Central Committee regarded laid-off workers as the major factor of social instability in the long-term future. See Wang Haitao, "Time-Bomb Threatening Social Stability: An In-depth Perspective of the Crisis of 30 Million Laid-off Workers," *Kaifang* (Open Magazine) (Hong Kong), no. 138 (June 1998): 17-19.

<sup>19</sup>In 1996, the Shanghai municipal government adopted a new measure in the carrying out of the re-employment project: "trusteeship" for *xiagang* (下崗) workers through the setting up

have to be set up within the SOEs with dismissed workers. In this way, the principle of "internal settlement within the enterprises" (企業內部安置) has been maintained.

### *Restoring the Role of the Party in SOEs*

In the wake of the Tiananmen Incident, the Chinese leadership began to enhance the Party's role in SOEs once more. On August 28, 1989, the Politburo of the CCP Central Committee issued a "Circular on Strengthening Party Building," which assigned the grass-roots Party organs in SOEs the role of the "political core."<sup>20</sup> The "Resolution on Several Important Issues Concerning the Strengthening of Party Building," endorsed by the fourth plenum of the CCP's Fourteenth Central Committee on September 28, 1994, marked a further enhancement of the status of Party organs in SOEs. According to this document, grass-roots Party organs are required to carefully consider the strengthening of their participation in the decision-making process, as well as of their supervisory abilities in order to guarantee the implementation of the guiding principles and policies of the Party and state.<sup>21</sup> This requirement has basically re-established the authority of the grass-roots Party organs in SOEs to intervene in the latter's decision-making process.

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of re-employment service centers. The centers were required to be set up by the supervising agencies of SOEs (now most of these agencies had been changed into group corporations or holding companies). These centers were responsible for managing *xiagang* workers, guaranteeing their essential living expenses, and helping them to secure re-employment. According to this measure, the surplus personnel in SOEs must be laid off first and then moved to the centers. After the former workers enter the centers, their former enterprises are to still maintain nominal employment relationships with them. Funding for the re-employment service centers was to be shared by the government, community, and enterprises; these monies were earmarked for *xiagang* workers' essential living expenses, daily out-patient expenses, and social insurance expenses. The gist of this measure was to make use of the service centers sponsored by the supervising agencies of SOEs as a transitional arrangement in order to facilitate the laying off of surplus personnel.

<sup>20</sup>Liu Guoguang and Zhou Guiying, *Zhongguo jingji gaige quanshu (1978-1991): Gongye qiye juan* (Complete works on China's economic reforms, 1978-91: Volume on industrial enterprises) (Dalian, Liaoning: Dalian renmin chubanshe, 1992), 573.

<sup>21</sup>For further details, see the General Office of the Coordinating Group for Strengthening the Building of Leading Bodies of SOEs, *Guoyou qiye lingdao banzi kaohe jianshe gongzuo zhidao* (Directives on assessing and building the leading bodies of SOEs) (Beijing: Dangjian duwu chubanshe, 1997), 138-53.



On January 24, 1997, the CCP Central Committee issued a "Notice Regarding Strengthening and Improving Party Building in SOEs," in which the status of the grass-roots Party organs as the "political core" was further raised to that of "political leadership," signifying that the Party's role would be to guide and coordinate the exercise of power in a complex organizational structure (including Party committees, workers' congresses, meetings of shareholders, boards of directors, and supervisory boards) in SOEs.<sup>22</sup> In this document, perhaps more importantly, the CCP Central Committee re-emphasized the principle of "the Party controlling cadres" (黨管幹部), declaring that "the Party committee is empowered to nominate the candidates of middle-level and senior managerial personnel," and "the candidates should accept the investigation of the Organization and Personnel departments of Party organs and pass the group discussions of Party committees before appointment by the director." Along this line, even though the Party organ's status has not been restored to the extent that the Party secretary is the "primary figure," this new change is enough to limit the power of the director.

### *Reinforcing the "Master Status" of Workers*

In order to minimize worker dissatisfaction, the Party has attempted to re-emphasize the "master status" of workers in SOEs, and to that end has introduced the slogan "wholeheartedly relying on the working class" (全心全意依靠工人階級). On July 25, 1989, one month after the Tiananmen Incident, Jiang Zemin (江澤民) allegedly stated that the working class is the main force in socialist construction, and building the "Four Modernizations" should rely on the working class wholeheartedly. Furthermore, he added the following two slogans—"Party organs assuming the role of the political core" and "adhering to the factory director responsibility system"—to the previous one as the three crucial principles in establishing a modern enterprise system.<sup>23</sup> The "wholeheartedly relying on the working

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<sup>22</sup>*Renmin ribao* (People's Daily), March 11, 1997.

<sup>23</sup>See note 20 above.



class" slogan was subsequently adapted by the CCP Central Committee into the four requirements to be fulfilled by the government and SOE managers: ensuring the "master status" of workers and staff members, strengthening democratic management and democratic supervision, strengthening the building of worker corps, and safeguarding the legitimate interests of workers and staff members.<sup>24</sup>

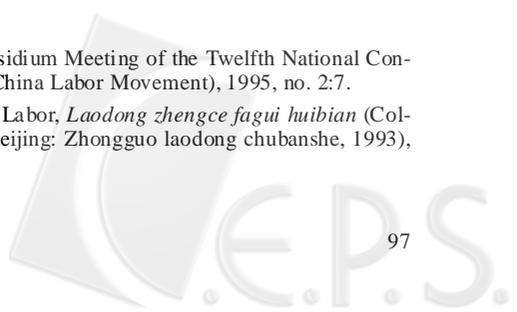
*Denying the Employer-Employee  
Relationship between Managers and Workers*

To reduce further worker resentment against the labor contract system, the CCP Central Committee Propaganda Department, the Ministry of Labor, and the All-China Federation of Trade Unions (ACFTU, 中華全國總工會) jointly issued an "Outline of Propaganda on Reforming the Labor, Wage, and Social Insurance Systems" on April 18, 1992, in which the employer-employee relationship generated by labor contracts was denied.<sup>25</sup> The Outline states: "The labor contract between laborers and directors does not mean that directors are 'employers' and workers are 'employees'," because the contract is based on the socialist public ownership of the means of production, and cannot change the nature of public ownership and the principle of distribution according to one's work." Workers are still the "masters of the means of production" in SOEs. The labor contracts signed between workers/staff members and directors define the labor relationship between the respective individuals and the enterprises. The directors still serve as representatives of their enterprises as well as representatives of laborers collectively. Both parties therefore have the same interests and objectives; there is no exploiter-exploited relationship based on "hiring." Furthermore, the central government promised in this Propaganda Outline that, in the course of implementing labor contracts, enterprises will, in ac-

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<sup>24</sup>Wei Jianxing, "A Speech at the Seventh Presidium Meeting of the Twelfth National Congress of the ACFTU," *Zhongguo gongyun* (China Labor Movement), 1995, no. 2:7.

<sup>25</sup>Department of Policy and Law, Ministry of Labor, *Laodong zhengce fagui huibian* (Collection of labor policies and regulations) (Beijing: Zhongguo laodong chubanshe, 1993), 520-48.



cordance with the needs of production, sign long-term contracts or non-fixed-term contracts with most workers and staff members.

In a highly centralized society like China, even small changes may lead to societal unrest because of the high degree of interaction among the parties concerned. In this case, minimizing the potential of a crisis is a prominent consideration in the Chinese leadership's policymaking agenda.<sup>26</sup> In the course of reforms, the main reason for unrest in urban areas has been worker dissatisfaction arising from the weakening of the social functions of SOEs in the reform period. For the purpose of maintaining political stability and defusing challenges to the Chinese Communist regime, Chinese leaders therefore, while deepening reforms in SOEs, have adopted balancing measures in the political, administrative, and economic areas. Not surprisingly, the course of SOE reform reveals a contradictory picture: on the one hand, the central government continually weakens SOEs' sociopolitical functions via the reform measures; on the other hand, through balancing measures, the government also constantly restores these functions. It seems, however, that the latter kind of measures cannot effectively stop the development of unrest in society because the reform process has actually given rise to a series of social shocks, and the impact of balancing measures in maintaining social stability is limited. In the meantime, these balancing measures have been delaying the progress of, as well as reducing the social shocks brought about by, reforms. Both types of effects continue to impose their profound influence on labor relations.

### **The Identities of Both Workers and Management**

In this and the following sections of this article, the authors will use the data collected from eight SOEs to analyze the influence of balancing

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<sup>26</sup>Task Force for Social Structural Transition, "Zhongguo shehui jigou zhuanxing de jinqi yu zhongqi qushi he weiiji" (The trends and hidden troubles in the structural transition of Chinese society in the short and mid-terms), *Zhanlue yu guanli* (Strategy and Management), 1998, no. 5:1-17.



measures on labor relations. Although differing in size, a common feature among these SOEs was that, until the time of the completion of the authors' fieldwork, there were no changes in their property rights (such as selling all or part of the enterprise to another party or forming a joint venture with another party), nor in their operational style (such as leasing or subcontracting). Hence, the data collected in the fieldwork reflect the transformation of labor relations in SOEs under "primitive" conditions in the process of reform.

In the neo-traditional system, workers and managers in SOEs gained their respective identities through state ascription.<sup>27</sup> The state, via a series of institutional arrangements, granted different social status and economic resources to different societal groups. In the Chinese social structure before the reform era, this was the common means of gaining social identity.<sup>28</sup> The government exercised its administrative power and granted the managers of SOEs the identity of "cadres" by which the managers became qualified to control the internal material resources of the enterprises. At the same time, the government granted workers the identity of "masters of the state" and, by implication, "masters" within their respective enterprises. This abstract concept carried considerable economic significance. The term implied that once a laborer was recruited by an SOE, he or she would be entitled to various economic benefits provided by the enterprise, including job security and welfare.<sup>29</sup>

By implementing the labor contract system, the government re-introduced the recruitment and deployment of workers in SOEs according to the mode of the market economy. Theoretically, instead of defining the rights and obligations of workers and management in terms of administrative arrangements, they are now defined in terms of market transactions.

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<sup>27</sup>Andrew G. Walder, *Communist Neo-traditionalism: Work and Authority in Chinese Industry* (Berkeley, Calif.: University of California Press, 1986), 11.

<sup>28</sup>Li Lulu and Wang Fenyu, *Dangdai Zhongguo xiandaihua jincheng zhong de shehui jiegou jiqi bianqian* (The social structure and changes in the process of modernization in contemporary China) (Hangzhou: Zhejiang renmin chubanshe, 1992), 83-103.

<sup>29</sup>See note 13 above.

The identities, status, and remuneration of both management and workers are then stipulated by contract provisions. On the one hand, managers, especially senior managers, become the party who employs workers, deriving their authority over workers from labor contracts, even though they are still perceived as agents of the ultimate owner of SOEs and the state. On the other hand, workers have become "wage-workers" and form a party employed by managers. They have to fulfill the tasks assigned to them by managers in order to earn their wages and benefits. In general, each party has to respect the other party's rights and obligations as defined by contract. The implementation of the labor contract system and related reform measures, as expected, encountered severe resistance from workers. After the breaking of their "iron rice bowl," workers questioned whether or not they were still the true "masters" of their SOEs. The government, as mentioned earlier, had adopted a series of balancing measures to reduce worker dissatisfaction. These measures have exerted considerable influence on the transition toward a new labor-management relationship in two areas.

The first influence comes from the reiteration of the "masters" identity of workers. This reiteration, in actual effect, is no different from granting the social status to workers and defining their interests by administrative acts. Although most workers doubt the effectiveness of these balancing measures in recovering their original status, the reinforcement of the "masters" status of workers affects their subconsciousness. The workers continue to believe that the logical basis of their job security and welfare benefits from SOEs remains unchanged after their signing of the labor contracts. The following statement given by the deputy director of a printing factory helps to illustrate this subconscious belief (interviewee 18/5/98/B):

We [our factory] had a warehouse outside the factory and sent four workers to guard it. Last year, because it had been empty for a long time, we rented this warehouse to another company. As a result, these four workers lost their work-posts. If they were willing to quit, a monthly living allowance of 200 *yuan* would be guaranteed. However, the workers figured that the amount was too low and applied to return to the factory. The fact was, because there were more surplus workers within the factory, it was difficult for us to accommodate them. I asked them to do the cleaning work that had been done by some temporary workers before. I told them that if they agreed to my suggestion, I would dismiss the temporary workers immediately. Do you know what they said? They said: "We have not made mistakes, why do you ask us to be cleaners?"



In the opinion of some directors, the workers have learned how to protect their own interests by adopting different identities in different cases as suits their needs. The vice-president of a printing company raised some cases of this phenomenon (interviewee 8/5/98/A):

There is no doubt that the "master" is just an empty concept. In reality, they can decide nothing at all. But this doesn't mean that they have forgotten the "master" concept. In my opinion, workers will adjust their identities in accordance with their needs. For example, there was a machine plant in my company. We [the company] rented the site to another company several years ago because the plant had been losing money for many years. We adopted various ways to accommodate the workers. For the older workers approaching retirement age, we granted them "internal retirement." However, these workers did not want to go home. They said that, when they started working in that factory, they had given themselves to the Party and become masters of that factory. They asked: "Why didn't you ask our opinions before renting out our factory?" They therefore perceived their identity from the perspective of the nature of ownership. Sometimes, in light of the market perspective, they would forget their "masters" identity when required to show up. For instance, sometimes overtime work was required when the plant received urgent orders from external traders. At that time the workers considered their incomes from the perspective of being "hired hands."

The second influence of the balancing measures on labor relations in SOEs is the inhibitions imposed on the "hired relationship" which should have been developed on the basis of the labor contract system. In fact, with the implementation of the balancing measures, the group distinction between senior managers who employ laborers and workers who are employed has become ambiguous. Hence, the contradictions between reform policies and balancing measures have bewildered both managers and workers over their respective status and identity.

For management, the reform policies have defined the relationship between the state and SOEs. The latter, as autonomous legal entities, possess full power over their assets and are independent economic organizations. The directors, being the representatives of these legal entities as entrusted by the state, exercise the authority of management in terms of employing laborers, organizing production processes, determining wage systems, and so on. On the other hand, various balancing measures repeatedly emphasize their responsibility to represent and safeguard workers' interests. The demands of "dual representatives" make their identity as

"employers" ambiguous. While they sometimes complain that they do not know whom they are representing, the directors usually feel uncomfortable identifying themselves as "employers." Some workers contacted by the authors perceived their directors as "good directors." The criterion of "good" they used was that the directors "place themselves in a correct position; that is, they don't show any distinction from us as workers" (interviewee 24/6/98/C).

From the perspective of the workers, the contradictory administrative measures have led to their ambiguous evaluations of the "hired" relationship. On the one hand, reform policies—such as enhancing management authority, abolishing job security, and leaving internal distribution to be determined by management—have made workers realize that there has been a "hired" relationship between them and management, and they are paid wages in exchange for their labor. On the other hand, influenced by the balancing measures such as reinforcing the "masters" status, non-fixed-term labor contract, and the like, workers deny or reject the existence of an employer-employee relationship. When the interviewees were asked the question of whether there was a "hired" relationship between workers and management, of the twenty-three workers who answered the question, fourteen denied its existence, five said "yes," and four replied "hard to say" or "no idea."

Workers who denied the existence of a "hired" relationship justified their position in three ways. First, they thought that workers had the same interests and identities as managers because both were employed by the state and lived on wages. In this way, workers rather had a "hired" relationship with the state (interviewees 8/6/98/C and 19/6/98/E). Second, in the opinion of some workers, there was no "hired" relationship because the economic and political systems had not changed completely, and SOEs as well as their trade unions were still controlled by the Party. The *renqing* (人情, or human bonds and sentiments) and the *ganqing* (感情, or human feelings and friendship) still existed among workers and managers, and there were not many differences when compared with before. The workers believed that in their factories, everything was done according to the rules, and these rules had binding force on management behavior (interviewees

8/6/98/D and 25/6/98/C). Third, some workers took the view that public ownership of the means of production implied that SOEs were not private factories belonging to the directors; hence the "hired" relationship did not exist in SOEs (interviewee 22/6/98/C).

Among workers with a sense of being "hired," their understanding of the employer-employee relationship focused on the power of management in layoffs and terminating labor contracts. These workers related the "hired" relationship to the policy of "increasing efficiency by downsizing staff." They considered that because of the policy, they were under the control of managers who had the power to decide what to do and how to do it. Under the pressure of layoffs, workers felt they had to follow the orders of managers, because if their senior managers dismissed them, they simply could do nothing (interviewees 5/6/98/D, 22/6/98/E, and 6/6/98/A). A few workers interviewed perceived their "hired" relationship with their managers with considerable ambiguity. A worker explained why he found it difficult to determine if there existed a "hired" relationship (interviewee 7/7/99/D):

Today, I work, he [the director] pays. In this sense, the relationship between us is a "hired" one. However, if he dismisses me tomorrow, then he has to clearly explain why. In routine work, he has the final say; concerning this issue [dismissal], he cannot do anything he likes. Anyway, for thirty years or more, I have been working for the state, not for him. There is no way he can dismiss me without any cause. If this ever happens, I'll look for some places to say something.

Piecing these evaluations together reveals certain trends of thought taking shape among workers in recent years. In view of the clashes between the two kinds of policies, worker yearning for recognition of their status does not necessarily involve a yearning for power. All evaluations, including those denying and affirming their "masters" status and the "hired" relationship, suggest that workers do not have great aspirations to power, which is different from the Cultural Revolution period when they were said to be the "leading class." Their understanding of the "masters" status and "hired" relationship may be illustrated by the following statements: "We are defined as the masters of enterprises and of course we have the right to demand job security; if there is no job security, there will be a

"hired relationship" (interviewee 9/7/99/F).

### **The Authority of Management**

This fieldwork identifies a non-institutional restraint stemming from the balancing measures which removes almost all management discretion in worker dismissals and layoffs—the basic authority in personnel management. All managers contacted by the authors complained that it was hard for them to exercise their authority to dismiss and lay off workers. The director of a factory losing money explained his dilemma during these years as follows (interviewee 22/6/98/A):

The nature of SOEs determines that the directors have to keep one eye on production and another on politics. So the directors have to share their responsibilities with the government. Now the government stresses maintaining stability. The leaders in city hall always ask us to prevent workers from bringing their complaints to the government offices. If I dismiss a worker, his interests would be damaged. Under such circumstances, he will surely complain to the government offices, and the withdrawal of my decision either by myself or by my superior agency may be the final result. If this is the reality, I am better off not taking such a decision.

The managers in SOEs often expressed their dissatisfaction and helplessness concerning non-institutional restraints resulting from the balancing measures. In the fieldwork sites visited by the authors, some senior managers admitted that overstaffing was serious in their enterprises and "laying off one-third or more of the workers would not affect normal production" (interviewee 23/6/98/B). However, the managers did not have the actual authority to lay off workers because their superior agencies did not allow them to do so. When the central government initiated the policy of "increasing efficiency by downsizing staff," SOE managers were confronted with a new dilemma: on the one hand, they were pushed by their superior agencies to reduce the number of workers; on the other hand, they were required by the same agencies to accommodate the surplus workers within their enterprises or send them to the "re-employment service centers."

The restraint on dismissing and laying off workers generated further difficulty for SOE managers in exercising their authority autonomously. The director of a workshop in Qi Li's participant observation factory took the view that economic and administrative sanctions other than dismissal and discharge had much less effect than before the reforms (interviewee 4/7/99/A):

Now every SOE has its complete discipline system. However, the managers have found it difficult to enforce these rules. In fact, to the worker who violates the rules, what we can apply are economic and administrative sanctions. The effect of the former is limited because every month, according to the labor regulations, the fine must not be more than 20 percent of the worker's monthly wage. Sometimes, the loss caused by the worker could not be compensated by his fine.

Among the workers interviewed by the authors, some also held the view that their managers had few effective means to enforce labor discipline. A worker, who was sent to work in a printing factory (with Hong Kong investors) as a technical advisor from 1993 to 1995, compared the situation with his previous factory experience in Shenzhen (深圳) (interviewee 14/7/99/E):

If I had the opportunity to select my employment unit again, an SOE would be my first choice. [Why?] One of the reasons is its slack management. There are perfect working rules in SOEs like our factory, but who really follows these rules and who oversees the implementation of these rules? In our factory, we can have a seat when machines are operating. In the factory with Hong Kong investors, the workers had to stand during the entire working period. You see, there is a bed beside my machine [in fact, a piece of wooden board on two boxes —authors' note], I can have a nap after lunch. In a foreign-invested factory, this would be just a dream. Yesterday there was something wrong with my machine and I failed to find the electrician. He was finally found by our director at the mahjong table in a storehouse. In a foreign-invested factory, people like the electrician would definitely be dismissed; but in this case, what he got was several critical statements from the director. I have been in this factory for twenty years; I cannot recall anyone being dismissed by the director, except several people who had been sentenced by the courts.

While the authority of managers to dismiss and lay off workers has been restrained to some extent, the government, via its balancing measures, safeguards the interests of workers and reduces their dissatisfaction in the course of reform. In this connection, worker sense of dependence, which

comes from the traditional system, has been reinforced by the balancing measures. In other words, under the impact of these measures, workers have placed their hope of safeguarding their own interests in the government.

### **Integration of Objectives and Demands of Both Parties in SOEs**

Some scholars consider that the framework of united interests between workers and management has been destroyed by the economic and labor reforms.<sup>30</sup> They argue that after acquiring the authority and economic responsibilities, managers of SOEs can now define their management objectives based on economic considerations, such as reducing the cost of production, eliminating losses, increasing profits, expanding the market shares for their products, and so on.<sup>31</sup> In view of the impact of the reforms on their former interests, workers have become more concerned about the protection of their interests including job security, wages, and welfare and benefits.<sup>32</sup> The data collected by the authors in this fieldwork, however, show a more complex picture.

#### *A Framework of Competing Objectives for SOE Managers*

In today's China, the government has already designed a framework of competing objectives for managers of SOEs. The government requires them to enhance efficiency as an economic objective, and also asks them to retain the traditional social functions of SOEs that maintain social stability, which is a sociopolitical objective.

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<sup>30</sup>Jiang Ruxiang, "Fenhua yu zhenghe"; Qi and Xu, *Zhongguo laodong guanxi daolun*, 50; and Zhang, "An Intermediary."

<sup>31</sup>Theodore Groves et al., "China's Evolving Managerial Labour Market," *Journal of Political Economy* 103, no. 4 (August 1995): 873-91; and Tang, Parish, and Feng, "Chinese Labor Relations in a Changing Work Environment."

<sup>32</sup>Qi and Xu, *Zhongguo laodong guanxi daolun*, 51; and Zhao Jianjie, "The Situation and Special Features of Labor Relations in SOEs," in Chang et al., *Laodong guanxi, laodong-zhe, laoquan*, 77-103.

The political and social objectives, imposed in the form of government policy, are often taken as "political tasks" and, therefore, their fulfillment constitutes a political criterion in the evaluation of SOE managers. A set of criteria defined by the Beijing municipal government in 1997 provides an illustration.<sup>33</sup> Among the ten groups of indicators given in the table, some political indicators (such as "implementing the principles and policies of superior agencies, meeting Comrade Jiang Zemin's requirements that leading cadres should have political awareness, strengthening leading-body-building ideologically and politically, and ensuring the implementation of political policies") are ranked as being top priority.

These political criteria make every economic benefit provided by SOE managers tainted with political connotations. Motivations of management behavior, including the payment of wages and social insurance fees for workers, are perceived not solely for the economic interests of workers, but are also based on political considerations. Among the authors' contacts for this fieldwork, several managers interviewed revealed that, after the 1989 Tiananmen Incident, local governments constantly paid more attention to the role of SOEs in maintaining social stability (interviewees 22/6/98/A, 23/6/98/B, and PAR-A). They informed the authors that on the eve of some "politically sensitive" occasions such as the Spring Festival (Chinese New Year), the "two meetings" (the annual sessions of the National People's Congress and the Chinese People's Political Consultative Conference),<sup>34</sup> "June Fourth" (Tiananmen Incident anniversary), and National Day, governments at all levels or their superiors would convene meetings to relay the directives from above. At these meetings, the directors of SOEs were typically required to minimize labor disputes as best as they could; hence they had to avoid dismissals and layoffs, prevent any delay in paying wages and pensions, and resolve labor disputes within their

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<sup>33</sup>The document was issued by the Beijing Municipal Economic and Trade Commission in 1997, and was given to the authors during their fieldwork.

<sup>34</sup>The "two meetings" are usually held in March every year, shortly after the Spring Festival. These meetings attract much domestic and international media attention, and are occasions when the deputies and delegates from the provinces may articulate their local grievances.

factories as soon as possible. In general, they had to do their best to prevent workers from *naoshi* (鬧事, or making trouble) on these occasions (interviewees 22/6/98/A and PAR-A).

This framework of competing objectives is related to the dual evaluation system of management performance. Until the time of the authors' fieldwork, most SOE managers were still directly appointed by their superior authorities or appointed by these authorities after election by their staff and workers.<sup>35</sup> In this context, the governments concerned had the authority to evaluate their performance in accomplishing the economic and sociopolitical objectives according to a dual evaluation system.

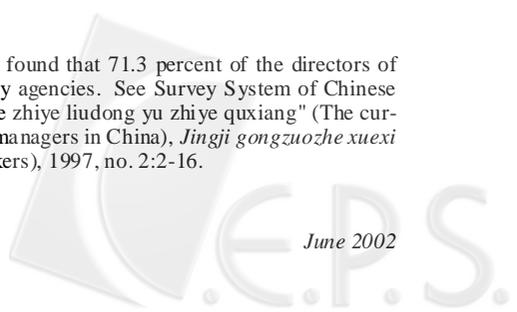
Under this system, an assessment mechanism was set up along the administrative lines of the superior authorities, e.g., industrial bureaus at different levels. The directors of SOEs were to be regularly evaluated by officials from superior agencies—usually yearly, but sometimes semianually—to assess their performance in accomplishing the competing objectives. This practice was instituted when the CCP came to power in 1949 and had changed little even in the 1990s.

Another practice was "democratic appraisal" (民主評議). According to this practice, the activities and achievements of managers were to be evaluated by workers and staff members (or their representatives). The Chinese leadership in fact reinforced this practice through a "Notice on Strengthening the Evaluation and Building of Leading Bodies in SOEs," issued by the Organization Department of the CCP Central Committee, the State Economic and Trade Commission, the Ministry of Personnel, and the ACFTU on March 3, 1997. This document stipulated that the performance of the directors in SOEs would be assessed by a range of criteria related to their political duties as well as their economic objectives.

Apart from regular evaluations conducted by workers or their repre-

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<sup>35</sup>A 1996 survey among Chinese entrepreneurs found that 71.3 percent of the directors of SOEs were still appointed by their supervisory agencies. See Survey System of Chinese Entrepreneurs, "Zhongguo qiye jingyingzhe de zhiye liudong yu zhiye quxiang" (The current career mobility and career orientation of managers in China), *Jingji gongzuozhe xuexi ziliao* (Studying Materials for Economic Workers), 1997, no. 2:2-16.



representatives, workers could send their opinions directly to the superior agencies by way of writing letters or visits, without going through the formal administrative hierarchy. The superior agencies could also send their officials to the factories to listen to the opinions of the workers. These opinions, which were not related back to the managers, were highly valued by the superior agencies and were taken as one of the most crucial determinants in assessing the careers of senior managers. A director the authors interviewed observed that workers' opinions could, at least, have some effect on destroying his reputation among workers and staff members in his enterprise, and even the confidence of his superior agencies in him (interviewee 22/6/98/A):

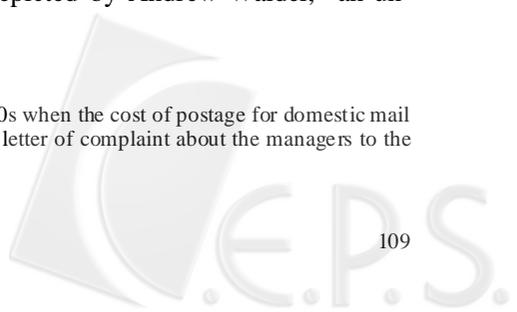
Have you heard of the saying that "eight cents can make you feel uncomfortable for half a year" [八分錢讓你難過半年]?<sup>36</sup> This is still the truth now. Their opinions, if really serious, will provide an opportunity for the superior agency. If someone over there dislikes you, he will take this opportunity to give you a hard time or dismiss you from your post.

The framework of competing objectives, nevertheless, provided SOE managers with more opportunities to secure a positive evaluation even if their enterprises lost money, because both the superior authorities and subordinate workers do not take economic efficiency as the sole criterion in the evaluation of their performance.

Managers in SOEs could gain a higher rating when evaluated by achieving political rather than economic objectives. This was often the favored option of most managers, especially when increasing economic efficiency within a short time proved difficult. In order to do well in the evaluation exercises, in most cases, managers would (not entirely from conscious design) accord the interests of workers and staff members a high priority. A shortcut to win over workers, if possible, was to satisfy their basic needs. Spending money on worker benefits would, at least, not involve any political risk. Thus, as depicted by Andrew Walder, "an un-

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<sup>36</sup>This saying was widespread in the early 1980s when the cost of postage for domestic mail was eight cents. It actually meant writing a letter of complaint about the managers to the supervisory agencies.



spoken agreement between management and workers" was created.<sup>37</sup> The following strategies adopted by the managers of SOEs well illustrate this "unspoken agreement."

*Continuing to provide job security for surplus workers:* All senior managers interviewed by the authors admitted that there were surplus workers in their enterprises, totaling between 15 to 33 percent of the total workforce. However, these managers were reluctant to increase economic efficiency by laying off these surplus workers. One reason for inaction was given by a trade union chairperson from a manufacturing factory (interviewee 23/6/98/A):

At the last meeting of the workers' congress, a proposal to lay off surplus workers according to seniority was rejected by our director. He took the view that our factory is technology-oriented; we would lose numerous technical workers if we accept the proposal. This then means a loss of productivity. So internal accommodation should be a characteristic of a socialist enterprise.

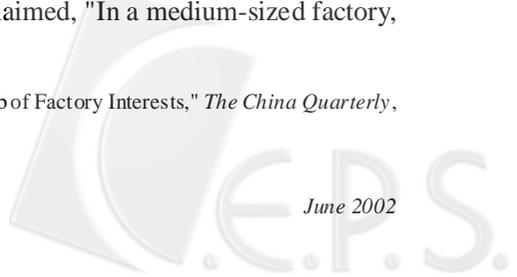
A director, whose factory had suspended production, explained as follows (interviewee 19/6/98/A):

My factory has suspended production for three years, and 80 percent of the workers have been staying at home. Until now, I have not laid anyone off, unless someone resigned by themselves. [Why?] First, this factory will be in operation as soon as it can secure circulating capital to buy raw materials. Under such circumstances, I need to keep a relatively stable labor force. Second, when staying home, the workers, earning a 150 *yuan* per month basic living allowance, can find some temporary jobs in the labor market, and all the time have the hope of returning to the factory. So they will not go to the government offices to complain.

*Continuing to pay various social security payments and benefits for workers:* During the social security reform in the 1990s, workers' medical insurance and pensions were still covered by SOEs, which constituted a main part of enterprise expenses for laid-off workers. All senior managers interviewed by the authors admitted that their enterprises were saddled with the huge burdens of benefits and social security payments and lacked the power to cut costs. One director claimed, "In a medium-sized factory,

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<sup>37</sup>Andrew G. Walder, "Wage Reform and the Web of Factory Interests," *The China Quarterly*, no. 109 (June 1987): 33.



if there are several workers suffering from incurable diseases, making profits would become empty talk" (interviewee 9/7/99/A). Despite such complaints, however, managers in SOEs prefer that the benefits and social security payments remain unchanged in accordance with the government regulations. A manager who was in charge of a factory's personnel department told the authors that her factory still covered the medical care expenses for more than one thousand retired workers. Although she complained that "they spend too much, the highest expenditure for a single person was more than 300,000 *yuan* in one year," she acknowledged that "the managers never hesitated paying medical expenses for retired workers; if they asked, the cheques would be written at any time" (interviewee 5/6/98/B). About 40 to 90 percent of workers and staff members in sites visited by the authors lived in housing provided by their enterprises; some of the interviewees told the authors that they had received apartments from their factories a few months prior in view of the coming reform of the housing system.<sup>38</sup>

*Increasing wages at rates exceeding the growth of labor productivity:* In the transition process, SOE managers were driven by the desire to increase profits as well as to provide pay and benefits to workers.<sup>39</sup> If finances allowed, the usual practice was for managers to increase worker wage rates and benefits considerably, in order both to secure positive evaluations from the workers and to increase their own incomes. Among the five profit-making factories the authors visited, the growth of average annual wages from 1987 to 1997 exceeded the growth of labor productivity in four of them; a post office (a state monopoly) was the only exception.

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<sup>38</sup>Since the central government introduced the reform policy of "housing allowance in place of actual housing allocation" on July 1, 1998, commercial property has become the mainstream form of housing available to urban residents. Several months before the implementation of this policy, many SOEs, public-sector organizations, and government organs rapidly distributed housing units to their employees; and this became known as "taking the last bus of welfare housing" (搭福利分房的末班車).

<sup>39</sup>Li Peilin, "Qiye yanjiu de shijiao" (A perspective of enterprise studies), in *Zhuanxing zhong de Zhongguo qiye: Guoyou qiye zuzhi chuangxin lun* (Chinese enterprises in transition: A theory of SOE organizational innovation), by Li Peilin et al. (Jinan: Shandong renmin chubanshe, 1992), 23.

During this period, the central government repeatedly issued documents demanding managers to keep the growth of total wage bills below that of labor productivity.

*A "Reluctance to Leave SOEs"*

After two decades of reform, there was no doubt that with the decline of the social and economic status of workers in SOEs, new laborers in urban areas no longer regarded the industrial SOEs as desirable employment units. Some survey data and the results of the authors' fieldwork reveal, however, that in the minds of the incumbent workers, SOEs were still their preferred employment units. Among the twenty-seven interviewees answering the question "Supposing you were allowed to select your employment unit by yourself, what kind of employment unit would you most desire?" fifteen selected SOEs and five preferred government agencies. Even in the factories that were losing money or had suspended production, there were still four interviewees selecting SOEs and two government agencies. In their own words, the workers had "feelings" (感情) for their SOEs.

This "reluctance to leave SOEs" may be explained in several ways. Andrew Walder has, for instance, explained, from the perspective of economic dependence, why workers were unwilling to leave SOEs.<sup>40</sup> However, given that more than 60 percent of SOEs were losing money and were offering relatively low wages to their workers, there must have been other factors besides economic dependence. The authors' fieldwork reveals that the causes for the "reluctance to leave" were complex.

The government's policy of support and economic assistance for SOEs, in addition to the balancing measures, led workers to believe that the authorities would not "look on with folded arms" when their SOEs encountered financial problems. This view was very popular in SOEs that were losing money or had suspended production. Such perceptions were constantly strengthened by the government's continual injection of "social stability money" into these enterprises.<sup>41</sup> A worker in a factory that had

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<sup>40</sup>Walder, *Communist Neo-traditionalism*, 14-15.

<sup>41</sup>For example, in 1998, governments at all levels allocated 68.4 billion *yuan* to support the

suspended production explained why this belief led him to remain working for an SOE (interviewee 19/6/98/F):

If I were allowed to select my employment unit, an SOE would be my first choice because the state will eventually provide some assistance to SOEs when they are confronted with financial problems. Under such circumstances, I believe the problem will be resolved and the difficult period will not be long. For instance, our factory has suspended production for three years. If a state bank could give a loan to maintain the cash flow, this factory would make a quick recovery.

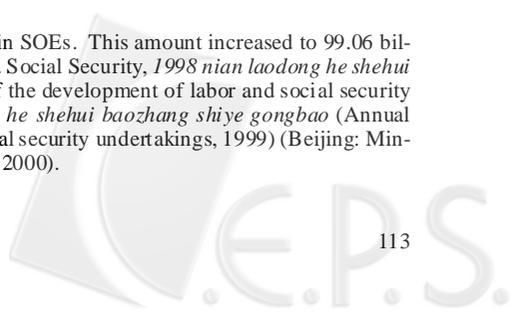
The balancing measures remained an effective means to maintain a traditional management style in SOEs, which in turn led workers to believe that their interests would be better protected or, at least, would not be easily damaged. A worker who had worked in a foreign-invested enterprise several years before presented a case of his own experience as follows (interviewee 14/7/99/E):

Even though some SOEs lose money, management at least will put some emphasis on "human rights." I was sent by our factory to a foreign-invested factory as a technical advisor for two years and I still remember an incident that occurred. This factory printed a batch of packing-boxes for a client in the United States. A portion of this batch was returned by the client because of quality defects. The Hong Kong boss scolded the director of the workshop angrily and abusively. I was present and felt that the boss was not scolding his subordinate but his son. In SOEs, the director cannot scold their workers in this way.

Even after SOEs' managers had been granted more authority in decision-making, the balancing measures still had a strong "path dependence" effect. It was difficult for managers to abandon their long-established managerial techniques and methods. A worker with thirty-two years of seniority explained his choice of SOE management style as follows (interviewee 22/6/98/E):

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operation of re-employment service centers in SOEs. This amount increased to 99.06 billion *yuan* in 1999. See Ministry of Labor and Social Security, *1998 nian laodong he shehui baozhang shiye gongbao* (Annual bulletin of the development of labor and social security undertakings, 1998) and *1999 nian laodong he shehui baozhang shiye gongbao* (Annual bulletin of the development of labor and social security undertakings, 1999) (Beijing: Ministry of Labor and Social Security, 1999 and 2000).



I shall select an SOE if possible because I have been working in an SOE since the first day of my employment. I trust it. One of the advantages in this kind of enterprises is job security, unlike other types of enterprises [where] workers are vulnerable to dismissal. Another advantage is the relatively normal management style. In these enterprises, our interests will not be damaged significantly even in a market economy. Furthermore, I am old and cannot adapt myself to the intensive working conditions in foreign-invested enterprises.

Even some younger workers shared a similar view. A thirty-four-year-old worker said that (interviewee 15/7/99/F):

Technical workers like us can easily earn more in foreign-invested or private enterprises. However, one point should be kept in mind: these enterprises would not pay you more without additional requirements. In other words, you have to pay a higher price for this higher wage. If the boss asks you to work overtime, you cannot turn him down. From the first minute you enter the workshop, you cannot stop working for the entire day. Compared to this, I feel more comfortable and less tired working for an SOE.

"State debts" were also one of the reasons for worker "reluctance to leave SOEs." For about forty years, the central government had been adopting the strategy of "*gaojiuye, digongzi*" (高就業、低工資, or high employment, low salary).<sup>42</sup> At the same time, the central government also promised workers benefits in the future, such as job security, medical expenses, housing, and a pension.<sup>43</sup> While this pattern of commitments had changed during the reforms, workers in SOEs still consider that the state owes them certain "debts" which should not be cancelled by reform policies. This perception has mainly prevailed among older workers. In their view, as long as they do not leave their SOEs, they would retain their right to ask the government to "repay their debts"; once leaving, this right would be given up. A worker further explained this view as follows (interviewee 14/7/99/E):

I had considered quitting this job. In this factory, the most I can earn is about 1,700 *yuan* a month, but in other types of enterprises such as private factories,

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<sup>42</sup>Yang Yiyong, *Jiuye lilun yu shiye zhili* (Theories of employment and solutions to unemployment) (Beijing: Zhongguo jingji chubanshe, 2000), 33.

<sup>43</sup>Li Peilin, "Dealing with Unemployment in Old Industrial Bases: Post-Industrialization and Marketization—A Survey of Nine Large-Scale SOEs in the Northeast," *Shehuixue yanjiu* (Studies of Sociology), 1998, no. 4:1-12.

4,000 *yuan* will be guaranteed. However, in the end, I decided not to quit. I have been contributing myself to this country for almost thirty years and can apply for retirement when the thirty-year-requirement is met. Why should I quit my job at this time? Once I quit, I would lose everything including my pension and free medical care. Once I retire, I shall go to other types of enterprises to get another job and make some money.

The "reluctance to leave SOEs" can be explained on the basis of the above factors. SOEs realize worker economic interests, even when most SOEs are confronted with financial difficulties.

### *Workers' Self-adjustment of Demands*

Surveys have indicated that, under the pressure of competition from the international and domestic labor markets, workers in SOEs have been forced to lower their demands. These pressures were reinforced by the central government's policy of "downsizing staff." Hence the only demand for a majority of workers was to keep their jobs.<sup>44</sup> Keeping their jobs in SOEs would allow workers to ask the government to "return its debts" to them, i.e., waiting for the government to assist their factories to recovery so that they could continue enjoying their job security and benefits. The workers interviewed for this research indicated that they placed strong emphasis on job security and wage payment because of the financial problems in SOEs and the new policy of "downsizing staff." This minimal demand can be interpreted as a self-adjustment on the part of workers, largely derived from their "reluctance to leave SOEs."

In the enterprises visited by the authors, four types of workers' self-adjustment of demands may be observed. First, workers had lowered their levels of demand. They expected little in the way of benefits provided by their enterprises. In their own words, their basic needs were "we hope firstly not to be laid off or become unemployed; secondly, gain monthly wages" (interviewee 22/6/98/E). They felt "satisfied" or "content" if these

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<sup>44</sup>For example, a survey conducted among 5,000 respondents in ten Chinese cities by the Beijing Zero Investigation Company at the beginning of 1998 showed that, among the social problems people were most concerned with, the problem of unemployment and layoffs occupied first place; 92.7 percent of the respondents thought that these issues were very or quite serious. See *Zhongguo laodong bao* (China Labor Daily), January 31, 1998.

needs could be met, and they also used satisfaction of such needs as the criterion in evaluating their managers.

Second, workers usually showed their support and tolerance for management performance. The chairperson of a trade union told the authors that the workers began to pay more attention to meetings of the workers' congress and showed serious concern for the operation and production of their enterprise (interviewee 8/6/98/A). In a few cases, workers even accepted the shady activities of some of their senior managers, which—from the official perspective of the Party—were regarded as corruption or at least "unsound practices" (不正之風, *buzheng zhi feng*). Some workers expressed understanding because "this is social activity and a necessity in doing business. If we discovered that there had been no guests arriving this month, we would have known that there would be no work to do next month" (interviewee 22/6/98/D).

Third, managers felt that the workers had become more obedient due to the pressure of unemployment. They saw this as the most significant change among workers after SOEs had become market-oriented. During Qi Li's participant observation, a director told him that (interviewee 9/7/99/A):

Workers are more obedient than before because of the pressure of unemployment and layoffs. One day last year [1998], I held a meeting attended by the heads of work groups. At this meeting, I asked them whether they had laid-off spouses or relatives. Among the twenty-three people present, five had laid-off spouses and all of them had laid-off or unemployed relatives. Now the majority of workers have understood that if they want to keep their "rice bowls," they have to work hard.

Fourth, workers in SOEs tried to avoid labor disputes with their managers. A printing worker, who was several times selected as a "laborer model," described his situation in his factory as follows (interviewee 14/7/99/E):

The labor relations in SOEs are so simple that you cannot believe it. What workers think about is making money by working hard. Now they have no extravagant wishes. You know, the capable people could not be retained by the management, most of them quit several years ago. Only people without capabilities are left in this factory. So, we would follow whatever the managers order us; we are fearful of their breaking our "rice bowls." Under such circumstances, there are no labor disputes. If you don't want to be dismissed, you better shut up, even if you are dissatisfied with something.

In general, compared with the financial difficulties faced by SOEs, the government's policy of "downsizing staff" exerted more pressure on the workers because almost all SOEs, whether profitable or not, are over-staffed. Under this situation, workers are forced to reduce their demands in order to maintain their positions in their respective SOEs.

### *Integration between Objectives and Demands*

The government required the managers in SOEs to accept the maintenance of social stability as one of their major objectives in management. To realize this objective, managers have needed the cooperation of the workers. At the same time, under the pressure of unemployment, workers in SOEs have been reducing their demands in order to maintain their jobs within SOEs. Hence, an integration of objectives and demands between the two parties has resulted in the maintenance of a cooperative relationship between managers and workers, avoiding destructive results or the bankruptcy of enterprises.

In this integration, a mutually acceptable position is reached based on workers' lowest economic demand (job security) and managers' lowest social objective (appeasing workers and avoiding unrest), as well as the common lowest economic objective (normal production). In SOEs, there has therefore actually been a "tacit agreement" between the two parties on the basis of their minimum objectives or demands.

This integrated framework of objectives and demands can be demonstrated by an evaluation of the "relationship between cadres and masses" (幹群關係, *ganqun guanxi*) in the authors' fieldwork. Among the twenty-five workers who were asked to evaluate the relationship between cadres and masses, sixteen respondents perceived that there was a relatively harmonious relationship in their factories (five of those interviewed came from firms that were losing money or had suspended production). Eight respondents thought that the relationship was "average" and one worker answered "hard to say." When the workers explained their evaluations of a "harmonious relationship," they offered the following evidence: "The relationship between managers and workers and staff members seems good and there is no big gap between us; when we run into them in the street or

at work, sharing a joke or reflecting on some problems is possible" (interviewee 19/6/98/F); "Our director is not too bad; for instance, when workers have financial difficulties, he regularly offers them living subsidies, and he visits retired families during the Spring Festival and other holidays" (interviewee 22/6/98/D and 5/6/98/D); "The senior managers would like to solicit the opinions of workers and staff members before they make the final decisions" (interviewee 9/6/98/B).

In the traditional socialist system, securing good evaluations from their workers was a basic task of communist cadres. However, workers now believe that securing a "harmonious relationship" with them is also a basic task of SOE directors, and not just the Party secretaries. This change reflects that the workers in SOEs have indeed reduced their level of demand regarding their management.

This integration of objectives and demands, however, is by nature different from the unified structure of interests in the traditional Maoist system because the former is built on compulsion. In the present situation, the government's balancing measures drive the SOEs' management to divide its managerial objectives into two categories in order to meet the dual requirements of the government in terms of economic efficiency and political stability, which are competing objectives. In this way, managers hope to win positive evaluations from both their superior agencies and workers so that they may realize their individual interests, such as maintaining their posts and gaining promotions. Workers too, in view of the uncertainty in their SOEs and the policy of "staff downsizing," are forced to reduce the level of their demands in order to keep their jobs in their SOEs, thus consolidating their "reluctance to leave SOEs."

### Conclusion

At the national level, the CCP's monopoly of political power and its intention to maintain this monopoly have made the course of transition more complex. The economic reform in China is not a revolution in which a regime is being overthrown, or the social system is being replaced, but a

gradual transition in which the CCP leadership and the socialist system are being maintained, the latter at least in name. In this reform, preserving social and political stability has always been the prime consideration of the Party leadership.

The Tiananmen Incident in 1989 made the CCP leadership acutely aware that political stability in urban areas has largely depended on the social and political functions of SOEs. In the first place, SOE workers account for a significant proportion of the total labor force, most of whom had been recruited before or at the beginning of the reform era. Since the social status and economic interests of such workers are related to the social and political functions of SOEs, keeping these functions has become their vested interest and an important factor in the maintenance of social stability in urban areas. Secondly, in the course of reform, the central government has not had enough time and financial resources to set up or complete institutions offering social insurance, as well as vocational training and new job opportunities to replace the social and political functions of SOEs. In view of the growing conflict between workers and management, the only choice of the Chinese leadership has been to resort to measures of repairing the political and social functions of SOEs.

By adopting these measures, the government restrains the authority it has earlier granted the management, especially power concerning human resources management, and thus hampers the transition of labor relations in terms of the status, identities, and interests of both workers and management. In general, these balancing measures have impeded the reforms of labor relations in SOEs in line with a market economy.

Several observations may be made in conclusion. In the first place, there are no well-defined parties within SOEs. In other words, no clear boundary exists between the identities of workers and senior managers. In the course of reform, the government attempts to make the senior managers of SOEs employers and grant them the associated authority, while assigning the employee status to workers in order to change them to wage-workers in a market economy. However, the reforms have not resulted in the situation as depicted by many scholars, because various balancing measures have eroded the effects of the reforms. From the perspective of

managers, they have indeed been empowered to make the final decisions on production and marketing; they have the authority in recruiting and dismissing workers and instituting the distribution system according to production needs. However, there remain enough areas where the government can alter or constrain their authority, limiting their exercise of such authority so as not to violate the important objective of maintaining social stability. The government can require managers to provide social security and benefits, which are expected to be provided by the government, to their workers. The government has the authority to require managers to continue to provide job security in accordance with SOE capability to absorb surplus labor. The government can also require them to institute some management participation schemes such as workers' congresses, offering workers a channel to vent their resentments. Generally speaking, the management, having gained more autonomy than before from the government, must shoulder the obligations formerly assumed by the government so as to uphold management authority.

Secondly, the balancing measures have a certain impact on the workers of SOEs. Even though the strengthening of the "masters" status often contradicts with the realities they are facing, this balancing measure has weakened worker consciousness of "class differences" in a market economy. In addition, in view of the effect of the balancing measures on restraining management authority, the workers have placed their hope on the government to safeguard their interests. They have not fully recognized their status and rights in a market economy, and have difficulty in generating a consciousness to promote organization and the self-safeguarding of their interests. The risk is the workers may become vulnerable if the reform continues to deepen and the government cannot provide them with adequate protection.

Finally, in the course of reforms, the unified framework of interests has been destroyed, and both parties have developed separate interests. Such divergent interests have thus been integrated by the balancing measures. Under the pressures of the personnel and evaluation systems, the managers in SOEs must keep an eye on the political objectives designed by the government so as to keep their positions and careers. At the same time,

given their "reluctance to leave SOEs," the workers can endure considerable losses brought about by the losses of their SOEs and reduce their demands to the minimum level. This integration, to some extent, conceals the divergent interests between labor and management, and has served to reduce labor conflicts.

Balancing measures have obviously contributed to social stability and the maintenance of the CCP regime. But the limitations of this type of adjustment lay in their adverse impact on the transition of labor relations in SOEs. At the micro-level, manager consideration of worker interests, to a large extent, has remained restricted to the demands of balancing measures. Outside the parameters of the balancing measures, whether managers would take worker interests into consideration in their management decisions mainly depends on their conscience. When SOE managers make decisions relating to workers' interests, they feel pressure only from government policies. Hence if balancing measures do not work, workers will find themselves in severe difficulty. At the macro-level, the central government can rely on balancing measures to reduce contradictions in society to a certain extent, and maintain social stability in the short term. However, the social problems generated by economic reforms have not been resolved at the fundamental level; the contradictions are hidden below the superficial calm. When the government continues to deepen reforms (such as the privatization of SOEs) or when further pressures come from the external environment (such as those brought by China's World Trade Organization membership), the government may not be able to sustain or enhance the balancing measures, and the hidden social contradictions will explode and endanger social stability.