LABOUR MARKET CHANGES, LABOUR DISPUTES AND SOCIAL COHESION IN CHINA

by

By CAI Fang and WANG Meiyan

Research area:
Perspectives on Global Development: Social Cohesion
This series of working papers is intended to disseminate the Development Centre’s research findings rapidly among specialists in the field concerned. These papers are generally available in the original English or French, with a summary in the other language.

Comments on this paper would be welcome and should be sent to the OECD Development Centre, 2 rue André Pascal, 75775 PARIS CEDEX 16, France; or to dev.contact@oecd.org. Documents may be downloaded from: http://www.oecd.org/dev/wp or obtained via e-mail (dev.contact@oecd.org).

©OECD (2012)
Applications for permission to reproduce or translate all or part of this document should be sent to rights@oecd.org.
## TABLE OF CONTENTS

PREFACE ....................................................................................................................................................... 4  
RÉSUMÉ ........................................................................................................................................................ 6  
ABSTRACT .................................................................................................................................................... 6  
I. INTRODUCTION ..................................................................................................................................... 8  
II. DESCRIPTION OF LABOUR DISPUTES ........................................................................................... 11  
III. DETERMINANTS OF LABOUR DISPUTE INCIDENCE ..............................................................17  
IV. GOVERNMENT INITIATIVES .......................................................................................................... 24  
V. CONCLUSIONS AND POLICY SUGGESTIONS ............................................................................. 31  
REFERENCES ............................................................................................................................................. 33  
OTHER TITLES IN THE SERIES/ AUTRES TITRES DANS LA SÉRIE ..............................................34
PREFACE

Jobs are important in maintaining social cohesion. Employment provides income, but also a sense of self-worth and a meeting place for social interactions that weave the social fabric. With over 200 million unemployed globally, the number of jobs created has taken centre stage, especially in countries hit hard by the economic crisis. And yet, labour relations have become tense in many parts of the world, including those still experiencing economic growth. In 2010, China witnessed a marked increase in strikes, labour disputes and even suicides in the workplace. Understanding the economic and institutional determinants of good labour relations matters for designing and implementing better labour market policies.

The increase in labour disputes in China coincided with the end of the era of surplus labour. While labour was abundant in rural hinterlands, manufacturing firms could rely on cheap labour as migrant workers would still be better off than if they stayed at home. As it became increasingly difficult for manufacturing firms in urban centres and the coastal provinces to recruit labour, wages were bid up throughout the economy. This process however, was all but smooth, as the increase in labour disputes shows. What is needed is a set of labour market institutions that help the transition in labour markets to be not only efficient, but also peaceful and equitable.

This paper by Cai Fan and Wang Meiyan, from the Institute of Population and Labour Economics of the Chinese Academy of Social Sciences, documents the increase in labour disputes in China and seeks to understand their determinants. The main finding is that the increase in disputes is linked to a change in regime in the labour market with the end of surplus labour. The paper therefore calls for further advances in establishing labour market institutions to adapt to the new labour market situation. The paper finds that disputes result from a better awareness of rights on the part of workers and that they are more common in thriving and export-oriented areas. The authors go on to discuss the Chinese government’s responses to the growing problem, from pro-active labour market policy to increasing the importance of collective contracts. In doing so, this paper provides an important building block in the understanding of the role of labour market institutions for social cohesion.
This paper was written as a background document for the *Perspectives on Global Development 2012: Social cohesion in a shifting world* along with case studies on Chile and India. This work – with the analysis of the Latin American middle class in the *Latin American Economic Outlook 2011* and that of youth employment in Africa in the forthcoming *African Economic Outlook 2012* – is part of a wider effort at the OECD Development Centre to identify good practices with an integrated view of the state. These are the policies that, ultimately, make up development strategies that foster social cohesion.

Mario Pezzini
Director
OECD Development Centre
January 2012
RÉSUMÉ


Classification JEL: J52, J20, O15.

Mots-clés : Conflits du Travail, Cohésion Sociale, Point de Retournement de Lewis

ABSTRACT

Labour disputes have intensified in China in recent years, alongside the labour shortages and wage inflation, particularly since 2008 when several Chinese labour related laws were issued or updated. This paper describes basic situations of labour disputes and examines the determinants of labour disputes from macro and micro perspectives and finds that the advent of the Lewis Turning Point enlightens the awareness of workers striving for rights and interest in the labour market. The paper also examines how government employment policies and labour market institutions help foster social cohesion during the current transition phase. From a macro perspective, the paper finds that regions with higher GDP per capita have a higher labour dispute incidence. The higher the proportion of export value in GDP in a region, the higher the
labour dispute incidence. From a micro perspective, the paper finds that workers with higher human capital levels are more likely to initiate a labour dispute. The Chinese government has taken proactive employment policies to promote employment and labour market institutions have been developing rapidly. However, there is still much to do to improve labour market institution building.

**Classification JEL:** J52, J20, O15.

**Key words:** Labour Dispute, Social Cohesion, Lewis Turning Point
I. INTRODUCTION

The strictly implemented one-child policy, rapid economic growth and fundamental social transformation, have brought about a profound demographic transition in China within a very short period of time compared to most developed countries (Wang and Mason, 2008; Du, 2005). During the reform period, the stage of demographic transition in China was characterised by a sharp drop in fertility, a rapid decline in the proportion of youth, a slowdown of working-age population growth, and a rapid increase in the proportion of elderly. When the pace of the decline in the proportion of youth exceeded that of the increase in the proportion of elderly, China began to enjoy a sufficient labour supply, a result of productive population structure (Cai, 2010; Cai and Wang, 2005a). As the demographic transition process continues, the growth of the working-age population becomes slower, whereas population ageing speeds up.

Since about 1980, the growth of the aged population has accelerated, whilst the growth of working-age population has slowed down considerably, and the growth of youth population has shrunk. The implication of such demographic dynamics is that the long-standing low fertility rate leads to an inadequacy of labour supply as the growth in working-age population first slows and then tapers off. According to an updated prediction (United Nations, 2009), the year 2015 will be China’s turning point when the population aged 15 to 64 will stop increasing and begin shrinking.

According to a more detailed prediction (Hu, 2009), which takes into account the impacts of rural-to-urban migration, labour demand in the urban sector has been met by rural labour migration in recent years. By 2015, the incremental working age population in urban areas will be less than that of the reduced working-age population in rural areas, and the total working-age population will begin to shrink, the same conclusion of the UN prediction. This implies that, without substantial enhancement of wages and other incentives, migrant workers will not fill the gap vacated by rapid reduction of the urban labour force.

This decline in the growth rate and the absolute number of working-age population leads to an inevitable labour shortage, a challenge that the Chinese economy has to confront. Labour shortage first emerged in the Pearl River Delta region in 2003 and has since expanded to the Yangtze River Delta regions and to inland provinces, the general source of migrant workers. Gradually it has become a national phenomenon in China (Cai and Wang, 2005b; Zhang, 2008; Wang, 2005).

With the emergence and expansion of labour shortages, wages have been growing rapidly in both agricultural and non-agricultural sectors (Wang, 2010b). In recent years, labour disputes have intensified alongside labour shortages and wage inflation, particularly after 2008 when several Chinese labour laws were issued or updated, spurring enlightened workers to
voice their various demands in the labour market. Labour disputes take various forms, including workers’ initiation of labour disputes and other collective actions such as complaints and strikes. In addition, there are other events indicating employment conflicts such as chain suicides and frequent employee turnovers.

According to Lewis (1972) and Ranis and Fei (1961), the Lewis Turning Point can be referred to as the period of time at which expansion of labour demand exceeds that of labour supply, resulting in rising wage rates for ordinary workers, while agricultural sector wages are not yet determined by marginal productivity of labour and a difference of marginal productivity of labour between agricultural and non-agricultural sectors remains. The commercial point occurs when the wage rates in agricultural and non-agricultural sectors are both determined by their marginal productivity of labour and the gap in productivities disappears. Only at this time does the dual economy end.

The appearance of unskilled labour shortages and wage increases in China imply the advent of the Lewis Turning Point, which is empirically confirmed to be accompanied by the Kuznets Turning Point – that is, the point at which income inequality reaches its peak and starts to decrease (Minami and Ono, 1981). However, the existing income distribution setup cannot be altered spontaneously.

The intensified labour disputes of recent years have drawn much attention from scholars and policy makers. Some claim that it is a sign of the deterioration in labour relations. We borrow Hirschman’s framework (Hirschman, 1970) to interpret the newly emerged phenomenon. Hirschman uses three expressions – exit, voice and loyalty – to illustrate mechanisms by which citizens, consumers and workers express their dissatisfaction. When members of an organisation perceive that the organisation is demonstrating a quality or benefit decrease to them, they can exit or they can voice.

According to Hirschman (1970), exit and voice also interact in unique and sometimes unexpected ways. Exit might be reduced if greater opportunity for feedback and criticism were provided. With the coming of the Lewis Turning Point, labourers face more employment opportunities and they then obtain the power to “exit” or the rights to “vote with their feet”. When workers are dissatisfied with their jobs, they have two choices. One choice is simply to choose to quit. The other choice is to take actions to voice their claims in front of employers, such as labour disputes, complaints, collective bargaining and, more extreme, strikes, in order to seek higher pay and better working conditions without leaving the firms.

Since more employment opportunities give workers more bargaining power with their employers, the increase of labour dispute cases cannot be seen as a sign of aggravation of labour relations. Instead it is an inevitable result of labour market changes with the coming of the Lewis Turning Point. Intensified labour disputes are without a doubt an indication of stronger demand

---

1. In 2008 alone, three labour related laws were introduced: i) Employment Contract Law which emphasises enhancing employment security and providing better protection for migrant workers and the urban working vulnerable; ii) Employment Promotion Law which clearly claims the responsibility of governments in promoting employment and in eliminating various kinds of labour market discrimination; and iii) Labor Disputes Mediation and Arbitration Law which provides a legal framework for improving labour relations.
for labour market institutions, which are expected to be helpful for maintaining and improving social cohesion resulting in an urgent and challenging task for the Chinese government.

The rest of this paper is organised as follows: Section II introduces the data and describes the situations of labour disputes; Section III examines the determinants of labour disputes from both macro and micro perspectives; Section IV analyses how government employment policies and labour market institutions help foster social cohesion; Section V concludes and suggests policy priorities and reform directions so as to strengthen social cohesion after the Lewis Turning Point via labour market institutions building.
II. DESCRIPTION OF LABOUR DISPUTES

In this paper, we employ both macro and micro data. The macro data are from the *China Labor Statistical Yearbook*, the *China Compendium of Statistics 1949-2008* and the *China Statistical Yearbook*. The micro data employed includes three micro survey datasets.

The first dataset is the *China Urban Labour Survey* (CULS3). There are three waves of CULS, which are called CULS1, CULS2 and CULS3. They were conducted by the Institute of Population and Labour Economics at the Chinese Academy of Social Sciences in 2001, 2005 and 2010. In this paper, we will utilise only CULS3, which was conducted in six big cities (Shanghai, Wuhan, Shenyang, Fuzhou, Xian and Guangzhou). The cities were chosen to provide regional diversity and variation in the size of the state versus private sectors. Within each city, 700 urban households and 600 migrant households were interviewed.

The second micro dataset is a survey on manufacturing enterprises (MES), conducted by People’s Bank of China from September to November 2009. It surveyed 1,644 enterprises located in seven provinces including Zhejiang, Jiangsu, Guangdong, Shandong, Jilin, Hubei, Shaanxi and Sichuan.

The third micro dataset used in this paper is a survey on private enterprises (PES), jointly conducted by the All-China Federation of Industry and Commerce, Ministry of Human Resources and Social Security and All China Federation of Trade Unions from June to September 2009. It surveyed 1,445 enterprises located in all provinces throughout the country with the exception of Chongqing.

In recent years, particularly after 2008 when several Chinese labour related laws were issued or updated, labour disputes have intensified. The number of labour disputes in China has been gradually increasing over the past decade. It was 169,000 in 1999 and then increased steadily until 2007. In 2008, the number of labour disputes increased sharply to 931,000, almost twice the number recorded in 2007 before falling slightly to 870,000 in 2009.

Disputes can take the form of workers’ initiation of labour disputes and other collective actions such as complaints and strikes. Other factors may also indicate employment conflicts such as chain suicides and frequent employee turnovers. Since only officially mediated and accepted cases of labour disputes are statistically recorded and other forms of labour disputes can only be read as individual cases through the media, we mainly use the consistent, hopefully representative, statistics to show the changes in labour disputes (Figure 1).
Figure 1. Increase in Labour Disputes Cases


Figure 1 shows a significant increase of officially recorded labour disputes. The statistics of labour dispute cases fall into two categories – the “cases accepted” and “cases mediated”. The majority of labour dispute cases are “cases accepted” and only a small portion are “cases mediated”. “Cases accepted” refer to labour dispute cases accepted and heard by different levels of labour dispute arbitration institutions and “cases mediated” refer to labour dispute cases mediated before going to institutions.

While looking into the distribution and dynamics of labour dispute cases by region, we find that the number of labour disputes in the Eastern region is much higher than in the Central and Western regions and is growing the fastest in the Eastern region (Figure 2). In 2008, the number of labour dispute cases in the Eastern region grew by 98% compared to the previous year, which was much faster than that in the Central region (50%) and in the Western region (61%). In 2009, while the number of labour disputes cases in the Eastern region fell slightly, totals in the Central and Western regions continued to grow.
Figure 2. Number of Labour Disputes Cases by Region

Note: Eastern region includes Liaoning (LN), Beijing (BJ), Tianjin (TJ), Hebei (HB), Shandong (SHD), Jiangsu (JS), Shanghai (SH), Zhejiang (ZJ), Fujian (FJ), Guangdong (GD) and Hainan (HN); Central region includes Heilongjiang (HL), Jilin (JL), Shanxi (SX), Henan (HEN), Hubei (HUB), Hunan (HUN), Anhui (ANH) and Jiangxi (JX); Western region includes Inner Mongolia (NM), Shaanxi (SX), Gansu (GS), Qinghai (QH), Ningxia (NX), Xinjiang (XJ), Chongqing (CHQ), Sichuan (SCH), Guizhou (GZH), Yunnan (YN), Tibet (XZ) and Guangxi (GX).

Source: Calculated according to data from the China Labor Statistical Yearbook.

From Figure 2, one can also observe that labour disputes cases in the Eastern region dominate. In the period between 1999 and 2009, the proportion of labour dispute cases in the Eastern region was between 67% (in 1999) and 76% (in 2008), whereas the Central region held a similar proportion as in the Western region.

The Eastern domination in labour dispute cases is not only because of its larger share of employment, but also because the labour dispute incidence in the Eastern region is higher (Figure 3). While the labour dispute incidences in the Eastern, Central and Western regions have all showed an increasing trend and increased significantly in 2008, the growth of labour dispute incidence in the Eastern region in 2008 was much higher than that in the Central and Western regions, with the incidence of 5.2, 1.5 and 2.0 per thousand workers in the Eastern region.
We can go further to examine the relationship between income level and labour dispute incidence. By looking at labour dispute incidence by province, one can find that the more developed provinces have the highest incidence of labour disputes (Figure 4). For example, Tianjin, Shanghai, Beijing, Guangdong and Jiangsu, the five most developed provincial regions, stand out significantly with the highest incidence of labour disputes, whereas in poorer inland provinces such as Gansu, Inner Mongolia and Qinghai, labour dispute incidence was relatively low.
We now take a step further to see how firm characteristics relate to labour dispute incidence. When we look at labour disputes by ownership, the situations in 2007, the first half of 2008 and the first half of 2009 were very similar (Table 2). More than 20% of state-owned and collective enterprises experienced labour disputes, which was the highest among all types of enterprises. Foreign-funded enterprises were in second place with private enterprise, having the lowest proportion. In the second half of 2008, 15.2% of foreign-funded enterprises experienced labour disputes, which is slightly higher than state-owned and collective enterprises. For private enterprises and joint ownership units, joint stock companies and limited liability corporations, the proportions were 6.8% and 6.6%, respectively.

Table 1. Proportion of Enterprises Reporting Labour Disputes (%)

<table>
<thead>
<tr>
<th>by ownership</th>
<th>2007</th>
<th>The first half of 2008</th>
<th>The second half of 2008</th>
<th>The first half of 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>State-owned and collective enterprises</td>
<td>23.5</td>
<td>20.6</td>
<td>14.7</td>
<td>25.0</td>
</tr>
<tr>
<td>Private enterprises</td>
<td>7.0</td>
<td>7.0</td>
<td>6.8</td>
<td>7.5</td>
</tr>
<tr>
<td>Foreign-funded enterprises</td>
<td>13.4</td>
<td>14.3</td>
<td>15.2</td>
<td>13.8</td>
</tr>
<tr>
<td>Other ownerships *</td>
<td>11.3</td>
<td>11.5</td>
<td>6.6</td>
<td>12.4</td>
</tr>
<tr>
<td>Total</td>
<td>10.9</td>
<td>11.0</td>
<td>8.2</td>
<td>11.8</td>
</tr>
</tbody>
</table>
By tabulating the data of PES, we found that the proportion of private enterprises which reported labour dispute cases in the Eastern region is the highest among three regions, while that in the Central region is in the middle and that in the Western region is the lowest.

Looking at the proportion of enterprises which reported labour disputes by firm size, we see a U-shaped distribution (Table 1). In the three periods of time observed – namely, in 2007, the first half of 2008 and the first half of 2009, the situations were quite similar. In the first half of 2009, for example, more than 17% of enterprises with firm size above 1 000 employees had labour disputes in these three periods, which was the highest. Next were enterprises with firm size between 401-1 000 and enterprises with firm size at 50 and below. However, for the second half of 2008, only 2% of enterprises with firm size at 50 and below had labour disputes.

The PES data shows a pattern by which the larger-sized enterprises have a higher proportion of labour dispute incidence (Table 2). In terms of the proportions of enterprises which reported experiencing labour disputes in 2007 and in the first half of 2009, the PES data were very similar to the corresponding proportions based on MES. However, the proportion of enterprises which experienced labour disputes in 2008 was higher than the corresponding proportion based on MES. According to PES, enterprises with larger firm size had a higher proportion of labour disputes.

<table>
<thead>
<tr>
<th>Firm Size</th>
<th>2007</th>
<th>2008</th>
<th>The first half of 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>50 and below</td>
<td>2.9</td>
<td>6.2</td>
<td>3.3</td>
</tr>
<tr>
<td>51-100</td>
<td>4.0</td>
<td>9.7</td>
<td>5.1</td>
</tr>
<tr>
<td>101-200</td>
<td>7.6</td>
<td>14.1</td>
<td>7.6</td>
</tr>
<tr>
<td>201-400</td>
<td>8.9</td>
<td>16.5</td>
<td>11.0</td>
</tr>
<tr>
<td>401-1 000</td>
<td>18.9</td>
<td>23.5</td>
<td>13.5</td>
</tr>
<tr>
<td>Above 1 000</td>
<td>33.0</td>
<td>36.8</td>
<td>21.2</td>
</tr>
<tr>
<td>Total</td>
<td>12.4</td>
<td>17.7</td>
<td>10.2</td>
</tr>
</tbody>
</table>

* Other ownerships includes joint ownership units, joint stock companies and limited liability corporations.

Source: Calculated from MES.

Table 2. Proportion of Enterprises Which Reported Labour Disputes (%)
III. DETERMINANTS OF LABOUR DISPUTE INCIDENCE

We use a panel dataset of 31 provinces from 1999 to 2008 to analyse the determinants of labour dispute incidence. The dataset is constructed using data from the *China Labor Statistical Yearbook*, *China Statistical Yearbook* and the *China Compendium of Statistics 1949-2008*. Labour dispute incidence is measured by the ratio of number of labour dispute cases to urban employment. In order to examine the determinants of labour dispute incidence, the model is constructed as below:

\[ p_{dispute_{i,t}} = \beta_0 + \beta_1 \ln gdppc_{i,t} + \beta_2 export_{i,t} + prov_{i} + u_{i,t} \] (1)

Where \( p_{dispute_{i,t}} \) is the labour dispute incidence of province \( i \) in year \( t \), \( gdppc_{i,t} \) is GDP per capita of province \( i \) in year \( t \), \( export_{i,t} \) is the proportion of export value in GDP of province \( i \) in year \( t \), \( prov_{i} \) is a group of province dummy variables, \( e_{i,t} \) is randomly disturbing factors.

Dependent and independent variables in the model are listed in Table 3. The reason we add GDP per capita in the model is that we expect more developed provinces to reach the Lewis turning point earlier and more employment opportunities motivate people’s concern for their interests. At the same time, people are more aware of laws and regulations on employment and labour relations and they are more likely to be in a better position to protect their legal rights and interests. Another hypothesis is that there are better quality employment opportunities in more developed provinces. When employees are discontent with their employers, they tend to initiate a labour dispute rather than to exit.

<table>
<thead>
<tr>
<th>Table 3. Dependent and Independent Variables in the Model</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Variable type</strong></td>
</tr>
<tr>
<td><strong>Dependent variable</strong></td>
</tr>
<tr>
<td>Labour dispute incidence</td>
</tr>
<tr>
<td><strong>Independent variables</strong></td>
</tr>
<tr>
<td>ln(gdppc)</td>
</tr>
<tr>
<td>Export</td>
</tr>
<tr>
<td>Year 2008</td>
</tr>
<tr>
<td>Province dummy variables</td>
</tr>
</tbody>
</table>

The proportion of export value in GDP reflects the density of export-oriented enterprises. Employees in export-oriented enterprises are usually provided better wages and other welfare.
We expect that there will be higher labour dispute incidence in provinces with a higher proportion of export value in GDP.

As we have seen, there was a significant increase in the number of labour dispute cases in 2008. We know that Employment Contract Law and Employment Promotion Law have been implemented since January 1st of 2008 and Labor Disputes Mediation and Arbitration Law has been implemented since 1 May 2008. The significant increase in the number of labour dispute cases in 2008 should be closely related to the implementation of these laws. We add year 2008 dummy variable (year 2008=1 if year 2008; year 2008=0 if year=1999-2007) into the model to examine whether there is a significant difference in labour dispute incidence between 2008 and previous years. The model is reconstructed as below:

\[ p_{\text{dispute}}_{it} = \beta_0 + \beta_1 \ln(gdppc)_{it} + \beta_2 \text{Export}_{it} + \beta_3 \text{Year}2008 + \text{Prov}_{it} + u_{it}, \]

The estimation results are shown in Table 4. Adjusted R² are to some extent high in all three models, which indicates that the models explain labour dispute incidence well. Also the estimation results on independent variables are consistent with our expectations. In all three models, there is significantly positive relationship between GDP per capita and labour dispute incidence. When export and year 2008 are added into the model, the coefficients of GDP per capita fall. This tells us that, labour dispute incidence is higher in provinces with higher GDP per capita after controlling for other factors.

| Table 4. Determinants of Labour Dispute Incidence (Fixed Effects Model) |
|----------------------|----------------------|----------------------|
|                      | Model (1)            | Model (2)            | Model (3)            |
| ln(gdppc)            | 0.1128***            | 0.0761***            | 0.0272**             |
| Export               |                      | 0.0331***            | 0.0355***            |
| Year 2008            |                      |                      | 0.1098***            |
| Province dummy variables | Abbreviated          | Abbreviated          | Abbreviated          |
| Constant term        | -0.9094***           | -0.6066***           | -0.1089              |
| No. of observations  | 310                  | 310                  | 310                  |
| Adjusted R²          | 0.681                | 0.710                | 0.752                |

Note: (1) *** significant at 1%; ** significant at 5%; * significant at 10%;
(2) Estimation results on province dummy variables are abbreviated for simplicity.

There is also a significantly positive relationship between export and labour dispute incidence, which indicates that regions with higher density of export-oriented enterprises have higher labour dispute incidence. The positive coefficient of year 2008 tells us that labour dispute incidence in 2008 is higher than previous years.

Now we can look into the determinants of “whether a worker has ever initiated a labour dispute” by processing micro data of CULS3. Only 0.9% of urban local workers and 0.8% of migrant workers have ever initiated a labour dispute. For urban local workers, 24% of “last labour disputes” happened before 2005 and three-quarters happened after 2006 (Figure 5). For migrant workers, only 15% of “last labour disputes” happened before 2005 and the remaining 85% happened after 2006. That is, most of “last labour disputes” happened after 2006 for both urban local workers and migrant workers.
For urban local workers, 43% declared “wage compensation” was the main reason for initiating their last labour dispute (Table 5). For migrant workers, this proportion was 48.6%. For urban local workers, about 17.9% declared “ending labour contract” was the main reason for initiating their last labour dispute and 17.1% declared “working time” was the main reason for initiating their last labour dispute. For migrant workers, about 14.8% declared “working safety” was the main reason for initiating their last labour dispute and 34.4% declared “others” was the main reason for initiating their last labour dispute. When we try to explore what “others” refer to, we find that all the observations concern wage arrears.

Table 5. Major Reason for Initiating the Latest Labour Dispute

<table>
<thead>
<tr>
<th>Reason</th>
<th>Urban local workers (%)</th>
<th>Migrant workers (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amending labour contract</td>
<td>3.8</td>
<td>0.0</td>
</tr>
<tr>
<td>Ending labour contract</td>
<td>17.9</td>
<td>0.6</td>
</tr>
<tr>
<td>Working time</td>
<td>17.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Wage compensation</td>
<td>43.0</td>
<td>48.6</td>
</tr>
<tr>
<td>Working safety</td>
<td>7.0</td>
<td>14.8</td>
</tr>
<tr>
<td>Social welfare</td>
<td>2.6</td>
<td>1.7</td>
</tr>
<tr>
<td>Training opportunities</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Others</td>
<td>8.5</td>
<td>34.4</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Calculated from CULS3.
In what follows, we estimate a Probit model to examine the factors affecting behaviour of initiating labour disputes for urban local workers and migrant workers. The dependent variable is whether a worker has ever initiated a labour dispute or not (yes=1, no=0). The independent variables include individual characteristics (gender, age and educational level) and job characteristics (contract, ownership, sector, firm size) and city dummy variables. The model is constructed as below:

\[ \text{dispute} = \beta_0 + \beta_1 \text{female} + \beta_2 \text{age} + \beta_3 \text{edu} + \beta_4 \text{contract} + \beta_5 \text{ownership} + \beta_6 \text{sector} + \beta_7 \text{firmsize} + \beta_8 \text{city} + \varepsilon \]

Where \text{dispute} is whether a worker has ever initiated a labour dispute or not, \text{female} is female dummy variable, \text{age} is a group of age group dummy variables, \text{edu} is a group of educational level dummy variables, \text{contract} is labour contract dummy variable, \text{ownership} is a group of ownership dummy variables, \text{sector} is a group of sector dummy variables, \text{firmsize} is a group of firm size dummy variables, \text{city} is a group of city dummy variables and \( \varepsilon \) is the error term.

The variables in the model are listed in Table 6. The reason for including individual characteristics in the model is that we expect people with higher human capital to be more aware of laws and regulations on employment and labour relations and therefore better at protecting their legal rights and interests. When they are discontent with their employers, they tend to initiate a labour dispute. We include job characteristics in the model to look at the impacts of job characteristics on labour dispute initiation.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Variable type</th>
<th>Explanation on variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whether a worker has ever initiated a labour dispute or not</td>
<td>Dummy</td>
<td>Has ever initiated a labour dispute=1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Has never initiated a labour dispute=0</td>
</tr>
<tr>
<td>Female</td>
<td>Dummy</td>
<td>Female=1 Male=0</td>
</tr>
<tr>
<td>31-40</td>
<td>Dummy</td>
<td>31-40=1 16-30=0</td>
</tr>
<tr>
<td>41-50</td>
<td>Dummy</td>
<td>41-50=1 16-30=0</td>
</tr>
<tr>
<td>51-60</td>
<td>Dummy</td>
<td>51-60=1 16-30=0</td>
</tr>
<tr>
<td>Junior high school</td>
<td>Dummy</td>
<td>Junior high school=1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Primary school and below=0</td>
</tr>
<tr>
<td>Senior high or technical secondary school</td>
<td>Dummy</td>
<td>Senior high or technical secondary school=1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Primary school and below=0</td>
</tr>
<tr>
<td>College and above</td>
<td>Dummy</td>
<td>College and above=1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Primary school and below=0</td>
</tr>
<tr>
<td>Have labour contract</td>
<td>Dummy</td>
<td>Have labour contract=1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>No labour contract=0</td>
</tr>
<tr>
<td>State-owned enterprises</td>
<td>Dummy</td>
<td>State-owned enterprises=1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Government agencies and institutions=0</td>
</tr>
<tr>
<td>Private enterprises</td>
<td>Dummy</td>
<td>Private enterprises=1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Government agencies and institutions=0</td>
</tr>
<tr>
<td>Foreign-funded enterprises or joint ventures</td>
<td>Dummy</td>
<td>Foreign-funded enterprises or joint ventures=1</td>
</tr>
</tbody>
</table>
ventures  Government agencies and institutions=0
Other sectors in secondary industry  Dummy  Other sectors in secondary industry=1 Manufacturing=0
Whole and retail trade & hotel and catering services  Dummy  Whole and retail trade & hotel and catering services=1 Manufacturing=0
Leasing, business, personal and other services  Dummy  Leasing, business, personal and other services =1 Manufacturing=0
Other sectors in tertiary industry  Dummy  Other sectors in tertiary industry=1 Manufacturing=0
Firm size 2-7  Dummy  Firm size 2-7=1 firm size 1=0
Firm size 8-19  Dummy  Firm size 8-19=1 firm size 1=0
Firm size 20+  Dummy  Firm size 20+=1 firm size 1=0
Wuhan  Dummy  Wuhan=1 Shanghai=0
Shenyang  Dummy  Shenyang Shanghai=0
Fuzhou  Dummy  Fuzhou Shanghai=0
Xi’an  Dummy  Xi’an Shanghai=0
Guangzhou  Dummy  Guangzhou Shanghai=0

Note: Other sectors in secondary industry refer to sectors in secondary industry except manufacturing, which include mining and quarrying, production and supply of electricity, gas and water and construction. Other sectors in tertiary industry refer to sectors in tertiary industry except wholesale and retail trade & hotel and catering services, leasing, business, personal and other services, which include transport, storage, post and telecommunication services, data transmission, computer service and software, banking, real estate, scientific research, technical services and geological prospecting, water conservancy, environment and public utility management, education, public health, social securities and social welfare, culture, sports and entertainment, public administration and social organisations and international organisations.

For urban local workers and migrant workers, we estimate two models. In the first model, we add only individual characteristics. In the second model, job characteristics are added. In order to look at whether there is a difference in the probability of having initiated a labour dispute between urban local workers and migrant workers, we estimate models for the pooled sample. The models specification for the pooled sample is exactly the same as models for urban local workers and migrant workers, except that in the models for the pooled sample, we add a dummy variable (migrant worker=1, urban local worker=0). The estimation results are in Table 7.
Table 7. Estimation Results of Probit Model

<table>
<thead>
<tr>
<th></th>
<th>Pooled sample</th>
<th>Urban local workers</th>
<th>Migrant workers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1) Marginal effects</td>
<td>(2) Marginal effects</td>
<td>(1) Marginal effects</td>
</tr>
<tr>
<td>Urban local workers</td>
<td>-0.0008</td>
<td>-0.0012</td>
<td></td>
</tr>
<tr>
<td>Migrant workers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>-0.0016</td>
<td>-0.0011</td>
<td>-0.0033</td>
</tr>
<tr>
<td>Female</td>
<td>-0.0023*</td>
<td>-0.0016</td>
<td>-0.0065</td>
</tr>
<tr>
<td>16-30</td>
<td>-0.0023**</td>
<td>-0.0018**</td>
<td>-0.0060**</td>
</tr>
<tr>
<td>31-40</td>
<td>0.4958***</td>
<td>0.5510***</td>
<td>0.7537***</td>
</tr>
<tr>
<td>41-50</td>
<td>0.5476***</td>
<td>0.6054***</td>
<td>0.4998***</td>
</tr>
<tr>
<td>51-60</td>
<td>0.6565***</td>
<td>0.7145***</td>
<td>0.5041***</td>
</tr>
<tr>
<td>Primary and below</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Junior high school</td>
<td></td>
<td>0.0014</td>
<td></td>
</tr>
<tr>
<td>Senior high or</td>
<td></td>
<td>0.0038</td>
<td></td>
</tr>
<tr>
<td>technical secondary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>school</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>College and above</td>
<td></td>
<td>0.0062***</td>
<td>0.0059</td>
</tr>
<tr>
<td>Have labour contract</td>
<td>-0.0010*</td>
<td>-0.0024</td>
<td></td>
</tr>
<tr>
<td>No labour contract</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government agencies</td>
<td></td>
<td>0.0014</td>
<td></td>
</tr>
<tr>
<td>and institutions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State-owned enterprises</td>
<td>-0.0001</td>
<td>-0.0045*</td>
<td>0.0014</td>
</tr>
<tr>
<td>Private enterprises</td>
<td>0.0014</td>
<td>0.0038</td>
<td>0.0006</td>
</tr>
<tr>
<td>Foreign-funded</td>
<td>0.0064</td>
<td>0.0012</td>
<td>0.0126</td>
</tr>
<tr>
<td>enterprises or joint</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ventures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.0064</td>
<td>0.0012</td>
<td>0.0126</td>
</tr>
<tr>
<td>Other sectors in</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>secondary industry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whole and retail trade</td>
<td>-0.0006</td>
<td>-0.0049*</td>
<td>0.0013</td>
</tr>
<tr>
<td>&amp; hotel and catering</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leasing, business,</td>
<td>0.0038*</td>
<td>0.0000</td>
<td>0.0061</td>
</tr>
<tr>
<td>personal and other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other sectors in</td>
<td>0.001</td>
<td>-0.0002</td>
<td>0.0014</td>
</tr>
<tr>
<td>tertiary industry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm size 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm size 2-7</td>
<td>-0.0009</td>
<td>0.0057</td>
<td>-0.0010*</td>
</tr>
<tr>
<td>Firm size 8-19</td>
<td>0.0005</td>
<td>0.0058</td>
<td>0.0003</td>
</tr>
<tr>
<td>Firm size 20+</td>
<td>0.0008</td>
<td>0.0037</td>
<td>-0.0001</td>
</tr>
<tr>
<td>City dummy variables</td>
<td>abbreviated</td>
<td>abbreviated</td>
<td>abbreviated</td>
</tr>
<tr>
<td>No. of observations</td>
<td>7 275</td>
<td>7 275</td>
<td>3 104</td>
</tr>
<tr>
<td>Pseudo R²</td>
<td>0.047</td>
<td>0.081</td>
<td>0.038</td>
</tr>
</tbody>
</table>

Note: (1) *** significant at 1%; ** significant at 5%; * significant at 10%;
(2) Estimation results on city dummy variables are abbreviated for simplicity;
(3) The robust estimation and clustering within city are used in the model to solve the problem of possibility of correlated errors within cities.
The estimation results show that there is no significant difference in the probability of having initiated a labour dispute between urban local workers and migrant workers. For the pooled sample, there is no significant difference in the probability of having initiated a labour dispute between females and males. The probabilities of having ever initiated a labour dispute for older workers are lower and the probabilities of having ever initiated a labour dispute for more educated workers are higher. Workers having a labour contract are less likely to initiate a labour dispute. Generally, job characteristics variables do not affect whether or not a worker has ever initiated a labour dispute.

When we look at the estimation results of urban local workers and migrant workers, we find that the effects of the independent variables are very similar between urban local workers and migrant workers. For both urban local workers and migrant workers, gender and age have little effect on whether or not a worker has ever initiated a labour dispute.

For urban local workers, compared with workers with primary schooling and below, workers with junior high school, senior high or technical secondary school and college and above have higher probability of having ever initiated a labour dispute. Among workers with junior high school, senior high or technical secondary school and college and above, workers with junior high school have the highest probability of having ever initiated a labour dispute. Next is the probability for workers with college and above, and workers with senior high or technical secondary school have the lowest probability. For migrant workers, compared with workers with primary and below, workers with higher educational levels have a higher probability of having ever initiated a labour dispute.
IV. GOVERNMENT INITIATIVES

There have been three phases of employment policies in China. Before the mid-1990s, no employment policies were explicitly announced. In this period, the iron-rice-bowl dominated the urban employment pattern. That is, most urban residents at working age were guaranteed a job by the government. At the same time, labour resources reallocation accompanied by economic growth, especially by township and village enterprises development and non-agricultural industry development, promoted labour mobility from rural to urban areas. Cai and Wang (1999) break down China’s economic growth between 1978 and 1998 into contributions of capital, labour, human capital and labour transfer, finding that labour increases contributed 24% to China’s annual growth rate of 9.5% and labour transfers contributed 21%.

Between the late 1990s and early 2000s, Chinese employment was simultaneously hit by a macroeconomic downturn, the Asian financial crisis, and the system reform of breaking the iron-rice-bowl in employment. To tackle severe unemployment and lay-offs, the Chinese government began to implement proactive employment policies. Since then, these policies have effectively helped urban workers to achieve reemployment, diversified employment structure, kept overall employment growth, and promoted labour migration (Cai and Wang, 2010).

Since 2003, with the coming of the Lewis Turning Point, a series of new policies aimed at promoting the establishment of labour market institutions have been implemented, though they are far from completed. The following section describes the evolution of proactive government employment policies and collective bargaining system for wages and collective contract system.

IV.1 Government Proactive Employment Policies

To address the severe unemployment situation in the late 1990s, the government implemented a series of policies and took many measures, aimed at easing up labour market pressure and involving different stakeholders, including the governments at various levels, communities, enterprises and labourers. The focus of these policy measures can be summarised as: i) the macroeconomic policy that aims to boost employment through sustained economic growth; ii) the support policy that focuses on promoting the reemployment of laid-off and unemployed workers; iii) the labour market policy that aims to realise the rational matching between labour force and employment needs; iv) the macro regulation policy that aims to reduce unemployment; and v) the social security policy that aims to effectively assure the basic standard of living for laid-off and unemployed workers and actively promote their reemployment.

Under the framework of a proactive employment policy, the central and local governments have played an important role in assisting the unemployed to get reemployed through tax exemptions, fiscal inputs, micro finance, social security subsidies, employment
assistance, and even creation of community jobs. In addition, the governments have also made efforts to encourage the development of non-public service, service sector, informal sectors, and small and medium-sized enterprises, which were deemed and in fact served as momentous absorbers of employment. By using various effective policy measures to expand employment, the government gradually formulated and implemented the principle of giving priority to employment.

The policies aimed at promoting employment after the financial crisis in 2008 are good examples of the Chinese government’s proactive employment policies. In order to reduce employment losses brought on by the financial crisis, the Chinese government has taken a series of active labour market policies. In 2008, apart from initiating a massive fiscal stimulus package to maintain economic growth, the Chinese government specifically put forward some measures to help both employers and employees to maintain jobs.

Those measures include: i) assistance to small and medium-sized enterprises by loosening market access, diversifying financing channels and allowing enterprises with operational difficulties to delay contributions to social security programmes; ii) assistance to vulnerable labour market participants – namely, migrant workers, older urban workers, and new graduates, by providing public services such as job intermediation and training; iii) encouraging enterprises to keep workers’ jobs by adopting less restrictive employment, flexible working times and on-the-job training to stabilise employment posts; iv) giving favourable tax/fee/loan policies and other policies on business registration and information consultation to migrants who return home to start their own business; and v) guaranteeing social protection assistance such as unemployment insurance and minimum living standard programmes.

Thanks to the implementation of proactive policies, the employment situation has rapidly improved. The urban registered unemployment rate reached its peak at 4.3% in the four quarters of 2009 and fell afterwards. Most returned migrant workers have returned to cities to work due to factors related to the financial crisis before 2008 Spring Festival. With the recovery of the Chinese economy from the crisis, the labour shortage reflecting the arrival of the Lewis Turning Point has reappeared and the labour market has since tightened, as shown in Figure 6 on the relationship between labour supply and demand in public job service.
IV.2 Collective Bargaining System and Collective Contract System

The collective bargaining system for wages and the collective contract system have been mapped out as important elements of labour market reform. A series of laws and regulations have provided the policy basis for developing these systems. There were regulations on collective contracts in the Labor Law of 1994. Since then, labour departments at different levels have started to pilot collective contract systems. Based on pilot programmes in more than 800 enterprises in eight provinces such as Beijing, Guangdong and Fujian in 1995, the Ministry of Labour issued Several Opinions on Collective Bargaining for Wages in Foreign-funded Enterprises in 1997, which guides foreign-funded enterprises to carry out collective bargaining for wages.

Since then more regulations on a collective bargaining system for wages and a collective contract system have been issued, such as the Guidelines on Trade Unions Participating in Collective Bargaining for Wages in 1998, Trial Procedures for Collective Bargaining System for Wages in 2000, revised Trade Unions Law and Notice on Further Implementing Equal Consultation and Collective Contract System in 2001. By 2002 a three-party mechanism for the co-ordination of labour relations was established in thirty provinces at provincial level. By 2003, more than 290 000 enterprises had a collective bargaining system for wages.

In 2004 Regulations on Collective Contracts further regulated collective bargaining and collective contract signing. In 2005, the Notice on Further Promoting Collective Bargaining System for Wages was put forward so that trade unions could represent workers to negotiate with enterprises to sign collective contracts in foreign-funded enterprises, private enterprises, township and village enterprises and in designated regions where small enterprises are relatively concentrated. By 2005, tripartite mechanisms for the co-ordination of labour relations were
established in cities at prefecture level and above, more than 6,600 tripartite coordination organisations were set up and collective bargaining system for wages was established in more than 340,000 enterprises. Tripartite co-ordination organisations reached 8,030 and 10,702 in 2006 and 2007.

In 2008, the Contract Law gave more detailed regulations on collective contracts. Collective bargaining system for wages was mentioned by Premier Wen Jiabao in a government work report for the first session of the 11th National People’s Congress. This was the first time that a collective bargaining system for wages was written into a government work report, highlighting the importance of this system under the new labour market situation. In 2008 and 2009, the All China Federation of Trade Unions issued several documents on collective bargaining system for wages.

The year 2008 also saw the introduction of the “Rainbow Project” by the Ministry of Human Resources and Social Security. The purpose of this project is to promote a collective bargaining system for wages and a collective contract system comprehensively. In May 2010 the Deeply Promoting Collective Contract System and Implementing Rainbow Project stated that the collective contract system should be implemented in various kinds of enterprises which have established trade unions in three years (2010-2012). The coverage rate of collective contract system should reach 60% and 80% in 2010 and 2011. The coverage rate should be improved by signing regional and industrial collective contracts in enterprises which have not yet established trade unions.

### IV.3 Statistics on Trade Union and Collective Contract System

The National Conference on Grassroot Trade Unions Establishment, held in 2010, motivated enterprises to establish trade unions and to implement collective bargaining for wages. The goal raised by the Conference was that more than 60% of legal entities of enterprises should establish trade unions by 2010. In 2011 and 2012, this proportion is expected to reach 75% and 90%. A related goal is that 82% of staff and workers should become members of trade unions in 2010. In 2011 and 2012, this proportion is required to reach 87% and 92%.

The number of grassroot trade unions remained stable in the first half of 1990s and there was a slight decrease at the end of the 1990s, followed by a huge jump in the early 2000s. This number has been growing steadily since 2003 and reached 1,845 million in 2009. The number of members in grassroot trade unions has followed a similar pattern of growth; i.e. after the stagnation in the 1990s and sudden jump in the early 2000s, it has been growing rapidly and reached 226 million in 2009 (Figure 7).
With the development of a collective bargaining system for wages and a collective contract system, the number of collective contracts and number of employees covered by collective contracts has been increasing (Figure 8). The number of collective contracts was 150 000 and the number of employees covered by collective contracts was 50 million in 1998. In 2001 the number of collective contracts increased to 270 000 and the number of employees covered by collective contracts increased to more than 70 million. There was a significant increase in the number of collective contracts in 2002 and it reached 635 000 and the number of employees covered by collective contracts reached more than 80 million. In 2009, the number of collective contracts increased to 703 000, covering more than 94 million employees.
Figure 8. Number of Collective Contracts and Number of Employees Covered


According to PES, 83% of enterprises have established trade unions, 45.1% have established a collective bargaining system for wages and 68.5% have established a staff and workers congress system (Table 10). The proportions of enterprises establishing trade unions, collective bargaining systems for wages and staff and workers congress systems in the Eastern region were the highest among three regions, those in the Central region were in the middle and those in the Western region were the lowest.

Table 8. Proportion of Enterprises with Trade Union, Collective Bargaining System and Staff and Workers Congress System (%)

<table>
<thead>
<tr>
<th></th>
<th>Trade union</th>
<th>Collective bargaining system for wages</th>
<th>Staff and workers congress system</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern region</td>
<td>88.5</td>
<td>50.8</td>
<td>72.0</td>
</tr>
<tr>
<td>Central region</td>
<td>83.0</td>
<td>45.3</td>
<td>68.7</td>
</tr>
<tr>
<td>Western region</td>
<td>79.4</td>
<td>41.2</td>
<td>66.0</td>
</tr>
<tr>
<td>Total</td>
<td>83.0</td>
<td>45.1</td>
<td>68.5</td>
</tr>
</tbody>
</table>

Source: Calculated from PES.

The impacts of collective bargaining systems for wages and collective contract systems can be examined through some case studies. According to a survey conducted by Zhangjiakou Municipal Trade Union, wage growth has been achieved in most enterprises which have established a collective bargaining system for wages. A total of 59% of enterprises have attained a wage growth of 5 to 10% and 4.6% of enterprises have attained a wage growth of 10 to 20%
while 1.4% of enterprises have attained a wage growth of 20 to 30% and 33% of enterprises have not attained any wage growth (Wang, 2010a).

At the Nanhai Honda Corporation located in Guangdong Province, through a collective bargaining system, an agreement between the Corporation and workers has been reached\(^2\). Before the agreement was reached, the monthly turnover rate was 4.9%. It fell to a much lower 1.2% after the agreement was reached. The average wages of front-line workers will increase from 1 921 yuan to 2 532 yuan. Professional and technical personnel will get a subsidy and the basic wage starting point of workers with three years’ job experience will be adjusted.

\(^2\) Downloaded from http://business.sohu.com/20110627/n311741722.shtml.
V. CONCLUSIONS AND POLICY SUGGESTIONS

China is currently experiencing a transformation of labour market development. During most of the reform period that began in the early 1980s, the main task of labour market development was to make market forces the fundamental mechanisms for allocating the labour force and the basis of wage determination. However, the passage of the Lewis Turning Point has made the building of labour market institutions an urgent task.

To demonstrate its concern for social harmony, the Chinese government has embarked on building a social security system, with some success in recent years. For example, in the 12th Five-Year Plan approved by the National People’s Congress in March 2011, the coverage rates of urban pension and of health care were made compulsory objectives for the next five years. However, the building of labour market institutions has not been concretely scheduled in the plan.

Although labour market circumstances have been moving towards favouring ordinary workers as the Lewis Turning Point has been reached, the increase in wages caused by the tight labour market is insufficient to allow workers to share the benefits of enhanced labour productivity and thus to reduce the income inequality among Chinese residents; i.e. the wage setting mechanism solely based on the relationship between demand for and supply of labour cannot determine a sound sharing of the outcomes between employers and employees. Therefore, there emerges a strong impetus to develop labour market institutions to maintain and improve social cohesion.

Although this paper confirms that increased labour disputes are not a result of deteriorated labour relations, the lack of mechanisms for solving disputes can cause social tension, because an arbitrary setting may neither solve the conflict nor benefit employees or employers. A lesson can be learnt from Korea. When Korea arrived at its turning point around 1970, the role of trade unions was still strictly restricted by the government and workers did not feel satisfied with their wages and working conditions. The consequence was not only a slower improvement of income distribution, comparable to Japan’s similar stage of development, but also a disastrous political cost – namely, more than a decade – long collapse of social cohesion (see Freeman, 1993).

We propose three key areas of labour market institutions building. First, labour relations legislation and effective enforcement of labour-related laws are critical for building harmonious labour relations. In spite of conflicting opinions about Employment Contract Law issued in 2008, the law has indeed enlightened workers’ consciousness of interests and rights and in fact urged various levels of government to protect both urban resident workers and migrant workers.
Second, the collective bargaining system for wages is relatively weak in China while it is urgently needed. As there are no perfectly identical trade unions in any two countries, the trade union regime in China can be instrumental as a willing party in collective bargaining. The current task is to expand its coverage in various types of firms and enterprises and structure its way of working.

Lastly, as the Lewis Turning Point has arrived, it is an appropriate time to reorient the developmental state type function of the Chinese governments, both central and local, from emphasising efforts to promote economic growth towards focusing on social protections.
REFERENCES


OTHER TITLES IN THE SERIES/
AUTRES TITRES DANS LA SÉRIE

The former series known as “Technical Papers” and “Webdocs” merged in November 2003 into “Development Centre Working Papers”. In the new series, former Webdocs 1-17 follow former Technical Papers 1-212 as Working Papers 213-229.

All these documents may be downloaded from:
http://www.oecd.org/dev/wp or obtained via e-mail (dev.contact@oecd.org).

Working Paper No. 10, A Financial CompuTable General Equilibrium Model for the Analysis of Ecuador’s Stabilization Programs, by André Fargeix and Elisabeth Sadoulet, February 1990.
Working Paper No. 22, Unemployment in Developing Countries: New Light on an Old Problem, by David Turnham and Denizhan Eröcal, July 1990.


Working Paper No. 26, The Legal Protection of Software: Implications for Latecomer Strategies in Newly Industrialising Economies (NIEs) and Middle-Income Economies (MIEs), by Carlos Maria Correa, October 1990.


Labour Market Changes, Labour Disputes and Social Cohesion in China

DEV/DOC(2012)1


Labour Market Changes, Labour Disputes and Social Cohesion in China


Working Paper No. 147, China’s Unfinished Open-Economy Reforms: Liberalisation of Services, by Kiichiro Fukasaku, Yu Ma and Qiumei Yang, April 1999.


Working Paper No. 175, Fighting Corruption in Customs Administration: What Can We Learn from Recent Experiences?, by Irène Hors; April 2001.


© OECD 2012
Labour Market Changes, Labour Disputes and Social Cohesion in China

DEV/DOC(2012)1


Working Paper No. 293, Rethinking the (European) Foundations of Sub-Saharan African Regional Economic Integration, by Peter Draper, September 2010.


Working Paper No. 303, Sovereign Wealth Funds as Investors in Africa: Opportunities and Barriers, by Edouard Turkisch, August 2011.
