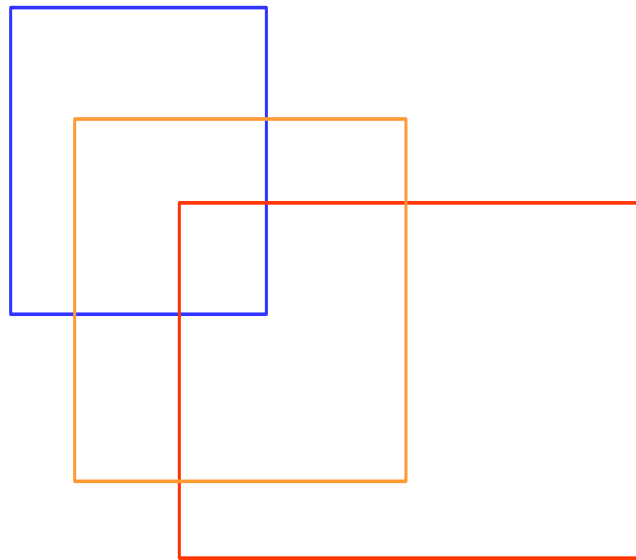




Research Report on Wage Determination and Workplace Management in China



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I. History of Collective Negotiation and Collective Agreement System

1. Status quo of labor relations

As a socialist market economy takes shape in China, economies of various ownership have developed rapidly, hereby greatly promoting economic prosperity and productivity and causing profound changes in labour relations. Now, there co-exist different forms of labour relations, ranging from modern one in multinational companies and primitive one in private crafts workshops similar to those in the nineteenth century to traditional employment system in state-owned enterprises and partnership in new ventures. All this has resulted in numerous conflicts and disputes in labour relations. Causes behind them include: (1) malpractice in employment. Some enterprises do not sign labour contracts or arbitrarily alter them. (2) unreasonable wage distribution. Statistics from some provincial or municipal labour administration and trade unions indicate that the most frequent dispute is related to remuneration, such as delayed payment, arbitrary reduction of wages, unfair remuneration for overtime work and lack of participatory or supervisory rights in wage distribution. (3) Poor working conditions and inadequate protective measures have contributed to frequent accidents. All these factors have brought about unstable labour relations and increased labour disputes.

2. Collective negotiation and collective agreement system

In the context of changing labour relations in various enterprises, the ACFTU has defined the basic function of trade unions as protection of workers' legitimate rights and interests, particularly their democratic and labour rights. To this end, two systems are in place, i.e., the workers' congress system and the collective negotiation and collective agreement system. Trade unions at all levels fully exploited the opportune moment of the promulgation of the Labour Law in 1994, gave more prominence to their protective function and implemented the collective negotiation and collective agreement system in various enterprises. Painstaking efforts have paid off. By the end of 2003, there had been 672,900 collective agreements, covering 103.5 million workers in 1,214,000 enterprises (including 35.79 million workers in 293,100 enterprises with wage agreements). At present, we are doing the following jobs:

(1) Protecting workers' rights according to law.

The Labour Law and the Trade Union Law have entered into force. The Ministry of Labour and Social Security has issued the Regulations on Collective Agreements, Decrees concerning Wage Negotiation in Foreign-funded Enterprises and Rules for Wage Negotiation. The All-China Federation of Trade Unions has issued Guidelines for Trade Unions in Wage Negotiation. At the same time, the labour administration has established and improved macro guidelines for wage incomes in enterprises, including wage levels, recommended prices for labour market and predictions or

warning lines for labour costs in enterprises. Provinces or municipalities have also worked out their own legislation and policies. For example, the Government of Suzhou City issued the Guidelines for Linking Wage Increase with Economic Efficiency in Enterprises in February 2004. It is clearly defined in the Guidelines that “those enterprises which are authorized by the municipal labour and social security administration, the municipal finance department, the municipal or national taxation administration to link up the total payroll with the economic efficiency or try out the fixing of total payroll through wage negotiation shall take the basic wage and performance-related pay as their pre-tax costs”. All these laws, regulations and policies have provided for the contents of, and procedures for, collective negotiation and wage negotiation and thus laid a foundation for the formation of collective negotiation system in enterprises.

(2) Building a tripartite consultative system

With a view to coordinating labour relations and implementing the collective agreement system, a tripartite mechanism at different level has been put in place. The parties concerned provide guidance in and supervision over wage negotiation and collective agreements through joint issuance of documents, joint researches and joint inspection.

(3) Providing training for union reps and worker reps

The ACFTU and its affiliates have developed manuals for collective negotiation and collective agreement and trained a large number of trade union reps and worker reps. Those reps have played a leading role in collective negotiations at their workplaces. The wage issue is a key concern of workers and the most difficult one in collective negotiations. Over the past years, trade unions at various levels have focused on the provision of training on wage negotiations in order to bring about an adequate number of skilled wage negotiators. In some places, special advisory bodies have been set up to provide guidance in or get involved in wage negotiations at the workplaces.

(4) Offering separate guidance

The ACFTU and its affiliates have tried out collective negotiations respectively in state-owned and non-state enterprises and selected some successful examples for others to follow. The types of collective agreement can be general agreements or wage agreements at the workplace, sectoral and regional levels. The contents of collective agreement can be comprehensive or single. The single-item agreement can cover wage, occupational safety and health, women workers' rights and so on.

II. Wage determination and workplace management

In China, wage determination takes two forms: unilaterally determined by the enterprises and co-determined through wage negotiations or other means. The 11 enterprises surveyed fall into the category of wage co-determination.

According to the ILO Questionnaires on Wage Determination and Workplace Management in China, the ACFTU has selected 11 enterprises in the City of Suzhou and done a case study. The methods include site investigation, questionnaire and seminar. Based on such studies, we have drawn the following general conclusions: A new type of wage determination and distribution system has gradually taken shape that fits a market economy; substantial progress has been made in wage negotiations and workers' labour and democratic rights have been enhanced. Practice in those enterprises have, to certain degree, exhibited the development trend for wage negotiations and pointed to the orientation of workplace management in China.

1. General information

(1) Types of enterprises

Out of the 11 enterprises surveyed, 3 are state-owned or state controlling companies; 4, foreign-funded; and 4, private-owned. In terms of sector, 3 are machinery; 2, electronics; 2, automobiles; 1, electricity; 2, clothing and shoes; and 1, public utilities. In terms of enterprise scale, 5 employ a workforce of 1000 or more respectively; 4, 1000-2000; and 2, 200 or less.

(2) Workforce

The total workforce is 11,535, of which males amount to 6,768 or 58.67%, and females, 4,767 or 41.33%. The figure of workers aged 35 or below is 7,357 or 63.78%; 35-45 years old, 2,359 or 20.45%; and 45 years or above, 1,819 or 15.77%.

Workers with a junior high school education total 3,580 or 31.03%; those with an education of senior high school or polytechnic school, 5,842 or 50.64%; those with a college education, 1,512 or 13.11%; those with a university degree, 587 or 5.09%; and those with a graduate degree, 14 or 0.12%.

(3) Duration of labour contract

The number of workers with a less-than-one-year labour contract or temporary contract is 677 or 5.86%; those with a 1 to 5-year contract, 8,042 or 69.72%; those with more-than-5-year contract, 693 or 6%; and those with a non-fixed-term labour contract, 2,123 or 18.4%.

(4) Economic performance during the period of 3 years (2001-2003)

In business volumes, 9 enterprises witnessed a continual growth; 1, negative growth; and 1, no reply. In terms of profit, 8 registered a constant growth for three consecutive years; 2 saw an increase only in 2003; and 1 made losses.

(5) Wage distribution

The average monthly wage registered a year-on-on growth in 10 enterprises: 1,397.43 yuan, 2001; 1,513.94 yuan, 2002; and 1653.66 yuan, 2003. 1 enterprises did not give a reply.

In terms of average annual wage, 3 enterprises registered an annual growth rate of more than 10% for 3 years; 3, 5-10% or more; 2, less than 2%. The rest reported either zero or negative growth.

The average monthly wage for production workers was 1363.63 yuan in 2001, 1482.12 yuan in 2002, and 1602.92 yuan in 2003, representing a annual growth rate of 7.76%. The average annual growth rate of production workers' wages in 3 enterprises was 10% or more; 4, 5-10%; and 1, less than 5%. The remaining 3 enterprises saw negative growth.

The average monthly wage of managerial personnel went up on a year-on-year basis. It was 2006.94 yuan in 2001, 2293.46 yuan in 2002, and 2433.15 yuan in 2003 respectively. The average annual growth rate was 8.47%, including more than 10% for 4 enterprises, 5-10% for 3, less than 5% for 2, and negative for 2.

(6) Percentage of payroll in production cost

The payroll in 1 enterprise made up over 30% of the production cost; 4, 10-30%; and 4, less than 10% while the remaining 2 did no reply.

(7) HR policy

The enterprises concerned presented some common features. (i) Workers are seen as forces they can rely on to expand business and the people-centered management concept and structure have gradually taken shape. (ii) New recruits are from the labour market and the labour contract system is effected. (iii) Importance is attached to improving the composition of the workforce by gradually increasing the percentage of scientists and technicians. (iv) Attention is paid to training the workers. (v) Labour laws and regulations are observed and workers' democratic rights and labour rights are respected and protected.

However, there are some differences in HR policies in state-owned enterprises,

foreign-funded enterprises and private businesses. For example, over the past years, the State Controlling Sufuma Co. Ltd. has worked to transform its personnel, income distribution and management system in a bid to maintain its competitiveness in the labour market. It has focused on recruiting hi-tech professionals and provided them with preferential treatment, re-engaged those skilled professionals who are close to retirement ages and chose and posted the best amongst middle- and high-level managerial personnel. The foreign-funded Suzhou Futian Metal Co. Ltd. is a new and hi-tech company. It signed a three-year labour contract with more than 87.6% of its workforce in order to win their long-term loyalty. At a time of making losses, the company tried to maintain a moderate growth of its workforce. The private Kunshan Kangcheng Shoes Co. Ltd. paid much attention to training workers on professional ethics, occupational qualifications and corporate culture, earnestly implemented workers' labour rights and was awarded the certificate of social accountability.

(8) Trade union committees

All the enterprises were unionized, with a membership of 10,435. Out of them, 100% of the workers in 6 enterprises were organized; over 90%, 2; more than 80%, 2; and over 70%, 1.

The size of trade union committees varied, depending on the scale of enterprises and the size of workforces. The largest one is the Trade Union Committee of the State-owned Wangting Power Plant, comprising 21 union reps, and the smallest one has only 3 union reps. Trade union committees in 6 enterprises are made up of 5-9 union reps. The trade union committees were elected by ballots at the membership congress in accordance with the Constitution of Chinese Trade Unions. The term of office for the trade union committees was 3-5 years. The committees were composed of mid- or high-level managerial personnel, technicians, salespersons and production workers. 7 presidents of trade union committees were full-time and 4, part-time.

2. Wage Negotiation

(1) Developments in wage negotiation

Wage negotiations took place in all the enterprises. Of them, 4 had conducted wage negotiations for 9 running years; 4, for 5-8 years; and 3, for less than 3 years.

(2) Reasons for wage negotiation

There are 4 reasons behind them:

- (i) A new wage system was established following the transformation of enterprise ownership. For example, the state controlling Suzhou Sufuma Co. Ltd was formerly wholly state-owned. The private Kangcheng Shoes Co. Ltd was

- formerly state-owned. With their ownership changes, they have enjoyed autonomy in deciding their wage systems. So a collective wage negotiation mechanism has been put in place in order to meet new corporate requirements.
- (ii) A new wage system was set up as a response to the calls of the higher-level trade unions or the labour administration. The Wangting Power Plant and the Zhangjiagang Municipal Water Supply Company were the case.
 - (iii) A wage system was put in place in the process of labour dispute settlement. For example, in 1995, the Ximanuo (Kunshan) Bicycle Parts Company, the Mutian (China) Co. Ltd and other foreign-funded companies experienced wage disputes with their workers. In the course of handling such disputes, the trade unions demanded wage negotiations with the management, and they all agreed. Since then, wage negotiations have taken place every year.
 - (iv) Focus was put on wage negotiations while improving the collective agreement system. Such examples included the Suzhou Futian Metal Co. Ltd., Zhangjiagang Boze Auto Parts Co. Ltd., and Changshu Switch Factory. They concluded comprehensive collective agreements which covered the working conditions and terms of employment such as remunerations, working hour, rest and holiday, safety and health, social insurance and training and education. In the meantime, they carried out wage negotiations and signed wage agreements. Such agreements will be renegotiated or revised every year.

(3) Wage claims

In accordance with the Labour Law, the Provisions concerning Wage Negotiations and the Jiangsu Provincial Rules for Collective Negotiations and Collective Agreements, both parties of the labour relations are entitled to put forward wage claims. In practice, workers in all the 11 enterprises took the initiative to advance their wage claims in writing, and the management gave a reply in writing within a fixed period of time.

(4) Procedures for wage negotiation

The negotiating team of the worker side was basically made up of 5-7, or 9 (maximum) and 3 (minimum) worker reps. They were elected by workers and might be union reps, managerial personnel and worker reps. Items for wage negotiations should be selected and finalized by workers. The end-result of wage negotiations should be reported to the workers' congress or the membership general meeting for consideration and approval. Only if approved by the majority of workers, should the end-result be valid.

(5) Contents of wage negotiation

In general, wage negotiations dealt with the following five aspects: (i) wage system formation. (ii) annual wage adjustments. In all the enterprises, a wage policy was

followed that negotiation was focused on the annual wage hike only when the growth rate of the total payroll and the average real wage was smaller than that of economic returns and labour productivity respectively. (iii) minimum wage system within the enterprises. For example, the Mutian (China) Company fixed the monthly minimum wage as 700 yuan, 180 yuan higher than the local minimum wage standard. (iv) social insurance and supplementary insurance schemes. For example, the Jiangsu Qiuyan Garments Group Company put social insurance and supplementary insurance into the scope of wage negotiations, and consequently bought old-age pension, medical care, maternity, occupational injuries and unemployment insurance for every worker. (v) over-time work compensation.

(6) Experience in wage negotiation

All the enterprises summarized their experience in launching wage negotiations. According to the President of Trade Union of the Mutian (China) Co. Ltd, prior to negotiations, first, publicity campaigns should be conducted so that workers would be better aware of their economic interests and that the management would ensure the labour rights of workers. Second, adequate preparations should be made. Third, prompt and thorough communications should be conducted.

(7) Effectiveness of wage negotiation

The enterprises made positive comments on the effectiveness of wage negotiations. To sum up, there are five main points: (i) Facilitating the establishment of a new wage system that adapted to the market economy. This was particularly the case for the state-owned and state controlling companies. (ii) Coordinating labour relations. Since 1995, those companies like Mutian and Ximanuo have never suffered labour disputes. Their labour relations have remained harmonious and stable. (iii) Boosting the steady increase of workers' wages. Since the introduction of collective wage negotiation system in 2001, the Zhangjiagang Water Supply Company has increased the average wage of its workers by a big margin every year. The growth rate was 9% in 2000, and 10% in 2002 and 2003 respectively. Now, the average annual per-capita wage of the workers is 15,500 yuan. (iv) Improving HR management. The Sumufa and Futian companies were so competitive in terms of wage systems and wage levels that they were able to attract and retain many high-calibre professionals. (v) Promoting enterprise development.

(8) Role of tripartite consultative mechanism in wage negotiation

The enterprises have fully acknowledged the status and role of tripartite consultative mechanism in facilitating wage negotiations. In their opinions, the tripartite consultative mechanism in Suzhou has played the following promotional role: (i) set up an office for wage negotiations, thus providing an institutional framework for such work; (ii) formulate policies for wage negotiations; (iii) provide grassroots trade

unions and enterprises with information about relevant laws and policy, guideline for annual wage increase and labour costs; and (iv) award specific assistance to enterprises, set good examples and provide separate guidance.

3. Union work and worker participation

(1) Main activities

The most important and most time-consuming activity of trade unions is to perform their protective function. For the trade unions in the Sufuma Company and the Zhangjiagang Water Company, the most important and most time-consuming job was to carry out collective negotiations and conclude collective agreements. The Futian Metal Company established a consultative system, under which the management consulted with the trade union once a month. Matters to be consulted would be decided at the monthly meeting of presidents of trade union groups. At each consultative meeting, one or two concerns of workers would be addressed. Such practice is acceptable for the management and well received by the workers.

(2) Collective negotiation and collective agreement

The management of all the enterprises negotiated with the trade unions about working conditions and employment terms and entered into collective agreements. The validity of collective agreement was generally between 1 and 3 years. For example, since 1996, the Zhangjiagang Auto Parts Company has renewed the collective agreement every year. The agreement provided for specific clauses for labour standards and workers' concrete interests and proved easily applicable indeed. At the same time, the company worked out 10 policies attached to the agreement as an annex. The 10 policies covered collective negotiation, wage, labour contract, the distribution of articles for labour protection, rewards and penalties, worker training and education, leave permission, worker protection, medical care, and occupational safety and health. Such systemic arrangement has played a pivotal role in the protection of workers' rights and interests.

(3) Workers' congress and other forms of worker participation

Amongst all the enterprises, 7 set up the workers' congress system, and 4, the membership congress system. For example, the state-owned Suzhou Wangting Power Plant held at least three sessions of the Workers' Congress every year. At the Congress, workers' reps would examine the company's strategic decisions, consider and approve the drafts of collective agreement and collective wage agreement and appraise and supervise over the company's executives. When the Congress was in recession, the joint conference of delegation heads and responsible persons of specialized committees would look after its day-to-day affairs.

In 1997, the Futian Metal Company started to establish the membership congress. It meets once a year and enjoys the following rights:

- (i) to listen to the general manager's report on major decisions on production and operation and forward suggestions;
- (ii) to consider and approve the draft collective agreement and the draft wage agreement, and to listen to the reports on their implementation; and
- (iii) to examine rules and policies with respect to workers' vital interests like HR management, wage and welfare, working hours, and occupational safety and health.

Over the past two years, the trade union of the company has worked a great deal to improve safety production and working environment, increase breast-feeding time for female workers, make adjustments in holiday or leave arrangements and join in the employer's liability insurance. In the enterprises, there were other forms of worker participation like the corporate transparency system and the board-level representation system.

(4) Dispute settlement

A labour dispute mediation board was set up in all the enterprises. The board is chaired by the trade union president of the enterprise, and comprises HR personnel, safety reps and worker reps. Due to the smooth function of the collective negotiation system and the workers' congress or the membership congress, labour disputes could be handled at the very beginning. In recent years, no single labour dispute has ever occurred in those enterprises.

III. Proposals

Based on this research, we come up with the following proposals:

1. Vigorously promoting the collective negotiation and collective agreement system and further improving the mechanism for coordinating labour relations. Practice in the last decade shows that the collective negotiation and collective agreement has played a positive role in protecting workers' rights, coordinating labour relations and boosting the social and economic development in an all-around, coordinated and sustainable manner. The Chinese trade unions have set a goal that by the year 2008, collective agreements shall cover more than 60% of the workforce.
2. Constantly facilitating wage negotiation and building a wage distribution system that fits in the market economy. There is a need to further promote wage negotiation so that the workers are able to share the fruits of enterprise development and economic growth.
3. Establishing and improving the tripartite consultative mechanism and creating a favourable climax for collective negotiations. It is imperative to set up tripartite

consultative mechanisms at various levels, and give fuller play to the active role of tripartite consultative mechanism in pushing labour legislation, supervising over the enforcement of labour laws and regulations and coordinating labour relations.

4. Intensifying efforts to organize workers and involve them in wage negotiations. Every effort should be made to organize workers into unions and protect their legitimate rights and interests, in the hope that they will turn into the driving force behind collective negotiations.

5. Fully exploiting experience of market economies in coordinating labour relations and strengthening cooperation with the ILO. The workshop is a big information provider and an eye-opener. And there is still a need to enhance cooperation with the ILO, in order for us to build up a new mechanism for worker protection under a market economy.

Appendix:

List of Chinese Enterprises Surveyed

1. Wangting Power Plant
Ownership: State equity
Sector: Electricity
Workforce: 2,219
Business volume: 1.67 billion yuan (2003).
2. Sufuma Co. Ltd.
Ownership: State controlling
Sector: Machinery
Workforce: 1,119
Business volume: 350 million yuan (2003).
3. Zhangjiagang Water Supply Company
Ownership: State equity
Sector: Public utility
Workforce: 350
Business volume: 79 million yuan (2003).
4. Mutian (China) Co. Ltd.
Ownership: Foreign equity
Sector: Machinery
Workforce: 2,998
Business volume: 1.762 billion yuan (2003).
5. Ximanuo (Kunshan) Bicycle Parts Co. Ltd.
Ownership: Foreign equity
Sector: Machinery
Workforce: 1,060
Business volume: 653 million yuan (2003).
6. Futian Metal Co.Ltd.
Ownership: Foreign equity
Sector: Electronics
Workforce: 388.
7. Zhangjiagang Boze Auto Parts Co. Ltd.
Ownership: Foreign equity
Sector: Motor
Workforce: 179
Business volume: 269 million yuan (2003).

8. Changshu Switch Co. Ltd.
Ownership: Private equity
Sector: Electronics
Workforce: 1,543
Business volume: 610 million yuan (2003).
9. Jiangsu Youyi Motor Co. Ltd.
Ownership: Private equity
Sector: Motor
Workforce: 958
Business volume: 538 million yuan (2003).
10. Jiangsu Qiuyan Group Corporation
Ownership: Private equity
Sector: Garments
Workforce: 550
Business volume: 68 million yuan (2003).
11. Kunshan Kangcheng Shoes Co. Ltd.
Ownership: Private equity
Sector: Shoes
Workforce: 171
Business volume: 30 million yuan (2003).