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**‘HRM and Asian Socialist Economies in Transition:
China, Vietnam and North Korea’**

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ABSTRACT: *This chapter attempts to examine the relationship between economic reform and changes in people-management in three Asian Socialist Economies, China and Vietnam, both in the transitional stage, as compared with North Korea which has yet to open itself up to the forces of globalization. We explore their comparable and*

contrasting experiences. Where applicable, the analysis examines the employment relations and HRM systems of the respective countries.

KEY WORDS: *China; economic reform; employee relations; employment; growth; human resource management; industrial relations; North Korea; transitional; Vietnam.*

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1. Introduction

In East Asia, there are three so-called ‘socialist countries’, namely the *People’s Republic China* (henceforth to be referred to as China), the *Socialist Republic of Vietnam* (Vietnam) and the *Democratic People’s Republic of Korea* (North Korea). These three countries have experienced very different political, economic and social changes. China, the most populous of the three by far, started its economic reform and ‘Open Door’ policy in the late 1970s and it has become one of the largest economies and an influential political power in international affairs. Vietnam developed a relatively moderate reform agenda labeled as ‘*Doi Moi*’ a little later, as its route to economic renovation. Now, Vietnam has emerged as one of the leading economies among the ASEAN group in Southeast Asia. Both China and Vietnam

claim their economies as ‘socialist market economies’. However, North Korea had adopted a rather slow and careful strategy regarding reform and they still follow their former ‘Great Leader’ Chairman *Kim Il Sung I’s* approach with its characteristics of top-down socialist planning and political self-reliance and are thus less ‘transitional’. It had started to learn from its ‘socialist brothers’ of China and Vietnam late in the day but has built a small number of special economic zones and industrial parks. Due to lack of foreign investment and technological and management ‘know-how’, as well as tension between north and south from time to time, these economic reform initiatives have however not to date proved to be very successful.

In this chapter, we aim to illustrate the tasks and processes of economic reform and development in these countries, their changing political, ideological and economic systems and the impact of reform on the changing relationship between government, market and firms as well as the influence on management in general and on HRM in particular. In order to achieve these, we develop the following structure within this chapter: Section 2 reviews the economic transition and management changes; Section 3 provides the background information regarding the reform in general and reforming people-management system in particular; Section 4 illustrates the employment relations (ER) and industrial relations (IR) systems in the three countries; Section 5 explores the pattern of transformation of human resource management (HRM) policies and practices at enterprise level; Sections 6, 7, 8 and 9 examines the changing relationship and interaction between government and

enterprises; Section 10 concludes the chapter by highlighting the implications for socialist economies in transition.

2. Economic transition and management changes

China and Vietnam have a number of similarities in terms of their economic, political and social systems as well as their people-management models, although this is very much less the case with North Korea. China and Vietnam constitute the main subject of this chapter - as they have undergone decades of transformation into transitional economies but we also make some limited comparisons with the less reformed third economy in the grouping. As neighbouring countries, they have however very similar histories and cultures and share a background of *Confucian* values. These traditional values of harmony and collectivism, which were introduced into Vietnam through the Chinese emperor since 111BC (Warner et al., 2005) still remain as key social values even in modern Vietnamese as well as in Chinese societies, both on the Mainland and amongst Overseas Chinese (*Nanyang*). Additionally, both Koreas, North and South, have a *Confucian* legacy going back centuries (Flake, 2002: 4579ff)

Since late 1970s in the case of China and in the 1980s in the case of Vietnam, both countries claim to have transformed themselves into ‘socialist market economies’; however, North Korea has been seen by contrast as the last bastion of ‘Stalinism’ (Lankov, 2006). The fundamental causes of these reforms was that both Chinese and Vietnamese governments realised that the traditional system of running a country

was no longer adequate for maintaining economic and political stability . Economic reform was essential to the State's and Party's survival . Through the economic transition, the governments aimed to attract foreign capital and bring in up-to-date technology to achieve its goal of building a 'socialist' nation with a modernized and industrialized economy, hence the 'Open Door' (*kaifang*) and 'Four Modernizations' (*sige xiandaihua*) policies in the PRC in the years after 1978. As the China became inexorably linked to the international economy and increasingly faces the challenges of globalization, for example, its enterprises and their managers have to adapt to not only external market pressures, international norms and so on, but at the same time respond to internal institutional ones. The tension between these factors, external as well as internal, provides an arena in which managers, as well as workers, now have to cope, perform and survive. The government's goal of reform in transitional economies is to ensure that those economic benefits help reduce political instability and the State to retain its power.

Economic transition in the two main cases we consider, China and Vietnam, is unlike the process that took place in Eastern Europe (see Warner et al, 2005). There was no immediate blue-print at hand for China to learn for its economic reform approach, therefore the gradualism was chose for this reform as its leadership described the reform process in China was, in *Chen Yun's* phrase 'crossing the river by feeling for the stones' (*mo zhe shitou guohe*. As in the PRC, the reform process in Vietnam unfolded gradually and largely in the economic sphere. There was no accompanying reform of the political system. Both countries refer to

their economies as transferring from a 'planned socialist economy' to a 'socialist market economy'. The Communist Party remains, nonetheless, the only political organization in all three countries and holds authority to decide on policies affecting the nation.

Both governments, in China and Vietnam, clearly stated that the characteristic of these processes was to be pragmatic as well as gradualist, beginning with micro-economic reform, then to be followed by macro-economic reforms but with only limited political reform. They have been assessed as following a 'third way' (as described in Zhu and Fahey, 1999), separate from the 'shock therapy' or 'big bang' approaches on the one hand - and the traditional top-down planning system, on the other. The North Korean economy was, however, stuck with the Soviet model and remains to this day, a highly authoritarian State-planned entity.

Chung (2003) suggests that North Korea because it is a latecomer may now be more able to choose a more advantageous path to development: 'To this end, North Korea needs to adapt a pragmatic economic policy similar to China's "White Cat, Black Cat Theory," which places priority on economic utility' (2003:102). Much depends on China acting as a broker in the efforts to resolve the nuclear issue and create security and stability in the peninsula, as a recent *Rand Corporation* working paper has argued (see Wolf and Levin 2008).

Given that many similarities between the two transitional economies, there is a difference between reform in China and Vietnam in that during the pre-reform period, SOEs in China were more developed and operated on a larger scale than in Vietnam. The Chinese government governs a huge population of one and one third billion, has always been firm in its leadership, so that its reform policies have been seen as very determined and decisive (Fforde and De Vylder, 1996). It is even prepared to employ the army internally to enforce its objectives, as in 1989. On the other hand, the Vietnamese government may be less willing to resort to violence in the name of reform because it leads what was a divided country and its authority is weaker, so it needs to be more cautious in its leadership of reform. With the long history of involvement in wars, Vietnam's economy has depended heavily on foreign aid, especially from Soviet Union and China. During the economic reforms, the prominent role of foreign investment in Vietnam has been even more prominent than in China. In addition, economic reform in China occurred several years before Vietnam, therefore China is a step further along the road to reform. Vietnam often looks over its shoulder at the Chinese experience, when it put into place its reforming processes; so, learning about change in China is important for Vietnam. By contrast, North Korea appears to last in line for economic reform, even vis a vis Cuba.

Economic reforms have achieved great successes in the more advanced reforming countries, namely China and Vietnam (see Table 1). China has become a potential 'economic superpower; its economy ranked second in the world, after the US and its

GDP per capita has grown dramatically since 1978. In Vietnam, income per head about tripled from the early days and the Vietnamese people's standard of living increased markedly. Both economies have had the top two fastest growth rates in Asia but the current global financial crisis will no doubt prove problematic in 2009 and beyond. Welfare for most of their populations has nonetheless improved greatly in recent years. The unevenness of development between urban and rural areas has however mitigated the benefits. The urban population so far has done better than those in rural ones. As the economic reform process has brought in wealth for many social groups, there was the birth of a 'new middle class' in the urban centres such as in *Beijing* and *Shanghai*, as well as *Ho Chi Minh City* and *Hanoi*. Furthermore, there has been a large increase in income inequality between different groups of earners. The income gaps between different groups of Chinese and Vietnamese societies have become much bigger, compared with in pre- reform period. Together with these new economic phenomena brought in by the reforms, there has been a shift of social culture, as well as ideology. Even though the general culture of these societies is based in collectivism and harmony, as mentioned earlier, there has been a rise of individualism and competitiveness within the societies, especially among the young generation. Less, however, is known about North Korea, with much lower incomes per head than in the other two economies, although there has been a 'new rich' stratum has been emerging since the limited reforms were introduced in 2002.

Insert Table 1 here.

Table 1 provides an overview of the three countries' profiles. It is obvious that China is the giant among the group in terms of the size of area, population, GDP level, trade value and number of labour force. But interestingly, those three so-called socialist economies had relatively lower rates of infant mortality, longer life expectancy, and higher rates of literacy compared with other developing countries with the similar level of per capita income. China had a much higher GDP level, as well as GDP per capita level based on the calculation of purchasing power parity (PPP) compared with Vietnam and North Korea. In terms of composition of GDP, China had relatively lower proportion of agriculture, but higher proportion of industry and services. Vietnam maintained as second to China in these proportions and North Korea ranked third. In addition, China generated a huge trade surplus but both Vietnam and North Korea experienced trade deficits in recent years. In the *Bertelsmann Stiftung's* indices of democracy, management and market economy, the latter nation lags far behind (see Table 1). Indeed: 'Though the North Korean model in the above context has a number of aspects similar to those found in the Chinese and former Soviet Union models, it is still fundamentally distinct. There are also traces of the South Korean and Japanese systems to be found, but, in the final analysis, North Korea's unique system has created a society that challenges our understanding of "normal" societies as well as our common sense' (*Bertelsmann Stiftung*, 2008:1).

3. Background

3.1 Background in China

Under the former command economy model in China in the period 1949-1978, its state-owned enterprises (SOEs) implemented a form of *personnel management* (*renshi guanli*) to administer their employees. It was a template partly borrowed from their Soviet counterparts (see Kaple, 1994; Warner, 1995). The enterprise-based employment system, known as the ‘iron rice bowl’ (*tie fan wan*) had been *de rigueur* in the SOE sector (see Bian, 2005) and possibly even a paternalistic hangover from pre-communist times and Japanese Occupation (see Warner, 1995). It was characterized by what were called the ‘three old irons’, (*jiu santi*), that is, the pillars of life-time employment (the ‘iron rice bowl’, *tie fan wan*), centrally administered wages (the ‘iron wage’, *tie gongzi*), and ministry-based appointment and promotion of managerial staff (the ‘iron chair’, *tie jiaoyi*) (see Ng and Warner, 1998). Since *Deng*’s economic reforms were introduced in the 1980s, this enterprise-based system of ‘lifetime employment’ and ‘cradle-to-grave’ mini-welfare state (*xiao shehui*) has been gradually cut back: in 1986, for example, the authorities experimented with the introduction of labour contracts for new workers (see Korzec, 1992; Zhu, 2005). In 1992, another important step was the ‘three personnel reforms’ (*san gaige*); this inaugurated *labour contracts*, *performance-linked rewards systems*, and *contributory social insurance* (Warner, 1995). *Pari passu*, access to health-care eventually became less and less equitable. By this time, the system had already become a ‘*hybrid*’ one, mixing what remained of the old one with the newer features (see Warner, 2008b). The new demarche was to be known as ‘*renli ziyuan guanli*’, quite literally meaning ‘labour force resources management’, having the

same characters in Chinese as in Japanese, being used as a synonym for (what is in effect) ‘HRM’.

Another step forward was the *Labour Law of 1994*, implemented in 1995, which put the emerging labour-market at its heart, legalized individual contracts (*geren hetong*) as well as collective contracts (*jiti hetong*) and the like (Warner, 1996). The *All-China Federation of Trade Unions* (ACFTU) (*Zhonghua quanguo zonggong hui*), with its over 150 million members, 15 industrial unions and 1.2 million local branches greatly influenced the above legislation (see Warner, 1996; Warner and Ng, 1999; Warner, 2008a).

The implementation of these new legal steps led to what might be described as recognizable ‘industrial relations’ or what became known as ‘labour relations’ (*laodong guanxi*) in Chinese parlance (see Taylor *et al*, 2003). Nonetheless, there is currently no ‘right to strike’ in the Chinese constitution. There have been many openly ‘wild-cat’ outbreaks and unofficial labour protests, most about unpaid wages and pensions, downsizing or factory closures. Officially recognized disputes can be sent to arbitration and many hundreds of thousands have been dealt with since the 1994 labour law was enacted; the new 2007 follow-up legislation may further help contain grievances; so, on paper at least, the system appears to be preserving the social peace but strikes are increasing in frequency, especially in areas like the *Shenzhen Special Economic Zone*, for instance. More recently, the *Labour Contract Law* in 2007 extended worker protection (*The Economist*, 28 July, 2007). The new law, makes it mandatory for employers to offer written contracts to workers,

restricts the use of temporary labour and makes it harder to lay-off employees. It was opposed by many foreign-invested corporations. Additionally, a new *Mediation Law* was introduced in early 2008. A timely development as the recent economic turndown has stirred up industrial unrest in China (and indeed also in Vietnam).

3.2 Background in Vietnam

In 1986, Vietnam began its economic reform process, known as *Doi Moi*. The adoption of changes to Vietnam's economic system accompanies and is in part a response to globalization. The introduction and adoption stages of HRM, to replace the old personnel management system, have followed the economic reform process in order to ensure that competitive advantage be gained through organizational level management reforms (Collins, 2005). With the economy in a serious downturn after a long period of war, economic reform was necessary for Vietnam's survival. The government of the time realised that the economy could not depend on traditional capital sources solely for its development. In addition, a number of factors prompted the government to recognise the importance of external relations to its economic well-being. The collapse of socialist regimes in the Soviet Union and former socialist countries in East Europe left Vietnam isolated economically and politically. Popular demonstrations in the *Mekong Delta* region had also reminded the authorities how economic problems could result in political instability. In reality, *Doi Moi* originated in Vietnam to maintain the power of the Communist regime. Throughout the transition, the Vietnamese government aimed to attract foreign capital and bring in up-to-date technology to provide the foundation to

achieve its goal of building a 'socialist nation' with a modernized and industrialized economy, as in the case of its more populous neighbour.

However, the *Doi Moi* policy gave Vietnam the chance to join with the international community after a long period of isolation. The economic restructuring led to the changes in government policy and enterprise level management practices regarding labour and human resources. Changes also occurred in the trade union structure, in the *General Confederation of Labour* (GCL), as in China the only union allowed. The SOEs were given greater autonomy, a new union charter was drawn up, employment contract systems were introduced, and a *Labour Code* was implemented. Reforms were also made to a number of foci of working life, such as wages and working hours. These steps can be seen as the interaction between political-economic reform in the society and the human resources transformation at enterprise level.

3.3 Background in North Korea

The people-management template in North Korea was originally derived from the Soviet one, now defunct and the Chinese state-owned enterprise 'iron rice bowl' (*tie fan wan*) model, now on the wane (see Warner, 2005). In so far as it has undertaken a very limited degree of reform, this nation lags far behind both China and Vietnam in this respect. The original post-war management mode was called the '*Tae'an*' system, introduced in the 1960s after experiments in the *Tae'an Heavy Equipment Plant* near the capital, *Pyongyang* and named after it. It was allegedly modelled on

Maoist Chinese practice, as a *Brookings Institution* visiting fellow (Mansourov, 2003) put it: ‘During the socialist construction in the 1960s and 1970s, protected by the Chinese military umbrella, the DPRK's leadership tended to follow the CCP's ideological lead and copied Chinese methods of labor mobilization, e.g., the *Ch'ollima* ("Flying Horse") movement modeled after the Maoist Great Leap Forward and the *Soktojon* ("speed battle"). North Korea also adopted some Chinese-like forms of organization of industrial and agricultural production processes known as the *Tae'an* system. Even after *Deng Xiaoping* launched economic reforms in China in 1978, *Kim Il Sung I* attempted to imitate the Chinese example by introducing the *Joint Venture Law* and a new self-accounting system in the mid-1980s. But, that is where emulation stopped’ (2003:1).

The *Tae'an* system entailed on-site collegial management control of the enterprise by the Party officials, limited autonomy for top managers and has lasted for many decades. Executives had very few rights to hire and fire. But the system was phased out in the controversial, limited reforms of 2002, with results as yet to be seen. But this system had more than just symbolic meaning, as it had been the flagship policy of the late ‘Great Leader’. It signalled that the ‘primacy of politics’ over economics might possibly be coming to an end.

Wages and living standards still remain very low in the DPRK; experts estimate the rewards run to around two dollars per month per worker. Kim (2006) reports that state-enterprise employees get between 2000 to 3000 won per month and 800 won of

this goes on rice, with a month's salary needed to buy meat for a meal. Due to the economy almost imploding in the late 1990s, many North Koreans have been close to starvation or have actually died of lack of sustenance. An estimated 10 percent of the population died then during a prolonged famine, the economy was mired in its inertia (see Chung, 2003). The outside world, including the US, sent food aid, as the rationing system did not work; today, many survive due to the opening up of limited private market activity. Migrants, however, still illegally pour across the *Yalu* River into the PRC, driven by hunger and deprivation; if caught the penalties for them are harsh, including for innocent family members.

4. Employment Relations, Industrial Relations and HRM systems in transition

Since the transition of the economies in China and Vietnam, many new institutions underlying their employment relations (ER) systems were gradually established and fused with a new pattern of such relations. These changes influenced the industrial relations (IR) and human resources management (HRM) policies at national level, which we subsume under the ER rubric. The establishing of a *Foreign Investment Law* launched the birth of multi-sectoral economies - where the emergence of non-State sectors including Wholly-Owned Enterprises (WFOEs) and Domestic Private Enterprises (DPEs) along with older State-Owned Enterprises (SOEs) (see Warner et al., 2005). The introduction of a *Labour Code* was also necessary, to become the basic legal framework for many important policy reforms at macro-level, such as the experimentation with an individual labour-contract system in 1986 in China and in 1993 in Vietnam. This element was the beginning of the end of a 'life-time

employment' system in these Socialist planned economies, particularly the 'iron rice-bowl' (*tie fan wan*) system in the PRC. The wage-system liberalization has in turn allowed SOEs have full control over establishing their own wage and payment methods. The relationship between the party and union in the new environment has also undergone significant changes. During the pre-reform period, trade unions in both China and Vietnam were known to represent the workers' interests on paper but were simultaneously agents for Party control. Economic reform since the 1978 in China has encouraged trade unions in part to pursue sectional interests among the enterprises but the contradiction of 'dual functioning' unions has prevented them from achieving their potential as an alternative centre of power at a national level; a similar process unfolded in Vietnam, if a little later.

Little has shifted in North Korea in this respect. Since there has been some attempt to develop special economic zones in North Korea in concert with their southern compatriots, that has also been a corresponding effort to codify its labour laws, at least in these locations, although this has been on a limited scale; workers are not paid directly by the foreign partners but by a joint venture (JV) or a State agency and with substantial deductions. Managers have been promised more leeway and more training but results have been unimpressive thus far (see Flake, 2002).

5. The enterprise level: HRM practices in transition

The authors have conducted a series of research studies on the transformation of people-management systems in both China and Vietnam during the period of the

economic reforms. Their research has been largely at enterprise level and focused on the relationships between differences in HRM practices using different criteria namely type of ownership, location, market orientation, labour intensiveness and employee size. So far, the empirical research in China has some general implications. For example, the study of Ding *et. al.* (2002) shows that multinational corporations (MNCs) and some joint ventures both adopted more international standardized HRM policies and practices in the Chinese case. In contrast, SOEs remained more conservative regarding changes with their 'iron rice bowl' (*tie fan wan*) policies. In addition, township and village enterprises (TVEs) and other domestic private enterprises (DPEs) had much more autonomy in their people-management compared with SOEs. Regarding the changes of HRM in SOEs, Benson and Zhu's (1999) research identifies three models of transition: 1.) a minimalist approach, where organizations have made little attempt to adopt a HRM approach; 2.) a transitional stage between the old and the new forms of people-management; 3.) an innovative attempt to adopt the HRM paradigm. The fact is that liberalization of economy and the introduction of foreign investment have created the opportunity for Chinese domestic enterprises to adopt some of the widely used Western and Japanese HR practices. The SOEs that are involved in JVs or contracting arrangements with foreign companies are more likely to have adopted the 'new' HRM. Therefore, globalization, more business-oriented beliefs and a stronger customer-oriented strategy are crucial determinants whether enterprises engage in HRM practices (Benson and Zhu, 1999).

Overall, the major changes started in the mid-1980s when the 'labour contract system' was introduced in the PRC (Warner and Ng, 1999). Two important aspects are associated with the introduction of the 'labour contract system': 1.) adopting individual labour contracts with fixed-term (one to five years) to replace the old 'life-time' employment system; 2.) 'individual' contracts were supplemented by 'collective' contracts in the mid-1990s, and that provided opportunity for trade unions to be involved in signing 'collective' contracts at firm-level and set up a 'framework agreement' for the myriad individual contracts in the enterprise (Warner and Ng, 1999). It must be made clear however that this contract is not fully equivalent to Western-style collective bargaining - as there are no independent unions. In addition, there is increasing autonomy of management, issues such as the rights to hire and fire, performance evaluation, managerial decision on performance standards and the way of conducting evaluation, performance related matters, such as pay and promotion (Ibid.).

Since China joined the *World Trade Organization* (WTO) in late 2002, it has added an international dimension to the complicated domestic employment relations systems (Zhu and Warner, 2004b). There was also increasing pressure from international governing bodies, such as the *International Labour Organization* (ILO) and international trade unions like the *International Confederation of Free Trade Unions* (ICFTU), with regard to the issues of labour rights, the role of unions and labour standards, as well as broader, more controversial concerns about human rights, social protection and political reform in China (Ibid). The empirical study of

Zhu and Warner (2004b) regarding firms' response towards WTO accession identifies that an increasing number of firms have an active response through innovative strategies and new HR practices. Enterprises with foreign ownership, those that have transformed from SOEs to joint stock enterprises (JSEs), those that are located in the coastal region, those have weaker links with the traditional State planning system, those have experienced modern management systems and internationalization, and those in high-value-added sectors and the new economy are more likely to have proactive HRM responses (*Ibid*).

Clearly, at this time, there is no a homogeneous model of HRM in Chinese enterprises or indeed in Vietnamese ones. Individual enterprises are reforming their HRM systems differently - on the basis of their existing conditions and the impact of the economic reforms. In addition, relevant empirical research projects on Vietnam have been of great interest and include those of Kamoche (2001), Zhu (2002 and 2005) and Thang and Quang (2005). Kamoche's (2001) research explores the business environment and the reform process and their implications for skill formation and the development of managerial expertise. It examines some specific HR practices in four organizations in Hanoi, two SOEs and two MCs. The research shows that SOEs have fairly conservative policies with no formal HR practices but traditional welfare paternalism. It is mainly MNCs that are striving to introduce Western practices into traditional management systems (Kamoche, 2001).

Zhu's (2002) work examines a number of organizations with different ownerships in *Ho Chi Minh City*, which has a more market-oriented economic environment than Hanoi. Three key variables – ownership, size and market-orientation – are used to test the transformation of HRM in Vietnam. The research finds that there are variations of HRM practices between different ownership forms, and JVs and MCs normally use more advanced technology and more international standards of HRM policies than local organizations. However, there is a tendency for localization of MNCs' behavior among the cases. In addition, the reformed and equitized SOEs as Joint Stock Companies (JSCs) have transformed the old SOEs' practices into more formalized HR practices - compared with other SOEs. Another interesting finding is that the adoption of HRM is not only related to ownership, but is also associated with sector (high-tech vs. labor intensive), size (large vs. small) and market-orientation (export vs. domestic orientation) as in China (see Ding et al, 2002). Generally speaking, high-tech, large and export-oriented organizations have been more likely to adopt more formal HR practices.

Based on these findings, Zhu (2005) introduces the notions of *numerically flexible strategies* and *functionally flexibility strategies* in order to illustrate the changes in people-management in recent years, in particular since the Asian financial crisis. The data suggest that labour flexibility strategies were not fully adopted by the sample companies. Political, cultural, legal and economic factors make labour flexibility in Vietnam different from that in other countries (Zhu, 2005). For instance, companies are not able to adjust the number of regular employees due to

the constraints of legislation. In addition, Vietnamese cultural traditions, that place great emphasis on organizational and personal commitment, and harmonious working environments, prevent the full deployment of functional flexibility (Zhu, 2005).

Thang and Quang's (2005) research examines Vietnamese HR practices in five areas: the functions of HR departments, recruitment and selection, training and development, performance appraisal, and compensation. Overall, foreign-invested enterprises are somewhat more likely to be developed in HRM practices than SOEs, which is consistent with the argument made by institutional theory about social entities seeking approval for organizational performance, and using HRM to gain legitimacy (Jackson and Schuler, 1999). In addition, local private companies are often less receptive to adopting HRM practices than SOEs. Transforming SOEs into equitized companies has brought about no significant changes in this regard, which is inconsistent with the resource dependence approach about using HRM practices to reflect more complicated power distribution (Thang and Quang, 2005).

Our most recent research project (Zhu et al., 2008) was based on 32 enterprises from four key ownership type: WOFEs, SOEs, DPEs, and JVs in two main locations *Ho Chi Minh City* and *Hanoi* (see the details in later section). There are number of important results arising from these studies showing the interrelationships between the economic transition process, governments' and enterprises' interests during the reform in both China and Vietnam. Research on HRM in North Korea has however

been problematic and there are no comparable studies. The reason for this stems from the very nature of the North Korean authoritarian, closed and secretive regime (see Eberstadt, 1999).

6. Interaction between economic reform process, governments and enterprises

The interaction between governments and enterprises since the economic reforms in China and Vietnam has been more complex than previously, because government policies no longer solely determine enterprises' HRM practices. The interests of enterprises and of the State are no longer the same, because the former's interests have changed with market reform, yet the State's desire for dominance over the economic and political systems remains largely unchanged. The role of the State in the reform process remains strong and the Party still retains the reins of power. As mentioned earlier, the role of the State to resolutely maintain political stability, rather than just improve the economy as in other capitalist countries. This consideration is the reason for promoting different economic policies on different-time-lines or applying different policies for different regions and for business-type of ownership. This fact helps to explain the determining factors behind two further characteristics, namely the correlation of HRM practices with location and with ownership type.

Even the State wants to gain economic development advantages for their political proposes, they are also need strong support from the grassroots, involving

enterprises as well as workers. Therefore, the State-enterprise relationship is typified by a desire to find compromise between these frequently conflicting interests. This ability to compromise is responsible for the HRM practices being broadly in line with government policy. In other words, the HRM functions encouraged by government policy are generally applied in areas like training and development. They also promote the 'unitarist' model of trade unions. In contrast, some HRM functions such as building a corporate culture or individual wage determination are not yet well-applied.

7. Governmental perspectives

From its own perspective, the State sometimes feels the need to compromise with enterprises, mainly due to its desire to minimise discontent and promote economic growth. It has succeeded in that so far economic development in both China and Vietnam has encouraged the nations to support their socialist governments. Due to this pragmatic approach, when the government recognises that a policy is not working well, it tries to act quickly to adjust the policy to minimize enterprises' grievances. When firms have needed more flexibility in recruiting and training workers, the government has boosted reforms in these areas to give the enterprises more freedom.

In addition, enterprise leaders have been allowed to gain a great deal more power and freedom during the 'Open Door' period, as in China and Vietnam but very much less so in North Korea. They are now free to manage their own affairs and are

less strictly supervised than before the reforms in the two transitional economies above. Enterprise leadership now has greater scope to attain their business targets and also has the authority to achieve individual goals made possible by their leadership position. Therefore, enterprise leaders, even lowly-paid SOE leaders, work to pursue their individual interests, not to serve the collective ones.

8. Enterprise perspectives

From the enterprises' point of view in the set of countries under investigation, like China and Vietnam, firms are more likely to fully comply with government policy and even compromise their economic interests - if and when the cultural or ideological values embodied in the policy matches their own beliefs. This juncture is clearly the case with the view of many enterprises on the role of trade unions. The historical background of these trade unions has been linked with the history of the Communist Party in fighting against 'capitalist exploitation' in China, 'Western domination' in Vietnam, and 'resisting imperialism' in North Korea. The unions therefore, on paper at least, share the State's view vis a vis the role of a socialist government in protecting working class interests from 'capitalist exploitation' (see Warner, 2008a). Even in the new business environment, union leaders' ideological beliefs still remain the same, so they do not see any need to replace the traditional union model and are happy to co-operate with the government, as is the case with the *All-China Confederation of Trade Unions* (ACFTU) or its Vietnamese counterpart the *General Confederation of Labour* (GCL). In addition, management has found that the 'socialist' union-structure serves the business well in terms of

maintaining harmony and minimising conflict and bargaining at the workplace. It in turn makes the labour force easier to control. They therefore support this type of union structure and role and as a result this is the structure practised well in both China and Vietnam's enterprises. Less is known about the role unions in North Korea, although they played an integral part in the post- 1950s factory-management model, known as the 'Tae'an' system, described earlier. The trade union representation in North Korea is largely token, via a Leninist top-down 'transmission-belt' model, through the *General Federation of Trade Unions of Korea* (GFTUK) which covers mostly State firms.

Conversely, most enterprises in China and Vietnam, especially domestic ones, choose to retain the traditional model for wage determination and labour-management relations. Not only does moving to an HRM approach for these function might not fit in with the government's principle of socialism, it goes against enterprise management's cultural values of collectivism in decision making and harmony and could be harmful to their business by breaking the harmony of the working environment. Individual bargaining is not yet well received in both countries, because it creates a sense of jealousy between employees and has a negative impact on business. 'Collective consultation' is now *de rigueur* in the PRC and has received a boost from the new *Labour Contract Law* noted above; in Vietnam, the labour contract is mainly a document used to enforce the responsibilities of the employers and employees (see Zhu and Fahey, 1999).

The government's emphasis on reducing workplace conflict in the workplace in both China and Vietnam is supported by the high value that enterprise management and workers still place on harmony and collectivism. The latest Chinese government policy is to achieve the so-called 'harmonious society' (*hexie shehui*). The philosophy behind this demarche is an attempt by the current Chinese dual-leadership of President *Hu Jintao* and Premier *Wen Jibao*, to rectify perceived inequities in the economy and society, particularly wealth and income-inequalities. If taken seriously, it may in turn have an influence on how Chinese enterprises implement their human resources policies. The Party leaders have become more and more aware of emergent social tensions arising from the less egalitarian implications of their policies; so, they want to consolidate social harmony, appeasing the 'losers' somewhat, without penalizing the 'winners' too much (see Warner, 2008a).

This reality also reflects the national history of each 'socialist system' which cannot be separated from current practices. A reason for the frequent ideological match between the State and enterprises is that it too is linked to the historical background of enterprise leaders in all three countries. Most local managers in China and Vietnam come from SOE backgrounds, including those leading DPEs, JVs and even some WFOEs. This background and experience has strongly influenced the way they operate their current enterprises.

9. The nature of economic transition: Negotiation process between governments and enterprises

The compromise between the State and business in the Asian Socialist Economies under discussion is made easier by both government ministries and enterprises leaving many HRM policies very vague. Whilst this may partly be unintentional, some policies are purposely ambiguous. Needing to find a way of resolving the conflict between satisfying the political demands of the State and operating profitably in a global market environment, enterprises take advantage of the vagueness to find loopholes in the laws which suit their commercial interests. By doing so, they can often find a way to comply with government policy while still maximising their competitiveness. For some dimensions, enterprises also take advantage of the State's inability to enforce their policies by avoiding implementation of policies with which they disagree.

However, enterprises vary in the extent to which they seek to exploit loopholes or avoid implementation of government policy to maximise their commercial interests. Their doing so is dependant on two factors: their willingness to find ways around the policies and their ability to exploit them. These in turn are dependant on their relative cultural and/or ideological differentiation from government and their freedom from strict enforcement of government regulations. The combination of these two factors can be used to explain one of the most significant findings of the previous research of the present authors: the correlation between HRM, ownership-type and enterprise location (see Zhu et al., 2008).

The foreign-influenced JVs and WFOEs, in the cases we studied in both China and Vietnam, practise more HRM functions than more domestic-influenced DPEs and SOEs do, principally due to the cultural and ideological gap between these enterprises and the governments. The gap serves the purpose of increasing their commitment to practicing the HRM model and reducing their willingness to compromise with government policy. Consequently, they more commonly look for loopholes in, or ways of avoiding, government policies which prohibit or discourage practices of some HRM functions. Of the local enterprises, DPEs practice more HRM functions than SOEs and DPEs, as they are subject to less government control and are more driven by market forces.

The relation between location and practices of HRM functions can partly be explained by similar reasons. Our research regarding locational factor's influence on the people-management systems (Zhu and Warner, 2005), indicated that coastally-located enterprises are more likely to implement formal HR practices. Our evidence shows that enterprises located in the developed coastal region are under more pressure to innovate in order to be able to compete and survive, and adopting a formal HR system appears to be part of their strategy for achieving the goal. However, enterprises located in the inland areas, remote from competition and the influence of globalisation, are less concerned about formal HRM practices.

In Vietnam, cities such as *Ho Chi Minh City* and *Hanoi* are also more amenable to new ideas and approaches, such as implementing the HRM model. When the government introduces a new policy, it often does not introduce the policy evenly across the countries. In some areas, the large cities are used to experiments with the new reform policy before it is implemented throughout the countries. Sometimes these policies are not well- designed at first, however, and need testing before they are embedded in these locations, as they are still vague and open to interpretation. With their background making them more open to the new practices than in other places, the enterprises in such big cities can take advantage of the laxer controls to choose models and find loopholes in the policies to bring greater profits to their business. The policy experiments conducted is an indication of State - enterprise interaction in general. For any given policy, the State and enterprises engage in a form of indirect negotiation over a policy which each side can accept. In this negotiation, the State introduces the policy as a trial (either overtly or by implication) and leaves it vague enough for enterprises to take some individual initiative to deal with the policy in the way that suits them best. The State observes how enterprises deal with the policy and adjusts it accordingly through tightening the regulations or, more commonly, further compromise. Although the process of change is undoubtedly gradual, these findings indicate that economic transition and particularly the HRM reform in China and Vietnam are neither ‘bottom-up’ nor ‘top-down’ and as such do not match the transition theories posited by previous studies.

Examples of this ‘experiment’ and ‘adjustment’ approach can be found in the new employment policies introduced in China and Vietnam. Throughout the process the governments learned and adjusted its policy with the hope of satisfying both business interests and its own interests. Such was the case with the introduction of the *Labour Codes* in the two nations, a key part of employment policy. This was the first time the governments had made such an important legal framework and they did not have much experience with them. As with many other policies, it was continually in the process of studying and improving the codes. Now that they has had time to trial the codes, they has amended them, following feedback from the business community. As mentioned above, political interests and ideology meant that some aspects of the codes were detrimental to businesses. However, the amended Codes formalised a number of issues that reflected enterprise demands. All business sectors, including foreign invested enterprises, can now freely recruit labour from the labour market. This step is a great relief for foreign-invested enterprises, because until the amended codes arrived, in both countries, they still needed to recruit through government labour agencies, which took a long time, were more expensive, and offered fewer choices, and in many cases the applicants did not fulfil the job requirements.

The State in both countries acknowledges that policy reforms are necessary but do not give the interests of enterprises top priority when forming new policies. They take other factors into consideration, of which the most important factor is self-interest, such as budgetary constraints and their own political role. The policies are

only suitable to the enterprises' interests - if those interests coincide with or are similar to the State's interests.

Policies relating the reform process and HRM implementation occur along mainly the lines intended by the State in these transitional economies, China and Vietnam (see Warner et al., 2005). However, because enterprises operate in a rapidly changing market-oriented environment, policies are only introduced after there is already a clear demand for them. This criterion necessitates that the enterprises dealing with the situation before the States recognises it and is able to introduce new policies. While awaiting the new policies, the enterprises continue to implement the old policies, but only in a way which serves their own interests. If it is not politically expedient, then the State's amended policies may only partially satisfy business requests, leading to enterprises continuing to not fully implement the policies as intended and a new cycle of negotiation between enterprises and the governments is needed.

The enterprises in such transitional societies look for loopholes in the law to allow them to operate profitably. They bend the policies to suit their circumstances or find a way of getting around the policies without upsetting the State. Their activities continue to be contrary to the State's objectives - until they develop to a level where they can no longer be tolerated. At that time, the State introduce new policies to deal with the undesirable activities. Naturally, the motivation for introducing the new policies remains the protection of the State's own interests. Consequently, the

reform of HRM in both China and Vietnam's enterprises can now take place semi-independently of the State and enterprises' actual implementation of new models never completely corresponds with the State's policies.

The above section has discussed the relationship between the 'market-socialist' governments and the enterprises in countries like China and Vietnam, particularly the tension between differences in the self-interests of each party and how these differences determine reform of HRM in both aspects policy and practices. The interaction between these two factors shows that any study of the transformation of HRM in transitional economies such as China and Vietnam cannot be isolated from changes at macro level and the business environment. This discussion also shows strong evidence that reform to HRM in these countries is the process of integration between a number of key actors, including socio-political, economic and enterprise practices. In other words, the practices and reform of HRM at enterprises cannot be separated from the surrounding environment. Enterprises' HRM strategies *first* need to fit in with their business strategies, and *second*, need to be well integrated with overall government policy, ideology and cultural norms.

The results of our studies into transitional economies show a strong interaction between three main forces responsible for determining the reform process and HRM practices, particularly in China and Vietnam. These are, in turn: *first*, the interrelation of the transition process, *second*, the government interests of supporting the new practices for its political purposes and *third*, the demands of

business operation from enterprises. None of the three forces can be considered separately in this transformation process. The findings from our China and Vietnam's studies also show that without serious investigation of these three relationships, the transition of HRM in these Asian Socialist Economies cannot be fully understood and research cannot make a solid contribution to the world of knowledge. We know even less about North Korea and perhaps one day, it will be open to Western scholars to conduct empirical research.

10. Concluding remarks

The reform of the economies in general and people-management in particular in China and Vietnam has presented a two-way, interactive relationship of national State political interests and wider business activities (see Warner et al, 2005). In this reform process, the various forces are continually negotiating a compromise to their sometimes conflicting interests. At the enterprise level, the extent to which functions of HRM are adopted depends on the relative strengths of the communist and nationalist ideological contexts and political influences on the one hand, and market economic influences on the other. These differences provide a unique context to HR practices in China and Vietnam (see Zhu et al, 2008). Less interaction and even less transition has been noted in North Korea, where the State still just imposes any change in policy.

Within this context, enterprises' overall HRM practices have changed from a traditional socialist model - to a new model combining aspects of some socialist,

traditional and HRM approaches in varying degrees, the so-called ‘hybridization’ process noted in detail elsewhere (see Warner, 2008b), during reform in China and Vietnam, although only a minor shift has been seen in North Korea. The actors in the transitional economies do share some common goals and, in some cases, common culture and ideology with the government, but there remain also significant differences between government and business interests.

The last few decades have seen a seismic shift in the economic policies of both China and Vietnam, although less so in the case of North Korea. Much of this change will endure. How events stemming from the ongoing global financial crisis and the turndown in economic activity will respectively affect the three economies in the coming years is still however moot.

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Table 1: Country Profiles

	<i>China</i>	<i>Vietnam</i>	<i>N. Korea</i>
Area	9.5 m. sq km	0.3 m. sq km	0.1 m. sq km
Population	1.3 b.	85 m.	23 m.
Population growth rate	0.6%	1%	0.8%
Infant mortality rate	2.2%	2.4%	2.3%
Life expectancy	72.9	71.1	71.9

Male	71.3	68.2	69.2
Female	74.8	74.1	74.8
Literacy	90.9%	90.3%	99%
Male	95.1%	93.9%	99%
Female	86.5%	86.9%	99%
GDP 2007 (purchasing power parity)	\$7.043 tr.	\$222.5 b.	\$40 b.
GDP 2007 (at official exchange rate)	\$3.249 tr.	\$66.4 b.	\$2.22 b.
GDP per capita 2007(PPP)	\$5,300	\$2,600	\$1,900
GDP composition			
Agriculture	11.7%	19.4%	23.3%
Industry	49.2%	42.3%	43.1%
Services	39.1%	38.3%	33.6%
Labour force	803.3 m.	45.73 m.	20 m.
Exports	\$1,221 tr. (f.o.b. 2007)	\$48.3 b. (f.o.b. 2007)	\$1.47 b. (f.o.b. 2006)
Imports	\$917.4 b. (f.o.b. 2007)	\$60.75 b. (f.o.b. 2007)	\$2.88 b. (c.i.f. 2006)
Democracy Index	112/125	11/125	120/125
Management Index	67/125	6/125	122/125
Market Econ. Index	51/125	9/125	122/125

Source: Miscellaneous: Bertelsmann Stiftung, 2008; CIA World Factbook, 2008;

UNDP Human Development Report, 2007/2008.