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An Emerging Model of Employment Relations in China: A divergent path from the Japanese?

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ABSTRACT

This article sets out an emerging model of employment relations (including industrial relations and human resource management) in the People's Republic of China, particularly in terms of the formation of a distinctly 'Chinese' version. It follows the historical logic of its evolution to evaluate the transformation from a traditional industrial relations system to a contemporary employment relations one. In this overview, the article attempts to see how far such changes in China in varying degrees were influenced by the both Western and Japanese IR and HRM influences, particularly comparing and contrasting its own adaptations of these with those of its close neighbour. It concludes that while many of these notions and practices took root in China, fundamentally different cultural, economic, historical, political and societal factors have determined the outcome of a culturally distinctive employment relations system, as ever, 'with Chinese characteristics'.

Key words:

Chinese characteristics; Corporatism; Employment relations; Human resource management; Industrial relations; Japanese management; Labour-force; Labour law; Trade unions; Tripartism.

Theoretical Background

In her book, *Translingual Practice,* Liu (1995) explores how broadly speaking many Western concepts were introduced into China, often by transliterating terms or borrowing neologisms. Even a notion as basic as 'national character' (*guomin xing*), for example, changed its meaning in different hands and over time. Neologisms too appear to have played a very important role in modern Chinese development (Harris, 1997: 121-138). They clearly had a highly significant linguistic- and political - role this century, as 'the Chinese language has struggled to adapt to unprecedented outside influences' (Harris, 1997: 131). Many new terms were used 'in different ways, in different contexts, but sometimes inconsistently' (Harris, 1997: 132). Such understandings, as well as misunderstandings, attempted to come to terms with what was called 'modernism', and therefore constitutes a potentially fascinating field of research and speculation; we find a useful specific exemplification of the broader factors described and analysed by Liu (1995) in the industrially focussed application we now discuss below.

The theoretical background to the present specific discussion on employment relations, which we now set out below, relates to the wider discussion of how foreign notions and practices have been historically introduced into China this century. The 'sinification' of foreign concepts has indeed been recurrent in modern Chinese practice, described by Schram (1971: 112) as a 'complex and ambiguous idea', then speaking specifically in terms of, for instance, the introduction of Marxism-Leninism and its specific ideas to revolutionary China. Mao Zedong wrote in 1940 that 'the universal characteristics acquire a definite national form' (Dirlik, 1997: 599). Such an emphasis on the specifically Chinese character of whatever is adopted in terms of economic and related reforms is recurrent and has been repeated again recent years has also attracted our attention and forms the basis of the discussion presented here. We present it as the main prop in our 'culturalist' and societal interpretation of how the Western and Japanese employment-related notions influenced China.

Our theoretical approach is basically premised on 'soft technology transfer' (management and organisational know-how, that is, managerial theory and practice) from abroad that

accompanied 'hard technology transfer' (material hardware and the like) (see Child, 1994). In turn, the imported 'soft technological transfer' is adapted to the Chinese cultural context and emerges in a modified form. The mechanisms responsible for this modification relate to the deep-rooted social underpinning of work-related institutions that shape how organisations emerge in different industrial societies and are dubbed the 'societal effect' (see Maurice et al, 1980: Warner, 1997b). We will now see how this modification has taken place vis à vis the importation of Western and Japanese IR notions into modern China.

Transformation of the Chinese Industrial Relations System

Background

After the Liberation in 1949, the PRC laid the foundations of its industrial and labour relations (IR) system, particularly during the 1950s, but there was great turbulence and upheavals over the decade or so following the laying down of these foundations. China was turned upside down by the ebbs and flows of radical change that occurred at that time, during the Cultural Revolution. In the 1960s, Mao tried to undermine what he originally thought had been the right path to take when he partially emulated Soviet practices, as had been the case in the formative years of the 1950s.

The year of 1976 marked the end of an era: Mao Zedong died and the fall of the Gang of Four occurred. After ten years of 'Cultural Revolution', China still faced sharp tensions, both politically and economically. At the end of the Cultural Revolution, almost 100 million people had barely enough food and clothing. The level of enterprise performance was weak and unlikely to improve greatly under a system in which the workers were not strongly motivated. Outside, China was challenged by other Asian economies led by Japan and the four 'little tiger' economies, which had experienced rapid development in the 1960s and 1970s. In order to catch up in their development, China not only set out to encourage Western technological (and managerial) transfer by way of the new 'Open Door' policy (see Child, 1994) but also looked eastwards to the Japanese pattern of economic development and management in particular as a possible route to Chinese modernisation.

Following the implementation of the economic reforms 'Four Modernisations' and 'Open Door' policies in the late 1970s and early 1980s, a more stable industrial relations (IR) arrangement was gradually re-established (the All-China Federation of Trade Unions [ACFTU] was re-activated in 1978 for example) but the debate about adopting new elements into the emerging status quo was also problematic. For instance, 'industrial relations' was widely referred to in East Asia, including Japan, Korea and Taiwan, as 'labour-capital relations' (*laozi guanxi,* in Chinese characters) (Jin, 1990 and Yamashita, 1989). When this term was used in China, it was perceived as ideologically contradictory. In China, the majority of enterprises are either State-owned enterprises (SOEs) or collectively owned

enterprises (COEs) and they are clearly not 'capitalist'. Therefore, for the public ownership system, the term of *'laozi guanxi'* appeared not to be 'accurate'. This term could however refer to private sector firms in China, such as foreign-invested enterprises (FIEs) and domestic private enterprises (DPEs). A new term, namely 'labour relations' (*laodong guanxi*) was then temporarily adopted to refer to IR in all kinds of enterprises in China and it had been approved as 'politically correct', a typical example of modification of foreign concepts and patterns into Chinese usage, as we would expect with the 'societal effect' (see Warner, 1997b).

The Japanese influence

Traditionally, the Japanese IR system (which covered the 'core' workers in their large-sized corporations) is said to have had a fundamental impact on the Chinese industry since the turn of the century.

- For example, the notion of secure employment described as the 'iron rice bowl' (*tie fan wan*) is said to have its origins in the Japanese industrialisation of Manchuria (*Manchu Guo)* where the Japanese management introduced the 'golden rice bowl' (*jin fan wan*) in, for example, the railways and post office: a modified model of Japanese lifetime employment practices (Warner, 1995:13ff). Secure employment is said to have been an important aspect of Japanese society, even before the Meiji Restoration (Tackney, 1995: 94).
- Another parallel pattern between the two systems is the system of seniority. Both Chinese and Japanese systems promote employees in terms of salary and position largely based on their seniority at the work place; it is also linked with employment security. A functioning seniority wage system, it is said, necessarily implies a commitment to some form of employment security by the employer (Tackney, 1995: 102).
- The third area which both systems have some degrees of commonality is the enterprise unionism. Certainly, both countries have vertical industry-based unions, but enterprise union plays a more crucial role as the unit of representing and protecting workers' interests and welfare on a daily basis. Shirai (1983) claimed that for Japanese workers, the enterprise union was the only, and most natural, form of organisation because their basic common interest as industrial workers had been formed within an individual enterprise.
- In China, most State-owned enterprises (SOEs) and collectively owned enterprises (COEs) appear to have (in effect) their own 'enterprise unions', with at least one to two full time

union officials. They are involved in administrative activities, training and education of workers, providing welfare facilities, and sometimes defending workers' rights. Even now, the government policy continues to encourage enterprise unions to be formed in all enterprises including foreign invested enterprises (FIEs) and domestic private enterprises (DPEs) (see the Labour Law, 1995).

- Other similarities between the two systems can be identified as the collective working spirit (team work), common goals (enterprise targets), individual sacrifice, loyalty and commitment to the company, and centralised leadership (management responsibility).

To explain these phenomena, two reasons can be offered:

- First, both countries have similar cultural roots, particularly relating to the influence of Confucianism. For example, seniority is the outcome of the principle of respecting the elderly; similarly, the mutual obligation between rulers and ruled is rooted in Confucianism. Issues such as collectivism, common goals, individual sacrifice, loyalty and commitment, and centralised leadership all have their roots in Confucian principles.
- Second, both countries were agricultural economies for a long time. The family-based work unit is said to determine the structure of the modern organisation. The kinship between employer and employee and among employees forms the basic relationship (*guanxi*) in the workplace and society as whole. However, in the period since 1949, the Chinese system has been largely modified and presented in a very different package from the Japanese one, although similar roots do exist. There are both pre-reform and reform period influences at play in this process. We turn first to the former.

Pre-reform period

The development of the Chinese system during the pre-reform period was covered under the so-called 'Socialist Superiority' values in the following significant ways.

- First, employment security, seniority, social welfare, and Party/management leadership (central control) were labelled as the 'advantages' of the 'socialist system'.
- Trade unions mainly played a 'window-dressing' role but this was explained away as leading to 'industrial harmony'.
- Narrow wage differentials were praised as 'egalitarian'.

- The traditional kinship system was also modified into a 'revolutionary' relationship, as relationships (*guanxi*) with powerful leaders now determined the path of an individual career.
- The goals of work unit (*danwei*) not only required individual sacrifice for the unit but also for the nation. However, this modified IR system did not always necessarily benefit individual employees and work.
- Political interests replaced economic interests as dominating influences in the IR system.
- As the consequence, workers lost their motivation for production and both economic system and management systems collapsed at the end of the Cultural Revolution in 1976.

The main employment relations reforms

In the reform period, the main task was reforming the existing IR system and transforming it into a new one embodying employment relations (ER: *jiuye guanxi*) as follows:

1. New policies were mainly centred on the reform of wages, employment, welfare and management, as we now hope to show in the discussion that follows.
2. The reforming initiatives of the government have been broadly defined as breaking the 'three irons' (iron rice bowl, iron wages and iron position), and establishing three new systems (the labour contract system, floating wage system, and cadre or manager engagement system) (Yuan, 1990).
3. Under Deng's new ideological position, policy shifted to restore the principle of 'distribution according to work' and link individual performance, skills and position with their income in order to generate individuals' motivation for greater production.
4. New types of wage systems were introduced such as the 'piece (-work) wage system', 'bonus system' and later 'structural wage system', 'floating wage system' (Li, 1992) and 'post plus skills wage system' (Warner, 1997a).
5. This new wage policy was designed to break one of the three irons - 'iron wages'. This step was important because the economic reform process called for greater efficiency in factor-allocation, with labour-flexibility a priority.
6. Allowing variations in rewards based on productivity was part and parcel of this reform. Moreover, labour was to be encouraged to move from less productive firms to more efficient ones.
7. Immobility of labour has been a feature of the old system dominated by the SOEs, where there was overmanning and zero-turnover of workers.

A nascent labour market was therefore high on the reformers' agenda. However, improvements in labour mobility were not to take place overnight. Even by the later 1990s, the level of job mobility was relatively low in many State firms, although rising in the non-State sector such as in joint ventures (JVs) especially in large cities like Shanghai.

In terms of employment in the early 1980s, many young graduates from school could no longer obtain the guaranteed employment opportunity their parents enjoyed in the past and in fact they became temporarily unemployed. The practice of job inheritance (*dingti)*, with posts passing from parents to offspring, was gradually phased out. In addition, many young people who came back to the cities after several years' settlement in the countryside and getting education from peasants (*cha dui)* could not find jobs. However, this situation was described by the officials as waiting for being employed *(daiye*) but not unemployment (*shiye*) (Feng, 1982). It could not be admitted that a socialist society could have unemployment. The boundary of the term of '*daiyie'* was even expanded to include the workers who were laid off from factories throughout the late 1980s and early 1990s (Geng, 1992). Only recently, unemployment (*shiye*) has been used to refer people who have not been employed for several years and unemployment benefit is available for some of them now (Lim *et al,* 1996). After a period on this benefit, they then only receive a token payment if they have not become economically active. Some prefer to try the insecurity of self-employment or small business, literally to 'jump into the sea or take the plunge into private business' (x*aihai*) (Zhu, 1995: 40). The level of unemployment has grown steadily as the reforms have deepened and downsizing has taken place (see Warner, 1999); many young workers are forced into often-spurious 'self-employment' as street-hawkers and the like.

The demise of the iron rice bowl system

As for the lifetime employment system, the so-called 'iron rice bowl', it continued to be practised in SOEs and COEs into the early 1990s but is now being dismantled (Warner, 1997a). However, this attachment seemed to be associated with familiar problems of overstaffing, mismatch of skills and stagnation of productivity (Zhu and Campbell, 1996). Therefore, an attempt to break the 'iron rice bowl' in the mid-1980s was made by the government with the implementation of temporary regulations in 1986, such as early retirement, enterprise powers to dismiss employees, and supplement and gradually replace permanent status with a 'contract' system (White, 1987; Han and Morishima, 1992; Hu and Li, 1993; Walder, 1996; and ILO, 1996). The reform of the employment system has been accelerated since 1992 with the 'Three Systems Reforms' attempting to change personnel, rewards and social insurance arrangements (Bell et al, 1993; Sziraczki and Twigger, 1995; and Lim et al, 1996). In some regions, all employees in all enterprises were to be drafted into a modified version of the contract system (Zhu and Campbell, 1996). For instance, in 1993 the Shenzhen SEZ completed an 'All Employees Contract System' (AECS), which covered staff and workers in all enterprises (Zhu and Campbell, 1996). There were both individual contracts and collective contracts on hand, the latter a sort of framework agreement, although not quite an international standardised collective bargaining contract (Ng and Warner, 1998; Warner and Ng, 1999). Most SOEs and FIEs now have implemented individual contracts, for example; there are fewer examples of collective contracts, mostly found in larger SOEs, and perhaps in a third of all SOEs, a minority of larger FIEs but not many smaller FIEs and DPEs.

The 'Nascent' Tripartite System

The 1994 Labour Law systematised these and other associated practices into what now looks like something quite new in modern China, namely a 'nascent', corporatist tripartite system, based not wholly on a totalitarian top-down State power but a three-way relationship (see Warner 1999) between, respectively, the State, the enterprise-employers and the trade unions.

The 1994 Labour Law, institutionalising this new *status quo*, although comprehensive in scope, it may be hard to enforce as the machinery of labour inspection in China is quite weak. Moreover, although SOEs may be able to take its edicts on board, FIEs - many of which are Overseas Chinese owned - may be less inclined to enforce its provisions. In any case, the role of law in China is still in flux and it is often hard to make sure new legislation is enforced due

to the residual 'mind-sets' of officials and managers, as well the limited resources available for labour inspection. Yet, many workers, especially the younger ones, appear to accept the new tripartite *status quo (*Bu and Xu, 1996).

The major problem for policy concerns the non-wage benefits constituting the welfare system within enterprises (Leung, 1988 and Kaple, 1994). These have been a major financial burden for enterprises and a barrier to the linking of the reward system to effort, as well as the key to the attachment of employees to the enterprise and an impediment to labour mobility. A new contributory social insurance system was first implemented among the FIEs, with 25 percent of wages covering all kinds of insurance costs (Zhu and Campbell, 1996). In SOEs and COEs, the introduction of the contract system has entailed some alterations to the welfare system. The provisional regulations of 1986 stipulated that a separate labour insurance scheme be set up for contract workers in the State sector (Dong, 1996). Since then, the policy on social insurance has been revised several time and it is proposed that institutional and industrial workers pay one percent of their monthly salary for medical insurance, and three percent for their unemployment insurance, with work units adding another 20 percent for retirement provision and 10 percent for medical care (Goodall and Warner, 1997).

In rural areas, there is little provision of this nature, except possibly in the more prosperous townships and their Township and Village Enterprises (TVEs); agricultural workers are in a much less advantageous position in this context. More generally, but also more tentatively, the authorities have begun experiments with housing reform (selling public housing to individual employees as well as enforcing rental increases) aimed at fostering a housing market (Bell et al, 1993). Zhu Rongji, the current Premier, has recently announced the extension of his policy of housing reform to the national level in 1998.

In terms of reforming management system, policy has aimed at decentralising economic decision-making powers to the enterprise level and replacing government direction with enterprise autonomy. An ideological breach was the separation between two rights: ownership and management in SOEs (Li, 1992). The results are varied, but it does seem that managers have enjoyed an increase in decision-making power (Zhu and Campbell, 1996). In addition, in order to break the third iron - the 'iron position' - the 'managers' engagement system' was

also introduced. Different types of engagement have been implemented at different enterprises according to their size, sector and relations between firms and authorities. In the early 1980s, two systems were dominant: entrusted management system and leasing management system or property management responsibility system (Zhu, 1995). Many large and medium-sized SOEs have implemented the entrusted management system in which managers sign a contract with the authority to achieve a certain level of economic contribution with a fixed period (normally between three to five years) and individual managers and workers can be rewarded with bonuses if they satisfy the contract's requirements each year.

It is also related to the term 'managers' responsibility system' which is borrowed from the term 'farmer's responsibility system' of the rural reforms. As for the small SOEs, they have used the 'leasing management system' in which the firm is run according to a rental agreement with authority and individual managers pay the rental fee and the remaining profits can be taken as their individual income (Zhu, 1995).

Economic reform, as set out above, is however premised on a reduction of Party influence in the enterprise, which has been claimed by the government as a separation between politics and enterprise management, but political networks still form a readily accessible structure for informal bargaining and personal connections (*guanxi*), generating problems ranging from unpredictability to corruption (Zhu and Campbell, 1996). What appears more likely is that management -- still largely integrated into political networks (especially after June 1989) -- has increased its power at the expense of workers within the enterprise.

To the conventional structure based on 'three old committees' has been added 'three new committees': board of directors, shareholders committee and monitoring committee with the emphasis of supervision by investors externally and workers internally over the management (Chen, 1997). This step can be seen as part of campaign of the authorities to promote so-called 'supervision' and 'democratic management', but in fact, the important forces of the 'democratic management' - trade unions and workers congress - still, to a residual degree, play the role of 'transmission belt' and 'rubber-stamp' respectively (Goodall and Warner, 1997).

New Forms of Management

In recent years, a new term called 'scientific management' has been used widely in the context of the above economic and Employment Relations changes (Huang, 1996) but this does not specifically refer to Taylorist practices as such. It emphasises several issues related to management reform: production, planning, quality, equipment, statistics and technology. Meanwhile, it tries to develop a framework to allow both the 'old three committees' and 'new three committees' to function effectively (Huang, 1996). The State is still present, however, as the 'chaperone' of the new tripartite system of relations and as the apex of the triangle with the managements and trade unions as its base.

The above changes in the IR system in China clearly indicate a departure from Japanese influence. Certainly, the system in Japan is also under tremendous changes: the shake-ups and breakdowns in the nation's political and economic system in the past decade have led to dramatic changes of IR system (Sako and Sato, 1997: XIV). The Japanese system, one of the most original in the region, is now in the throes of transformation (Whittaker, 1998). The former 'three pillars' model (lifetime employment, seniority wages and company unions) is now being questioned. Lifetime employment, which was standard for those working in large firms for many years, is now being eroded, as in China; seniority is also being shaken-up as in the PRC; enterprise unionism is still ongoing but is even tamer in the tougher economic climate of the late 1990s. The Japanese system faces many hurdles, not the least the high cost of redundancies: it is reckoned that the average cost to a large firm is around US$200,000 per employee (*The Economist*, 26 June, 1999), allegedly five times the 'going-rate' in comparable European MNCs, but very much less than in the Chinese context.

Many big Japanese companies with famous household names have nonetheless set out on major restructuring programmes. By the end of 1998, unemployment in Japan had risen to 4.4 percent and rising. Within six months, it had risen to 5 percent and probably double for young workers; the percentage of temporary and part-time workers rose to over 7 percent (*Japan Labour Bulletin*, August 1999). Although Japanese unions are not as yet in significant decline, like many of their counterparts elsewhere, they do face challenges such as having to recruit

members in newer service sectors to compensate for losses in older manufacturing ones. The job-market prospects in Japan do not look favourable at all for the coming years.

'Jobs for life' were, it is said, never comprehensively and fully institutionalised in the Japanese IR system (Sano, 1995) but many writers believed *major* change in the corporate life-time employment system where it was found, was not yet likely (Selmer, 1999). By the end of the decade, serious steps were being finally taken to downsize large corporations as we have noted, although not as trenchantly as in South Korea. Even so, unemployment rose significantly in both countries, as it also did in Hong Kong, to over 5 percent. The jobless rate is a contentious figure in China, as the official rate of 3.5 percent in 1998 has been estimated by the trade unions there as twice as much; it is likely to be even double this figure once over, say closer to 15 percent in many urban areas, if unofficial estimates are right.

It is thus clear that the two countries, China and Japan, have in the last decade both respectively adjusted and transformed their traditional IR system into a new pattern of ER, in responding to the recent political, economic and social changes. One of the recent changes in this context of change is in the area of human resource management, to which we now turn.

Managing Human Resources

With the reforms of the employment system, a new terminology of Human Resource Management (HRM) came to China in the middle of 1980s (see Child, 1994; Warner, 1995, 1999). In fact, HRM was said to rooted in both Western and Japanese management systems and later adopted and modified in the US and Europe. As Poole (1997) indicated, HRM is a relatively new term even in the Western society: it developed in its best-known form in the USA and arrived in the mid-1980s in the UK and much of Europe. In China, HRM as an academic concept was introduced by joint teaching-arrangements between Chinese and foreign universities as well as in management practice in FIEs, mainly from Japan, the US and Europe (Warner, 1992; 1995). The translation of HRM into Chinese is '*renli ziyuan guanli*' (with the same Chinese characters as in Japanese) which means 'labour force resources management'. But in fact, some people now use it misleadingly as a synonym for 'Personnel Management' (*renshi guanli)* and indeed treat it as such (Warner, 1997a). This form of older PM practice is still very common in SOEs and a certain conservatism continues to pervade the administration of personnel in such enterprises. Certainly, it is still very far from the initial concept of HRM as understood in the international community (Poole, 1997).

In parallel, attempts were made to import 'enterprise culture', a 'code-word' for adopting and adapting the Japanese model (Chan, 1995). This is normally only found in firms entering JV arrangements with Japanese MNCs or where the Japanese have set up wholly owned firms on site. Some aspects of Japanese management system such as the Quality Control Circle (QCC) and Total Quality Control (TQC) have been practised in many SOEs, COEs and FIEs. However, the system is adapted to local laws and practices.

What is now less likely than many previously conjectured is whether the Japanese HRM model will be *the* template for countries in the Asia Pacific region in general and whether for the PRC in particular. 'Japanisation' so-called may be hard to implant outside Japan, other than superficially or at best in subsidiaries of Japanese MNCs. A recent study (Taylor, 1999) even questions whether Japanese plants themselves in the PRC actually used specific practices associated with Japanisation and its accompanying production methods.

One further important question here is indeed whether the HRM model itself is intrinsically based on Japanese practices as such; if a great deal, then the spread of HRM might imply 'Japanisation'; if not, then its diffusion may mean something else. Others might see HRM as essentially of Western provenance (Poole, 1997) and imported along with MNC investment into the Asia Pacific region, as indeed elsewhere in emerging economies.

The term HRM is in fact mostly *de rigueur* in the more prominent Sino-foreign JVs, particularly the larger ones. Even in these types of firms, management seems to be more inward-looking, with a focus on issues like wage, welfare and promotion as found in the conventional personnel arrangements rather than strategic ones like long-term development normally associated with HRM (see Figure 1).

Figure 1: Employment Systems in Chinese Enterprises

OLD	**NEW**
Plan	Market
Cadres	Managers
SOEs and COEs	Diverse owners
Lifetime employment	Labour contracts
Personnel management	Adapted-HRM
Flat reward-structure	Performance-based wages
Zero labour turnover	Greater job mobility
Few dismissals	Labour discipline
Free medical care	Contributory insurance
Subsidised housing	Market rentals or sales
ACFTU presence	Often no union or Congress
Top-down IR	Tripartism

According to a recent survey (Benson & Zhu, 1999), three models of HRM appear to exist in Chinese enterprises: 1) the traditional IR and personnel management systems, 2) the more international-oriented HRM system, 3) the transitional model between the old and the new forms. The first model is a minimalist approach where enterprises have not attempted to adopt a HRM approach to the management of labour. The second model represents an attempt to

adopt the HRM paradigm. These enterprises have fewer constraints than the first group in their attempts to reform labour management. These enterprises tend to have little connection with the traditional SOE system (eg. FIEs or new establishment domestic enterprises). The third model is a transitionary stage between the old and the new forms of labour management. These enterprises have the latest technology and they realise that quality is the key factor in determining their success. However, unlike the first group, they have little support from government. For these firms, substantial managerial reforms, including that of human resources, are crucial for their future success.

Clearly, at this time, there is not a homogeneous model of HRM in Chinese enterprises. Individual enterprises are reforming their HRM systems differently on the basis of their existing conditions and the impact of the economic reform.

Conclusions: Towards a Emerging Model of Employment Relations 'with Chinese Characteristics'

The formation of a tripartite system, as described earlier in this article, was encouraged by the Chinese government with the assistance of the International Labour Organization (ILO) in the early 1990s, in order to attempt to implement ILO standards and the principle of a 'corporatist' structure in industrial relations (Unger and Chan, 1995). This step may well have eventually led to the establishment of the new 1994 Labour Law and the introduction of what is called the 'collective negotiation and collective agreement' (CNCA: the Chinese version of what may be loosely described as collective bargaining) (see Warner and Ng, 1999). The term of 'tripartite relations' in Chinese is translated as 'three parties' relations', namely the State, enterprise-employers and the trade unions.

At the national level, the Labour Ministry represents the State, the Chinese Enterprise Directors' Association (CEDA) represents employers and the All China Federation of Trade Unions (ACFTU) represents the workers officially. At provincial, city and county levels, equivalent Labour Bureaux, Enterprise Directors' Associations and Trade Unions form the regional and local tripartite system. They are engaged in designing legislation and regulation, negotiating the articles of CNCA, and mediating disputes. Here two important words need to be illustrated:

- 'relations' (*guanxi*) and
- 'corporatism(ist)' (*shituan zhuyi*) which reflect the tripartism with Chinese characteristics. 'G*uanxi'* being used here again in parallel with *'laozi guanxi'* and '*laodong guanxi'* demonstrates that the '*guanxi*' is still an important force in Chinese society (Luo, 1997 and Warner, 1997b) and understanding it is essential to seeing how tripartite relations have emerged in contemporary industrial relations there.

There are a number of 'distinctly Chinese' mechanisms involved in this process, as would follow from the theoretical point of departure, in the adaptation of the tripartite notion to the Chinese cultural context, as we outlined at the beginning of this article, as follows:

- The notion of '*guanxi'* has clearly been 'deep-rooted' in Chinese practice over a long period and has shaped the hierarchical structures holding the Chinese social structures together; clan-like networks that have been for years the main links in the 'societal' chain.
- In the current Chinese political and economic structure, relations between the so-called 'three parties' seem to be even more complicated: the government has a different relations with public ownership units, domestic private units and foreign units.
- From the State's viewpoint in the PRC, public ownership is still acknowledged as an 'unshakeable' basic economic principle in a socialist market economy (Li, 1998) and certainly the State is much closer to the public sector.
- The formation of DPEs and FIEs is inevitable, in this view, in the 'early stage of socialism' but they can only be used and not trusted in a country like the PRC.
- On the other hand, the trade unions are controlled by the State as an important channel to rule the Chinese 'masses'. But the trade unions also require support from below and to enhance their own status as a representative organ.
- In fact, the trade unions have been increasingly assertive in requests to participate in the internal bargaining that goes into administrative directives and in drawing up new legislation that pertain to safeguarding Chinese workers' interests vis à vis foreign capital (Unger and Chan, 1995).
- The relations between the trade unions and enterprise management is one of contradictory relations at the national level (see, for example, the opposing views on shaping legislation, as between the ACFTU and CEDA, and a kind of mediation role of the Labour Ministry between them) and different relations among the different ownerships and union leaderships (mainly personal relations between management and union leaders) at enterprise level.

Another relevant term relating to this new 'tripartite' model is the very term 'corporatism' (*shituan zhuyi*) which was in fact directly borrowed from the Soviet Union after 1949 Liberation (Unger and Chan, 1995 and Chan, 1993). The notion was that 'corporatism' would bring a harmony of interests in a socialist State and that corporatist sectoral agencies such as the ACFTU would serve as 'transmission belts' with limited autonomy. However, following the reform and relaxing of direct Party-State controls over the society, there was a need for additional mechanisms to fill the vacuum. Therefore, a large number of new associations have

emerged to serve as corporatist intermediaries and agents, such as the establishment of an explicitly employers' body, the Chinese Enterprise Directors Association (CEDA). These new associations are becoming more aware of their own organisational interests and engaged in more grass-root oriented strategies in order to obtain more space, support and bargaining power. However, the development of the corporatist framework from 'State corporatism' (*guojia shituan zhuyi*) to 'societal corporatism' (*shihui shituan zhuyi*) is perhaps analogous to the transformation of Chinese society as a whole; a gradual shift is the most likely outcome and that is another crucial issue we would like to tackle next.

There is little doubt in our minds that China can find its own specific route to institutional reform by moving towards the system what we have called employment relations within the context of a 'gradualistic' approach more generally. The 'third way' of 'gradualism' has also often been used as a 'code-word' for explaining contemporary Chinese practice and differentiating it from on the one hand, the central planning system but on the other hand not conceding its ultimate convergence with Japanese/Western capitalism and globalisation. Hence, the description of the reforms in general as 'market socialism' and the frequent use of the phrase 'with Chinese characteristics'. However, China does not have a totally coherent blueprint for the so-called 'socialist market economy'. The philosophy of 'crossing the river by feeling the stones' reflects the pragmatism which is different from the counterpart transitional economies in the former Soviet Union and Eastern Europe.

We believe that the term of 'socialist market economy with Chinese characteristics' to be a mixed slogan which provides the legitimacy for the Communist Party's political control (maintaining the 'socialist' identity), creates opportunity to introduce the market mechanism for economic development, at the same time allows the traditional values such as Confucianism to fill the ideological vacuum and refuses to be 'westernised'. It is a 'pragmatic' mixture of what may ultimately prove to be self-contradictory elements but at the moment it appears to work. If severe economic difficulties appear and there are indications that this may be on the horizon and social tensions increase to a critical level, then the systemic balance may be gravely disturbed.

To sum up, the theme of this article has been the evolution of a new Chinese employment relations system (including industrial relations and human resource management) since the

onset of the economic reforms, as initiated by Deng Xiaoping. Since 1978, the command economy has been transformed into a more market-driven one. We have set these developments in the context of how employment relations and related notions were influenced by Western and Japanese influences and modified it into a unique Chinese system.

The concept of 'translingual practice' (Liu, 1995) has been deployed here, as well as the notion of 'sinification' of exogenous ideas in order to explain how concepts and terminology were in turn then embedded in Chinese usage. We have seen how the 'societal effect' has shaped the modification of external influences to local usage (see Maurice et al, 1980; Warner, 1997b). We frequently find the term 'with Chinese characteristics', for example, used in this context, for example with the expression 'market socialism' and this we would argue is fully consistent with theoretical background we have referred to at the beginning of this article.

We have hence shown how concepts, terminology and practices have been taken over and employed in Chinese cultural, social and political contexts but how the 'family resemblance' with many of their Western and in particular, Japanese equivalents may as yet be somewhat imperfect and hence relatively weak, particularly where many IR notions in general are concerned and specifically where HRM is involved. Although there are 'foreign' organisational cultures in many MNCs on-site in China, relating to the ownership of the overseas partners, whether British, French, German, Japanese, US or whatever, the 'Chinese characteristics' of overall employment relations system is what ultimately counts.

It is clear that the specific national and cultural space in which IR and HRM can take root may well have shaped the *idiosyncratic* forms eventually found in the Chinese exemplifications of such imported concepts, terminology and practices. These cannot be fully comprehended by outsiders, such as foreign expatriate managers operating in Sino-foreign JVs for example, without an understanding of the complex institutional framework that has emerged in Chinese society since the economic reforms were introduced, as well as their pragmatic implementation. Outside observers will need to come to terms with local cultural, social and political norms as exemplified in their economic and industrial contexts in order to make sense of ongoing developments in the workplace.

As the economic crisis deepens in Asia, China cannot stand apart from its consequences. The recent downturn in the Chinese economy, added to the downsizing of SOEs accelerated under Zhu Rongji's new policies, has already had its effects on the labour market in the PRC (Warner, 1999). Unemployment is growing apace and labour tensions are on the increase. Only further reforms in the Employment Relations system and fully moving from the left-hand column to the right-hand column in Figure 1 can fully take the sting out of this and help defuse further levels of conflict; the present status quo is no longer viable and the old Leninist 'transmission-belt' concept is obsolete, as China strives to become the next economic superpower in the new millennium.

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